



Northern Ireland Audit Office

Northern Ireland Tourist Board

Contract to Manage
the Trading Activities
of Rural Cottage
Holidays Limited



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

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Northern Ireland Tourist Board - Contract To Manage the Trading Activities of Rural Cottage Holidays Limited

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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 that Order.

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
28 March 2008

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List of Abbreviations

DETI	Department of Enterprise, Trade and Investment
IAS	Internal Audit Service
I&E	Income and Expenditure
IFI	International Fund for Ireland
NIAO	Northern Ireland Audit Office
NITB	Northern Ireland Tourist Board
OD&HR	Organisational Development and Human Resources
PAC	Committee of Public Accounts
PwC	Pricewaterhouse Coopers
RCH	Rural Cottage Holidays
SMT	Senior Management Team

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Purpose of Report

1. In 2005 the Northern Ireland Tourist Board (NITB) let the contract to manage the trading activities of its wholly owned subsidiary, Rural Cottage Holidays Limited (RCH Limited) to a company called Travel Solutions, which trades as Cottages in Ireland. For convenience, this is referred to throughout this report as Travel Solutions/Cottages in Ireland (although Cottages in Ireland was only established by Travel Solutions on 20 September 2005). The trading operations of RCH Limited were historically loss-making. The agreed contract included a payment of £3,000 to NITB from the preferred bidder for the rights to the trading activities. NITB's tender for the contract provided for the successful bidder to receive tapered marketing support assistance of £10,000, £7,500 and £7,500 respectively over the first three years of the contract. The Department told NIAO this was to ensure the ongoing protection and promotion of the rural tourism product. In December 2006, one of the unsuccessful bidders for the contract to manage RCH Limited's trade subsequently complained to the Department of Enterprise, Trade and Investment (the Department) about aspects of the disposal.
2. As a consequence of the complaint, NITB discovered that its Director of Industry Development and his wife were directors of a company called Holidaymatters.com. When Holidaymatters.com was incorporated, one of its original directors was a director of Travel Solutions/Cottages in Ireland which had been the successful bidder for the contract to manage the trading operations of RCH Limited. This report concerns conflicts of interest on the part of a senior official in NITB (its Director of Industry Development); the handling of conflicts of interest by NITB; and lessons to be learned by the wider public sector in Northern Ireland. The former Director of Industry Development was consulted on a draft of this report. His comments on the draft are reproduced in full at Appendix E with cross references at the appropriate places in this report.
3. In 2002, the Committee of Public Accounts (PAC) at the Northern Ireland Assembly reported on failures of management, corporate governance and financial control in NITB, including failings in the management of conflicts of interest (NIA 01/02R, Session 2002-03).
4. In line with PAC's recommendation, NIAO has been monitoring NITB closely since 2002 and we recognise and welcome that there have been considerable improvements in the Board's systems and controls. We do not believe that the subject of this report is evidence of wider systems weaknesses at NITB. We are reporting because there are important lessons from this case which are relevant in handling conflicts of interest in the public sector as a whole.

Introduction

5. NITB is a statutory body sponsored by the Department. Its statutory functions include the encouragement of tourism; the encouragement of the provision and improvement of tourist amenities; and the certification of tourist accommodation.
6. RCH Limited is a wholly owned subsidiary of NITB. Its directors include senior officials in NITB. From October 2004 until July 2006, NITB's Director of Industry Development served as a RCH Limited director. Further information about RCH Limited's establishment and history is included at Appendix A and information on its directors at Appendix B.
7. A substantial body of good practice guidance and material exists on handling conflicts of interest in the public sector.

- The Nolan Commission's Seven Principles of Public Life refer to conflicts of interest under 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."* Public perceptions are important in identifying a conflict of interest. A conflict need not necessarily mean that corruption has actually occurred. The key issue is whether there is a reasonable risk, to an outside observer, that the situation could undermine public trust and confidence in the official or the public entity;

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- The Treasury handbook on Regularity and Propriety emphasises that avoidance of conflicts of interest in handling public money is a fundamental principle. It quotes a comment by the Chairman of the (Westminster) PAC: “Potential conflicts of interest are very serious matters indeed. We do not have to prove that something wrong has happened as long as the potentiality for that wrong doing exists....”; and
- It is important in dealing with any potential conflict of interest that there is proper disclosure, because transparency can help to allay public concern. However disclosure does not, in itself, avoid or solve a potential conflict although it does help to ensure that these are identified and can, therefore, be addressed.

(Source: Governance Issues in the Department of Enterprise, Trade and Investment’s Former Local Enterprise Development Unit (HC 918, Session 2005-06).

The Contract to Manage the Trading Activities of Rural Cottage Holidays Limited

8. RCH Limited’s principal activity is marketing and selling rural cottage accommodation in Northern Ireland to tourists. It marketed the rental of 11 of its own leased cottages and some 200 other cottages through a website, brochure and other marketing activities. RCH Limited earned 15 per cent commission on all bookings it took for the 200 cottages it did not own. Further information is provided at Appendix A.
9. In March 2004 consultants provided NITB with the results of an options appraisal for the disposal of RCH Limited (recommending disposal of the marketing and booking functions) and were tasked with sourcing written offers for the sale of the company. The consultants had concluded in their report that:

If a sale can be achieved at any value it will probably represent a good outcome in the circumstances. The alternative is to provide subsidy support over an initial period (2-3 years) to facilitate a transfer.... A proactive, targeted approach is required to successfully pursue a disposal. Previous attempts at identifying interest via public adverts have been unsuccessful.
10. Following a public advertisement, the consultants, on 18 November 2004, notified the RCH Limited Board that there were three potential purchasers. The consultants provided an initial assessment of each of the three bidders and recommended that further negotiations take place with each of the bidders to clarify a number of matters and to obtain further information. In January 2005, NITB, led by its Director of Industry Development, entered into negotiations with each of the bidders. At or around this time (no record was kept of the discussion) the Director of Industry Development brought to the attention of the Chief Executive that one of the bidders, the owner of Travel Solutions/Cottages in Ireland, was known to him as a friend. The Department told us that the Director of Industry Development should have disclosed this friendship to the NITB as soon as he became aware of the bid, in November 2004. The NITB Chief Executive does not recall a disclosure being made until in or around February 2005.¹
11. The Director of Industry Development was the key director within NITB with responsibility for RCH Limited and was responsible for keeping the NITB Board informed on its performance. Prior to disclosing his connection with the owner of Travel Solutions/Cottages in Ireland, the Director of Industry Development was aware of the identity of all three potential purchasers for RCH Limited’s trade and had sight of each of their initial written proposals. Accompanied by another NITB employee, he met with each of the bidders. He was the key contact for the submission of their final written proposals.¹

¹ Please see the former Director of Industry Development’s comments on this paragraph at Appendix E to this report.

12. While there was no note of discussions on the issue, the NITB Chief Executive later told the Department that he investigated the nature of this relationship and concluded that there was no prejudicial relationship that constituted a conflict of interest and, to protect NITB against any perceived conflict of interest, he took the precautionary step, in April 2005, of assigning responsibility for progressing the sale of RCH Limited, including the assessment of the bids, to another Director, the Finance Director. The Department told us that the NITB Chief Executive's assessment of the potential for a conflict of interest was based on information provided by the Director of Industry Development and that the Chief Executive had no reason to doubt its veracity.¹

13. The Department told us that the friendship was assessed in line with guidance obtained from a professional accountancy body's presentation to the NITB Board and Executive which was based on a leading governance publication, to determine if a) there was a conflict of interest and b) if that conflict of interest was prejudicial. (The Chief Executive of the accountancy body had given presentations to the NITB Board including Executives on 10 March 2003 and 9 March 2006 on governance issues including conflicts). The Department told us the guidance obtained at the presentations suggested that not all personal interests are prejudicial i.e. likely to harm ability to judge the public interest. At that time the Director of Industry Development's wife owned and ran a plumbing business and he had declared no business linkage with the owner of Travel Solutions/Cottages in Ireland.

14. In October 2005, RCH Limited's sales and marketing operations were transferred under a five-year agency agreement (rather than a sale of the company, as had been originally advertised) to Travel Solutions/Cottages in Ireland. RCH Limited's accounts report that the rationale for this reorganisation was to reduce costs in the group. A summary of the key terms of the deal is included at Appendix C.

15. The background to the change from a sale of RCH Limited to an agency agreement was set out in an email from the owner of Travel Solutions/Cottages in Ireland to NITB's Director of Finance on 11 August 2005.

We have run into a problem on the sales agreement.

I met yesterday afternoon with both legal and financial advisers with regard to RCH.

My legal advisor has instructed me that under no circumstances could he advise me to proceed with the Sale Agreement in its current form. He has serious concerns about liability on a number of topics, including employees, historic tax, cottage leases and at the top of the list, historic grants supplied by IFI, Government and other agencies, and their right to claw back all or part of these grants in the future.

16. In view of the change in the nature of the tendering process for the disposal of RCH Limited, the Department asked NITB whether it had considered retendering the whole exercise based on the proposed agency basis or inviting the other two unsuccessful bidders to resubmit bids.

17. NITB told the Department the change to an agency agreement was not considered to have a material impact on the tendering exercise as the company sale included only the sales and marketing operations and the terms on which all the original offers were bid would not have changed for the agency agreement. NITB also told the Department:

- There was no additional benefit to either party and transferring to an agency agreement was beneficial to a swift conclusion as resolving issues of indemnity and historic liabilities would have significantly delayed the full Company sale;
- Given the poor trading history RCH Limited was not an attractive proposition and there had not been significant interest when the consultants had presented the original list of bidders. This position was not likely to change as the proposition was not materially different; and
- RCH Limited was operating under significant uncertainty, staff involved at NITB had left and the service provided and brand name was rapidly deteriorating. Any further delay would have had further negative impact on this position and therefore the attractiveness of the proposition to any bidder.

¹ Please see the former Director of Industry Development's comments on this paragraph at Appendix E to this report.

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18. A review of the assessment process was conducted by the Department's internal auditors in March 2007. It covered NITB's identification of the elements to be sold and potential buyers, the negotiations with potential buyers and identification of a preferred bidder, and the decision to enter into an agency agreement rather than a sale. The internal audit (IAS) review concluded:

IAS considers that the NITB took adequate measures to identify potential buyers for RCH Ltd and in the selection of the preferred buyer. However, IAS considers that the decision to enter into an Agency Agreement with Travel Solutions[/Cottages in Ireland] rather than complete the sale was a significant change and as such should have had NITB Board approval in advance.

We concur with Internal Audit's conclusion on how NITB handled these aspects.

19. NITB has told the Department that, in the run up to letting the contract to manage RCH Limited's trading operations, the Director of Industry Development's responsibility was limited to managing the ongoing arrangements for the property maintenance of its 11 leased cottages (which were not to form part of the disposal). NITB came to this view because its own legal advice had concluded that it would not be possible to include the 11 leased cottages in the sale of the company and they required to be transferred from RCH Limited to NITB prior to the company sale. The NITB Board agreed that:
- the Director of Finance progress and conclude the sale of the sales and marketing functions; and
 - the Director of Industry Development manage the transfer of the 11 leased cottages to NITB and the ongoing arrangements for property management.¹
20. However, the Director of Industry Development was aware of NITB's requirements in terms of a preferred solution and was present at the NITB Senior Management Team meeting on 4 May 2005 when it

was agreed to appoint Travel Solutions/Cottages in Ireland as the preferred bidder. He was one of two RCH Limited directors present at the RCH Limited Board meeting on 21 June 2005 which approved the decision. NITB told the Department that, prior to the SMT meeting on 4 May 2005, the Finance Director analysed and assessed the bids and discussed the proposed recommendation with the Chief Executive. Two of the bids were deemed not viable, leaving Travel Solutions/Cottages in Ireland as the only acceptable bid. The Director of Industry Development was also in attendance at the NITB Board meeting on 28 June 2005 which approved the sale of RCH Limited's trade to Travel Solutions/Cottages in Ireland. At none of these meetings was there recorded a declaration of a possible conflict.¹ A summary of the Director of Industry Development's involvement is provided, along with dates, in Table A below:

¹ Please see the former Director of Industry Development's comments on this paragraph at Appendix E to this report.

Table A: Summary of the Director of Industry Development's involvement in disposal process

July 2004	Consultants appointed to advise on disposal of RCH Limited's sales and marketing to a third party.
November 2004	Initial analysis and appraisal of offers.
31 January 2005	The Director of Industry Development met the three potential purchasers being considered, accompanied by another NITB employee.
3 February 2005	He wrote to each of the bidders confirming the issues discussed at the meetings.
14 April 2005	The Director of Industry Development prepared a briefing paper for the NITB Board outlining the background to the sale of RCH Limited, a summary of the negotiations to date, and the timeline to complete the process. He sought the Board's approval for his recommendation that the NITB Senior Management Team progress the negotiations. He was present at the Board meeting.
25 April 2005	He wrote to the three potential purchasers and advised them that the NITB Board had advised that the Finance Director would be responsible for progressing the letting of the contract to manage RCH Limited's trading activities.
Between 19 April and 4 May 2005	The Director of Industry Development and another NITB employee helped familiarise the Finance Director on the bid process and background to the three bids.
4 May 2005	The Finance Director recommended to the Senior Management Team that NITB should appoint Travel Solutions/Cottages in Ireland as the preferred bidder. The Senior Management Team approved this recommendation. The Director of Industry Development was present at this meeting.
May and June 2005	The Finance Director progressed the contract agreement. The Director of Industry Development continued to have some limited involvement in these discussions.
21 June 2005	The RCH Board was advised of progress in relation to the sale of RCH Limited. It approved the Senior Management Team's recommendation that the RCH Limited sales and marketing operation be disposed of to Travel Solutions/Cottages in Ireland. The NITB Chief Executive and the NITB Director of Industry Development were the two of the six RCH Limited Board members present at this meeting.
28 June 2005	NITB Board approved the disposal of RCH Limited's trade to Travel Solutions/Cottages in Ireland.
28 June 2005	Holidaymatters.com established.

A timeline for the entire process, provided by the Department, is included at Appendix D. Appendix D includes details of disclosures made and NITB's actions taken. The Department told us that NITB considered each disclosure as it was made and took decisions and actions which it considered appropriate at each stage in the context of the information provided and available guidance. The Department also told us NITB took vigorous and decisive action on receipt of additional information from a third party in December 2006 which led to the Director of Industry Development's dismissal.

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21. An agency agreement between RCH Limited and Travel Solution/Cottages in Ireland was signed on 10 October 2005. The Director of Industry Development was absent from NITB on sick leave from August 2005 until May 2006. On 4 November 2005, the Chief Executive met him for a health and welfare meeting which took place out of the office over coffee at the Director of Industry Development's request. He disclosed that his wife was at that time working for the director of Travel Solutions/Cottages in Ireland with whom he was friends. By that stage the contract to manage the sales and marketing functions of RCH Limited had already been awarded to Travel Solutions/Cottages in Ireland. The Department told us that the Director of Industry Development did not disclose to the Chief Executive at the meeting on 4 November 2005 that his wife and his friend at Travel Solutions/Cottages in Ireland were also directors of Holidaymatters.com (see paragraph 2).

Investigation of potential conflict of interest

22. On 4 November 2005, following his meeting with the Director of Industry Development, the Chief Executive raised with the then Human Resources Director and the Chair of the Audit Committee the potential this further disclosure created for any perceived conflict of interest i.e. it could be perceived as prejudicial in terms of a business benefit. Following the disclosure, NITB took legal advice in November/December 2005. NITB had drafted a letter to the Director of Industry Development but, having considered the circumstances of his long term sick leave, the legal advice was not to issue or approach him until his return to work. In January 2006, NITB consulted and took advice from the Departmental Sponsor Branch and the Departmental Internal Audit Service. Following discussions between the NITB Chairman, the Chairman of the NITB Audit Committee and the Chief Executive, NITB appointed consultants in January 2006 to review the process to date and the relationships disclosed. The consultants reported in March 2006. The consultants issued the report to the Chair of the Audit Committee on 22 March 2006. NITB subsequently copied to the Chief Executive and Chairman. It was not copied to the Department at that time, although the Chair of the Audit Committee made a reference, at a meeting of the Department's Audit Committee in April 2006, to the investigation of a potential conflict of interest within NITB.

23. The consultants reported their initial views² that:

...Without fully understanding the nature of the relationship between [Director of Industry Development] and the [owner] of [Travel Solutions/Cottages in Ireland] it is impossible to say whether an actual conflict of interest existed. However, from our review of the circumstances of this case, we consider that any reasonable observer could have perceived a conflict of interest in [the Director of Industry Development's] position. In our view, the conflict of interest, whether real or perceived, existed from 18 November 2004 when PwC presented the outcome of its search for a potential buyer to the RCH Board.

While the SMT [Senior Management Team] were aware that [the Director of Industry Development] had a potential conflict of interest neither the NITB Board nor the RCH Board appear to have been informed of the potential conflict of interest.

24. The consultants made a number of recommendations which included improvements to NITB's procedures on handling conflicts of interest and the need to disclose their report to the Department and the Boards of NITB and RCH Limited.

25. NITB told the Department that an action plan had been developed to address the recommendations contained in the consultant's report and that it was fully implemented. This included, in Summer 2006, updating guidance in both the NITB Staff Handbook and Financial Procedures Manual on recording and handling conflicts of interest and communicating the updated guidance to staff.

26. The Department told us that in relation to issues which required further clarification from the Director of Industry Development, legal advice provided to NITB by a private sector firm of solicitors was that he should not be approached until his return from sick leave, which occurred on 8 May 2006. The action plan, mentioned in the preceding paragraph, required the NITB Chief Executive and Human Resources Director to meet with the Director of Industry Development to discuss potential conflict of interest issues. This meeting took place on 25 May 2006. Following the meeting, the Director of Industry Development was requested to provide a written response to a number of queries.

2 The consultants could not interview the Director of Industry Development who was on sick leave and therefore could not form a complete understanding of the nature and period of his wife's involvement with Travel Solutions/Cottages in Ireland.

27. Following a number of verbal reminders, the Chief Executive wrote to the Director of Industry Development on 21 June, informing him that the written response was urgently required. On 18 July, he provided a written response. This included the following explanation of his relationship with the director of Travel Solutions/Cottages in Ireland:

...is a good friend of myself and my family of 20 years standing. At no time during this period has there been any business linkage with [the director of Travel Solutions/Cottages in Ireland]. This remains the case today.

28. On 19 July 2006, the Chief Executive issued a report to the Chair of the Audit Committee regarding the conclusion of the investigation of the outstanding issues from the consultant's draft report following the clarification obtained from the Director of Industry Development.
29. The NITB Chief Executive and the Chair of its Audit Committee met on 25 July 2006. The note of the meeting records that:

In the context of the consultant's report the main discussions were:

- *[the Director of Industry Development] had clarified in his note to the NITB Chief Executive of 18 July 2006 that his relationship with [the owner of Travel Solutions/Cottages in Ireland] was only of a personal nature*
- *The action plan coming out of the consultant's report had been completed with changes to NITB procedures and processes as recommended*
- *The Human Resources Director had confirmed there was no case for disciplinary action.*

On the basis of the above and actions taken to date it was agreed that no further action was required.³

30. It was concluded at the meeting that the relationship was only of a personal nature and that there were no grounds for disciplinary action. The Department told us the NITB's Chief Executive had already instigated further

precautionary measures against any perceived conflict of interest:

- the Director of Industry Development resigned as a director and company secretary of RCH Limited¹;
- he was informed in writing to have no future input into business dealings with Travel Solutions/Cottages in Ireland¹; and,
- to have no contribution to or sight of SMT/Board papers etc and to excuse himself from SMT or Board meetings where such business was discussed¹.

31. The Department later asked NITB why it had not been informed of the findings of the consultant's report as recommended by them. NITB responded that it had concluded that, following declarations by its Director of Industry Development on his return to work, that there was no actual conflict of interest and given that other recommendations had been fully implemented, it was concluded that "there were no significant issues that required further disclosure to the approval authorities".

32. The Department told us it recognises and differentiates two areas in which the risk of conflicts are relevant in this case:

- The impact on the RCH Limited tendering process of the friendship between the Director of Industry Development and the owner of Travel Solutions/Cottages in Ireland and the employment in Travel Solutions/Cottages in Ireland of the Director of Industry Development's wife¹; and,
- The directorship the Director of Industry Development held with Holidaymatters.com and the potential conflict this created with his role as a director of NITB. It was the failure to disclose this conflict which the Department told us led, in part, to his dismissal from NITB¹.

The circumstances of the Director of Industry Development's dismissal from NITB

33. As stated at paragraph 2, in December 2006, following a complaint to the Department from one of the

¹ Please see the former Director of Industry Development's comments on this paragraph at Appendix E to this report.

³ The then Humans Resources Director commented that she had no recollection of providing the confirmation.

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unsuccessful bidders, NITB discovered that the Director of Industry Development and his wife were directors of a company called Holidaymatters.com.

34. Holidaymatters.com was established on 28 June 2005. It promotes holidays outside Northern Ireland. On its inception, the directors and shareholders in Holidaymatters.com were the owner of Travel Solutions/Cottages in Ireland and the NITB Director of Industry Development's wife. The NITB Director of Industry Development witnessed the signing of Holidaymatters.com's Memorandum and Articles of Association. On 31 March 2006, he replaced the owner of Travel Solutions/Cottages in Ireland as a director in the company. The Department told us this was contrary to the NITB's Code of Conduct which required employees to seek permission before becoming a director of a company; to disclose relevant information regarding business linkages; and to avoid any situations which would cause conflict or potential conflict with the business of NITB¹.
35. The Director of Industry Development was dismissed by NITB on grounds of gross misconduct in January 2007. NITB told the Department the grounds of gross misconduct were as follows:
- lying to the NITB Chief Executive in July 2006 by declaring that there was no business relationship with the director of Travel Solutions/Cottages in Ireland¹;
 - breaching the NITB Code of Conduct by failing to gain the prior permission of the NITB Chief Executive before assuming directorship of Holidaymatters.com, involvement in which could give rise to a conflict of interest or potential conflict of interest in his role as a director in NITB.

Lessons to be learned

36. The Director of Industry Development did not act in accordance with the standards of conduct expected of public officials. However, this case demonstrates the importance of properly assessing, managing and reporting potential and perceived conflicts of interest, as soon as they are identified. We have identified below a number of lessons arising from this case.
- Lesson 1: Senior officials in public bodies need to recognise warning signs that potential conflicts of interest exist**
37. Those charged with running public bodies need to recognise signs that potential conflicts exist, the risks associated with them, including consideration of potential reputational concerns, and ensure that these are thoroughly addressed. This is particularly important as the business community in Northern Ireland is small and inter-connected, increasing the risk of potential conflicts. In this particular case:
- The Director of Industry Development had been recruited to NITB in June 2003. The Department told us he was required to complete a register of interests on taking up employment from the private sector tourism business in Northern Ireland. This register was reviewed, updated and re-signed on an annual basis. The annual declarations made by the Director of Industry Development did not disclose any conflict or potential conflicts of interest.
 - The risks of conflict of interest are heightened when there is a close connection between the individuals and organisations an employee comes into contact with in the public sector and those with whom he or she came into contact in the private sector.
 - The Director of Industry Development was handling the arrangements for the private sector to manage RCH Limited's trading activities
 - He had told the NITB Chief Executive that the owner of one of the companies wishing to manage RCH Limited's trading activities was a friend¹.
38. These risk factors and, in particular, the impact of the belated disclosure of the potential conflict of interest should have alerted NITB to be particularly careful in the proper handling of the letting of the contract to manage the trading activities of RCH Limited. The change from an outright sale to a trade disposal when dealing only with the successful bidder emphasises this point. Details of the initial disclosure relating to the friendship should have been recorded in writing at the time of the initial disclosure about the friendship and the Director of Industry Development should have been

¹ Please see the former Director of Industry Development's comments on this paragraph at Appendix E to this report.

removed from all activity connected in any way with his friend, the owner of Travel Solutions/Cottages in Ireland.

39. The various actual conflicts that arose subsequent to Travel Solutions/Cottages in Ireland winning the bid increases concerns over the original delay in disclosing the relationship during the procurement phase.

Lesson 2: *Public bodies need to be alert to the existence of conflicts of interest*

40. During this case, NITB took what it considered to be appropriate action on the basis of judgements made on the risk associated with each new disclosure made both before and after the bidding process. The ‘rolling’ nature of the disclosures of conflicts of interest placed NITB in an increasingly difficult position, and weaknesses in formal guidance and proper reporting of the position increased the risk of, at worst, impropriety and, at best, reputational damage to NITB and its sponsoring department.
41. It is important that public bodies remain alert to the potential for conflicts of interest to exist, or the perception that one might have existed. These accumulated over some eighteen months from November 2004. They were:
- the Director of Industry Development’s involvement at key stages of the process of appointing Travel Solutions/Cottages in Ireland;
 - he told NITB that his wife had taken up employment with Travel Solutions/Cottages in Ireland;
 - his wife had a leading role in Travel Solutions/Cottages in Ireland (as understood and described by the consultants); and,
 - the consultant’s view that any reasonable observer could have perceived a conflict of interest in his position.
42. It would have been appropriate for NITB to remove the Director of Industry Development from activities related to the contract to manage RCH Limited’s trade as soon as it became aware of his friendship with the

owner of Travel Solutions/Cottages in Ireland. The Department told us that when the Chief Executive became aware of the friendship he assessed the potential for conflict of interest in line with guidance and concluded that there was no prejudicial conflict of interest. However, at this stage the Chief Executive also took precautionary action to remove the Director of Industry Development from further activities related to the contract.

Lesson 3: *When conflicts may exist, they should be investigated quickly*

43. NITB told the Department that:

...when the consultant’s report was presented in March 2006 it was inconclusive given that clarification was required as to the exact nature of [the Director of Industry Development’s] relationship with [the owner of Travel Solutions/Cottages in Ireland]

44. In fact, the consultant’s report pointed towards the existence of a conflict (see, for example, the extract from the consultant’s report quoted at paragraph 23 of this report).
45. By March 2006, NITB had at least two opportunities to discuss with the Director of Industry Development the nature of his relationship with the owner of Travel Solutions/Cottages in Ireland. Firstly, in late 2004 or early 2005, when he told the NITB Chief Executive that one of the bidders was known personally to him as a friend. Secondly, in November 2005, when he told the Chief Executive that his wife was working for the owner of Travel Solutions/Cottages in Ireland. The Department told us that an opportunity for discussion had been taken in early 2005, when the NITB Chief Executive had discussed the nature of the relationship with the Director of Industry Development. That discussion was used by the Chief Executive as the basis for assessing the impact of the Director of Industry Development’s disclosure that one of the bidders was known personally to him as a friend. The Department also told us that there was no opportunity for the matter to be discussed substantively at the meeting in November 2005. At that time, the Director was on long term sick leave. At the Director of Industry

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Development's request, the Chief Executive met him in a coffee shop to discuss health and welfare issues. The disclosure was made, in passing, as they were leaving the coffee shop. The disclosure was referred to the NITB's legal advisers who cautioned that, under the circumstances, it would be unreasonable to press the Director of Industry Development further on the issue until he returned to work. The Department told us it fully accepts that conflicts should be investigated quickly but, given the circumstances in this case, this was not possible. The Department also told us the Director of Industry Development's absence on long term sick leave in any case precluded him from taking any role in NITB's affairs¹.

Lesson 4: Training in ethical standards for senior appointments from the private sector

46. The importance of members and officials understanding the standards of conduct required in the public sector was recently emphasised in the (Westminster) PAC's report on "Governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise Development Unit" (HC 918, Session 2005-06).
47. The Director of Industry Development did not disclose his friendship with the owner of Travel Solutions/Cottages in Ireland when he first became aware that it was one of the bidders and, in so doing, placed NITB and himself in a position where a conflict could be perceived and his impartiality might be questioned.¹
48. The Department was asked whether the Director of Industry Development had been provided with training on avoiding or managing conflicts of interest on his appointment to NITB. We were told that he was issued with a copy of the NITB Staff Code of Conduct on appointment and attended in-house training on the Financial Procedures Manual. The Department told us the Director of Industry Development attended Public Accountability Training for Senior Managers run by the Chief Executives Forum on 19 May 2005. We were also told that the NITB Chief Executive circulated the NIAO report on the Emerging Business Trust to all directors in May 2006.¹

Lesson 5: Individuals should have no involvement in transactions where they have a potential conflict of interest

49. The consultants commented on the NITB's actions up to the date of their report issued on 22 March 2006.

We note that the NITB took certain steps to divest [the Director of Industry Development] of most of his responsibility for progressing the discussions with the potential bidders and from the subsequent negotiations with Travel Solutions/Cottages in Ireland once [he] declared his potential conflict of interest. However, [he] continued to have some involvement in this process and was present at the Senior Management Team meeting where it was agreed to appoint Travel Solutions as the preferred bidder. He was also present at the subsequent RCH and NITB Board meetings where the decision was endorsed by the RCH Board (of which he was a director) and the NITB Board. In these circumstances, [he] retained direct involvement in the decision making process.

While the Senior Management Team were aware that [the Director of Industry Development] had a potential conflict of interest neither the NITB Board nor the RCH Board appear to have been informed of the potential conflict of interest. In addition, we note that while certain steps were taken by NITB to transfer responsibility for dealing with potential bidders to [the NITB Director of Finance] it appears that the rationale for taking these steps was not advised to the NITB Board.

In these circumstances we do not consider that appropriate safeguards were initiated by the NITB.

In April 2007, the Department asked NITB why its Director of Industry Development was involved in meetings after he had made known his potential conflict in late 2004 or early 2005. NITB told the Department that:

- he brought to the attention of the NITB Chief Executive that one of the bidders was known to him as a friend but that no prejudicial relationship existed which constituted a conflict of interest.
- In selecting the preferred bidder for the sales and marketing operations of RCH Limited, only one of the three bids was viable so there was no decision making required and, therefore, there was no opportunity to influence any discussion. For this reason it was not deemed necessary to exclude the Director of Industry Development from the meeting.

¹ Please see the former Director of Industry Development's comments on this paragraph at Appendix E to this report.

- At the RCH Limited Board meeting the recommendation was put forward for ratification, so again there was no opportunity to influence any choice. The NITB Chief Executive and its Director of Industry Development were the only Directors present, and by excluding him there would not have been a quorum of Directors to ratify the decision, so to exclude him was deemed unnecessary.

50. To avoid any perception of conflict, the Director of Industry Development should have been excluded from any involvement in the procurement process or meetings associated with the disposal after he disclosed his friendship with the owner of Travel Solutions/Cottages in Ireland. The Department told us NITB has acknowledged that this action should have been taken.

Lesson 6: *The risk of a conflict of interest should be handled through the formal procedures established by the Department*

51. NITB contacted the Department by telephone in January 2006 to let it know about the risk of a conflict of interest.
52. The initial telephone contact should have been followed up in writing to reflect the significance of the potential conflict of interest and its inherent reputational risk. The Department told us that NITB accepts that this would have been a better course of action.
53. The Department asked NITB why the conflict of interest and investigations were not included in NITB's quarterly assurance statements to the Permanent Secretary at the Department at 30 June and 30 September 2006. It was told that, on the statement at 30 June, the investigations had not been concluded but, in hindsight, this should have been included as an outstanding investigation. For the 30 September statement, the Department was told that the report had been concluded and there were no issues arising requiring reporting. The issue was referred to in the December 2006 quarterly assurance statement submitted to the Department's Permanent Secretary.
54. NITB's Statement on Internal Control, within its draft accounts presented for audit, made no reference to

the report on this matter; the recommendations made; and the actions taken to improve procedures. Proper disclosure has now been included in the audited 2005-06 accounts.

Lesson 7: *It is important that a record is kept of any meetings and discussions relating to the identification and management of conflicts of interest*

55. Good record keeping is a basic principle of public administration. This was well-illustrated to NITB in 2002 when the NI Assembly's PAC reported on NITB's "Breakaways" contract.
56. The initial disclosure of the Director of Industry Development's friendship with a director of Travel Solutions/Cottages in Ireland was not formally documented. NITB has told us that it regrets that a contemporaneous written record was not kept of the disclosure. The Department told us that NITB has full written records of all other disclosures, meetings and actions and that this was not a systemic failure.

Lesson 8: *The consultant's report should have been disclosed to the Department and NIAO as soon as NITB received it*

57. Public bodies should disclose reports by third parties which deal with or raise issues of propriety to their sponsoring Department and the NIAO, in line with current practice for Internal Audit reports. In this case, the Department told us that both NITB and the Chair of its Audit Committee agree that, on reflection, and in the knowledge of the full facts, it would have been better if the context and the sensitivities of the issues raised in the consultant's report had been explained to the NITB Audit Committee (attended by officials from the Department and NIAO) at an earlier juncture.

Lesson 9: *The NITB Board and Audit Committee should have been informed of the conflict as its existence and scope emerged*

58. In April 2007, the Department asked NITB why the conflict and investigations had not been raised with the NITB Audit Committee. It was told that the Chair of the Audit Committee decided to await the conclusion of the investigation so as to establish if an actual as opposed to a perceived conflict of interest

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existed before bringing the matter to the Committee's attention. The Department was told that to do so before conclusive evidence was available would have put the sensitive matter on public record, with the associated risks of individual reputational damage and negative press coverage. We asked the Department whether the NITB Audit Committee could, alternatively, have considered the issues in a closed session. We were told this could have been considered in closed session.

59. The Department was also told that, subsequently, on the basis of the evidence presented to him by the Chief Executive, the Chair of the Audit Committee concluded that the relationship was only of a personal nature and that there were no grounds for disciplinary action and, on that basis, decided not to bring the matter to the attention of the Audit Committee. The reasons for this decision are set out in the extract from the note of the meeting between the Audit Committee Chair and Chief Executive quoted at paragraph 29. NITB told the Department that, with the benefit of hindsight and in the knowledge of subsequent information which came to light on the matter, the Chair of the Audit Committee would now accept that it may have been more prudent to have raised the matter with the Audit Committee at that time.
60. We welcome the Chair of the Audit Committee's acknowledgement that it may have been more prudent to have raised the matter with the full Audit Committee in July 2006 or as soon as practicable thereafter. It is an important element of effective corporate governance that the Board and Audit Committee should oversee key aspects of officials' work. Bringing the matter to the attention of the Audit Committee would have enabled that role to be fulfilled.
61. In the event, it was not until February 2007 that there was a discussion at the Audit Committee. The Department told us the delay was as a result of NITB's interpretation of legal advice, which had cautioned against pressing the investigation of the conflict of interest issue until such time as the former Director of Industry Development returned to work. The Department told us this had the unintended effect of limiting the Committee's role and effectiveness in dealing with the issue.

Lesson 10: *Good practice in avoiding and managing conflicts of interest in public appointments should be read across to the work of senior officials in public bodies*

62. Guidance issued, in 2005, by the Office of the Commissioner for Public Appointments for Northern Ireland, properly sets high standards of propriety for public appointments. We have previously referred to this guidance in the NIAO report on Governance Issues in the Department of Enterprise, Trade and Investment's Former Local Enterprise Development Unit (HC 918, Session 2005-06). It emphasises impartiality, integrity and objectivity in the stewardship of public funds, and the oversight and management of all related activities. This means that any private, voluntary, charitable or political interest which might be material and relevant to the work of the body concerned should always be declared.
63. The Guidance sets out General Principles for handling conflicts of interest in public appointments.
- Recognition and declaration at the earliest possible opportunity;
 - Openness and transparency in discussing the conflict;
 - Individual accountability and a clear report chain;
 - Appropriate procedures for segregation of individual involvements in projects.
64. Although the Commissioner's General Principles are directed at appointments of non executive members of public bodies, we consider that they apply equally in circumstances where senior public officials have conflicts of interest. Their application could have avoided the problems which arose in the RCH Limited case.

Lesson 11: *Clear and comprehensive guidance on recognising and managing conflicts of interest should be available*

65. NITB Board members (but not officers) are subject to a statutory requirement to disclose any direct or indirect interest in a matter to be considered by the Board.

The disclosure is required to be recorded in the minutes of the meeting. There is a statutory prohibition on a member taking part in any deliberation or decision of the Board with respect to the matter if the Board decides that the interest in question might prejudicially affect the member's consideration of the matter.

66. NITB provided the NIAO with a copy of a checklist that the NITB Chairman reads out at the beginning of every Board meeting. It includes the question "Do Board Members have interests to declare in relation to any of the papers on the agenda?" The NIAO was told that this question applies to all in the room, including officers.
 67. At the relevant time, the NITB Staff Handbook required that staff should ensure that any possible conflicts of interest are identified at an early stage and that appropriate action is taken to resolve them. In the absence of additional rules or procedures to guide staff on how to deal with conflicts, the consultants engaged by the NITB recommended enhanced guidance, and this was taken forward in May 2006.
 68. The Department told PAC in 2002 that new guidelines on conflict of interest would be at the forefront of its process for appointing a new NITB Chairman and Members. We asked the Department why NITB did not put in place clear and effective guidance for officials on handling conflicts of interest following the PAC's 2002 report. We were told that PAC's report referred specifically to a conflict involving the then Chairman of the Board and that following the PAC report NITB implemented a full action plan which included the update of the Financial Procedures Manual and the Staff Code of Conduct. The Department told us that both documents included updated guidance on conflicts of interest.
 69. In light of this case, we asked the Department of Finance and Personnel if guidance was adequate and up-to-date on handling conflicts of interest involving public officials. The Department of Finance and Personnel told us that it considers that there currently is substantial guidance for public servants on conflicts of interest, but in light of this report, it has stated that it would undertake a review of that guidance.
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Appendices



Appendix A

Background information on the establishment and development of Rural Cottage Holidays Limited

Rural Cottage Holidays Limited is a wholly owned subsidiary of NITB. The company was formed in 1993, with its principal objectives being to:

- develop rural tourism in Northern Ireland; and
- stimulate the rural economy of Northern Ireland.

The cottages

The company was to renovate 27 derelict buildings into three star self-catering accommodation for the use of holiday rentals. It was planned that the company would acquire 21 year leases on derelict rural premises and renovate the premises to the required standard. At the end of the 21 year period, ownership of the cottages would revert back to the original owner.

To enable the company to deliver the capital and marketing projects, funding of £1.562m was made available as follows:

Funder	£000
Interreg 2 (1994-1999)	237
International Fund for Ireland	500
NITB	500
Department of Agriculture	325
	1,562

11 cottages out of the original target of 27 were developed. Owners contributed between 10-20% of the renovation costs of each of the 11 cottages. The owners receive a nominal £1 rent for the 21 year period of the RCH Limited lease but are also entitled to receive a profit sharing rent (cottages must have cumulative profits to qualify). To date none of the cottage owners have received any profit sharing rent.

In some instances the cottage owners receive additional payments for providing hosting services such as housekeeping, etc. Where these arrangements exist they have been formalised by way of an operating agreement.

NITB proposes to take over the leases from RCH Limited now that Travel Solutions/Cottages in Ireland has acquired its sales and marketing operations. The 11 cottages will be

maintained in a fit for rental state over the remaining term of the leases with all emergency repairs completed as necessary and a rolling five year programme of maintenance completed as agreed on an annual basis.

Sales and marketing operations

RCH Limited marketed both its own 11 leased cottages and those of other subscribing cottage owners through a website, annual brochure and participation in other marketing events. Some 200 cottages were featured in marketing.

RCH Limited operated a reservation and booking desk on a bespoke computerised database system. It took 15% commission on all bookings processed through the booking desk. The Department told us that RCH Limited's deal with cottage owners was not an exclusive deal and RCH Limited was not given full year allocations by cottage owners who tended to hold peak times for their own sale.

The company operated from ground floor office space within NITB premises. It had four staff.

Financial situation and outlook

RCH Limited was not formed with the intention of maximising shareholder value but to develop and enhance rural tourism in Northern Ireland and thus stimulate the local economy. However, the initial business plan did forecast the company to achieve break even and therefore become self sustaining within three years.

It was anticipated that the company would, having achieved its objectives as a "demonstration project" and operating at a profit, transfer into the private sector. The business plan assumed that the transfer would be effected via an outright sale or partial disposal of the company's shareholding.

In the 2005-06 financial year RCH Limited made a loss of £17,912. As at 31 March 2006 the company had retained losses of £194,167, net assets of £5,833 and contingent liabilities of £620,000. Retained losses would have been higher if its staff costs had been charged to its accounts. These staff costs were instead borne by NITB.

An options appraisal study carried out by consultants appointed by NITB in 2000 recommended that the company should be sold as a going concern, although the report highlighted the potential difficulties of such a recommendation given the company's financial performance.

RCH Limited's accounts disclose that NITB will provide financial support for the company for the foreseeable future.

NITB told NIAO that historically RCH Limited has been loss making - up to £40k deficit in any year, but usually less. The I&E projection for 2006-07 had been a deficit of between £20-30k. The out-turn, based on the company's accounts, was a profit of £36,831, increasing net assets to £42,664. This is based on the income from rentals being offset by the running costs, marketing costs and property maintenance costs. NITB anticipates that this will not be any greater on an annual basis going forward.

NITB also told NIAO that within its budget setting process every year it sets a budget of £40-50k to support the activities of RCH Limited i.e. to fund the deficit on the trading activities and will continue to do so into the future.

Sources: NITB consultant's Options Appraisal report (March 2004), RCH Limited's 2005-06 (audited) and 2006-07 (draft) accounts and information provided by NITB.

Appendix B

Directors of Rural Cottage Holidays Limited

The following information is extracted from RCH Limited's 2005-06 audited accounts.

In addition to the NITB's Director of Industry Development , the following also served as RCH Limited's directors during the 2005-06 year:

Mr TA Clarke
Mr M McDonald
Mr AL McLaughlin
Mr D McNeice
Mr M Ritchie

Mr Clarke is also NITB's Chief Executive.

None of the directors had any beneficial interest in the share capital of the company. Mr McDonald and the NITB's Director of Industry Development resigned as directors of RCH Limited on 10 July 2006.

Appendix C

The key terms of the agency agreement deal

Travel Solutions/Cottages in Ireland will:

- Pay £3,000 for an exclusive five year agreement to market RCH Limited's 11 leased cottages.
- Publish a brochure and website for the five year period.
- Negotiate with private cottage owners and work to develop the product and offer a wider profile for the brand.
- Advise and agree with NITB pricing policies on the 11 cottages and market and administer at a rate of 18-20 per cent commission.
- Keep NITB updated on sales and marketing activities on a regular basis.

NITB will:

- Ensure that RCH Limited's cottages are maintained.
 - Pay marketing assistance of £25k over three years.
 - Make available the NITB distribution network to widen the profile of the product.
 - Make available all historic customer data for marketing activities.
 - Make available forward booking information to ensure a smooth hand over.
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Appendix D

Timeline for the tender process and comments on NITB actions (provided by the Department of Enterprise, Trade and Investment)

Date	Tender Process/Director of Industry Development's Involvement	Disclosures	NITB Actions re Disclosures
Jan 2004	Consultants appointed by DETI and NITB to advise on options for the future of RCH Ltd.		
March 2004	Consultants present report recommending transfer of 11 lease cottages to NITB and transfer/sale of remaining sales and marketing operations.		
July 2004	Consultants appointed to dispose of RCH Ltd sales and marketing to a third party.		
Nov 2004	3 offers received and presented (initial analysis and appraisal) to RCH Ltd Board.		
Jan 2005	Negotiations with 3 bidders – 31 January. All meetings were attended by the Director of Industry Development and another member of NITB staff.		
In or around Feb 2005	Following the meetings the Director of Industry Development wrote identical letters (3 February) to the 3 bidders. These confirmed the issues discussed at the meeting and sought written responses on the outstanding issues.	<p>1) Initial disclosure of a friendship – the Director of Industry Development brought to the attention of the Chief Executive that one of the bidders was known to him as a friend.</p>	<p>The Chief Executive assessed the friendship in line with guidance obtained from a professional accountancy body's presentation to NITB Board and Executive based on a leading governance publication to determine if a) there was an interest and b) if that interest was prejudicial, as a personal interest may not necessarily be prejudicial, i.e likely to harm ability to judge the public interest. At the time of the first disclosure the Director of Industry Development's wife owned and ran a plumbing business. The Director of Industry Development had no declared business links with the owner of Travel Solutions/Cottages in Ireland. In addition the assessment of the bids took account of factors other than financial factors, for example, protection of the interests of the owners of the rural cottages in Northern Ireland. Within this context it was concluded that the Director of Industry Development had no prejudicial interest – one that was likely to harm ability to judge the public interest.</p>

Date	Tender Process/Director of Industry Development's Involvement	Disclosures	NITB Actions re Disclosures
April 2005	<p>NITB Board noted the current position and approved the Finance Director to progress negotiations with the bidders. The Finance Director analysed and assessed the bids and discussed the proposed recommendation with the Chief Executive. Two of the bids were deemed not viable leaving Travel Solutions/Cottages in Ireland as the only acceptable bid.</p>		<p>The Chief Executive took precautionary measures to recognise and manage the situation and transferred the conclusion of the process re transfer of the sales and marketing functions of RCH Ltd to the Finance Director.</p>
May 2005	<p>Finance Director recommended to the NITB Senior Management Team that Travel Solutions/Cottages in Ireland be appointed (4 May). The Director of Industry Development was present at the meeting.</p>		<p>There was only one viable offer - Travel Solutions/Cottages in Ireland was the only suitable operator therefore there was no opportunity to influence any decision. Nevertheless, NITB accept that the Director of Industry Development should have excluded himself or have been excluded from the meeting of NITB's Senior Management Team.</p>
June 2005	<p>RCH Ltd Board approved SMT recommendation (21 June). The Director of Industry Development was present at the meeting.</p> <p>NITB Board approved disposal of RCH Ltd trade to Travel Solutions/Cottages in Ireland (28 June).</p>		<p>There was only one viable offer - Travel Solutions/Cottages in Ireland was the only suitable operator therefore there was no opportunity to influence any decision. Nevertheless, NITB accept that the Director of Industry Development should have excluded himself or have been excluded from the meeting of the RCH Ltd Board.</p>
August 2005	<p>The Director of Industry Development went on long term sick leave for 9 months from 4 August.</p>		
Oct 2005	<p>An Agency Agreement between RCH Ltd and Cottages in Ireland (newly established subsidiary of Travel Solutions) was signed on 10 October.</p>		

Appendix D

Timeline for the tender process and comments on NITB actions (provided by the Department of Enterprise, Trade and Investment)

Date	Tender Process/Director of Industry Development's Involvement	Disclosures	NITB Actions re Disclosures
Nov 2005	The Chief Executive had a Health & Welfare meeting with the Director of Industry Development, in the margins of which the latter made a new disclosure.	2) Spouse employed by Travel Solutions (since October 2005).	Following this NITB took the following action: 1) Chief Executive raised with the Director of Organisational Development and Human Resources (OD&HR) and the Chair of the Audit Committee the potential this created for a perceived conflict of interest. 2) The Director of OD&HR sought legal advice on how to proceed and a letter was drafted to the Director of Industry Development.
Dec 2005	The Director of Industry Development admitted to hospital		3) Legal advice was not to issue the letter to the Director of Industry Development under current circumstances.
Jan 2006			4) Director of OD&HR consulted, and received advice from, DETI Internal Audit Service and Tourism Policy Branch 5) Chief Executive met with Chair of the Audit Committee and Chairman of the Board. It was agreed that consultants should be appointed to review and provide independent advice. 6) Consultants appointed to review the case to date.
March 2006			7) Consultants issued a draft report to the Chair of the NITB Audit Committee. It was inconclusive due to additional information and clarification required from the Director of Industry Development. Legal advice was not to approach him while he was on sick leave: <i>"I would not be inclined to press the investigation of the conflict of interest issue at this stage, as NITB would be vulnerable to criticism that, by doing so, they were adding to his stress problems"</i> (extract letter from NITB's solicitors 24 March 2006).

Date	Tender Process/Director of Industry Development's Involvement	Disclosures	NITB Actions re Disclosures
April 2006			<p>8) Action plan from consultant's draft report developed and implemented by NITB. This included updates to the NITB Code of Conduct, Financial Procedures Manual and induction training.</p> <p>9) The Chair of the NITB Audit Committee reported at a meeting of the Departmental Audit Committee that a potential conflict was being investigated.</p>
May 2006	The Director of Industry Development returned to work on 8 May.		<p>10) Chief Executive and Director of OD&HR met with the Director of Industry Development on 25 May to discuss the consultant's draft report. The Director of Industry Development had received a copy of the draft report in advance and was asked to clarify a number of issues in writing following the meeting. In addition, he was made aware that he should have no input to any future business dealings with Travel Solutions/Cottages in Ireland while employed at NITB.</p>
June 2006			<p>11) Following several verbal reminders, the Chief Executive sent a memo to the Director of Industry Development requesting a written response.</p>
July 2006			<p>12) On 18 July, the Director of Industry Development submitted a written response to queries raised.</p> <p>13) On 19 July, the Chief Executive wrote to the Director of Industry Development to acknowledge receipt of the response, to inform the Director of Industry Development of his intentions to discuss the matter with the Chair of NITB's Audit Committee, and to remind him to have no input to any future business dealings with Travel Solutions/Cottages in Ireland while employed by NITB.</p>

Appendix D

Timeline for the tender process and comments on NITB actions (provided by the Department of Enterprise, Trade and Investment)

Date	Tender Process/Director of Industry Development's Involvement	Disclosures	NITB Actions re Disclosures
			<p>14) On 19 July, the Chief Executive prepared and issued a report to the Chair of the NITB Audit Committee, covering all outstanding matters.</p> <p>15) The Chief Executive and the Chair of the Audit Committee met to review matters. They concluded that the Director of Industry Development had clarified in writing that his relationship was of a personal nature: <i>"[the director of Travel Solutions/Cottages in Ireland] is a good friend of myself and my family of 20 years standing. At no time during this period has there been any business linkage with [the director of Travel Solutions/Cottages in Ireland]. This remains the situation today."</i> At the time of their meeting, the Action Plan arising from the report had been completed and it had been concluded that there was no case for disciplinary action. It was accordingly decided that no further action was required.</p>
Dec 2006	The DETI Minister received a letter from [an unsuccessful bidder] which made a number of allegations regarding the tendering procedures within NITB for RCH Ltd. The letter was copied to NITB by DETI and brought new information regarding a company called holidaymatters.com to the attention of the Chief Executive.	3) the Director of Industry Development Directorship in holidaymatters.com represented a business linkage with the proprietor of Travel Solutions a shareholder that had not previously been declared.	<p>NITB took vigorous and decisive action which is clearly documented. It commenced disciplinary procedures that led to the dismissal of the Director of Industry Development following appeal procedures in January 2007.</p> <p>Following dismissal the Director of Industry Development instigated legal proceedings against NITB – he withdrew his case in July 2007.</p>

Appendix E

Statement of Response provided to the NIAO by the former Director of Industry Development

11 February 2008

Ni Tourist Board – Contract to Manage the Trading Activities of Rural Cottages Holidays Limited.

Statement of Response to Draft Northern Ireland Audit Office Report 20 November 2007

The following statement relates chronologically to the Draft report as issued. Comments are offered only where accuracy and completeness of the information contained is contested.

Paragraph 10 Both the Department and the Chief Executive of NITB have failed to acknowledge that I first brought the matter of my relationship with the owner of Travel Solutions to light upon sight of the long-listing of potential purchasers as compiled by PWC. I informed the then Director of Corporate Services (also an RCH Director) during early October 2004 and subsequently met with the Chief Executive and the above Director shortly after during the same month and outlined my relationship with the owner of Travel Solutions. I was instructed by the Chief Executive to continue managing this work via PWC and in conjunction with the RCH Manager and NITB's own financial consultant.

During this continuing period it was with the Chief Executive's expressed agreement that I approach one of the long listed candidates who was a major UK Tour Operator and with whom given my extensive travel industry knowledge and experience I had a contact at Managing Director level. I made this approach but no interest was expressed by the company concerned.

PWC continued their work and recommended the 3 short-listed bidders during November 2004. I raised again with the Chief Executive the issue of my continuing role given that Travel Solutions had been identified as one of the three bidders. My clear direction at this point was that due to the previous Director of Corporate Services leaving NITB and the replacement Director not due to join until January 2005, I was to continue leading the communication process with the 3 bidders in the interim period. A reading of Senior Management Team minutes of 13 October 2004 together with those of 7th and 19th January 2005 will confirm the above.

Paragraph 11 Comments above on Paragraph 10 also refer. I had disclosed my connection with the owner of Travel Solutions prior to the identity of the 3 potential purchasers.

Paragraph 12 This is misleading in that the Chief Executive of NITB did not reassign the responsibility of progressing the sale of RCH Limited in April 2005 merely as a precautionary step. Rather this was a planned handover after the new Director of Finance had settled into the role. Comments above on Paragraph 10 also relate. *'I was instructed by the Chief Executive to continue managing this work via PWC and in conjunction with the RCH Manager and NITB's own financial consultant.'* and *'I was to continue leading the communication process with the 3 bidders in the interim period.'*

Paragraph 19 I was very aware of the need to maintain clear demarcation lines. However, difficulties arose in ensuring that NITB staff at various levels, including the Chief Executive maintained a similarly robust line. As but one example I continually raised at Senior Management Team meetings my suitability to be present when RCH matters were discussed.

Paragraph 20 I specifically asked at the commencement of the Senior Management Team Meeting on 4 May 2005 about the appropriateness of me being present, and the Chief Executive asked me to remain in the room to be available to answer any points of clarity. This was as a result of my previous work at his behest. At no point was there any concern expressed by the Chief Executive of NITB around any possible conflict. This meeting took place some 8 months after my disclosure of my connection with the owner of Travel Solutions and my acting in good faith under the auspices of the NITB Chief Executive.

Paragraph 20 Table A This table is inaccurate in that it does not reflect my involvement as outlined in my comments under 10 above. The disposal process commenced with the appointment of PWC in July 2004. The table portrays that my first involvement was on 31 January 2005 when even elsewhere in the Draft Report it is clear that it was much earlier. For the record my involvement commenced during July 2004.

[Table A has been amended to note that the former Director of Industry Development involvement commenced in July 2004.]

Appendix E

Statement of Response provided to the NIAO by the former Director of Industry Development

Paragraph 30 Comments below on the so-called ‘further precautionary measures’ taken by the Chief Executive relate to each bullet point in this part of the report:

- Upon my return to work in May 2006 I requested from the Director of Finance details of the process required for me to resign as Director and Company Secretary of RCH Limited. Despite repeated reminders from me, this took many weeks to progress.
- Upon my return to work in May 2006 I removed 3 trays of documents from my office all of which related to RCH and much of which was in relation to my previous work on the disposal. This was carried out by myself unprompted by any person in NITB and the papers delivered to the Director of Finance’s office.
- It is a matter of record from Senior Management Team colleagues that I frequently questioned the appropriateness of me being present at Senior Management Team meetings where the subject of RCH (Travel Solutions/Cottages in Ireland) was discussed. See also my comments on Paragraph 19.

Paragraph 32 – Bullet Point 1 My relationship with the owner of Travel Solutions and the subsequent employment of my wife had no impact at all on my involvement in the tendering/disposal process of RCH. This is evidenced by my disclosure to the Chief Executive of NITB of my connection with the owner of Travel Solutions during October 2004 and my informing him of my wife’s employment with Cottages in Ireland in November 2005. This employment commenced in October 2005. The former disclosure was more than a year before the conclusion of the disposal process and the latter was as a matter of information as I was not required to disclose.

Paragraph 32 - Bullet Point 2 My directorship of HolidayMatters.com Ltd was nominal and only to comply with the legal requirement to have 2 directors. As I was on sick absence it did not enter my consciousness to seek permission for this directorship. I did however bring this matter to the attention of NITB in November and December 2006 by way of the annual disclosure document, before the disciplinary process commenced. It is also relevant to note that during the period of my directorship of HolidayMatters.com Ltd that the company did not actively trade or promote itself.

It must be clear from the facts that there was never any intention that I become involved in a trading operation whether in conflict with the NITB or otherwise.

Paragraph 34 My comments on Paragraph 32 Bullet Point 2 refer.

Paragraph 35 I refute the comments attributed to NITB that I lied to the Chief Executive. A careful comparison of my memo to the Chief Executive of 18 July 2006 with the chronological sequence of events will show that my statement about a non-business linkage was factually correct. Elsewhere in the same memo I did make reference to my wife’s connection with the owner of Travel Solutions and therefore it is clear I did not take ‘business linkage’ to extend beyond myself. At no time did anyone from NITB or DETI comment or take action on the information I disclosed in the 18 July document. Moreover it is important to acknowledge that despite my requests to the Chief Executive and the chair of the NITB Audit Committee for a response to my memo of 18 July 2006, none was forthcoming.

Paragraph 37 - Final bullet point This does not reflect that this disclosure took place in October 2004 and before the short listing process. I did inform the Chief Executive and the then Director of Corporate Services of my connection with the owner of Travel Solutions at that time.

Paragraph 45 This does not reflect that this disclosure took place in October 2004 and before the short listing process. I did inform the Chief Executive and the then Director of Corporate Services of my connection with the owner of Travel Solutions at that time.

Paragraph 47 This does not reflect that this disclosure took place in October 2004 and before the short listing process. I did inform the Chief Executive and the then Director of Corporate Services of my connection with the owner of Travel Solutions at that time.

Paragraph 48 Having been recruited to the NITB at a senior level from a career background in the private sector the sheer weight of and ability to understand the myriad of governance procedures was almost impossible. There was limited emphasis placed on such training with the circulation of procedures manuals and policy communications being the usual approach within NITB.

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The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
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Absenteeism in Northern Ireland Councils 2005-06	-	30 March 2007
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Older People and Domiciliary Care	NIA 45/07-08	31 October 2007
2008		
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