Northern Ireland Assembly

Public Accounts Committee

Report on The Northern Ireland Events Company

Together with the Minutes of Proceedings of the Committee relating to the Report and the Minutes of Evidence

Ordered by the Public Accounts Committee to be printed on 10 February 2016

This report is the property of the Public Accounts Committee. Neither the report nor its contents should be disclosed to any person unless such disclosure is authorised by the Committee.

THE REPORT REMAINS EMBARGOED UNTIL 00:01AM ON 24 FEBRUARY 2016

Mandate 2011/16 Thirty-Fourth Report NIA 308/11-16

Table of Contents

PUBLIC ACCOUNTS COMMITTEE
MEMBERSHIP AND POWERS

The Public Accounts Committee is a Standing Committee established in accordance with Standing Orders under Section 60(3) of the Northern Ireland Act 1998. It is the statutory function of the Public Accounts Committee to consider the accounts, and reports on accounts laid before the Assembly.

The Public Accounts Committee is appointed **under Assembly Standing Order** No. 56 of the Standing Orders for the Northern Ireland Assembly. It has the power to send for persons, papers and records and to report from time to time. Neither the Chairperson nor Deputy Chairperson of the Committee shall be a member of the same political party as the Minister of Finance and Personnel or of any junior minister appointed to the Department of Finance and Personnel.

The Committee has 11 members including a Chairperson and Deputy Chairperson and a quorum of 5.

The membership of the Committee since 23 May 2011 has been as follows:

Ms Michaela Boyle[3] (Chairperson)
Mr John Dallat[5] (Deputy Chairperson)

Mr Roy Beggs[14]	Mr Trevor Clarke[8]
Mr Phil Flanagan[13]	Mr Paul Girvan
Ms Claire Hanna[16]	Mr Ross Hussey
Mr Conor Murphy[17]	Mr Edwin Poots[18]
Mr Jim Wells[15]	

[1] With effect from 24 October 2011 Mr Adrian McQuillan replaced Mr Paul Frew

[2] With effect from 23 January 2012 Mr Conor Murphy replaced Ms Jennifer McCann

[3] With effect from 02 July 2012 Ms Michaela Boyle replaced Mr Paul Maskey as Chairperson

[4] With effect from 02 July 2012 Mr Conor Murphy is no longer a Member and his replacement on this committee has not yet been announced

[5] With effect from 07 September 2012 Mr John Dallat replaced Mr Joe Byrne as Deputy Chairperson.

[6] With effect from 10 September 2012 Mr Sean Rogers was appointed as a Member

[7] With effect from 10 September 2012 Mr Daithi McKay was appointed as a Member

[8] With effect from 01 October 2012 Mr Trevor Clarke replaced Mr Alex Easton

[9] With effect from 11 February 2013 Mr Sammy Douglas replaced Mr Sydney Anderson

[10] With effect from 15 April 2013 Mr Chris Hazzard replaced Mr Mitchel McLaughlin

[11] With effect from 07 May 2013 Mr David McIlveen replaced Mr Sammy Douglas

[12] With effect from 16 September 2013 Mr Alex Easton replaced Mr David McIlveen

[13] With effect from 06 October 2014 Mr Phil Flanagan replaced Mr Chris Hazzard

[14] With effect from 06 October 2014 Mr Roy Beggs replaced Mr Michael Copeland

[15] With effect from 18 May 2015 Mr Jim Wells replaced Mr Alex Easton

[16] With effect from 7 September 2015 Ms Claire Hanna replaced Mr Sean Rodgers

[17] With effect from 14 September 2015 Mr Conor Murphy replaced Mr Daithi McKay

[18] With effect from 5 October 2015 Mr Edwin Poots replaced Mr Adrian McQuillan

List of Abbreviations Used in the Report

the Committee	Public Accounts Committee (PAC)
C&AG	Comptroller and Auditor General
the Department	Department of Culture, Arts and Leisure
Chief Executive	Janice McAleese
NIEC	Northern Ireland Events Company
Acting Chief Executive	Jasper Perry
The Inspectors	Company Inspectors
DETI	Department of Enterprise, Trade and Investment

Executive Summary

Introduction

1. The Chief Executive (Janice McAleese) of the Northern Ireland Events Company (NIEC) 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.

2. In November 2008, Company Inspectors (the Inspectors) were appointed by the Department of Enterprise, Trade and Investment (DETI) 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 events.

3. The Committee was informed that the total cost of NIEC's financial deficit was in the region of £1.6 million. These costs represent the amounts paid to outstanding creditors and administration costs incurred as a result of the winding up of NIEC.

Conclusions

4. The Public Accounts Committee was appalled at the level of mismanagement and impropriety associated with the Northern Ireland Events Company. The Committee believes that the demise of the NIEC "*is the biggest scandal that has yet arisen in the history of the Committee under devolution*, *the level of scandal involved is completely shocking*".

5. Mr Paul Sweeney, the DCAL Permanent Secretary at the time the financial deficit emerged in 2007 and Mr Mervyn Elder, the NIEC Chairman, told the Committee that they accepted full responsibility for what happened.

6. DCAL in its opening statement informed the Committee that the NIEC saga represented a comprehensive failure in a triangle of relationships. It was a comprehensive failure on the part of DCAL to fully discharge its responsibilities in terms of sponsorship; it was a failure on the part of the NIEC Board to

provide effective leadership, direction, support and guidance to the organisation; and it was a failure on the part of Janice McAleese, the Chief Executive of the company, to ensure that public funds were properly managed and safeguarded. The Committee agrees with this analysis. No one has emerged with any credit but there are important lessons for all Chief Executives, Boards and Departmental Accounting Officers.

7. The Company Inspection took five and a half years and cost £1.24 million. It has taken DETI a further 18 months to issue pre-proceeding letters in the Director Disqualification process. The Committee are very disappointed that this process has taken – and continues to take – so long to reach a conclusion.

8. This debacle does not make comfortable reading for the public service in Northern Ireland – this may have been a small company but the scale of deception was massive. Unfortunately it is the taxpayer who has ultimately footed the £1.6 million bill to pay the outstanding creditors and associated fees and costs.

9. The Committee's report, together with the Comptroller and Auditor General's report, should be compulsory reading for all public sector management boards, Chief Executives and Accounting Officers. This situation must never happen again and public sector officials and board members should be constantly alert to the important lessons that can be learned from the failure of the Northern Ireland Events Company.

Summary of Recommendations

Recommendation 1

The Committee recommends that if an Arm's Length Body delegates recruitment tasks, such as shortlisting, during the appointment of a Chief Executive, it should ensure that it retains ownership of the process.

Recommendation 2

The Committee recommends that all documentation supporting the recruitment selection process of senior officials should be retained by the Arm's Length Body making the appointment in line with public sector requirements.

Recommendation 3

The Committee recommends that the current procedures for appointing Accounting Officers in Arm's Length Bodies are reviewed by the Department of Finance and Personnel to identify how the process could be strengthened. The Committee expect to be provided with an update report on these activities in twelve months time.

Recommendation 4

There was a catalogue of errors in the management of NIEC. It is essential that lessons are learned to ensure that nothing like this can ever happen again. The Committee recommends that DFP consider how the lessons from NIEC, including the missed warning signs, can be best shared with all government Departments.

Recommendation 5

The Committee recommends that all those serving on public Boards consider the lessons from the NIEC debacle, especially those relating to the effectiveness of Boards and the Chair.

Recommendation 6

The Committee recommends that Departments ensure that the Boards of Arm's Length Bodies have a mix of appropriate skills and experience. In particular, the Committee views financial skills as an essential component of ensuring effective governance.

Recommendation 7

The Committee recommends that DETI report the conclusions of the Chartered Accountant Regulatory Board to the Public Accounts Committee following its completion.

Recommendation 8

Major structural changes to government can have important consequences for public bodies' ability to effectively exercise key functions. The Committee recommends that detailed assessments are carried out prior to changes being implemented to ensure that bodies have the right staff with the right skills, backed up by adequate support mechanisms. Departments should assure themselves that they have adequate sponsorship skills to oversee their Arm's Length Bodies.

Recommendation 9

A sponsor Department cannot exercise effective oversight if it does not have a strong relationship with its Arm's Length Bodies. The Committee recommends that all Departments ensure they have regular and open contact with both the Chief Executives and Chairs of Arm's Length Bodies.

Recommendation 10

The Committee recommends that Departmental sponsorship of Arm's Length Bodies should be proportionate and risk based. It is important that these risk assessments are based on the totality of a Department's knowledge of its Arm's Length Body.

Recommendation 11

Given the length of time this process has taken to date, the Committee will monitor the progress of the investigations being undertaken. We expect DETI to provide the Committee with an update on progress in the Directors Disqualification proceedings in six months' time.

Introduction

1. The Public Accounts Committee (the Committee) met on 7 and 21 October 2015 to consider the Comptroller and Auditor General's report "*The Northern Ireland Events Company*". The main witnesses were:

 - **Dr Denis McMahon**, Accounting Officer, Department of Culture, Arts and Leisure;
 - **Mr Paul Sweeney**, former Accounting Officer, Department of Culture, Arts and Leisure;
 - **Ms Cynthia Smith**, Deputy Secretary, Department of Culture, Arts and Leisure;
 - **Mr David Carson**, Director of Finance & Corporate Services, Department of Culture, Arts and Leisure;
 - **Mr Mervyn Elder**, former Chairman, Northern Ireland Events Company;
 - **Dr Andrew McCormick**, Accounting Officer, Department of Enterprise, Trade and Investment;
 - **Ms Jackie Kerr**, Head of Business Regulation, Department of Enterprise, Trade and Investment;
 - **Mr Kieran Donnelly**, Comptroller and Auditor General;
 - **Mr Mike Brennan**, Treasury Officer of Accounts; and
 - **Ms Alison Caldwell,** Treasury Officer of Accounts.

2. The Northern Ireland Events Company (NIEC) was incorporated as a limited liability company in 1997 with a remit to support major events in Northern Ireland. Its main source of funding was an annual budget provided by central government. It received around £18 million of public funding between 1997 and 2008.

3. 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.

4. 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.

5. DCAL engaged consultants in November 2007 to provide a preliminary review into the circumstances behind the deficit. As a result of that review DCAL referred the issue to the Department of Enterprise, Trade and Investment (DETI) requesting that the Company Inspectors investigate the affairs of NIEC.

6. 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[1] events.

7. In September 2015, a report by the Comptroller and Auditor General (C&AG) identified a wide range of serious concerns about the operation of NIEC during the 2004-07 period. The C&AG concluded that failures of oversight on the part of both the NIEC Board and DCAL, combined with the actions of Janice McAleese, the then Chief Executive, contributed to the ultimate failure of the Company and the accumulation of the deficit.

8. In the two evidence sessions, the Committee explored the following key aspects of the Northern Ireland Events Company:

   - The appointment of the Chief Executive;
   - The events that led to the accumulation of a financial deficit;
   - The failure of the NIEC Board to provide adequate oversight;
   - Weaknesses in DCAL's oversight arrangements; and
   - Investigations following the disclosure of the financial deficit.

[1] 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.

Circumstances surrounding the appointment of Janice McAleese

Janice McAleese was appointed as Chief Executive following a flawed recruitment exercise

9. When NIEC's first Chief Executive retired in September 2003, the Company Secretary (Janice McAleese) was appointed as acting Chief Executive. She had been the Company Secretary since May 2001 and prior to that had worked for NIEC on a temporary contract basis for about three months. The Committee views the appointment of Janice McAleese as Chief Executive in January 2004 as a pivotal moment that set in train a sequence of events that culminated in the financial collapse of NIEC.

10. It emerged during the evidence session that Janice McAleese had not met the essential criteria for the post of Chief Executive. Despite this, Janice McAleese passed four different stages of the recruitment process and was recommended for appointment by a selection panel which included the NIEC Chair, the Deputy Chair, a senior DCAL official and an independent observer from a professional HR agency. The Committee are at pains to understand how Janice McAleese made it to the later stages of the process, never mind got appointed.

11. There is no evidence that the NIEC Board raised any concerns and they endorsed Ms McAleese's appointment as Chief Executive. DCAL were informed that Janice McAleese had been selected but do not seem to have been made aware that she did not met the essential criteria for the post. This is astonishing given that a senior departmental official sat on the selection panel. Participation on such a panel should ensure the successful appointment of the best possible candidate as Chief Executive, with all the requisite skills. This process plays a crucial role in the effective oversight of an Arm's Length Body. In this case DCAL failed to identify that Janice McAleese did not meet the job requirements. In the Committee's opinion this was the first of many instances at which DCAL appeared to be 'asleep at the wheel'.

12. The evidence presented to the Committee regarding the sifting of candidates, the subsequent interviews and in particular who met or did not meet the essential criteria was confused and lacking in detail. It appears that the panel conducting the final interviews may not have made themselves aware of key

decisions, taken prior to interview stage, which would impact on the panel's work. In the Committee's view, whilst a panel can delegate these tasks, it cannot delegate its responsibility to ensure they are done correctly.

Recommendation 1

The Committee recommends that if an Arm's Length Body delegates recruitment tasks, such as shortlisting, during the appointment of a Chief Executive, it should ensure that it retains ownership of the process.

13. A recurrent theme in the Committee's investigation is a lack of documentation, particularly in support of the recruitment process. In part, this appears to be because a private sector HR firm, Parity Solutions, was engaged by NIEC to manage the recruitment process. It was this firm rather than NIEC that retained all the documentation. Obtaining professional advice, particularly for a key strategic appointment such as this, can be sensible and prudent. However it cannot be a means of outsourcing responsibility. NIEC should have retained possession of these papers and not their advisors. It cannot be deemed acceptable that consultants are used as a means of avoiding accountability.

14. Issues concerning the retention of documents are not unique to this case. In its report on DCAL's Management of Capital Projects, the Committee found similar failings in the retention of public documents.

15. It is abundantly clear to the Committee that the appointment process had fundamental flaws despite NIEC Board members having experience in appointing persons to senior posts, NIEC engaging professional HR advice throughout the recruitment process and the DCAL having representation on the appointment panel. The fact that serious weaknesses in the appointment process were not identified is alarming and does nothing to dispel the possibility that Janice McAleese was favoured during the appointment process.

Recommendation 2

The Committee recommends that all documentation supporting the recruitment selection process of senior officials should be retained by the Arm's Length Body making the appointment in line with public sector requirements.

The Department appointed an Accounting Officer based on a flawed recruitment process

16. It is the responsibility of the principal Accounting Officer in the sponsor Department to approve and appoint the Accounting Officer in its Arm's Length Bodies. The role of the Accounting Officer is vital to the process of public scrutiny and accountability. It is important, therefore, that individuals appointed to these roles are fit to perform the duties required of them and that both the sponsor Department and the Arm's Length Body's Accounting Officer are clear on their respective responsibilities.

17. Given this important role, we view it as essential that sponsor Departments carry out robust due diligence checks prior to making Arm's Length Body Accounting Officer appointments. DCAL told the Committee that "it was not practice to undertake additional diligence over and above the appointment process". As Departmental Accounting Officers remain ultimately accountable to the Assembly, even when delegating responsibility to Arm's Length Body Accounting Officers, we are disappointed that the Departmental Accounting Officer was content to make this appointment without adequate checks.

18. The Committee agrees with DCAL's opinion that it is unthinkable that a Departmental Accounting Officer could appoint an individual to the role of Arm's Length Body Accounting Officer based on a flawed process which selected a candidate who was not adequately qualified. Yet it happened in this case. The information that this individual was not fit for the role was available, but there appears to have been insufficient checks to identify this. Instead, the appointment of the Chief Executive as Arm's Length Body Accounting Officer appears to have been a case of 'rubber stamping' the decision of the NIEC Board.

Recommendation 3

The Committee recommends that the current procedures for appointing Accounting Officers in Arm's Length Bodies are reviewed by the Department of Finance and Personnel to identify how the process could be strengthened. The Committee expect to be provided with an update report on these activities in twelve months' time.

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

An unapproved change in strategic direction greatly increased the financial risk to NIEC

19. Mr Elder told the Committee that in February 2005 the Board warned Janice McAleese that "*event management was not considered appropriate but hands on support and coordination was acceptable*". Nevertheless, the Comptroller and Auditor General in his report stated that around £1.3 million of financial losses could be attributed to overspending on events promoted by NIEC between 2005 and 2007. The advice of the Board seems to have been ignored by the Chief Executive who at some time in 2004-05 decided that it was appropriate for NIEC to promote major events and in particular Motocross and Supermoto events. The Committee is unclear as to her motivation behind this course of action.

20. A number of Board members were unaware of NIEC's promotional activities and even Mr Elder in his evidence to the Committee did not seem to be aware that NIEC had been the promoter of several high profile Motocross and Supermoto events. DCAL only became aware that NIEC had moved into the promotion of major events after the financial losses had come to light in 2007.

21. The Committee heard that NIEC had a set of procedures in place to appraise, approve and evaluate events that it provided grant funding to. Incredibly, however, despite involving significantly more risk, these procedures were not applied for events that NIEC promoted itself. For example, no written post project evaluations were presented to the Board, or indeed requested by it, for the five Motocross and Supermoto events. This meant that NIEC continued to promote Motocross and Supermoto events without any scrutiny of how the previous year's event had gone.

Growing financial losses were covered up and concealed from the Board and DCAL

22. In September 2005 NIEC promoted a Motocross and a Supermoto event which together lost over £400,000. Having already drawn down 99 per cent of its annual funding by early October, this caused a financial crisis within NIEC. To attempt to solve this crisis the Company undertook two immediate quick fixes – it increased its bank overdraft and got personal loans from staff members.

23. The Committee heard that in November 2005 the Company opened a second bank overdraft facility for £200,000, in addition to its £100,000 overdraft facility which had already been approved by DCAL. Whilst the documentation authorising this overdraft was apparently signed by four Board members and the Chair on 14 November 2005, the Committee understands that there was no Board meeting on this date. Mr Elder told the Committee that he had not signed this document. The Committee was informed that the Board was totally unaware of the existence of a second overdraft.

24. The use of a second overdraft facility was completely at odds with general guidance set by DFP and more specifically the NIEC Financial Memorandum issued by DCAL. DCAL also explained that this second overdraft application was not passed to it for approval and the fact that the Board did not meet on that day, suggests that the documentation had been fabricated. This second overdraft should have been disclosed in NIEC's annual accounts but in order to conceal its existence the accounts submitted to DCAL were different than those lodged at Companies House. DCAL did not pick up on this.

25. In December 2005 the Company received personal loans of £3,000 and £17,000 from a junior staff member and Janice McAleese respectively. Further loans of £25,000 and £21,000 were again made in early 2007 by Jasper Perry and Janice McAleese. The Committee was stunned to hear that Mr Elder was aware that personal loans had been used to cover staff salary payments and to keep the Company afloat. The use of personal loans is highly irregular and not informing the Board or DCAL of this situation was a derogation of duty.

26. At the very least the need for personal loans should have set alarm bells ringing regarding the perilous financial state of the Company and the need for more careful budgeting and increased financial scrutiny going forward. This did not happen.

27. The situation that developed in late 2005 was utterly chaotic and the Committee are at a complete loss as to how this shambles was not identified by either the NIEC Board or DCAL.

Significant cash income from event gate receipts went missing

28. The Inspectors calculated that for the five Motocross and Supermoto events promoted by NIEC, cash income from gate receipts was likely to have been understated by at least £250,000. The Committee firmly believes that the Inspectors' estimates were conservative and in particular the Committee was concerned as to how for one event, Supermoto 2005, no income at all could be lodged to NIEC's bank account and this not be challenged (the expected income for the 2006 event was around £48,000). Mr Elder told the Committee that he had no idea where the missing income had gone. There is a complete and total absence of assurance that some individuals did not personally profit from the large amounts of cash that were collected at events but never lodged to NIEC's bank account.

29. The Committee have also noted that the Inspectors estimated shortfall in income for the 2007 Motocross event was in the region of £73,000 and that this event took place several months after Janice McAleese had resigned from her post. In the Committee's view, the failings of this Company are the responsibility of more than one individual. Had there been appropriate controls, expertise and scrutiny in place in both NIEC and DCAL, this would have gone some way to mitigating many of the failings in NIEC.

30. The NIEC Board were not provided with details of income generated after events had been held but even more worrying, they did not think to ask for the information. As a result, the shortfall in cash income over three years went unchallenged. The Committee suspects that fraud on a grand scale was allowed to go undetected.

NIEC's promotion of the Motocross Grand Prix 2007 at Moneyglass was farcical

31. In 2007, NIEC promoted a Motocross Grand Prix event at Moneyglass. The event was relocated from the previous year's venue at Draperstown and NIEC claimed this necessitated the construction of a new race track.

32. The decision to build a new track was taken by the Chief Executive, without the Board's consent. The work was not competitively tendered, there was no formal contract ever put in place and evidence provided by the former DCAL Permanent Secretary to the Committee was that the Chief Executive was in a

personal relationship with the contractor, Joe Cockburn. This was a clear conflict. The Inspectors identified at least £226,000 of capital expenditure incurred in building the new track, with Mr Cockburn receiving £120,000 of this, despite having had little experience in this area. The Committee was told that because of the manner in which the track was constructed, it was unlikely to ever have been suitable for its intended purpose. The track was used once and has since been demolished.

33. The Committee was informed that the new track did not have planning permission, contaminated soil was deposited on the site during the construction (leading to the Department of the Environment issuing a closure order) and that NIEC did not sign a Licence Agreement with the landowners. In effect, on the event day, NIEC had no legal right to use the lands on which the track was built. A legal case was taken by the landowners and this has since been settled by DCAL for £177,500 (with legal costs of £84,000). It should be taken as read that basic processes – business cases, planning permissions and tendering – are always followed.

34. It emerged at the evidence session that DCAL were fully aware that a new track was being built as they had approved capital funding of £123,000. DCAL admitted to the Committee that no business case was submitted or requested to support the funding request and that DCAL failed to impose any conditions on the funding. The issue of planning consent for the track was also overlooked.

35. 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 and been robustly challenged. The Committee can only conclude that this is another occasion when DCAL was ‘asleep at the wheel’. DCAL’s failures have meant that the quarter of a million pounds of public money spent on the track, which should have been an asset to Northern Ireland, was in fact spent on a track with a life span of one day.

Recommendation 4

There was catalogue of errors in the management of NIEC. It is essential that lessons are learned to ensure that nothing like this can ever happen again. The Committee recommends that DFP consider how the lessons from NIEC, including the missed warning signs, can be best shared with all government Departments.

A lack of documentation has hampered the investigations

36. One consistent theme that the Committee was faced with during the course of this hearing was the apparent lack of documentation relating to many key aspects of NIEC's business. Whilst the passage of time that has elapsed since these events occurred may explain why some documentation is no longer available, it is hard to escape the conclusion that the lack of documentation suits many individuals involved in this debacle.

The failure of the NIEC Board to provide adequate oversight

The NIEC Board did not provide challenge, leadership or direction

37. The Board members who served as Directors of the NIEC all acted in a voluntary capacity. Despite this, their remit and responsibilities were akin to directors of major private companies. The low attendance levels at Board meetings, the obvious lack of understanding of the Company's business activities and poor decision making would lead the Committee to conclude that NIEC Board members did not make themselves aware of the time commitment expected from them prior to taking up post and once in post failed to carry out their responsibilities.

38. The Board's performance in key areas was extraordinarily weak. The Committee was told that the Board had no experience and little interest in motorsport, but they did not challenge NIEC spending a disproportionate amount of time and money on this area. The Board should have been scrutinising organisational performance, financial management and risk management in NIEC. It is abundantly clear to the Committee that this was not done.

39. In the Committee's opinion the voluntary nature of these appointments is not an excuse – voluntary should not mean amateur. Whilst the Committee would have expected the Board to have been supported by the Department, it is unacceptable for a Board charged with overseeing millions of pounds of public money to simply take a back seat and provide no challenge, direction or leadership and assume these functions will be picked up elsewhere.

40. Management Boards cannot just be the domain of the great and the good. Public service on these Boards should not be seen as a means of members furthering their own profiles. Being a Board member of any public sector funded organisation can be rewarding – but is also a serious, time consuming and often difficult job which requires commitment, challenge, scrutiny and above all common sense. This was sadly lacking in this instance.

Recommendation 5

The Committee recommends that all those serving on public Boards consider the lessons from the NIEC debacle, especially those relating to the effectiveness of Boards and the Chair.

The Board ignored the lack of robust financial systems and financial expertise in NIEC

41. The Committee takes the view that, on the face of it, the NIEC Board comprised members with a wide range of skills and experience often in much more complex business environments, managing budgets of hundreds of millions of pounds. In evidence to the Committee, the Board Chairman stated that the Board had the capacity, motivation and commitment but that the financial support mechanisms were not in place to assist the Board.

42. The Committee does not accept these excuses. Attendance by some Board members was poor, reflecting that not all Board members were fully motivated. The Committee also maintains that it was the Board's responsibility to ensure that NIEC had adequate financial systems in place and staff with the necessary financial expertise. The Committee was alarmed to hear that NIEC maintained a manual accounting system that was seemingly incapable of producing meaningful financial information and that there was minimal financial expertise amongst the executive team.

43. The Committee would also note that the Board appointed a Chief Executive who did not demonstrate during recruitment that she had the necessary financial experience. In the Committee's view, this reflects the fact that the Board didn't recognise the importance of these skills to the exercise of good governance.

Recommendation 6

The Committee recommends that Departments ensure that the Boards of Arm's Length Bodies have a mix of appropriate skills and experience. In particular, the Committee views financial skills as an essential component of ensuring effective governance.

44. Financial information is vital to assessing the health of any public body. The Committee understand that the quality of and quantity of financial information provided to the Board declined after October 2003. This coincided with the appointment of Janice McAleese to acting Chief Executive. The Board did not receive projected cash flow or bank reconciliation statements and received no meaningful financial information on major events costing hundreds of thousands of pounds. This included details of income received from these promoted events. It is simply unacceptable that no one sought even the most basic financial information on these core activities of the Company.

The Board failed to establish an Audit Committee

45. The Committee was dismayed to hear that the Board of a publicly funded company considered that a golf sub-committee took priority over the formation of an Audit Committee. DCAL told the Committee that for a number of years they were "*pressing*" the Board on the importance of establishing an Audit Committee. The Committee consider it ridiculous that a government Department could treat the corporate governance of an ALB so lightly.

46. An Audit Committee is and was a key facet of corporate governance since the early 1990s and there is simply no excuse for a body such as NIEC not to have one in place. It should have been obvious to everyone – Board, Department and Chief Executive – that this was necessary and the Committee still have not been given an adequate explanation as to why an Audit Committee wasn't established until after the deficit came to light.

47. The Board placed significant reliance on the annual unqualified audit opinion of the company's private sector auditors. Mr Elder told the Committee that the Board had met a representative of the auditors in person regarding the 2005-06 accounts. However, the Committee notes that the Inspectors could find no evidence that the auditors met with the Board at any time from their appointment in 1997 to 2007. NIEC became technically insolvent during the year ended March 2005. This insolvency remained undetected by the Board and indeed the auditors for two further years.

48. The Committee welcome's the appointment of the C&AG as auditor of a number of public sector companies from 2009, including NIEC. However, it

remains concerned about the standard of the audit work on NIEC prior to this. The Committee understands that DETI have referred the actions of NIEC's auditors to the Chartered Accountants Regulatory Board.

Recommendation 7

The Committee recommends that DETI report the conclusions of the Chartered Accountant Regulatory Board to the Public Accounts Committee following its completion.

49. The lack of an Audit Committee, which is a key element of governance in any organisation, weakened the Board's ability to challenge the assurances provided to them by the Chief Executive and the company's auditors.

Weaknesses in DCAL's oversight arrangements

DCAL did not have the capacity or capability to effectively oversee its Arm's Length Bodies

50. The Committee was told that an independent review commissioned by DCAL following the disclosure of the financial deficit highlighted that DCAL did not have the capacity or capability to effectively monitor and oversee its Arm's Length Bodies. This conclusion is of concern given that 80 per cent (around £110 million per annum) of DCAL's budget at that time was funding 16 Arm's Length Bodies.

51. The evidence the Committee heard was that the weaknesses within DCAL were systemic and as a result, no departmental officials had been disciplined or indeed faced any sanctions for failings in relation to the total mismanagement of NIEC by the sponsor Department, in the period from 2004 to 2007.

Recommendation 8

Major structural changes to government can have important consequences for public bodies' ability to effectively exercise key functions. It is important that detailed assessments are carried out prior to changes being implemented to ensure that bodies have the right staff with the right skills, backed up by adequate support mechanisms. Departments should assure themselves that they have adequate sponsorship skills to oversee their Arm's Length Bodies.

DCAL's approach to its oversight of NIEC was light touch and passive

52. NIEC was established as a company limited by guarantee with the expectation that its independence from government would encourage innovation and calculated risk taking. Given the status of the company DCAL should have considered it as high risk. In reality, however, DCAL used the company's independence from government as a reason not to closely monitor its activities. The Committee is clear that organisational form should not dictate oversight or accountability. We welcome the acceptance from DCAL that they should have dealt with NIEC in the same way as any other Arm's Length Body.

53. DCAL also admitted that their oversight of NIEC over ten years could be characterised as 'passive' and 'light touch'. They acknowledged that in this

instance they got it wrong and that the necessary safeguards and controls were not adequate. Given the obvious shortcomings and numerous warning signs of problems within NIEC, the Committee's view is that DCAL's oversight was closer to non-existent.

DCAL ignored warning signs that something was wrong

54. The NIEC Board and DCAL were "*oblivious*" to the many warning signs that things were going seriously wrong in the Events Company. Some of these were so obvious that in the Committee's view it would have been harder to miss them than to spot them. Alarm bells were ringing loudly but no one was listening.

55. The Committee heard that the information provided by NIEC in support of grant funding requests to DCAL was often incomplete or on occasion missing altogether. Whilst DCAL's own guidance stated that draw downs of funding should be monthly, they actually became more and more frequent as time progressed. In 2005-06 NIEC had drawn down 87 per cent of its funding by the second quarter of the financial year. This trend was repeated over the next two financial years without challenge or explanation.

56. DCAL did not receive monthly financial reports from NIEC until December 2006, nearly ten years after the company was incorporated and some three years after an internal audit report had highlighted this weakness. This was also some nineteen months after the company became insolvent.

57. DCAL explained to the Committee that since 2004 a number of whistleblowers had approached it to express concerns about NIEC. The Committee understands that complaints were received from promoters who had worked with NIEC, internal staff members, MLAs and even a member of DCAL's own staff who had been seconded to NIEC. Despite this, DCAL did not appear to have considered that this large number of complaints could indicate that greater attention should be paid to NIEC. It is alarming that DCAL did not consider the whistleblowers' concerns seriously.

58. Not only did DCAL completely fail to see the numerous warning signs that NIEC was out of control, but they actually facilitated further losses by making a duplicate payment of £318,000 to NIEC in April 2007. Without this payment,

NIEC would have had to inform DCAL of their financial deficit months earlier. It was in fact NIEC who pointed out the error but DCAL allowed NIEC to keep this funding and cost the public purse £300,000 more than it should have.

59. The circumstances surrounding this payment is astonishing. DCAL faxed a payment authorisation form to those responsible for paying the grant. When the hard copy was posted to the same branch, duplicate grant was paid on the basis of that form as well. The sheer laxity of controls involving hundreds of thousands of pounds shocks this Committee.

DCAL were over reliant on the Chief Executive and failed to challenge her actions

60. DCAL told us that during this period, they believed NIEC's governance system was robust; they considered the Chief Executive to be "*impressive*" and the Company was operating as DCAL would have expected. This was clearly not the case. In reality NIEC was completely out of control. This was allowed to happen as DCAL failed to routinely test the governance system; failed to request information that was necessary to exercise even the most basic oversight; and failed to critically review and assess the information that was passed to it. This meant that at no stage before the discovery of the deficit did DCAL challenge the actions and activities of NIEC.

61. DCAL and indeed the Board were over reliant on representations from Janice McAleese. The Committee can conclude that this situation came about because there was limited direct contact between the Board and DCAL. The Committee is clear that just as important as getting the right structures in place for oversight is establishing the right relationships between sponsor Department and an Arm's Length Body's Board and management. This is a key element of any effective sponsorship relationship.

Recommendation 9

A sponsor Department cannot exercise effective oversight if it does not have a strong relationship with its Arm's Length Bodies. The Committee recommends that all Departments ensure they have regular and open contact with both the Chief Executives and Chairs of Arm's Length Bodies.

62. When things go wrong in Arm's Length Bodies, Departmental oversight often swings from "hands off" to micromanagement. The Committee heard that the Department now took a very detailed approach to oversight but agreed with the Permanent Secretary that there is a danger of "losing the wood for the trees".

63. The Committee is clear that micromanaging Arm's Length Bodies is unlikely to produce good performance. What is needed is strategic and proportionate oversight, based on asking the right questions and obtaining the right information. This can only be achieved by establishing positive and constructive relationships between Departments and its Arm's Length Bodies.

Recommendation 10

The Committee recommends that Departmental sponsorship of Arm's Length Bodies should be proportionate and risk based. It is important that these risk assessments are based on the totality of a Department's knowledge of its Arm's Length Body.

Investigations following the disclosure of the deficit

The Company Inspection took five and a half years and cost £1.24 million

64. The Committee was concerned to hear that the Company Inspection cost £1.24 million despite DETI estimating an initial budget of at least £250,000. DETI explained that the initial budget was "*a very rough initial estimate*" and "*a broad stab*".

65. DETI confirmed to the Committee that no business case was completed at the outset of the appointment. Instead there were "*internal approvals to appoint the inspectors and for the cost of the inspection*". However, it would appear to the Committee that in the absence of a business case senior civil servants approved the approach, on what would appear to be limited information.

66. The Company Inspectors were a private sector consultancy firm and were appointed from the Central Procurement Directorate's consultancy framework agreement. DETI explained that they renegotiated more favourable hourly rates directly with the appointed Inspectors and that the rates were fixed for the duration of the contract.

67. The Inspectors took five and a half years to complete their report. DETI explained that typically Company Inspections take up to three years; that this inspection was particularly complex; there were vast quantities of documents and emails; there were problems in securing interviews with key players and that the company records were poor.

68. In oral evidence to Committee, the DETI Accounting Officer said that there was a break of 15 months in the inspection, at the request of the PSNI to allow them to consider a potential criminal investigation. The PSNI, however in written correspondence to the Committee, stated that they did not request that the Company Inspector's investigation be paused and have no knowledge of it having been so. In seeking further clarification from DETI, the Accounting Officer stated in correspondence, "*In light of the examination of the precise sequence of events at the time, I would like to correct the record. It was actually the inspectors that made contact with DETI in early 2010 and that in February 2010 it was agreed between the inspectors and the Department that*

a report should be prepared for the police. There is, however, no fundamental disagreement between what we have said, and the information you have received from the PSNI, because the effect of the communications between the PSNI and the inspectors was that a pause in the company inspection was essential to ensure effective process". Although the Committee agrees with DETI that this engagement was necessary the Committee believes improved communication with PSNI may have reduced the resulting delay.

69. DETI also explained that Year 5 was taken up with a legal obligation "*under case law for an investigation to give those who are criticised in a report a fair opportunity to respond to criticism before reports are published."*

70. In the evidence session, DETI said "*it would have been desirable to move faster"*. In the Committee's view the whole process took far too long. The first formal interviews conducted by the Inspectors were in August 2011, three years after the Inspectors were appointed and four years after the financial deficit emerged. The Committee do not believe that conducting interviews some four years after the event can be considered best practice.

71. When an important investigation such as this takes so long to reach a conclusion, then the public and their elected representatives will naturally be suspicious that the case has been kicked into the long grass to avoid embarrassment for the key players. A process that drags on is neither in the public interest nor in the interests of those being investigated. DETI provided the Committee with an assurance that there was no deliberate delay, "*it was a matter of getting the best available evidence that would withstand robust challenge in future processes.*"

72. At its evidence session, the Committee questioned DETI as to why the investigation cost so much. DETI informed the Committee that in their opinion the Inspection process was necessary, provided value for money and established an evidence base for other agencies to take forward their investigations. PSNI told the Committee that *"they have not used the full Company Inspector's report but instead have been very specific in relation to using extracts."*

After the Company Inspection was completed it took DETI 18 months to issue pre-proceeding letters in the Director Disqualification process

73. The Committee is concerned as to the apparent lack of urgency displayed by DETI after the Company Inspectors report was completed. Eighteen months were allowed to pass before 'pre-proceeding' letters were issued to relevant NIEC Directors on 28 September 2015. This delay further compounds the public's lack of faith that justice will be done to some of the individuals involved. DETI were unable to give the Committee a timetable for the next steps in their work. The Committee recognises that investigations of this nature can be complicated but stress that they should be carried out with a greater sense of urgency as well as thoroughness.

74. The Committee was dismayed that DETI did not seem to recognise that an Inspection and disqualification process lasting in excess of seven years poses its own risks. If it is judged that directors of NIEC are unfit to be directors, then DETI has allowed these individuals to continue to serve as directors over those intervening years potentially posing a risk to a number of other organisations.

Outstanding creditors and administration costs are in excess of £1.6 million

75. The Committee was informed that the total cost of NIEC's financial deficit was in the region of £1.6 million. These costs represent the amounts paid to outstanding creditors and administration costs incurred as a result of the winding up of NIEC. It is regrettable that the taxpayer has ended up footing the bill for this fiasco.

Recommendation 11

Given the length of time this process has taken to date, the Committee will monitor the progress of the investigations being undertaken. We expect DETI to provide the Committee with an update on progress in the Directors Disqualification proceedings in six months' time.

Links to Appendices

Minutes of Proceedings can be viewed here

Minutes of Evidence can be viewed here

Correspondence can be viewed here

Other Documents relating to the report can be viewed here

The information contained in this document is available online at:

www.niassembly.gov.uk

This document can be made available in a range of alternative formats including large print, Braille etc. For more information please contact:

Public Accounts Committee
Northern Ireland Assembly
Parliament Buildings
Ballymiscaw
Stormont
Belfast BT4 3XX

Tel: 028 90 52108

Email: pac.committee@niassembly.gov.uk

ISBN 978-1-78619-159-5