



Northern Ireland Audit Office

# The Northern Ireland Events Company





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This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Northern Ireland Assembly in accordance with Article 11 of the Order.

K J Donnelly

Northern Ireland Audit Office

Comptroller and Auditor General

29 September 2015

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# Abbreviations

ALB	Arm's Length Body
C&AG	Comptroller and Auditor General
DCAL	Department of Culture, Arts and Leisure
DFP	Department of Finance and Personnel
DETI	Department of Enterprise, Trade and Investment
DoE	Department of the Environment
FIM	International Motocross Federation
NDPB	Non Departmental Public Body
NIAO	Northern Ireland Audit Office
NIEC	Northern Ireland Events Company
PAC	Public Accounts Committee
PACE	Police and Criminal Evidence Act (1984)
PSNI	Police Service of Northern Ireland

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# Executive Summary

## Introduction

1. The Northern Ireland Events Company (NIEC) was incorporated as a limited liability company<sup>1</sup> in 1997 with a remit to support major events in Northern Ireland. Its main source of funding was an annual budget<sup>2</sup> provided by central government.
2. The company was controlled by a Board of publicly appointed Non-Executive Directors. Day to day operational management of NIEC was carried out by an executive management team, led by a Chief Executive, who was the designated Accounting Officer.
3. The NIEC Chief Executive (Janice McAleese) resigned in May 2007 and in September 2007 the acting Chief Executive (Jasper Perry) notified the Department of Culture, Arts and Leisure (DCAL), its sponsor Department, that NIEC had accumulated an estimated £1.2 million financial deficit. Shortly after, the Minister of Culture, Arts and Leisure sought and obtained the agreement of the Northern Ireland Executive, that DCAL would meet any outstanding liabilities and that NIEC would be wound up at the earliest opportunity. DCAL has since provided £1.45 million to meet creditor liabilities and other administration costs.
4. In November 2008, Company Inspectors (the Inspectors) were appointed under Article 425(2) of the Companies (NI) Order 1986 to investigate and report on the affairs of NIEC. The Inspectors completed their investigation in March 2014 and concluded that of a total deficit of £1.45 million, £1.3 million could be attributed to overspending on events promoted by NIEC between 2005 and 2007; the majority of this related to Motocross and Supermoto<sup>3</sup> events.
5. The Inspectors recommended referring the NIEC Board and Janice McAleese to the Directors Disqualification Unit within the Department of Enterprise, Trade and Investment's Insolvency Service Branch, to consider disqualification proceedings. They also expressed concerns with the conduct of NIEC's auditors and recommended that the Department of Enterprise, Trade and Investment (DETI) consider a referral to the Chartered Accountants Regulatory Board<sup>4</sup>.
6. DETI told us that it has examined the issues raised by the Company Inspectors and is considering potential disqualification proceedings. It has also referred the conduct of NIEC's auditors to the Chartered Accountants Regulatory Board. The Police Service of Northern Ireland (PSNI) told us that they are in the final stages of an investigation

1 A Company limited by guarantee is an incorporated organisation. It has gone through the registration process that converts a new or existing business into a corporate body, making it a legal entity in its own right. The financial liability of members, including the Management Committee is usually limited to a nominal amount, should the company face financial difficulties (although it does not protect against fraud, negligence, etc).

2 NIEC received around £18 million of public funding between 1997 and 2008.

3 Motocross is a form of off-road motorcycle racing held on enclosed off-road circuits. Supermoto involves taking a motocross bike meant to be raced off-road and converting it to be raced on tracks consisting of both road and off-road sections.

4 The Chartered Accountants Regulatory Board, established by the Institute of Chartered Accountants in Ireland, is responsible for developing Standards of Professional Conduct and supervising the compliance of members, member firms, affiliates and students.

surrounding funding provided by NIEC into several specific events between 2004 -2006. The investigation will be in a position to conclude after one outstanding person has been interviewed under caution; this outstanding interview has been arranged.

## Scope of this report

7. In April 2008 the Public Accounts Committee (the PAC) published a report<sup>5</sup> which considered the findings from a preliminary investigation into NIEC. The PAC viewed the financial deficit as one of the most serious failures of controls in an Arm's Length Body in recent years. The Comptroller and Auditor General (C&AG) undertook to provide a detailed report to the PAC when the investigatory process was complete.
8. This report considers the reasons and circumstances surrounding the complete breakdown of financial control within NIEC which resulted in its ultimate failure. **Part One** of our report is an overview of the formation, structure and anticipated business activities of NIEC. At **Part Two** we highlight the events and circumstances which led to NIEC accumulating a significant financial deficit. **Parts Three** and **Four** highlight the weak governance and oversight arrangements operated by NIEC's Board and DCAL as the sponsor department.
9. This report primarily draws on the findings of the Inspectors' investigation into the affairs of the Northern Ireland Events Company. Where appropriate,

we have placed reliance on the evidence collated by the Inspectors. To inform our report we have held meetings with officials from DCAL, DETI and the PSNI and have consulted with relevant third parties.

10. NIEC records during this period (1 April 2003 to 31 March 2007) and its manual accounting system were substantially below the standard expected in a public body. Consequently, there remains considerable uncertainty around many of the precise details of the NIEC's financial and operational dealings.

## Overall conclusions

11. In our opinion the standard of leadership provided by Janice McAleese fell well short of what is expected from an Accounting Officer. This included conflicts of interest which were poorly handled and covering up escalating financial losses with misleading and, on occasion, fabricated documentation which was provided to the Board and to DCAL. We are unaware of any other instance in the Northern Ireland public sector in which an Accounting Officer has failed so comprehensively to uphold the Nolan principles of conduct in public life (see **Appendix 3**) and more specifically the requirements expected of an Accounting Officer as set out in DCAL's letter of appointment.

<sup>5</sup> Report on Good Governance - Effective Relationships between Departments and their Arm's Length Bodies, 24 April 2008, 28/07/08R, The Public Accounts Committee.

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12. In our view, both the NIEC Board and DCAL relied on the assumption that the other was primarily responsible for the governance and oversight of NIEC and that were any issues to emerge they would be alerted to this. It is clear that both parties also took assurance from the unqualified audit opinion provided annually by NIEC's external auditors. However, it is difficult to see how they validated these assumptions. The NIEC Board did not meet regularly with DCAL and never met with the auditors prior to the deficit being uncovered. DCAL did not have any regular contact with NIEC Board members. The only individual who had regular contact with DCAL, the NIEC Board and the auditors was Janice McAleese.
13. The Board was almost completely reliant on the information presented to it by Janice McAleese. However, this flow of information, particularly in relation to Motocross and Supermoto events, was woefully inadequate. This situation was not robustly challenged by the Board to the extent we would have expected. The Board's failure to establish an Audit Committee or arrange adequate internal audit provision significantly reduced its ability to verify the information given to it by Janice McAleese on internal control issues and the key risks to which NIEC was exposed. The Board did not, in our opinion, meet the governance standards expected of it. The Board had ultimate responsibility for NIEC and in our view failed to discharge that responsibility effectively.
14. DCAL assumed that the risks presented by NIEC were low, an assessment that appears to have been primarily based on the level of funding that DCAL provided to it. This assumption dictated the level of challenge from DCAL to the activities, objectives, governance and financial position of NIEC. The lack of challenge meant that the assessment of the risks presented by NIEC remained unchanged between 2005 and 2007 when it was exposed to significant financial and operational risks by the promotion of Motocross and Supermoto events.
15. In our view had DCAL applied its sponsorship, oversight and governance responsibilities effectively, ensuring that key strategic controls were in place and operating consistently, then the significant financial risks that NIEC was taking, should have been identified earlier.
16. We acknowledge that, since the NIEC financial deficit was revealed in 2007, DCAL has shown a clear commitment to improving its arrangements for sponsorship and governance within its Arm's Length Bodies (see **Appendix 1**).

### Key findings

#### The events that led to the accumulation of a financial deficit in NIEC

17. By 2004 NIEC began to become involved in promotional activities related
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to major events and in 2005 progressed to promoting its own major events, as opposed to providing grant funding to event organising applicants. There is no evidence that this fundamental change in NIEC's business activities was driven or supported by the NIEC Board. Some Board members told the Inspectors that they were unaware that NIEC was promoting events. Having failed to identify the significant change in business focus, the Board was unaware of the greatly increased financial and operational risk that NIEC was exposed to (paragraphs 2.5 to 2.7).

18. NIEC accumulated a significant financial deficit promoting Motocross and Supermoto events between 2005 and 2007. Expenditure on these events spiralled out of control and cash income from gate receipts was significantly lower than anticipated. In addition, NIEC continued to promote the following year's Motocross event without investigating and addressing the issues behind the significant losses incurred at the event the previous year (paragraph 2.2).

19. Internal procedures and controls that were in place, covering the appraisal, approval and evaluation of events, were not adhered to by NIEC management, for events that NIEC promoted itself (paragraphs 2.8 to 2.11).

20. Janice McAleese had a personal relationship with a contractor who was subsequently employed by NIEC to build a new Motocross track at Moneyglass,

in advance of the 2007 Motocross event. There is no documentary evidence supporting a competitive tender process for the work required and no formal signed contract. The contractor was paid around £120,000 in total by NIEC. The conflict was not declared in the register of interests as required by NIEC's Operating Framework and the NIEC Board and DCAL were unaware of this conflict (paragraphs 2.13 to 2.16).

21. In our opinion, NIEC's financial and budgetary position was manipulated to cover its accumulating financial losses. Janice McAleese was either directly involved or had full knowledge of these activities. Examples include:

- personal loans were made to NIEC by staff, including Janice McAleese and Jasper Perry, to cover cash flow problems;
- the Inspectors concluded that it would appear that both the NIEC Board and DCAL were unaware that an additional £200,000 overdraft facility was utilised by NIEC;
- a bank statement was fabricated in support of a claim for grant funding; and
- misleading financial and budgetary information was presented to the NIEC Board by Janice McAleese (paragraphs 2.21 to 2.31).

22. NIEC was the promoter of a number of Motocross and Supermoto events

## Executive Summary

between 2005 and 2007. The total gate receipts lodged to the NIEC bank account for a number of these promoted events were significantly less than expected based on reported spectator numbers and average ticket prices. The Inspectors found that there were no written procedures or controls in place at NIEC in relation to collecting and accounting for all income received at events. In addition, NIEC staff told the Inspectors that suppliers received cash payments, direct from the gate receipts, rather than by cheque payment (paragraphs 2.32 to 2.34).

### The failure of the NIEC Board to provide adequate oversight

23. NIEC was constituted as a private company limited by guarantee, led by a Board comprised of publicly appointed directors who acted in a voluntary capacity. However the Board's ability to exercise a challenge function was fundamentally weakened by the lack of financial skills and low attendance amongst some members (paragraphs 3.1 to 3.10).
24. The NIEC Board and in particular the Chair placed undue reliance on Janice McAleese and failed to maintain a healthy balance between support and challenge in its dealings with her. Janice McAleese was allowed to act outside her remit and exposed NIEC to considerable financial risk by entering into contracts; taking unilateral decisions; and incurring significant expenditure without the prior knowledge or approval of the Board (paragraphs 3.23 to 3.25).
25. When concerns were raised with the NIEC Board, by both internal and external whistleblowers, it failed to handle these allegations appropriately (paragraphs 3.26 to 3.28).
26. The NIEC Board placed reliance on the opinion of the external auditors despite never meeting with them from NIEC's incorporation in 1997 to the discovery of the deficit in 2007. It is likely that NIEC became technically insolvent during the year ending March 2005, but this remained undetected by both the Board and the auditors for two years (paragraphs 3.29 to 3.31).
27. The NIEC Board's failure to establish an Audit Committee was a fundamental weakness in the overall control and governance structures. An Audit Committee would have provided it with a means of challenging assurances provided to them by Janice McAleese and to properly scrutinise the systems underpinning NIEC's financial information. In addition, no permanent arrangements for an Internal Audit service were put in place by either Janice McAleese or the NIEC Board (paragraphs 3.32 to 3.41).

### Weaknesses in DCAL's oversight arrangements

28. DCAL's risk assessment processes did not identify the financial and operational



risks posed by NIEC. DCAL considered NIEC as a low risk body based on the relatively low level of public funding provided to it. However, DCAL should have been more alert to the risks posed by a commercial organisation operating at arm's length from government, which had decided to channel significant public funds into promoting its own major events (paragraphs 4.3 to 4.5).

29. DCAL officials interviewed by the Inspectors were unclear about how much responsibility the Department had for NIEC and how closely it should have been monitored. This uncertainty over responsibility impacted on the quality and frequency of the communication between DCAL and NIEC. In our opinion, DCAL did not apply a satisfactory level of challenge to NIEC's business activities and in particular the actions of Janice McAleese (paragraphs 4.6 to 4.8).

30. Whilst the failure to establish an Audit Committee and Internal Audit service was primarily the responsibility of the NIEC Board, DCAL as sponsoring department, was well aware of governance best practice and had a responsibility to ensure that NIEC had adequate arrangements in place (paragraphs 4.15 to 4.17).

31. DCAL failed to fully scrutinise key information that was made available to it, or consistently challenge NIEC when inadequate supporting documentation was provided. For example, the Inspector's review of requests for

drawdown of funding identified that often the supporting information submitted by NIEC was insufficient. The NIEC Board received monthly financial reports from June 2004, however DCAL did not receive monthly financial reports until December 2006 (paragraphs 4.18 to 4.23).

32. From early 2004, DCAL received a number of whistleblower complaints about working practices in NIEC. Taken together, these complaints from NIEC's own staff and individuals involved in promoting major events, pointed towards behaviours and practices that were later identified as contributing to the financial deficit. In our opinion, had DCAL thoroughly investigated all the complaints it is possible that the issues within NIEC could have been identified much earlier (paragraphs 4.24 to 4.27).





# Part One:

## Introduction and Background

### Introduction

1.1 This report considers the reasons for and circumstances surrounding, the complete breakdown of financial control within the Northern Ireland Events Company (NIEC) which led to its ultimate failure. In 1997 NIEC was incorporated as a limited liability company to support international standard events in Northern Ireland. Its main source of funding was an annual budget provided by central government (the Department of the Environment (DoE) from 1997 to 1999 and the Department of Culture, Arts and Leisure (DCAL) from 1999 onwards).

1.2 The NIEC's Chief Executive (Janice McAleese) resigned in May 2007 and in September 2007 the Acting Chief Executive (Jasper Perry) notified DCAL of an estimated £1.2 million financial deficit. The deficit was identified by Finegan Gibson, NIEC's accountants, when preparing the financial statements for the year ending March 2007. Finegan Gibson identified large payments made during the year to March 2007 which related to unrecorded liabilities incurred in the previous year. Until this notification DCAL had been unaware of NIEC's financial difficulties. The NIEC Board was informed at an emergency meeting on 5 October 2007.

1.3 On 22 November 2007, the Minister of Culture, Arts and Leisure sought and obtained the agreement of the Northern Ireland Executive, that DCAL would meet any outstanding liabilities and that

NIEC would be wound up at the earliest opportunity. DCAL has since provided around £1.45 million to meet creditor liabilities and other administration costs.

1.4 DCAL engaged consultants in November 2007 to provide a preliminary review into the circumstances behind the deficit. However, DCAL told us that this review was limited as DCAL did not have the powers to:

- formally interview officials of the company or its agents and those associated with it;
- demand the production of books and records, etc.;
- use the Police and Criminal Evidence (PACE) procedure to conduct interviews; or
- seek the assistance of the Courts.

1.5 In response to the findings of the consultant's review and following discussions with the PSNI, the C&AG and the Department of Finance and Personnel (DFP), DCAL referred the circumstances that gave rise to the deficit to the Department of Enterprise, Trade and Investment (DETI) requesting that the Company Inspectors investigate the affairs of NIEC. DCAL told us that the Company Inspectors had the necessary wide-ranging powers and an obligation to investigate any and all areas of potential concern.

1.6 In November 2008, DETI appointed Company Inspectors under Article 425(2) of the Companies (NI) Order 1986 to investigate and report on the affairs of the Northern Ireland Events Company Limited. The investigation focused on the period covering the four financial years ending 31 March 2004 to March 2007, during which NIEC had accumulated a significant financial deficit. The Inspectors completed their investigation, at a cost of £1.24 million, in March 2014. DETI told us that this was a complex investigation, the scope of which extended beyond that of a 'routine' company inspection. The Inspectors encountered a number

of challenges in the detailed evidence gathering and review processes, including the need to secure formal interviews with those involved at the time and the identification of matters of a potentially criminal nature, which directly impacted on the timescales and the cost of the investigation.

1.7 The investigation concluded that of a total deficit of £1.45 million, £1.3 million could be attributed to overspending on events promoted by NIEC between 2005 and 2007; the majority of which related to Motocross and Supermoto events (see **Figure 1**). It also concluded that:

**Figure 1: Promoting Motocross and Supermoto events between 2005 and 2007 accounts for the majority of the financial deficit accumulated by NIEC**

Event	Dates	Expenditure £'000	Income £'000	Surplus / (Deficit) £'000	Grant from DCAL £'000	Surplus / (Deficit) £'000
<b>Supermoto 2005</b>	9 and 10 September 2005	234	nil	(234)	168	(66)
<b>Motocross Grand Prix 2005</b>	16 and 17 September 2005	635	134	(501)	137	(364)
<b>Motocross Grand Prix 2006</b>	26 and 27 August 2006	453	108 <sup>6</sup>	(345)	120*	(225)
<b>Supermoto 2006</b>	30 September and 1 October 2006	184	29	(155)	Nil*	(155)
<b>Motocross Grand Prix 2007</b>	18 and 19 August 2007	728	133	(595)	302	(293)
<b>Total</b>		2,234	404	(1,830)	727	(1,103)

\* The grant was shared between events in 2006

Source: Company Inspectors report

6 NIEC records show that it made £13,000 of website ticket sales from June 2006 up to the Motocross 2006 event, however due to a lack of supporting detail in the records the Inspectors were unable to establish whether receipts related to Motocross 2006, Supermoto 2006 or an alternative event.

## Part One: Introduction and Background

- NIEC's Chief Executive, Janice McAleese, and auditors failed to adequately discharge their responsibilities. However, ultimate responsibility for governance and oversight of both NIEC and the activities of Janice McAleese lay with the NIEC Board and DCAL;
- The NIEC Board and DCAL were unclear as to their specific roles and responsibilities. Each relied heavily on the other, and on the assurance received from NIEC's auditors; and
- The NIEC Board and DCAL operated a passive form of governance and oversight and in doing so, failed to adequately discharge their respective responsibilities. They also failed to ensure that Janice McAleese discharged her responsibilities as Chief Executive.

1.8 The Inspectors recommended referring the NIEC Board and Janice McAleese to the Directors Disqualification Unit within DETI's Insolvency Service Branch, to consider disqualification proceedings. They also expressed concerns with the conduct of NIEC's auditors and recommended that DETI consider a referral to the Chartered Accountants Regulatory Board<sup>7</sup> in relation to actions which may be contrary to professional requirements. In addition, there is an active PSNI investigation into aspects of NIEC's business activities.

1.9 DETI told us that it has examined the issues raised by the Company Inspectors and is considering potential disqualification proceedings. It has also referred the conduct of NIEC's auditors to the Chartered Accountants Regulatory Board. The PSNI told us that they are in the final stages of an investigation surrounding funding provided by NIEC into several specific events between 2004 -2006. The investigation will be in a position to conclude after one outstanding person has been interviewed under caution; this outstanding interview has been arranged.

1.10 In 2008, DCAL engaged consultants to review<sup>8</sup> and make recommendations on how DCAL and its Arm's Length Bodies could make improvements to their governance and sponsorship arrangements. A summary of the key improvements made is at **Appendix 1**.

### An overview of NIEC's formation, structure and activities

1.11 In 1995, the Northern Ireland Office engaged consultants to research and report on the organisation of major events in Northern Ireland. The report concluded that a separate events organisation, sponsored and funded by a government department should be formed. In order to attract private sector investment the report considered it important that the organisation was perceived as independent from

<sup>7</sup> The Chartered Accountants Regulatory Board, established by the Institute of Chartered Accountants in Ireland, is responsible for developing Standards of Professional Conduct and supervising the compliance of members, member firms, affiliates and students.

<sup>8</sup> A review of governance arrangements in DCAL's Arm's Length Bodies and a review of sponsorship arrangements in DCAL, May 2008, CIPFA.

government. At that time, DFP ruled out the formation of a Non Departmental Public Body<sup>9</sup>. DoE decided to establish a private company limited by guarantee and in May 1997, the Northern Ireland Events Company was incorporated. According to its Memorandum of Association NIEC's objectives were:

- "to organise, support, encourage, facilitate or promote the holding or staging in Northern Ireland of events of a cultural, sporting, recreational, leisure or commercial nature including but not limited to tournaments, fairs, festivals, exhibitions or conferences of any kind and to do such things either alone or in conjunction or partnership with other persons or bodies"; and
- "to provide guarantees or indemnities of any kind on such terms and conditions as the company may see fit."

1.12 The NIEC Board was responsible for the overall management and oversight of NIEC. The original NIEC Board consisted of six members nominated by DoE and one member from each of NI Tourist Board, the Sports Council

and the Arts Council. In 1997 the then Permanent Secretary of DoE was the first Chair of the Board. A new Board was appointed in 2002 with seven members appointed through open competition, three co-opted by DCAL and two nominated by the Tourist Board and Sports Council. Mervyn Elder was appointed as the first Non Executive Chair. See **Appendix 2** for further details of Board appointments. The Chair and Directors were not paid for their work on the NIEC Board. Board members told us that NIEC generated a positive image of Northern Ireland and provided significant economic benefits to Northern Ireland's economy.

1.13 Day to day operational management of NIEC was carried out by an executive management team, led by a Chief Executive, who was the designated Accounting Officer (see **Figure 2**). NIEC's first Chief Executive (John Walker), a career civil servant, was appointed in February 1998 on a part time basis and retired in September 2003. The NIEC Company Secretary (Janice McAleese) was appointed the acting Chief Executive and subsequently appointed as NIEC's first full time Chief Executive in January 2004. Janice McAleese resigned as Chief

**Figure 2: NIEC Chief Executives**

Name	Acting Chief Executive	Chief Executive
<b>John Walker</b>	n/a	February 1998 – September 2003
<b>Janice McAleese</b>	October 2003 – December 2003	January 2004 – May 2007
<b>Jasper Perry</b>	June 2007 – January 2008	n/a

Source: *Company Inspectors report*

<sup>9</sup> A Non-Departmental Public Body (NDPB) is a classification applied by Government to certain types of public bodies. NDPBs are not an integral part of a government department and carry out their work at arm's length from Ministers, although Ministers are ultimately responsible to the NI Assembly for the activities of the bodies sponsored by their department.

## Part One: Introduction and Background

Executive in May 2007 but prior to this recommended that Jasper Perry the organisation's Senior Events Manager should act up to the post of Chief Executive. He was appointed Acting Chief Executive by the NIEC Chair on 1 June 2007 and resigned in January 2008.

- 1.14 Grant funding from DoE and DCAL to support NIEC projects and general running costs totalled more than £18 million between 1997 and 2008. **Figure 3** provides further detail of NIEC income and expenditure levels since 1997.

- 1.15 Applicants for funding could apply to NIEC under the Major Events Fund which supported world class, international events or the Events Growth Fund which supported local events. A procedures manual, issued in May 2002, set out guidelines on selecting, appraising, approving, monitoring and evaluating funding applications for events. From April 2006, NIEC operated the Community Festivals Fund which supported festivals making a positive contribution to local communities.

**Figure 3: Summary of NIEC Income and Expenditure 1997 to 2008<sup>1</sup>**

Financial Year	Grant <sup>2</sup> Income £'000	Other Income £'000	Expenditure £'000
1997-98	10	21	7
1998-99	750	1	753
1999-00	1,143	4	1,147
2000-01	1,125 <sup>3</sup>	11	1,121
2001-02	1,600	10	1,621
2002-03	2,042 <sup>3</sup>	11	1,871
2003-04	2,454	44	2,668
2004-05	1,890	14	1,921
2005-06	2,900	616	4,425
2006-07	2,421	436	3,138
2007-08	1,944	290	2,251
<b>Total</b>	<b>18,279</b>	<b>1,458</b>	<b>20,923</b>

Source: NIEC Annual Accounts

<sup>1</sup> The Inspectors expressed concerns over the reliability of NIEC's Financial Accounts (see paragraphs 3.29 – 3.31).

<sup>2</sup> In 1998 and 1999 grant funding was provided by DoE. From 1999, funding was provided by DCAL.

<sup>3</sup> Includes additional public funding from other sources.



## The Public Accounts Committee has previously shown interest in the activities of NIEC

- 1.16 At a meeting of the PAC in April 2002<sup>10</sup>, members expressed concern about NIEC's funding of concerts held in the Stormont estate and on alleged excessive corporate hospitality at these events. In response to these concerns DCAL gave an undertaking to *"ensure that NIEC addresses any systems or procedural failures identified"*. In addition, DCAL agreed that *"the arrangements under which the NIEC draw-down funding from the Department will be revised and formalised. The Department will also ensure that any specific areas of potential concern are subject to scrutiny under its Internal Audit procedures"*.
- 1.17 The NIEC financial deficit came to light around the same time as the PAC was preparing to report<sup>11</sup> on strengthening governance arrangements between departments and Arm's Length Bodies. At the PAC's evidence hearing in March 2008, DCAL provided an early assessment of the NIEC situation. A key weakness identified was that Janice McAleese *"operated well beyond the control framework specified"* for NIEC and treated funding in *"the most cavalier fashion, with even the most elementary aspects of financial management set aside"*. The PAC viewed the deficit situation as one of the most serious failures of controls in an Arm's Length

Body in recent years and gave an undertaking to revisit the issue once the investigatory process was completed. The PAC also examined the handling of public appointments and serious conflicts of interest by NIEC and DCAL as part of its investigation into the Hospitality Association of Northern Ireland<sup>12</sup> in June 2008.

10 The Committee held an evidence session but did not publish a subsequent report as the NI Assembly was suspended in October 2002 and subsequently dissolved in April 2003.

11 Report on Good Governance - Effective Relationships between Departments and their Arm's Length Bodies, 24 April 2008, 28/07/08R, The Public Accounts Committee.

12 Report on the Hospitality Association of Northern Ireland: A Case Study in financial management and the public appointments process, 12 June 2008, 36/07/08R, The Public Accounts Committee.





## Part Two:

### The events that led to the accumulation of a financial deficit in NIEC

#### Introduction

2.1 Our review of the Inspector's report and supporting documents revealed a catalogue of failings in the operation of NIEC. In our view the key failings, allied with conduct issues, that led to the accumulation of a significant financial deficit were:

- A change in strategic direction, to promote as well as grant fund events, greatly increased the financial risk to NIEC but this strategic change was not supported by the NIEC Board or approved by DCAL;
- The procedures and controls that were in place to appraise, approve and evaluate events were not adhered to for events which NIEC promoted itself;
- Janice McAleese had a number of conflicts of interest which were not properly handled;
- NIEC's financial and budgetary position was manipulated to hide growing financial losses;
- NIEC's financial systems were inadequate and record keeping was poor; and
- Basic controls and procedures were not applied.

2.2 As a consequence of these governance failings, NIEC failed to exercise financial control over a small number of Motocross and Supermoto events (see **Figure 1**). This included:

- Expenditure on Motocross and Supermoto events promoted by NIEC greatly exceeded approved budgets;
- Cash income from Motocross and Supermoto events promoted by NIEC was much lower than expected; and
- Despite large scale losses on similar events in the previous year, NIEC continued to promote the following year's event without investigating and addressing the issues behind the losses.

#### A new NIEC Chief Executive was appointed in December 2003

2.3 When NIEC's first Chief Executive (John Walker) retired in September 2003, the Company Secretary (Janice McAleese) was appointed as acting Chief Executive. In December 2003, following a recruitment process, Janice McAleese was offered the position of Chief Executive on a full time basis.

2.4 The Inspectors had concerns surrounding the appointment of Janice McAleese including:

- There was no evidence on her application form that she had a third level qualification in finance and business as required in the job specification;
- She had less than five months experience in the Acting Chief Executive role and her employment experience did not demonstrate that

she had a minimum of four years “senior management experience” which was an essential criterion for the post; and

- She had no public sector experience and limited financial experience.

## A change in strategic direction greatly increased the financial risk to NIEC

2.5 By 2004 NIEC began to become involved in promotional activities related to major events (see **Case Example 1**). Until 2004 NIEC primarily provided grant funding to external event organisers and therefore any losses were limited to the amount of grant provided. In promoting events NIEC contracted directly with and paid fees to rights holders and also contracted directly with and paid suppliers for goods and services. This change in strategic direction greatly increased the financial risk that NIEC was exposed to.

2.6 Whilst the governing documents of NIEC were sufficiently broad to allow the Company to become involved in event promotion, NIEC’s Procedures Manual<sup>13</sup> stated that assistance “is likely to be limited to revenue grants” and that other “forms of assistance may be offered... in exceptional circumstances... with the approval of DCAL.” We note that at no time did NIEC formally seek DCAL approval to promote events.

2.7 There is no evidence that the change in strategic direction from grant funder (with limited liabilities) to promoter (with unlimited liabilities) was supported by a NIEC Board decision. Instead, it appears that the change came about as a result of “strategic drift”<sup>14</sup>. Some Board members told the Inspectors that they were unaware that NIEC was promoting events. Having failed to identify the significant change in business activities, the Board did not recognise the increased financial and operational risk that this change brought with it.

### Case Example 1: Motocross Grand Prix 2004 (Friday 10 and Saturday 11 September 2004)

1. In October 2003 NIEC was successful in securing for Northern Ireland a round of the World Motocross Grand Prix Championship in 2004, 2005 and 2006. The organisation which held the rights to the event signed a contract with a promoter for the 2004 event. NIEC made grant payments of £106,500 to the promoter between December 2003 and September 2004.
2. In May 2004, NIEC signed an agreement with the promoter allowing NIEC to coordinate the corporate hospitality for the event. Documentation uncovered by the Inspectors indicated that NIEC’s involvement extended beyond its corporate hospitality remit to work on sponsorship, press launches, marketing, security, site alterations and infrastructure. Becoming involved in decisions relating to

13 As endorsed by the NIEC Board in August 2003.

14 Strategic drift in an organisation is a gradual change that occurs so subtly that it is not noticed until it is too late.

## Part Two:

### The events that led to the accumulation of a financial deficit in NIEC

#### Case Example 1: (continued)

organisation of the event, took NIEC well beyond the role of a grant funder.

3. The event organiser told the Inspectors that Janice McAleese had suggested to the promoters that a company called Schism should be employed to provide public relations services. Schism subsequently became involved in three aspects of Motocross 2004: public relations; bar rights and catering. Cheque payments totalling £26,130 were made to Schism but recorded as payable to the promoter in NIEC's accounting records.
4. In November 2004, May 2005 and June 2005, NIEC made direct payments to a number of suppliers, some in full settlement (£28,000) and some in part settlement (£18,000) of the amounts owed to them as the promoter had entered voluntary liquidation and ceased trading. The Inspectors found no evidence that NIEC obtained legal advice in relation to payment of outstanding suppliers or attempted to pursue the promoter for repayment of the grant it had received. Although the NIEC Chair was aware of these payments the Board was not notified and formal Board approval for the payments was never sought. There is no evidence as to why some suppliers were paid in full and others only received partial payment. The Inspectors were unclear as to how NIEC validated the amounts outstanding to suppliers.
5. In subsequent years NIEC promoted the event itself or in partnership with Schism (see **Case Examples 4 and 5**).

Source: *Company Inspectors report*

#### The procedures and controls that were in place to appraise, approve and evaluate events were not adhered to for events which NIEC promoted itself

- 2.8 Given the increased risk involved in promoting major events we would have expected NIEC to have applied a more rigorous appraisal, approval and post evaluation process than was the case for external events it supported through grant funding. For example NIEC's procedures manual<sup>15</sup> required:
  - completion of an economic appraisal;
  - formal Board approval; and
  - completion of a post project evaluation report.
- 2.9 In the case of events promoted by NIEC, these controls were often not adhered to (see **Figure 4**). Janice McAleese told the Inspectors that events promoted by NIEC were not subject to the same procedures as set out in the NIEC Procedures Manual. In our opinion it is difficult to justify why the basic principles of appraisal, approval and evaluation should not have applied to all events and in particular to those events which exposed NIEC to most risk.

<sup>15</sup> The Procedures Manual set out guidelines for the selection, appraisal, approval, monitoring and evaluation of NIEC projects. The manual was revised in 2003.

**Figure 4: Compliance with internal appraisal, approval and post project evaluation procedures for events promoted by NIEC**

Event	Grant Funding Sought £'000	Board Submission	External Appraisal	Board Approval	Post Project Evaluation Report	Financial Information Included in PPE
Supermoto 2005	198	✓	✓	✓	✗ <sup>2</sup>	✗
Motocross 2005	50	✓	n/a <sup>1</sup>	✓	✗ <sup>2</sup>	✗
Supermoto 2006	n/a	✗	✗	✗	✗	✗
Motocross 2006	5	✗	n/a <sup>1</sup>	✗	✗ <sup>2</sup>	✗
Motocross 2007	250	✗	✗	✗	✗	✗

1. External appraisal applied to expenditure in excess of £100,000.
2. Janice McAleese presented a brief verbal update to the NIEC Board. A written report was not completed.

Source: *Company Inspectors report*

2.10 NIEC Board minutes indicate that it relied on the Chief Executive to ensure that robust procedures in relation to the appraisal, approval and evaluation of projects were followed. In many cases funding was approved on the basis of submissions which did not contain sufficient information for the Board to make an informed decision. The Board was presented with no post project evaluation reports for the nine major events<sup>16</sup> that NIEC promoted. **Figure 5** illustrates that Motocross and Supermoto events promoted by NIEC failed to meet their financial targets and cost significantly more than originally budgeted. Had comprehensive post project evaluation reports been available

to the Board, and had they been completed before the equivalent event was considered for the next year, the significant financial losses would have been highlighted much earlier and lessons could have been learned.

2.11 In our view, adherence to NIEC's own procedures may have gone some way to mitigating some of the significant financial risks that NIEC was exposed to once it began promoting events. However, the Inspectors concluded that the procedures for assessing viability and suitability of events "were rarely adhered to in relation to events bid for and promoted by NIEC."

<sup>16</sup> These nine events comprise the five events listed in **Figure 4** and the Water Ski World Cup 2005, Water Ski World Cup 2006, Water Ski World Cup 2007 and the Northern Ireland Ladies Open 2007.

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**Figure 5: Expenditure on Motocross and Supermoto events promoted by NIEC greatly exceeded the approved budgets**

Event	Budgeted Cost £	Actual Cost £	Variance £
<b>Supermoto 2005</b>	123,250	233,682	(110,432)
<b>Motocross 2005</b>	50,000	501,000	(451,000)
<b>Supermoto 2006</b>	No Board approval or budget prepared	154,601	(154,601)
<b>Motocross 2006</b>	5,076	345,000	(339,924)
<b>Motocross 2007</b>	250,000	595,000	(345,000)
<b>Total</b>	428,326	1,829,283	(1,400,957)

Source: Company Inspectors report

### A lack of documented delegated expenditure limits resulted in reduced NIEC Board scrutiny and challenge of significant business decisions

2.12 NIEC had no internal guidance setting out the matters and associated financial levels delegated to staff, the Executive team and the Board. In the absence of clear delegated limits and accountability arrangements the Chief Executive had a significant amount of autonomy and operated in an environment with minimal Board scrutiny or challenge. The following examples illustrate significant undertakings and expenditure incurred without Board approval:

- Janice McAleese signed bond agreements, offering guarantees of £450,000 and £200,000 against

the costs, with the organisation which owned the rights to Motocross 2005 and Supermoto 2005 (see **Case Example 4 and 5**);

- Jasper Perry (Acting Chief Executive) signed two contracts on 12 September 2007, committing NIEC to future rights payments of £2.2 million, for five motocross events, knowing that NIEC had a significant financial deficit at the time (see paragraph 1.2); and
- NIEC “as a goodwill gesture” made direct payments totalling £46,000 to a number of suppliers involved with the promoter of the Motocross 2004 event. The promoter had previously gone into voluntary liquidation and ceased trading (see **Case Example 1**).



## Janice McAleese had conflicts of interest which were not properly managed

### A contractor

2.13 The Motocross Grand Prix 2007 event promoted by NIEC was relocated to a site at Moneyglass, Co. Antrim (previous Motocross GP events had been held at Ballykelly and Draperstown). The relocation meant that a new motocross track had to be designed and built. In late 2006 or early 2007<sup>17</sup>, NIEC engaged a contractor to undertake this task. The contractor had provided maintenance services for the 2005 and 2006 Motocross events. There is no documentary evidence supporting a competitive tender process for the work required and no formal contract was signed with the contractor. **Case Example 2** highlights a range of other issues arising from NIEC's organisation of the 2007 Motocross event.

2.14 Janice McAleese had a conflict of interest in relation to the contractor and told the Inspectors that a *"relationship with the contractor started in October 2006"*. The conflict was not declared in the register of interests as required by NIEC's Operating Framework. The NIEC Board and DCAL were unaware of this conflict and it was not challenged by other NIEC staff members at the time.

2.15 A number of NIEC's staff told the Inspectors that priority was given to payment of the contractor's invoices.

There were also concerns over the authenticity of his invoices and the lack of supporting information. The Inspectors found an undated invoice from the contractor for £29,120 in NIEC's files. £16,730 of this invoice related to Motocross 2006 and was paid in two instalments on 5 and 7 September 2006 while the remainder was an unpaid fee from Motocross 2005. This was subsequently paid by NIEC in two instalments on 30 January and 29 March 2007, some 16 and 18 months after the event was held.

2.16 By December 2007 the contractor had been paid £37,005 for Motocross 2007. He instigated legal proceedings against NIEC for recovery of another £64,433 and £60,000 of this was paid by DCAL in January 2008. In total the contractor was paid in the region of £120,000 by NIEC.

### Appointment of a Commercial Manager

2.17 Following a recruitment exercise NIEC appointed a Commercial Manager in April 2004. The successful candidate, who had been providing support services to NIEC on a consultancy basis since December 2003, was a relative of Janice McAleese by marriage. This represented an obvious conflict of interest but it was not declared in the register of interests as required by NIEC's Operating Framework.

<sup>17</sup> Given the lack of documentation supporting this procurement, the Inspectors were unable to determine the exact date that NIEC entered into this arrangement.

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#### **Case Example 2: Motocross Grand Prix 2007 (Saturday 18 and Sunday 19 August 2007)**

##### **Introduction**

1. Motocross 2007 was promoted by NIEC and took place on Saturday 18 and Sunday 19 August 2007 at Moneyglass, County Antrim. NIEC moved the event from the previous year's venue at Draperstown and organised the design and construction of a new motocross track which met the specifications requested by the International Motocross Federation (FIM). The venue was capable of accommodating around 40,000 spectators.
2. In staging this event NIEC incurred considerable capital and revenue expenditure and made a significant overall loss of around £595,000. The grant funding of £302,000 provided by DCAL resulted in a net cost of £293,000 to NIEC.

##### **NIEC Board approvals**

3. There is no specific reference to Motocross 2007 in Board papers until June 2007. No Board minutes specifically record any information relating to the NIEC's capital commitment to build a new motocross track and Board members told the Inspectors that they were not aware that it was involved in building a track. There is no evidence that the NIEC Board approved the capital and revenue funding commitments required for the event. Despite the Board being aware that the event was taking place it did not challenge either Janice McAleese or, later, Jasper Perry to seek approval; nor did either Chief Executive ask for approval.

##### **DCAL grant funding and approvals**

4. In December 2006 NIEC bid for £200,000 (£40,000 revenue and £160,000 capital) of grant funding from DCAL. This was approved in January 2007. NIEC drew down a further £102,400 of grant funding from DCAL for the event. With the exception of a payment of £197,000 in April 2007, to the organisation holding the rights to the event, most of the expenditure relating to Motocross 2007 was incurred from June 2007 onwards. NIEC was drawing down grant funding, in particular the capital element, in advance of need. DCAL should have been provided with a business case in support of the capital funding request. In our opinion the request for capital funding, from an organisation primarily involved in providing grant funding to event organisers, should have set alarm bells ringing in DCAL. The request for capital funding should have been robustly challenged.

##### **Conflict of interest**

5. See paragraphs 2.13 to 2.16.

##### **Legal dispute with the owners of the Moneyglass site**

6. The Inspectors were unable to find a signed agreement between the owners of the Moneyglass site and NIEC. The Inspectors did find email correspondence between NIEC and its solicitors,

on 17 August 2007, which included an undated and unsigned attachment, entitled "Licence Agreement". The event was held the next day but NIEC had no legal right to use the lands on which the track was built and was therefore exposed to significant legal and financial risk.

7. During the building of the new motocross track contaminated soil was deposited on the site. An investigation by Department of the Environment (DoE) officials concluded that a breach of environmental regulations had occurred. After the event had been held DoE wrote to the site owner pointing out that contaminated material remained on site representing a breach of planning control. A dispute then arose as to who was responsible for the removal of the contaminated material.
8. In August 2007 NIEC received an invoice from the site owners for £64,179. This invoice covered works completed at gates on the Moneyglass site, tree pruning, temporary fencing, drainage, soil import and a Licence fee of £25,000. The invoice was not paid by NIEC and formed part of a legal claim from the site owners for £190,000 which covered works to the site, a Licence fee and costs for reinstating the site and removal of contaminated material. This legal claim was settled in 2014 and DCAL paid the site owners £177,500.

### Event income

9. Income from ticket sales was budgeted at £105,000 based on 7,000 spectators paying £15 each. Actual income was £66,000 which is equivalent to 4,400 spectators paying £15 each. The media reported at the time that around 18,500 spectators attended Motocross 2007. If 50 per cent of that number paid £15, then total expected income from ticket sales would be £139,000 (if 75 per cent paid £15 the expected total would be £208,000). According to NIEC staff who worked at the event cash handling was chaotic and disorganised, with staff being paid in cash out of the takings. The Inspectors were unable to find any records of daily cash takings at the event. This is explored further at **Figure 7**.

### Capital Expenditure

10. NIEC drew down £123,000 of grant funding from DCAL for capital works. The Inspectors identified limited expenditure documentation, there are few invoices and expenditure was difficult to trace from the bank statements as many payments were still outstanding when DCAL took on responsibility for NIEC's creditors. However, they were able to identify at least £226,000 of capital expenditure incurred in building the new track. This significantly exceeded NIEC's budgeted capital spend of £141,000 and the £123,000 of grant funding received from DCAL for capital works. We note that this track has since been demolished.

### Post Project Evaluation

11. The first NIEC Board meeting following the event was in October 2007. By this time the Board was already aware of the overall financial deficit facing NIEC. There is no reference to Motocross 2007 in the minutes of the meeting. There is no evidence that the Board was aware of the actual income or expenditure associated with the event. In addition no formal post project evaluation was carried out.

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2.18 The Commercial Manager was awarded a redundancy package of £6,491, including an ex gratia payment of £5,277, in August 2006. The Inspectors found no documentation explaining how the ex gratia payment had been calculated. There is no evidence of NIEC Board approval to the redundancy package. We would have expected that this payment, which we consider novel<sup>18</sup> to have been approved by DCAL. However this approval was not sought and the ex gratia payment was not disclosed in the NIEC financial accounts for the year ending March 2007.

promote events, and the financial risk of running these events increased, failure to monitor costs on an event by event basis proved to be a crucial systems weakness. It was also not possible to determine how much of each grant type (Major Events Fund, Events Growth Fund and Community Festivals Fund) had been spent against budget at any point in time. Although DCAL required NIEC to ring-fence Community Festival Funds, in our view, the shortcomings in NIEC's accounting systems would have made this impossible.

#### NIEC's financial accounting systems were poor

2.19 NIEC maintained a manual accounting system with cash books recording receipts and payments. However, there was no purchase ledger which showed how much was owed by NIEC to its suppliers and balance sheets were only prepared at year end. As a result NIEC could not accurately determine its financial position at any time throughout the year.

2.20 A further weakness in the manual accounting system was that it did not record expenditure against each separate event. Without this NIEC could not have known how much any individual event it supported had cost. Any level of meaningful control or oversight of expenditure on events was impossible. When NIEC began to

#### NIEC's financial and budgetary position was manipulated to cover accumulating financial losses

##### Misleading financial information was presented to the NIEC Board

2.21 From October 2003, there was a change in the quality and quantity of financial information provided to the NIEC Board by Janice McAleese. The format and content of the monthly finance reports to the Board changed on a regular basis with the level of information fluctuating. This would have made it difficult for the Board to identify any inconsistencies or irregularities in the financial information from one month to the next. For example, from October 2005 onwards information on monies owed to NIEC was included in the monthly finance report but information on monies that it owed to suppliers was not included. This effectively meant that

<sup>18</sup> Chapter 18 of Government Accounting Northern Ireland detailed the requirement for public bodies to seek approval for making special payments, including those that may be novel or contentious.

NIEC's income was overstated and its expenditure was understated, masking the growing financial deficit from the Board.

- 2.22 The Inspectors' review of the finance report that was sent to the NIEC Board in February 2007 identified that income due from DCAL was overstated by £268,000 and income from other sources appeared to have been overstated by more than £115,000. The finance report, therefore, misstated NIEC's financial position by more than £383,000, concealing the growing deficit. This overstatement of DCAL income was not challenged by either the NIEC Board or by DCAL (see paragraph 4.20).

### Personal loans were made to NIEC to cover cash flow problems

- 2.23 A number of personal loans (see **Figure 6**) were made to NIEC between December 2005 and February 2007 to alleviate cash flow difficulties. The loans were either made by, or with the knowledge of Janice McAleese and Jasper Perry. There is no evidence from Board minutes or related papers that the Board had any knowledge of these loans.
- 2.24 Janice McAleese and her then partner, made a personal loan of £17,000 to NIEC in December 2005. Janice McAleese explained to the Inspectors that due to a drawdown error NIEC had insufficient funds to pay its staff before Christmas. Her then partner was repaid by cheque on 2 March 2006. However, the payee was recorded in the books and records of NIEC as "*Schism (MX1)*". The payment instruction was a memo, headed "*Grand Prix of Ireland, Motocross, Desertmartin 2005*" from Janice McAleese and dated 28 February 2006, authorising a payment of £17,000 to Schism in relation to Motocross 2005.
- 2.25 Janice McAleese provided a second loan of £21,000 on 27 February 2007. The same amount was repaid to Janice McAleese, by cheque dated 1 April 2007. The counterfoil of the cheque records the payee as "*Maiden City Sponsorship*".
- 2.26 Jasper Perry lodged £25,000 into NIEC's bank account on 17 January 2007 to cover staff salaries. He was repaid by cheque on 1 February 2007. However, the description on the counterfoil of the cheque recorded "*Repayment NIEC paid by mistake sponsorship*".

**Figure 6: Personal Loans provided to NIEC**

Date	Source of Loan	Amount
21 December 2005	NIEC employee	£3,000
21 December 2005	Janice McAleese and her then partner	£17,000
17 January 2007	Jasper Perry	£25,000
27 February 2007	Janice McAleese	£21,000

Source: Company Inspectors report

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2.27 NIEC's cash flow problems were a direct result of the increasing financial deficit and the poor financial records made it difficult for it to quantify the extent of the growing losses. It is alarming that personal loans were used in order to further disguise the deficit from the scrutiny of the NIEC Board and DCAL.

been signed at a Board meeting on 8 August 2006. NIEC's records show that there was no Board meeting on 8 August 2006. We also note that NIEC's financial accounts for year ending March 2006 were manipulated to hide the second overdraft facility from DCAL (see **Case Example 3**).

#### **NIEC had an unauthorised bank overdraft facility**

2.28 NIEC had two bank overdraft facilities. The overdraft of £100,000 on its main bank account was approved by DCAL and the NIEC Board in May 2004 and September 2005 respectively. In November 2005, the bank agreed to provide NIEC with an additional overdraft facility of £200,000 on a new current account. Documentation apparently signed by four NIEC Board members and the Chair showed that the Board approved the second overdraft facility on 14 November 2005. However, there was no Board meeting on 14 November 2005. The Inspectors concluded that it would appear that both the NIEC Board and DCAL were unaware of the second £200,000 overdraft facility.

2.29 On 8 August 2006, NIEC's bank sought confirmation that it still required overdraft facilities totalling £300,000. A resolution, which was attached to the letter, apparently contained the signatures of the Chair, the Chief Executive and a member of NIEC staff and referred to the resolution having

#### **Case Example 3: Financial accounts presented to DCAL were manipulated to hide a second overdraft facility**

1. The Inspectors identified a set of NIEC financial statements for the year ended 31 March 2006 which had been submitted to DCAL. These had been signed by the NIEC Board on 14 August 2006 but not signed by the auditors, Finegan Gibson. These financial statements were reviewed by a DCAL official on 30 November 2006.
2. NIEC filed a set of financial statements for year ending 31 March 2006 at Companies House on 31 January 2007. These statements were signed by the auditors. The Inspectors identified inconsistencies between these statements and those passed to DCAL in November 2006. Although the Income and Expenditure Account and the Balance Sheet were the same as the copy provided to DCAL by NIEC, there was a difference in a note to the accounts entitled "*creditors: amounts falling due within one year*". In the financial statements filed at Companies House, the bank overdraft was recorded as £269,119 and the

trade creditor figure was recorded as £349,600. Whilst the total creditors balance was the same in both sets of financial statements, in the version not signed by the auditors and originally sent to DCAL, the bank overdraft was recorded as £70,119 and to offset this, the trade creditors figure was recorded as £548,600.

3. NIEC had two overdraft facilities of £100,000 and £200,000. DCAL was aware of and had approved the first overdraft facility of £100,000 but DCAL was not aware of the £200,000 facility. The bank overdraft of £70,119 in the financial statements sent to DCAL was within the £100,000 approved limit, but the bank overdraft disclosed in the financial statements filed at Companies House, reflected the actual position, which exceeded DCAL's approved limit.

Source: *Company Inspectors report*

### **A bank statement was fabricated in support of grant funding**

- 2.30 In order to access grant funding from DCAL each funding application was to be accompanied by the most recent NIEC bank statement. In March 2007, an application for funding of £318,000 included a bank statement, dated 29 March 2007, showing that NIEC was £99,000 overdrawn. The Inspectors obtained a copy bank statement which showed that the actual bank balance at 29 March 2007 was £120,000 overdrawn.
- 2.31 The grant drawdown application, signed by Janice McAleese, stated that *"providing wrong or deliberately misleading information is an offence,"* and that *"False statements can result in prosecution"*. DCAL paid the grant of £318,000 to NIEC in April 2007. This is discussed further at **Case Example 8**.

### **Cash income from events promoted by NIEC was lower than expected**

- 2.32 A significant proportion of the income generated by Motocross and Supermoto events was cash from gate receipts. As cash receipts are inherently more susceptible to fraud than other forms of income, we would have expected NIEC to have robust controls in place to manage the cash received from gate receipts. However, the Inspectors found that there were no written procedures or controls in place in relation to collecting and accounting for all income received at events.
- 2.33 The Inspectors were unable to identify specific NIEC documentation that recorded the number of spectators attending events, number of tickets sold and the amount of cash received on the day of the events. The Inspectors concluded *"it was not possible therefore to assess the completeness of event income, particularly from ticket sales, i.e. that all income collected was banked and/or recorded in the NIEC books and records and financial statements"*.

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- 2.34 It appears that for a number of promoted events, the total gate receipts lodged to the NIEC bank account were significantly less than expected based on reported spectator numbers and average ticket prices (see **Figure 7**). NIEC staff told the Inspectors that suppliers received cash payments, direct from the gate receipts, rather than by cheque payment.

**Figure 7: Income from gate receipts was significantly less than expected**

Event	Actual cash income from gate receipts lodged to NIEC bank account	Estimated spectators and ticket costs	Expected cash income from gate receipts	Potential Shortfall
Motocross 2005 (see Case Example 5)	£102,592	12,000 reported spectators. Tickets priced at £12 and £25. Inspectors' assumptions: 3,000 spectators attend for free and 9,000 spectators buy ticket at £18.50	£166,500	£63,908
Supermoto 2005 (see Case Example 4)	There is no evidence that any cash receipts were paid into NIEC's bank account following this event.			
Motocross 2006	£52,274	Attendance estimate (source was NIEC) was 18,243. Two day event costing £12.50 per day. Inspectors' assumptions: 60% of 18,243 spectators paid the lowest daily price of £12.50.	£137,000	£84,726
Supermoto 2006	£7,506	Spectator numbers estimated at 8,000. Lowest ticket price was £10. Inspectors' assumptions: 60% of spectators paid £10	£48,000	£40,494
Motocross 2007 (See Case Example 2)	£65,616	Press reports of 18,500 spectators over two days. Two day ticket priced at £30 and day pass was £20. Inspectors' assumptions: 50% of spectators paid £15.	£139,000	£73,384
Total	£227,988		£490,500	£262,512



### Case Example 4: Supermoto 2005 (Friday 9 and Saturday 10 September 2005)

1. NIEC paid the promoter of the Supermoto 2005 event £67,000. In August 2005, Janice McAleese informed the NIEC Board that a new promoter (Schism) had been appointed as the original promoter was unable to commit to a £500,000 funding agreement with the organisation holding the rights to the event. However it was NIEC which subsequently entered into a funding agreement with the organisation holding the rights to the event. NIEC agreed to underwrite the cost of Supermoto 2005, up to an amount of £200,000, in case of failure by the promoter to execute financial obligations.
2. NIEC agreed to pay Schism £61,500 (although records show it actually paid Schism only £53,480). However, evidence uncovered by the Inspectors showed that NIEC was engaged in activities that would ordinarily have been undertaken by an event promoter. NIEC staff attended event planning meetings, placed orders with suppliers, arranged public liability insurance and worked at the event. A significant number of invoices were addressed directly to NIEC and it paid £113,000 directly to suppliers.
3. It appears that the majority of costs relating to Supermoto 2005 were paid by NIEC and it is unclear what payments were made to suppliers by Schism from the grant provided to it. In effect, NIEC was the promoter of the event as it was exposed to all the financial and operational risks. There is no evidence that any cash receipts were paid into NIEC's bank accounts following the event. It is unclear what happened to the income received from the event.

### Basic controls and procedures were not applied

- 2.35 The Inspectors uncovered examples in which basic controls and procedures were not effectively implemented or maintained, or were simply disregarded or overridden by the Chief Executive in the management of expenditure related to Motocross and Supermoto events:
- A significant number of payments were made by NIEC for which there was either no supporting documentation retained on file or the request for payment was a typed memo from Janice McAleese, with no additional supporting documentation. There were a small number of event promoters who Janice McAleese dealt with directly and the paperwork that authorised payment to these individuals ordinarily came from her (see **Case Example 5**);
  - The Inspectors found that in a number of instances the payee as per the NIEC copy cheques was different to the payee description in NIEC's records (see **Case Example 5**); and
  - A number of NIEC staff when interviewed by the Inspectors admitted that retrospective purchase orders had been created in advance of an internal audit commissioned by DCAL in the summer of 2007.

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### The events that led to the accumulation of a financial deficit in NIEC

#### Case Example 5: Motocross Grand Prix 2005 (Friday 16 and Saturday 17 September 2005)

1. NIEC and Schism worked in partnership to organise and manage the 2005 Motocross event at Desertmartin, although the exact arrangements are unclear as a draft Partnership Agreement between the two parties was never signed. However, it was NIEC that entered into a funding agreement with the organisation holding the rights to the event. NIEC agreed to underwrite the cost of Motocross 2005, up to an amount of £450,000, in case of failure by the promoter to execute financial obligations. In effect NIEC was the promoter as it was exposed to all the financial and operational risks.
2. NIEC made eleven grant payments to Schism between June and November 2005 totalling £321,000. Most of the payments were requested by Janice McAleese and none were supported by any further documentation, invoices or payment lists. One grant payment of more than £10,000, requested by Janice McAleese for an unrelated event, was actually paid to Schism according to the copy of the NIEC cheque.
3. Schism was paid a further £78,000 over seven payments including an event management fee of £40,000. The Inspectors noted that copy cheques show that six payments were made to Schism but that NIEC's books and records record different payee names. The Inspectors noted that payments to Schism totalling £26,000 regarding the motocross event in 2004, had been incorrectly recorded in NIEC's accounting records as payments to the promoter of that event.
4. In total Schism received almost £400,000 from NIEC for Motocross 2005. NIEC paid a further £237,000 to other suppliers of goods and services. The Inspectors concluded that based on their analysis of the nature of the payments made by NIEC, it would appear that the majority, if not all, of the costs relating to Motocross 2005 were met solely by NIEC. We concur with the Inspectors conclusions. Schism received substantial grant funding but considering it was apparently the "joint promoter", contributed very little to event costs.
5. The Inspectors also noted that three payments totalling more than £24,000 were made from NIEC's bank accounts in September 2005 for a float at the Motocross 2005 event. However, only £9,500 of float was lodged back to NIEC's bank account after the event.
6. A potential shortfall in income from this event is calculated at **Figure 7**.

Source: Company Inspectors report

2.36 NIEC had internal procedures for purchasing goods and services in addition to the extensive range of public sector procurement guidance that was available to it. Despite this, the Inspectors concluded that there was little evidence procedures were consistently applied by NIEC. Analysis of the

procurement procedures for suppliers of goods and services who received the greatest value of payments in respect of the period 2004-07 revealed:

- Schism provided PR/media services for Motocross 2004 and later became involved in the promotion

with NIEC of Motocross 2005 and Supermoto 2005. Schism was paid almost £500,000 and there is no evidence that NIEC attempted to procure its services on a competitive basis;

- a catering firm was paid £130,000 between November 2005 and March 2007 following a competitive tender process. Three tenders were obtained and the most expensive selected. There was no documentation outlining the rationale behind the selection of the most expensive tender. However, the catering company had previously agreed to provide corporate sponsorship in return for exclusive catering rights at particular NIEC events;
- a contractor was paid around £120,000 (see paragraph 2.16 and **Case Example 2**). There is no evidence that NIEC attempted to procure the contractor's services on a competitive basis; and
- an equipment hire firm and a design and marketing consultancy were paid £37,000 and £35,000 respectively. There is little evidence of procurement documentation, for example tenders or quotes in support of payments to these companies.

## Conclusion

2.37 In our view, there were a number of serious failings that contributed to the accumulation of a significant financial deficit in NIEC. Whilst weaknesses in governance are evident in a number of NIEC's activities, it appears to have had the biggest financial impact in the Motocross and Supermoto events that NIEC promoted itself. These weaknesses failed to identify that:

- Expenditure on Motocross and Supermoto events promoted by NIEC greatly exceeded approved budgets;
- Income from events was much lower than expected; and
- Despite the Motocross and Supermoto events making significant losses, NIEC continued to promote the events in subsequent years.

2.38 Whilst some of these failings were down to systems and procedures not being in place, more concerning are a number of actions that appear to have been carried out to the benefit of individuals rather than NIEC or the wider public sector. Of particular concern was the standard of leadership provided by the Chief Executive, Janice McAleese, which fell well short of the high standards

## Part Two:

### The events that led to the accumulation of a financial deficit in NIEC

expected from an Accounting Officer. The standards expected of those holding public office are high. It is essential that such individuals holding public office conduct themselves in accordance with the seven principles of public life – the so-called ‘Nolan principles’ (see **Appendix 3**).

- 2.39 In the Northern Ireland public sector we are unaware of any other Accounting Officer failing so comprehensively to uphold the Nolan principles of conduct in public life and more specifically the requirements expected of an Accounting Officer as set out in DCAL’s letter of appointment.
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## Part Three:

### The failure of the NIEC Board to provide adequate oversight

#### Introduction

- 3.1 The NIEC Board were responsible for the overall management and oversight of NIEC. However, the specific roles and responsibilities of Board members were not expressly outlined until the introduction of a 'Management Statement and Financial Memorandum' in 2006.<sup>19</sup> The main responsibilities were to ensure that NIEC fulfilled the aims and objectives set by the Minister, including:
- Informing the Department of any changes in the strategic direction of NIEC;
  - Ensuring that any statutory or administrative requirements for the use of public funds were complied with;
  - Ensuring that the Board received and reviewed regular financial information regarding the management of NIEC;
  - Ensuring that the Board was informed in a timely manner about any concerns regarding the activities of NIEC; and
  - Demonstrating high standards of corporate governance (including using the Audit Committee to help the Board address the key financial and other risks facing NIEC).

3.2 NIEC was constituted as a private company limited by guarantee in May 1997, led by a group of non-executive directors who were publicly appointed. Under the Companies Act, directors of a company owe common law and fiduciary duties to the company that appoints them. The scope and extent of these duties evolved through case law<sup>20</sup>, and include:

- A Director must act in the best interest of the Company at all times;
- A Director must act in good faith; and
- A Director must act with due care, skill and diligence.

Those NIEC directors who came from a public sector background had no experience of the personal responsibilities of a director.

#### Inspectors noted a number of weaknesses in the Board's oversight

3.3 The Inspectors concluded that the Board, due to its own failings, did not have adequate knowledge or oversight of the activities of NIEC, did not meet the governance standards expected of them and that there were a number of weaknesses that greatly reduced its ability to exercise effective oversight. These included:

- A lack of financial skills;

<sup>19</sup> Prior to this, Financial Memoranda (1998, 2002 and 2004) were in place between DCAL and NIEC. These documents did not outline the roles and responsibilities of Board members.

<sup>20</sup> Some of the duties of directors were codified in the Companies Act (2006) which came into force at various times between November 2006 and October 2009.

- Some Board members' attendance was low;
- Board members received little training;
- The quality and usefulness of Board minutes declined; and
- The quality of information on NIEC activities provided to the Board was poor.

### **The Board lacked key financial skills**

- 3.4 The members appointed to the Board in 2002 brought considerable skills and experience in both marketing and event management. However, NIEC did not, at any time have any Board members who were qualified accountants or who had financial skills. Without a Board member who had these necessary skills, there was inadequate challenge and scrutiny of NIEC's activities, especially its financial performance.
- 3.5 Despite these skill shortages, we have not seen any evidence that the Board discussed the need to recruit a member with financial skills or that the Chair raised this issue with DCAL. Whilst the Chair made a number of requests for Board members to be recruited, there is no record that any request was made to ensure that these appointees should include financially experienced individuals. Whilst NIEC suggested a number of names for appointment to the Board, none of those had a background in finance.

3.6 Another means of addressing the lack of financial skills amongst Board members would have been through training. However, there is no record of any consideration being given to arranging training for members of the Board to address this skills shortage. In our view when NIEC started to promote events the greater financial risk that this entailed meant the absence of an appropriately skilled Board became even more important.

3.7 Two reviews<sup>21</sup> carried out by DCAL in 2008, in direct response to the problems in NIEC, identified several weaknesses in DCAL's approach to appointing Board members across its Arm's Length Bodies. The reviews concluded that DCAL had not given sufficient consideration to identifying a suitable range of skills when making Board appointments. These reviews highlighted in particular the low numbers of Board members with finance skills and experience.

3.8 In addition to the lack of financial skills on the NIEC Board, we note that despite motorsport events accounting for a significant proportion of NIEC's annual spending in this period there was a lack of motorsport knowledge amongst NIEC Board members.

### **Some Board members' attendance at meetings was low**

3.9 The Inspectors' review of Board minutes indicates that attendance levels among some NIEC Board members were low.

21 Review of the Governance Arrangements in DCAL's Arm's Length Bodies, May 2008 and Review of the Sponsorship Arrangements in DCAL, May 2008.

## Part Three:

### The failure of the NIEC Board to provide adequate oversight

Between 2002 and 2007, several Board members attended less than 50 per cent of meetings whilst the average attendance level was 64 per cent. In our view, poor attendance contributed to a situation in which members of the Board were not informed of what was happening in NIEC. This meant they were unable to sufficiently challenge the information provided to them.

- 3.10 The Inspectors concluded that many Board members failed to dedicate the required amount of time to their role. In our view, this was caused, at least partly, by the voluntary nature of the role and all Departments should ensure that voluntary Board members are fully aware of the commitment that will be required before taking up an appointment.

#### Little training was provided to Board members

- 3.11 Board members told the Inspectors that they received little or no training and it is of particular concern that none had received a formal induction upon joining the Board (see **Case Example 6**). In our view, this failure to properly inform Board members of their roles contributed to the lack of clarity amongst some members of their responsibilities.
- 3.12 Training is an essential component in ensuring that Board members are aware of their responsibilities and can operate effectively in the public sector context. Given the skills gaps in the NIEC Board, an adequate training programme was, in our opinion, all the more important. DCAL told us that changes implemented

#### Case Example 6: Corporate Governance Training

1. Corporate governance training was scheduled to be included on the agenda for the NIEC Board away day in December 2003. However, this away day was cancelled due to low attendance. The Chair later told DCAL that “members may not be keen on training in [Corporate Governance]”.
2. The Chair assured the DCAL Permanent Secretary in July 2004 that training would be included at the Board’s next away day. This training does not appear to have ever been provided.
3. However, the Chair told the Inspectors that this training was not provided, in part because of the Chair’s concerns about the time commitment being asked from non-remunerated members, and in part because of the highly experienced nature of those on NIEC’s Board.

Source: *Company Inspectors report*

mean that all new ALB Board members are advised, as part of the appointment process that they must attend induction training (see **Appendix 1**). We welcome this coordinated approach in DCAL to Board training.

#### The quality and usefulness of Board minutes declined

- 3.13 The Inspectors’ review of NIEC Board minutes indicates that minutes were much more comprehensive earlier in the Board’s tenure. Over time, the Board minutes became less detailed and very



often failed to contain basic information on approvals and the reasons behind Board decisions. This lack of detail in Board minutes is particularly apparent in relation to a number of events promoted by NIEC.

3.14 The Inspectors found that the preparation of Board minutes was undertaken by Janice McAleese, who took notes during Board meetings. These notes were subsequently passed to the Chair for comment and approval. It was the responsibility of all Board members, and the Chair in particular, to ensure that minutes fully and accurately reflected the business and decision making of the Board. We note that, under the Companies Act, the Chair had a particular duty to ensure that all meeting minutes signed by him were a true reflection of the Board discussions that took place.

3.15 During their investigation, the Inspectors noted a number of instances in which information or comments were revised or redacted from draft minutes by the Chair before going to the Board for approval. In other instances, revisions or redactions were made to minutes after having been approved by the Board. The minutes were then signed by the Chair and Chief Executive. The Inspectors were unable to determine who carried out or authorised such changes.

3.16 Board minutes were forwarded to DCAL as part of their oversight arrangements. We have not seen any challenge from DCAL to the declining standards in Board minutes. We do, however, note

that some unauthorised changes to Board minutes did greatly reduce DCAL's ability to exercise effective oversight of NIEC. This is discussed further at **Part Four**.

### **The quality of information provided to the Board was poor**

3.17 As discussed above at **Part Two**, the quality of information presented to the Board was often inadequate. In the case of Motocross events promoted by NIEC, we believe there was insufficient information for the Board to make a fully informed decision on whether it was appropriate to award funding to these events (see paragraphs 2.21 to 2.22).

### **Weaknesses in the Board's oversight had a number of far reaching consequences**

#### **The Board failed to recognise and deal with the increased risks that NIEC was exposed to in its role as a promoter of events**

3.18 In our view, the most important change to NIEC's activities was the move to promoting events which brought with it a considerably higher risk profile than simply providing capped financial support (see paragraphs 2.5 to 2.7).

3.19 Despite the significant implications of this change in policy, some Board members claimed they were unaware that NIEC was involved in promoting events. Other Board members were aware of

## Part Three:

### The failure of the NIEC Board to provide adequate oversight

promoted events but did not realise the extent of this. The Inspectors concluded that, whilst there was evidence that Board members should have been aware of the change, there was only evidence of one instance of a Board member challenging the change.

- 3.20 The Inspectors concluded that the Board was aware, or at the very least, ought to have been aware, that NIEC was heavily involved in the higher risk business of promoting events from 2005 onwards but appeared to have little understanding of the risks associated with this. In our view, this was such a fundamental change in NIEC's strategic approach that the Board should have fully considered the implications prior to NIEC promoting its first event. NIEC's Management Statement required the NIEC Board to keep DCAL informed of any changes which were likely to impact on the strategic direction of NIEC.

#### **The failure to recognise the change was created in part by a lack of strategic focus**

- 3.21 A number of Board members indicated at interview that at times the Board had become too involved in the minutiae of events at the expense of the strategic issues. This focus on operational matters contributed to the failure of some Board members to recognise the significant strategic changes that were occurring in NIEC.
- 3.22 The Inspectors also noted that, whilst in some events the Board was drawn into the detail of events, in other cases it had

little or no knowledge of events that were being promoted by NIEC. These events ultimately cost NIEC significant sums of money.

#### **Board members placed undue reliance on the Chief Executive**

- 3.23 At paragraphs 3.4 to 3.10 above, we note that the Board's ability to challenge the Chief Executive was fundamentally weakened by a lack of financial skills and poor attendance. The Inspectors concluded that the Board failed to maintain a healthy balance between support and challenge in its dealings with Janice McAleese.
- 3.24 This lack of challenge is particularly evident in the relationship between the Chair and Janice McAleese. There is little evidence of the Chair offering an effective challenge to the activities of Janice McAleese. Indeed, on several occasions, the Inspectors noted that the Chair appears to have sought to shield Janice McAleese from criticism, both during and after her time at NIEC.

#### **Chair's knowledge of the financial deficit**

- (i) Inspectors that she had first become aware of the financial deficit in 2006. At this time, she and Jasper Perry met the Chair, and informed him of overspends. Despite this, the Chair did not inform the Board. The Board were finally informed of the deficit at an emergency meeting in October 2007.

### Non attendance at accountability meetings

- (ii) The Chair did not routinely attend the quarterly accountability meetings with DCAL or seek to assure himself as to the matters being discussed (see paragraph 4.10).

### Chair's knowledge of personal loans

- (iii) Inspectors were also told that the Chair was made aware of at least some of the personal loans that had been made to NIEC by staff and connected persons (see paragraph 2.23). Again, he failed to report this to the Board.

### Motocross 2007

- (iv) The Chair appears to have been aware of NIEC's involvement in the construction of a Motocross track at Desertmartin in June 2007. He had several meetings with DoE staff in a bid to resolve issues regarding planning. Despite being aware that DCAL had not approved the capital expenditure, and knowing that the track construction was not approved by the Board, it appears that the Chair failed to report the matter to his Board or highlight the serious issues faced by NIEC in the delivery of the project (see **Case Example 2**).

- 3.25 The Board's failure to hold the Chief Executive to account allowed her to act outside her remit by entering into contracts, taking unilateral decisions and incurring significant expenditure without the prior knowledge or approval of the

Board. This is examined in more detail at **Part Two**.

### The Board did not handle whistleblowing allegations appropriately

- 3.26 A number of Board members were approached by whistleblowers during the period 2004 to 2007. In early 2005, an external whistleblower wrote to NIEC's Chair informing him of serious concerns about the manner in which Janice McAleese had handled grant applications. The Chair asked the complainant to refer their complaint to "the paid professional staff of NIEC" despite it relating mainly to the actions of the Chief Executive. In our view, the Chair was asking Janice McAleese to review a complaint about her own conduct and this was a wholly inappropriate response by the Chair to the whistleblowing allegations.

- 3.27 In June 2006, the NIEC Board approved a Complaints Procedure which outlined the steps to be taken if a complaint was made by an external company or person against a member of NIEC's staff. The procedure states that complaints against the Chief Executive should be dealt with by the Deputy Chair, who would then invite the complainant to a meeting with an independent HR consultant. The Deputy Chair would then reply to the complaint following an investigation. The Inspectors were unable to determine whether a complaints procedure existed in relation to internal complaints.

## Part Three: The failure of the NIEC Board to provide adequate oversight

3.28 In August 2006, another external whistleblower highlighted concerns around alleged favouritism shown by Janice McAleese to an event promoter. The Chair again appears to have asked the complainant to deal with the Chief Executive. This approach was clearly contrary to NIEC's own complaints procedures.

### The Board placed reliance on the opinion of the external auditors

3.29 Board members told the Inspectors that they took considerable comfort from both DCAL's role as sponsoring body and the unqualified audit opinions that NIEC received throughout the period. NIEC's auditors provided both audit and accountancy services to NIEC from its incorporation until 2009.<sup>22</sup> We note, however, that only audit services were included in the tender won by the auditors in 1997. The Inspectors were unable to find any documentation

that related to the procurement of accountancy services from the auditors.

3.30 Auditing standards require auditors to communicate the results of their audit with "those charged with governance". This should have meant that the auditors presented their findings to the NIEC Board. However, there is no evidence that the auditors met with the Board at any time during the period from their appointment in 1997 to the discovery of the deficit in 2007. Given this lack of communication, we are surprised that Board members felt comfortable placing such reliance on the audit opinions.

3.31 The Inspectors concluded that NIEC was likely to have become technically insolvent at some time during the financial year ended March 2005. NIEC's financial statements, lodged with Companies House, reported a surplus of £17,000. However, the Inspectors estimated that these financial statements should have reported a deficit of more

**Figure 9: The financial position of NIEC as reported in their audited financial statements and as recalculated by the Inspectors**

	31 March 2004	31 March 2005	31 March 2006	31 March 2007
	£	£	£	£
Cumulative reported year-end surplus/(deficit)	34,466	17,663	(63,701)	(1,173,219)
Cumulative year-end surplus/(deficit) per Inspectors	111,715	(436,516)	(891,721)	(1,173,219)
Variance	77,249	(454,179)	(828,020)	–

Source: Company Inspectors Report

22 The Companies (Public Sector Audit) Order (Northern Ireland) 2008 appointed the C&AG as auditor of a number of public sector companies including NIEC, for financial years ending 31 March 2009 and after. Prior to this, under the terms of the Companies Act these companies could appoint their own auditors.

than £436,000 (see **Figure 9**). The difference relates to grants that had been committed in 2004-05 by NIEC but not yet claimed by their recipients. This insolvency and its subsequent increase remained undetected by the Board for two years.

### **The Board did not insist that NIEC establish an Audit Committee and Internal Audit Service**

3.32 The NIEC Board had responsibility for ensuring that NIEC's internal control and risk management processes and procedures were adequate. Despite this, they appeared to have placed complete reliance on DCAL, NIEC's auditors and the Chief Executive. A review of processes revealed flaws in the governance architecture that in our view, were so fundamental, they should not have been allowed to persist.

### **An Audit Committee was not established until after the financial deficit came to light**

3.33 Despite nine references to the establishment of an Audit Committee in NIEC Board minutes between the period October 2003 and December 2006 and explicit requirements to do so under the Financial Memorandum of 2004 and the Management Statement and Financial Memorandum of 2006, no Audit Committee was established in NIEC until after the deficit came to light. In addition, NIEC's Corporate Plan for 2007-2010 lists an Audit Committee

as amongst the range of sub-committees in place. All of these documents were available to DCAL.

3.34 Many Board members told the Inspectors that the failure to establish an Audit Committee was in part as a result of falling Board membership. We note, however, that NIEC had a 'Golf sub-committee' which met at least ten times between 2004 and 2007.

3.35 The lack of an Audit Committee was a fundamental weakness in the overall control and monitoring structures in place in NIEC. The Board's ability to challenge assurances provided to them by Janice McAleese, or to properly scrutinise financial information provided to them was greatly weakened by this failure.

### **No permanent arrangements for an Internal Audit service were put in place**

3.36 An effective internal audit function can provide an independent and objective assurance for Board members on the adequacy of risk management, internal control and governance structures in an organisation. It has a key role to play in providing assurance to a Chief Executive and Board members that controls are in place and operating effectively. Given there was no Audit Committee in place, this made an effective and independent internal audit all the more important.

## Part Three:

### The failure of the NIEC Board to provide adequate oversight

3.37 Three reports were completed by DCAL's Internal Audit service during NIEC's lifetime. Two of these were prompted by complaints that had been received by DCAL. No internal audit reports were sought or commissioned by NIEC.

3.38 In June 2003 an Accountability Audit<sup>23</sup> completed by DCAL's Internal Auditor gave limited assurance that "NIEC's systems of control are sufficiently robust". In October 2003, DCAL auditors again gave a limited assurance rating around NIEC's grant procedures. The then Chief Executive (John Walker), disputed these findings. Board minutes show no record of this limited assurance report being discussed by the Board.

3.39 A further report by DCAL's internal audit, published in 2007, also identified a range of issues and recommendations. However the final report was completed only in October 2007, after the deficit had come to light.

3.40 There is no record of the absence of an internal audit function being discussed by NIEC's Board. It is difficult to see how the Board could have assured themselves that internal controls were operating effectively given the lack of both an Audit Committee and an internal audit service.

3.41 In addition, the Inspectors noted that no risk management strategy was ever put in place in NIEC despite Risk Management Guidance being issued by DCAL in November 2004. Whilst a risk register was prepared, the Board do not

appear to have been involved in its preparation or satisfied itself as to how effectively risks were being managed within NIEC.

### Conclusion

3.42 The Board was almost completely reliant on the information presented to it by the Chief Executive. However, the quality of information, particularly in relation to Motocross and Supermoto events, was woefully inadequate. The Board's failure to establish an Audit Committee or arrange adequate internal audit provision significantly reduced its ability to verify the information given to it by Janice McAleese on internal control issues and the key risks to which NIEC was exposed. This situation was not robustly challenged and the Board did not, in our opinion, meet the governance standards expected of it.

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23 An internal audit report commissioned by DCAL.

## Part Four:

### Weaknesses in DCAL's oversight arrangements

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## Part Four:

### Weaknesses in DCAL's oversight arrangements

#### Introduction

4.1 The sponsor department is responsible for providing funding to, and monitoring the performance of, its sponsored body. NIEC has had two sponsor departments: DoE from July 1997 until November 1999 when responsibility transferred to the newly formed DCAL.

4.2 The Inspectors identified a number of flaws in DCAL's monitoring of NIEC's activities that contributed to a situation in which Janice McAleese was not adequately held to account for her actions. In summary, these flaws include:

- DCAL's risk assessment processes did not identify the risks posed by NIEC;
- DCAL did not have clear structures in place to monitor NIEC;
- DCAL's communication with NIEC was poor;
- DCAL did not adequately oversee NIEC's risk management procedures;
- DCAL did not review NIEC's internal control arrangements in sufficient detail to ensure they were fit for purpose;
- DCAL failed to fully scrutinise key information that was available to it; and
- Whistleblowers' complaints were not thoroughly investigated by DCAL.

These problems existed and were allowed to persist because DCAL did not view NIEC as a high risk organisation.

#### **DCAL's risk assessment processes did not identify the risks posed by NIEC**

4.3 The extent of monitoring and oversight exercised by a sponsor department should be based on regular risk assessments. Our analysis of DCAL's assessment of the risks posed by NIEC, and the information given to the Inspectors by former DCAL staff, suggests that it was considered as a low risk body. This conclusion appears to have primarily been based on the relatively low level of public funding provided to NIEC which accounted for around two per cent of DCAL's overall spend.

4.4 As a result DCAL employed a 'light touch' approach to oversight and failed to pick up and respond to the change in NIEC's activities when it began to promote events. This change exposed NIEC to greater financial and operational risks and had DCAL exercised sufficient oversight, it should have identified these increased risks and been able to take steps to mitigate them.

4.5 We believe that a risk assessment based purely on the amount of funding provided was flawed. NIEC was a commercial organisation at arm's length from government operating in a sector in which public bodies had limited experience. When viewed alongside the PAC findings from 2002 (see paragraph



1.16), this body posed a considerably higher risk to DCAL than the level of its funding would have suggested.

### **DCAL did not have clear structures in place to monitor NIEC**

4.6 The relationship between DCAL and NIEC was governed by a series of Financial Memoranda (1998, 2002, 2004, 2006), which set out the financial provisions it was required to adhere to. Although established as a company limited by guarantee, each Memorandum clearly stated that NIEC was to be treated as if it was a non departmental public body<sup>24</sup>. Despite this, DCAL officials interviewed by the Inspectors were unclear about how much responsibility the Department had for NIEC and how closely it should have been monitored.

4.7 In our view, DCAL's responsibilities regarding monitoring and governance of NIEC were clear, given that it received public funds. The status of NIEC should not have mattered to DCAL. In our opinion appropriate control and oversight mechanisms could have been put in place which would not have altered any perceived independence from government whilst still ensuring adequate and proportionate oversight.

4.8 On transfer of NIEC, in November 1999, to the newly formed Department of Culture, Arts and Leisure the day to day responsibility for oversight and monitoring of NIEC fell to DCAL's Finance Branch. An internal review in June 2003 recommended that NIEC should transfer to DETI as NIEC's objectives did not align with DCAL's business activities. We note that between June 2003 and June 2005 it was not clear which business unit within DCAL had responsibility for NIEC. An organisational chart from 2005 showed that NIEC was a "standalone" division in DCAL's structure. In June 2005 DCAL's Sports Branch took on responsibility for NIEC.

### **DCAL's communication with NIEC was poor**

4.9 Up until October 2002, a DCAL official attended NIEC Board meetings as an observer<sup>25</sup>. This arrangement appears to have been unique amongst DCAL's Arm's Length Bodies at that time. In 2003, DCAL decided to instigate quarterly accountability meetings, following the recommendations of the June 2003 Internal Audit report<sup>26</sup> (see paragraph 3.38), as a means of ensuring good communication with NIEC.

24 A Management Statement with an updated Financial Memorandum was introduced in 2006 which stated that "for policy/administration purposes the NIEC is regarded as an executive non-departmental body".

25 The 1998 Financial Memorandum did not make reference to the sponsoring department having observer status on the NIEC Board. The 2002 Financial Memorandum gave the DCAL Accounting Officer power to nominate a senior member of DCAL staff to sit on the NIEC Board in an observer capacity.

26 An internal audit report commissioned by DCAL.

## Part Four:

### Weaknesses in DCAL's oversight arrangements

4.10 The first quarterly accountability meeting took place on 31 October 2003, the second meeting did not take place until July 2004, eight months later. There was a further delay of 11 months before the third meeting. However, from June 2005 until late 2007 meetings were held at regular intervals, of three to five months. This coincided with the change in responsibility for oversight to the DCAL Sports Branch.

4.11 These accountability meetings should have provided DCAL with a regular opportunity to challenge NIEC and in particular the Chief Executive. However, there were a number of issues which undermined this challenge function:

- DCAL assumed that the NIEC Board was effectively exercising its responsibilities in terms of grant funding approvals and monitoring the financial performance of events. However, it is difficult to establish how DCAL validated this view as the Chair and other NIEC Board members only attended two quarterly accountability meetings (October 2003 and July 2004) in the period prior to DCAL being informed of the financial deficit in September 2007. This limited DCAL's contact to the NIEC Chief Executive;
- DCAL representatives at all levels appeared to have complete trust in Janice McAleese. DCAL representatives told the Inspectors that this was largely based on a consultant's report on two specific

events, held in 2005 and 2006, which presented Janice McAleese and NIEC in a positive light. It appears that DCAL relied on her representations and did not apply a satisfactory level of challenge. In addition, the limited direct contact between DCAL and the NIEC Board meant that DCAL became increasingly reliant on Janice McAleese as an intermediary;

- DCAL funding was drawn down early in the financial year to cover the existing financial deficit. However there is little evidence of DCAL following up on indicators of potential cash flow problems or requesting further clarifications from NIEC (see **Case Example 7**);
- Although DCAL recognised that a Finance Branch representative at meetings would be beneficial to the monitoring process, a representative only attended one meeting; and
- As time progressed the seniority of DCAL representatives attending meetings declined.

### Case Example 7 – Lack of DCAL challenge at accountability meetings

1. The Inspectors found that by March 2005 NIEC had a deficit of £437,000. At the November 2005 accountability meeting with DCAL it was reported that almost 100 per cent of the 2005-06 grant funding had already been drawn down (with only £18,000 remaining). The explanation provided by Janice McAleese was “*slowness in drawing down money from other sources*”. There is no evidence of this issue being explored further by DCAL.
2. The Inspectors found that by March 2006 NIEC had a deficit of £892,000. By September, NIEC had drawn down 77 per cent of its 2006-07 grant funding (see **Figure 10**). At the October 2006 accountability meeting with DCAL, Janice McAleese reported a “*cash flow crisis*”. She said that the cash flow problem was due to “*the commercial income side of NIEC no longer working as staff members had left*”. The minutes of the meeting record that she was asked by DCAL to prepare paperwork to bid in the December monitoring round for additional money. In the minutes of the next accountability meeting on 23 January 2007 there is no evidence of the issue being discussed. The Inspectors found that by March 2007 NIEC had a deficit of £1.2 million.

Source: Company Inspectors report

### DCAL did not adequately oversee NIEC’s risk management procedures

- 4.12 Guidance on risk management from 2004<sup>27</sup> onwards indicated that sponsor departments should assure themselves that risk management, in their sponsor bodies, was effective. DFP guidance in 2005<sup>28</sup> highlighted that departments had a responsibility to assess their Arm’s Length Bodies’ ability to manage risks. NIEC’s Management Statement and Financial Memorandum was updated in 2006 to reflect the guidance.
- 4.13 DCAL held copies of NIEC’s risk register from 2004-05 to 2007-08 but minutes of accountability meetings show no evidence that DCAL challenged the content of the registers. In July 2005 an internal governance review of DCAL’s Arm’s Length Bodies highlighted that three basic generic business risks were not included in the NIEC risk register:
  - Objectives of NDPB are not consistent with Department’s Strategic Framework;
  - NDPB fails to achieve agreed objectives; and
  - NDPB fails to comply with corporate governance requirements.
- 4.14 There is no evidence that these omissions were challenged by DCAL. Similarly, the absence from the risk register of the increased financial and operational risk associated with promoting events

27 The Orange Book: Management of Risk – Principles and Concepts, HM Treasury, October 2004.

28 DAO (DFP) 18/05, ‘Corporate governance in central government departments’.

## Part Four: Weaknesses in DCAL's oversight arrangements

and NIEC's over reliance on Janice McAleese was never picked up by DCAL.

### DCAL did not ensure that effective arrangements for review of internal control existed in NIEC

- 4.15 As noted in **Part Three** (paragraphs 3.32 to 3.41) NIEC did not have adequate arrangements in place to ensure it had an effective Internal Audit service and an Audit Committee to support the Board. Whilst this was primarily the responsibility of the NIEC Board, DCAL as sponsoring department, should also have ensured that adequate arrangements were in place.<sup>29</sup>
- 4.16 At the May and June 2005 accountability meetings DCAL was informed by Janice McAleese that an Audit Committee would meet before the end of June 2005 and at the November 2005 accountability meeting DCAL were informed that an Audit Committee was in place. DCAL was entitled to attend Audit Committee meetings, to receive minutes of meetings and to receive the annual report of the Audit Committee. Had DCAL enquired about these matters, it would have been obvious that an Audit Committee was not in place until November 2007. NIEC Board minutes recorded that no Audit Committee had been established. Had DCAL reviewed these minutes then the absence of this key committee would have been apparent.

- 4.17 In 2003, DCAL's Internal Audit service reviewed NIEC's accountability arrangements and grant payment systems. Both audits provided DCAL with limited assurance over NIEC's operations. From October 2003 to October 2007, the absence of a NIEC Internal Audit service appears to have been frequently discussed by DCAL and NIEC but never resolved. Guidance<sup>30</sup> available at that time stated clearly that it was the responsibility of the non departmental public body's Accounting Officer to make appropriate arrangements for the provision of Internal Audit services. The guidance also emphasised that the sponsoring department must be satisfied that those arrangements were adequate and effective. In not insisting that these arrangements were in place DCAL failed to adequately discharge its responsibilities.

### DCAL failed to fully scrutinise key information that was available to it

#### Drawdown of grant-in-aid funding from DCAL

- 4.18 NIEC received funding from DCAL in the form of Change grant in aid to grant in aid<sup>31</sup>. To support this funding NIEC submitted drawdown requests to DCAL. However, the Inspector's review of drawdown requests identified that the supporting information submitted by NIEC was insufficient. This was not adequately challenged by DCAL. The Inspectors stated that from May 2005 until September 2007 no bank

29 As required by 'Government Accounting Northern Ireland'.

30 Government Accounting Northern Ireland 1996 and 2002.

31 Grant in aid is a payment by a department (normally referred to as the "sponsor department") to finance all or part of the costs of the body in receipt of the grant in aid. Grant in aid is paid where the Executive has decided, subject to Assembly controls, that the recipient body should operate at arm's length.

reconciliations were provided to DCAL. On five occasions during the period there were no bank statements. On a further occasion a drawdown was approved in the absence of a signed drawdown declaration form. Based on the information NIEC provided, DCAL would not have known which grant funded projects the funds supported, or whether funds were being drawn down by NIEC in advance of need (see **Case Example 8**).

### Case Example 8 - Inadequate monitoring of the funding drawdown process by DCAL

1. In April 2007, DCAL made a duplicate payment of £318,000 to NIEC as a result of an administrative error. By the end of April NIEC had drawn down two further payments totalling £182,000. This resulted in £818,000 (43 per cent) of NIEC's £1.9 million budget for 2007-08, being drawn down in the first month of the financial year.
2. Janice McAleese reported the overpayment to DCAL at the April 2007 accountability meeting. NIEC was allowed to retain the duplicate payment but asked to provide an explanation and documentation in support of the funding need. This explanation was not received until October 2007, some six months later and after the deficit had been identified. The new acting Chief Executive (Jasper Perry) explained that

"the majority was used to clear the bank overdraft of approximately £200,000" and also for "the payment of outstanding creditors which related to the 2006-07 financial year".

3. DCAL's challenge to the duplicate payment and as to why NIEC needed so much additional funding in a short period of time was neither robust nor timely. Had the Chief Executive's explanation been received earlier, then it may have indicated that NIEC was in financial difficulties several months before the deficit was disclosed in September 2007.

*Source: Company Inspectors report*

- 4.19 We note that drawdown applications became increasingly frequent as time progressed, despite both Government Accounting Northern Ireland and DCAL's own guidance suggesting they should be monthly. Increasingly NIEC drew down significant funding within the first two quarters of the financial year (see **Figure 10**). Whilst this may, in part, be attributed to the fact that NIEC's events were often in the summer, by early October 2005 NIEC had drawn down 99 per cent of its annual budget<sup>32</sup>. This appeared to go unchallenged by DCAL.

32 An in year bid for additional funding of £700,000 was approved in January 2006. This in year bid revised NIEC's annual budget from £2.2 to £2.9 million.

## Part Four:

### Weaknesses in DCAL's oversight arrangements

**Figure 10: Drawdown of annual budget in quarters 1 and 2 of years 2005-06 to 2007-08**

Year	Initial Budget <sup>33</sup> £'000	Quarter 1 drawdown £'000	Quarter 2 drawdown £'000	Cumulative £'000
2005-06	2,200	666 (30%)	1,243 (56%)	1,909 (87%)
2006-07	2,150	1,248 (58%)	400 (19%)	1,648 (77%)
2007-08	1,915	1,121 (59%)	505 (26%)	1,626 (85%)

Source: Company Inspectors report

4.20 This failure to scrutinise key information is all the more concerning given that DCAL was previously made aware of weaknesses in the monitoring and control of drawdown requests. The first occasion was as a result of recommendations arising from our audit of DCAL's financial statements for the year ending March 2001. The second occasion was the 2003 internal audit of accountability arrangements. Despite these warnings and a wide range of guidance available, DCAL failed to apply effective drawdown approval procedures or challenge NIEC's lack of supporting information. DCAL was accountable for the funds made available to it by the Northern Ireland Assembly and which were in turn provided to NIEC. In our opinion DCAL failed to discharge its responsibilities.

Board receiving monthly financial reports from June 2004, DCAL did not receive monthly reports until December 2006 when it received seven financial reports, for April 2006 to October 2006. The next five financial reports, for the period from November 2006 to February 2007, were only forwarded to DCAL in April 2007. Whilst the quality of information contained within these reports was questionable (see paragraphs 2.21 and 2.22), in our view timely review may have enabled DCAL to challenge NIEC on some of its expenditure.

4.22 DCAL initiated monthly financial meetings with NIEC in February 2007, in addition to accountability meetings, but failed to organise another meeting with NIEC for seven months. By this time, DCAL had been made aware of the deficit. DCAL told us that during this period it had attempted to organise meetings with NIEC and had requested reports from NIEC.

#### Financial Information

4.21 A 2003 internal audit report recommended that DCAL should receive from NIEC monthly expenditure profiles which detailed planned monthly spend versus actual spend. Despite the NIEC

33 In both 2005-06 and 2006-07, NIEC's initial budgets were increased as a result of bids made in the December monitoring round. The initial budget was the budget known at the end of Quarter Two.

### NIEC Board meeting minutes

4.23 DCAL held the majority of NIEC Board minutes on file and from September 2005, there was evidence of review of the minutes by DCAL officials. As DCAL had limited contact with the NIEC Board (following DCAL's decision not to avail of its observer status), a review of Board minutes was the main means by which DCAL had oversight of the NIEC Board. However, the Board minutes lacked detail and were not sufficient for DCAL's monitoring of the decisions and role of the NIEC Board.

### Whistleblowers' complaints were not thoroughly investigated by DCAL

4.24 From early 2004 onwards there were a number of complaints made to DCAL, from third parties, including individuals involved in promoting major events and members of NIEC's staff, about working practices in NIEC.

4.25 One complaint in April 2005 (see paragraph 3.26), from an individual who had worked on a major sporting event, raised a number of serious allegations regarding perceived mistreatment by NIEC, in particular Janice McAleese and the Chair. DCAL investigated the allegations and the resulting report did not find evidence to substantiate the majority of these. However, the complainant's allegation that NIEC "*seem to be morphing into private event promoters themselves*" was not investigated. DCAL told us

that a further investigation took place in September 2007 into an alleged irregular payment to a supplier. This complaint was upheld, however, by this time the deficit had been identified.

4.26 Three separate members of NIEC's staff, between 2004 and 2006, raised concerns with DCAL, about the release of NIEC grant funding without Board approval and a lack of transparency in the financial management of some major events. The Inspectors concluded that there was no evidence that the first complaint, dating from 2004, had been adequately investigated by DCAL.

4.27 In our opinion the issues highlighted by whistleblowers' complaints were red flags and pointed towards behaviours and practices within NIEC which subsequently have been identified as having contributed to the extent of the financial deficit. Had the complaints been investigated more effectively it is possible that the issues within NIEC could have been identified earlier.

### Conclusion

4.28 DCAL's assumption that the risks presented by NIEC were low (an assumption that appears to have been primarily based on the level of funding provided to NIEC) dictated the level of challenge from DCAL to the activities, objectives, governance and financial position of NIEC. The lack of challenge meant that the assessment of the risks presented by NIEC remained unchanged

## Part Four: Weaknesses in DCAL's oversight arrangements

throughout the period between 2004 and 2007 when it was exposed to significant financial and operational risks by the promotion of Motocross and Supermoto events.

- 4.29 In our view had DCAL applied its sponsorship, oversight and governance responsibilities effectively, ensuring that key strategic controls were in place and operating consistently, then the significant financial risks that NIEC was taking, should have been identified earlier. We acknowledge that, since the NIEC deficit was revealed in 2007, DCAL has shown a clear commitment to improving its arrangements for sponsorship and governance within its ALBs (see **Appendix 1**).
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## Appendix 1:

DCAL has shown a clear commitment to improving its arrangements for sponsorship and governance within its Arm's Length Bodies

Weakness	Improvement
<p>DCAL did not have clear internal structures in place to monitor NIEC (see paragraphs 4.6 to 4.8)</p>	<p>DCAL reorganised its sponsorship structure by establishing a dedicated Governance Support Unit, under the direct control of the Finance Director. A sponsorship guide was also put in place which reflects a best practice approach to sponsorship. It identifies the status of each of the ALBs and how they should be treated. Responsibilities and requirements are clearly outlined.</p>
<p>DCAL's communication with NIEC was poor (see paragraphs 4.9 to 4.11)</p>	<p>The key mechanism used by DCAL to communicate the performance of its ALBs is the Accountability Meetings held between the Department and the ALB. The frequency of Accountability meetings are determined by risk rating. Ahead of each Accountability Meeting the ALB provide the Department with a paper/report on its performance to date against its key business objectives and targets, as well as financial performance. The sponsor branch reviews this information to identify that all targets have been included; that progress against all targets is on track; that any instances where progress is not on track are explained; that the reasons for potential non achievement have been identified; and that actions are planned to address under performance. The bi-annual assurance statement, signed by the CEO and Chair is also discussed and reviewed. The Board Chair also meets annually with the Minister.</p>

Weakness	Improvement
<p>DCAL did not adequately oversee NIEC's risk management procedures (see paragraphs 4.12 to 4.14)</p>	<p>The Departmental Risk Management Framework is shared with all ALBs. Sponsor Branches support ALBs in the development of appropriate risk registers using the Departmental risk register template. Corporate Strategy and Governance Branch in the Department is also available to provide advice and guidance.</p> <p>Sponsor Branches ensure that:-</p> <ul style="list-style-type: none"> <li>• there is a process for risk management within individual Arm's Length Bodies and that this is consistent with Departmental policy and guidance;</li> <li>• there is consistency in the format of risk registers (using Departmental template) and that significant risks within the Body's risk registers are escalated to branch/divisional/corporate registers as appropriate; and</li> <li>• risk registers are reviewed to determine if all key risks have been included, are being discussed at accountability meetings where necessary and where appropriate action is being taken to mitigate risks identified.</li> </ul>
<p>DCAL did not ensure that effective arrangements for review of Internal Control existed in NIEC (see paragraphs 4.15 to 4.17)</p>	<p>The key governance/accountability controls now applied by the Department are:</p> <ul style="list-style-type: none"> <li>• Management Statements and Financial Memoranda with each of the ALBs</li> <li>• Bi-Annual Assurance Statement process</li> <li>• Accountability meetings</li> <li>• Review and approval of ALB Business Plans</li> <li>• Review of Risk Registers</li> <li>• Review of annual report and accounts.</li> <li>• Attendance at audit committee meetings and/or review of minutes.</li> </ul>

## Appendix 1:

### DCAL has shown a clear commitment to improving its arrangements for sponsorship and governance within its Arm's Length Bodies

Weakness	Improvement
DCAL failed to fully scrutinise key information that was available to it and the quality of NIEC Board minutes declined. (see paragraphs 4.18 to 4.23)	Board minutes are required to be submitted to Sponsor Branches within one month of Board meetings. Minutes are then reviewed and any issues escalated. Board member attendance is also reviewed, and included in the annual report and accounts.
Whistleblower complaints were not thoroughly investigated by DCAL. (see paragraphs 4.24 to 4.27)	Sponsor Branches ensure appropriate Whistleblowing procedures are in place. Departmental officials are given as optional key contacts as well as the option to contact the NIAO. The Department also has a Whistleblowing Policy in place in line with guidance issued by DFP <sup>34</sup> . DCAL internal audit investigate all whistleblowing allegations against Chief Executives.
The NIEC Board lacked key financial skills and little training was provided to Board members. (see paragraphs 3.4 to 3.12)	A Board skills assessment is in place to identify any skill deficiencies. Sponsor Branches work with the Board Chair and the Body's Chief Executive to identify further training needs which the Board appointees may require. Where necessary new Board Members are recruited with particular skills to address deficiencies. All new Board members also have an induction with the DCAL senior management team and an extensive pack of material is provided.
The quality of information on NIEC activities provided to the Board was poor (see paragraphs 2.21 to 2.22)	Arrangements are now in place for Board papers to be forwarded to, and reviewed by, Sponsor Branches and any issues escalated to the Senior Sponsor.
The voluntary Board were not made aware of the time commitment expected of them. (see paragraph 3.10)	Training is provided to all Board members to ensure they are aware of personal responsibilities and obligations. The time commitment that will be required is now provided in the terms and conditions, included with the letter of appointment.

## Appendix 2: Northern Ireland Events Company Board Members (2002-09)

NIEC Board Member	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Paul McWilliams</b>	May 97												
<b>Eric Saunders</b>				Mar 00									
<b>Alan Clarke</b>					Nov 01								
<b>Catherine Williamson</b>						Jun 02				Mar 06			
<b>Victor Haslett</b>						Jun 02				May 06			
<b>Aideen Corr</b>						Jun 02				Aug 06			
<b>Ian Lee</b>						Jun 02							Apr 09
<b>Gerry Lennon</b>						Jun 02							
<b>Jim Clarke</b>						Jun 02							
<b>Jim Rodgers</b>						Jun 02							
<b>Mervyn Elder</b>						Jul 02							
<b>Bill White</b>						Oct 02							
<b>Nicky Dunn</b>											Apr 07	Nov 07	
<b>Roberta Dunlop</b>											Apr 07	Jan 08	
<b>Sam McGregor</b>											Apr 07	Mar 08	

## Appendix 3: The Seven Principles of Public Life

The seven principles of public life, known as the Nolan principles, were defined by the first report of the Committee of Standards in Public Life, May 1995. They are:

### **Selflessness**

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

### **Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

### **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

### **Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### **Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### **Leadership**

Holders of public office should promote and support these principles by leadership and example.

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