

REPORT OF THE INQUIRY INTO THE WORLD CLASS PAYMENTS BUREAU

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CHAPTER 1
INTRODUCTION

1. On 6th June 2008 [Annex 1] an email was sent from Barclays Bank to Mr Keith Jones at Sport England listing the bank accounts held by Barclays for Sport England. Included amongst the listed accounts were three accounts, two of which did not belong to Sport England at all and a third known as the “World Class Payments Bureau” was also listed. Mr Jones did not, he told me, register the fact that the World Class Payments Bureau bank account was identified in that email, or if he did register it he cannot explain why he did not report it to senior management. In December 2008 the existence of the World Class Payments Bureau account at Barclays did come to the attention of the then Finance Director, Philip Mabe, when a bank statement was received at Sport England and referred to him. He raised it immediately with the Chief Executive, Jennie Price, and inquiries started. Jennie Price in due course raised the matter with Richard Lewis, the incoming Chairman. Richard Lewis was appointed in April 2009 and Jennie Price in April 2007. Neither had any dealings with the World Class Payments Bureau or its bank account. Further, there has been a clear improvement in management and financial controls since the new team took over in 2007 as witnesses have testified (see Chapter 9).

2. Having discovered a bank account hitherto unknown to them, the senior management of Sport England asked Mr Christopher Kelly¹ to conduct an investigation, and to report. He did so and reported by his first report in April 2009 and by a second report to Sport England in July 2009. The first report indicated that there were areas of concern about the setting up and operation of the World Class Payments Bureau. This in turn led to the current inquiry being established on 17 June 2009 with the terms of reference which are attached and annexed at Annex 2. Whilst I have had regard to the Kelly reports (for which I am grateful) I have conducted a much more detailed inquiry, taken evidence from many witnesses in interviews and had access to many thousands of documents². My intention is to provide definitive answers where I properly can to concerns raised about the World Class Payments Bureau.

Inquiry Methodology

3. I have been inquiring without statutory powers into events which span between the late summer of 1999 and March 2007. I have discovered during the course of the inquiry that there has been a longstanding problem within Sport England in relation to document management, storage and retrieval. This problem has existed since at least 2001. I have also discovered that for long periods of time in the years prior to 2007 Sport England operated a staffing policy whereby it employed temporary staff on short term contracts, particularly in the World Class Payments Bureau. In addition, and most seriously, there has been a significant turnover of senior management within Sport England. Between

¹ Christopher Kelly is a forensic accountant retained by Sport England specifically to carry out the internal investigation on behalf of Sport England following the discovery of the WCPB bank account.

² About 10,000 documents were downloaded into a computerised document management system and I have additionally been provided with approximately 90 files of documents running to approximately 15,000 pages.

1999 and 2007 there have been no less than four chairmen, six chief executives and four finance directors. The combination of all of these has led to a problem for the management of Sport England and also for the conduct of this inquiry. Although I have interviewed a large number of witnesses³, I have not been able to interview everyone who was concerned with the affairs of the World Class Payments Bureau, or who might have been able to cast light on the subject. To do so would have been disproportionate and prohibitively expensive. Further, I and my enquiry team have found it very difficult to extract documents from within the archives at Sport England. The problem of document management did not start with the current management of Sport England – they inherited it. The problem goes back to at least 2001 when PriceWaterhouse Coopers commented on the poor document management system that operated within Sport England. The problem was compounded by continuous re-organisations, a re-structure and an office move in 2002.

4. Since new management took over in March 2007 documents are being better managed, but the archives of old documents remain disorganised. This has led to my not being provided with complete records⁴. Later in this report I deal with document management. The Chairman and Chief Executive are well aware of the problem which they have

³ The system which I operated was one of individual recorded interviews. I did not take formal witness statements. In order to work as efficiently as possible my assistant contacted those who might be able to provide relevant information, offered to supply any relevant documents held by the Inquiry (and did so as requested, if needs be on computer disks) and the person was invited to attend an interview. The interview was minuted. Some of those contacted also corresponded with my assistant and provided information. Where I refer to witness “evidence” I refer to the product of these interviews and communications to the Inquiry.

⁴ For example the invoices which were paid for Squash through the WCPB were not found. Conversely others were which, had there been a document destruction policy after 7 years, would not have survived.

inherited, and they are addressing it. A better system of hard document management and of tracking from computer to hard copy and to storage/archive is needed⁵.

5. The amount of money which was paid into and out of the World Class Payments Bureau bank account at Barclays Bank amounted to a little under £20 million⁶. This represents a small proportion of the annual budget for Sport England for the years in question. It has been important to Sport England and to me that I should conduct the inquiry on a proportionate basis. In order to do so, I have retrieved documents wherever possible and caused over 10,000 of them to be placed into a computerised document management and retrieval system. This has enabled a very small enquiry team of myself, one assistant, and occasional other ad hoc help, to review the key documents which have been retrieved by this method. In addition, numerous emails and letters have been written to Sport England and to various bodies in order to retrieve documents to assist in the inquiry.
6. Despite the difficulties with document management and retrieval, I have received more than sufficient material to be able to reach firm conclusions as to how the World Class Payment Bureau was operated and what lessons need to be learned in relation to it.
7. I adopted the methodology of interviewing witnesses so far as possible from the most junior to the most senior. I wanted to discover how things were working at ground level

⁵ The document management and archiving system needs a complete overhaul, so that Sport England can accurately log where documents are located and can retrieve them efficiently. For example, the current computer programme needs a section which says where hard copies are found and the hard copies need to be archived with a note on the computer as to the box/storage facility in which they are kept. There needs to be a data/information policy.

⁶ The total is £19.628 million

and to work upwards. Wherever possible, I have sought to gain a thorough understanding of the World Class Payments Bureau. I have done so by interviewing those witnesses whom I considered it necessary to hear from, and by reviewing as many documents as possible. As I had no statutory powers I have relied on the cooperation of all of those asked to attend for interview. In very large measure I have received willing help and assistance from a significant number of people without whom it would not have been possible to conduct the Inquiry and for whose assistance I am grateful⁷.

8. The conclusions which I have reached and the recommendations which I make have been arrived at entirely independently. Subject to sensible budget constraints I have been free to pursue this inquiry as I considered necessary having regard to the terms of reference. There has been no interference whatsoever from the management of Sport England. On the contrary there has been active encouragement, and they have made facilities available for my assistant to contact witnesses, and to search for, and retrieve documents. The conclusions I have reached are mine, and mine alone. However, in interviews I have tested my emerging thinking with those who have held management positions. Although the amounts of money involved in the World Class Payments Bureau are, in public procurement terms, comparatively modest, they are certainly not modest so far as individual sports, sportsmen and sportswomen are concerned. There are a number of lessons which can be learnt from this episode which are of wider application for the purpose of understanding how lottery and exchequer – i.e. public - funds can most effectively be brought to use within the community of sport. I very much hope that all of

⁷ A list of interviewees appears at **Annex B**

the recommendations which I make will be acted upon for the ultimate good of the sporting community and the public as a whole.

9. I wish to record how grateful I am to those who have assisted me. Alice Hickey of Field Fisher Waterhouse in particular has worked long hours and tirelessly.

CHAPTER 2

EXECUTIVE SUMMARY

10. There are two themes which have run throughout the Inquiry. First, I have found that within Sport England the arrival of lottery money for investment into sport on the revenue side, and in particular into the World Class Performance Programme, was a new venture which was in part affected by politicians and a desire shared within the sporting community itself for money to come out of Lottery funds, into sporting bodies and to athletes. A tension was operating as a result of the desire for sporting bodies and athletes to receive Lottery money on the one hand, and the need in the public interest for public accountability and strong governance with regard to the handling of public funds. The establishment and operation of the World Class Payments Bureau arose out of, and as a result of, the perceived need to ensure that sports men and women were funded even though the National Governing Bodies for some of the sports in question were not fit for purpose, because their governance and financial arrangements were not suitable for them to receive public funds. My overall conclusion is that by no later than the spring of 2002, i.e. immediately after the financial year end of 31st March 2002, it should have been recognised within Sport England that a much firmer grasp needed to be taken of the need for proper accountability by National Governing Bodies which were not fit for purpose with a consequent effect on the funding of some of those bodies. Because of the numerous changes in senior management and personnel within Sport England, and because of a lack of real knowledge of the actual workings of the WCPB, or of the

National Governing Bodies being funded through the WCPB, as well as the pressure of other issues related to sport funding, that grasp did not occur.

11. A second theme and one which I have found frankly surprising, is that there have been numerous well known sports which have simply not been properly governed by their governing bodies. This is startling when one considers that by the mid to late 19th century it was recognised that sports required good governance. Take, for example, the establishment of the Football Association in 1863, and other governing bodies in the late Nineteenth Century. The sports which were placed into the World Class Payments Bureau were sports which were not “fit for purpose” in large part because of poor governance arrangements in their governing bodies. This was occurring more than a century after the establishment of governance arrangements in at least some of our national sports. It might have been expected that governance arrangements in sport would by the mid 1990s have progressed into effective, efficient, economical and modern arrangements for all sports, and in particular all sports whose members aspire to elite competition. At the end of the 20th and the start of the 21st Century this had not happened.

12. If this report serves no other purpose it should at least focus the attention of all of those who are involved in sport and sport funding, both for elite⁸ and community sport, on the

⁸ Funding of Elite Sport is now undertaken by UK Sport who have undertaken a specific programme to improve governance where necessary in readiness for the 2012 Olympics. I am aware that significant efforts have been made by UK Sport and that many of the problems which I have encountered are likely to have been addressed. I make no comment about the arrangements they make. The need for good governance within National Governing Bodies is however a requirement which both UK Sport and Sport England require, and which they now work on

need for high quality economical and effective governance arrangements within the National Governing Bodies of sport. It was the failure of the sporting community in certain areas to ensure that they were properly governed when Lottery money was first directed towards their sport which led to the decision to establish the World Class Payments Bureau. However, had these sports responded swiftly to the need for proper governance, and had Sport England focussed its attention much earlier at senior levels on the need for good governance, there would have been no decision made for the establishment of a World Class Payments Bureau, and more money in real terms would in all probability have found its way to athletes.

13. When this inquiry was announced there were press reports about a possible fraud within Sport England. In November 2006 the Times reported that there may have been fraud within Karate England (2005) Ltd and in particular suspicion was pointed towards its Chief Executive and/or the Board of Karate England. Having conducted as thorough a search as was possible of the documents provided to me, and having interviewed witnesses, I am satisfied that there was no fraud within Sport England itself, and that requests for payment were made openly by Karate and others. By this I mean that the World Class Payments Bureau was honestly established and it was not intended to be a route for channelling payments unlawfully or improperly. However, the system as it operated was, in my opinion, flawed for the reasons which I give in this report.

14. The fundamental flaw in the system was that some organisations which had been deemed not fit for purpose were nevertheless able to certify that invoices against which they were

collaboratively. In Sport England's case they require good governance in National Governing Bodies for the development of sport in the community.

seeking draw downs of money via the World Class Payments Bureau were proper payments. Within Sport England itself I have found that there was insufficient scrutiny of the propriety of individual payments. What happened was that the World Class Payments Bureau became a processing function for the making of payments to sporting bodies or those working for them in circumstances where the sporting bodies were not deemed fit for purpose, but also in circumstances where there was not always adequate scrutiny of the requests for payment themselves. The effect of this flaw was that one cannot rule out the possibility that payments were made in circumstances where they may not have been properly due. This is because Sport England relied upon a process where bodies deemed not fit for purpose were in truth driving the making of the payments.

15. In order to determine whether or not there was a pattern of fraud, or individual fraud through the making of improper claims via National Governing Bodies, I have caused a sampling exercise to be undertaken by specialist criminal counsel. Mr Kelly had also undertaken his own separate exercise. My inquiries reveal concerns about payments, and in particular about the value of some of the investments made by Sport England, but they do not give rise to evidence of fraudulent conduct. It is also apparent from the sampling exercises which have been undertaken during the course of the inquiry, that most if not all of the funding which was routed through the World Class Payments Bureau ended up in the hands of those for whom the payments were intended. That does not mean that the continued advancing of monies through the World Class Payments Bureau gave good value for money for the public, whose funds were being used via Lottery or Exchequer grants. In some particular instances I have reached the conclusion that the advancing of

monies to certain organisations should have come to a close very much sooner than it did because value was not being achieved. Public funds could therefore have been saved.

Summary of Factual Findings (cross-referred into the body of the report)

16. My factual findings are contained in Chapters 3 to 9 inclusive. In brief summary:

16.1 Sport England operates in a complex regulatory and accounting environment. It has stringent accounting standards which it must meet for the proper stewardship of public funds. (Chapters 3, 4 and 5).

16.2 The World Class Payments Bureau (WCPB) was not set up by the Board of Sport England as it should have been but by management (Chapters 3 and 6).

16.3 A separate Bank Account was established at Barclays Bank for the WCPB (Chapter 3).

16.4 Initially, an Excel spreadsheet system was used for the WCPB accounting function. Later a SAGE system was used which operated outside the main Great Plains accounting system at Sport England (Chapters 3 and 6).

16.5 The purpose of the WCPB was to manage payments to NGBs which were not fit for purpose and therefore not suitable to receive public funds.

16.6 The WCPB was managed by the Internal Audit (later re-named the Management Audit) function of Sport England. It should not have been (Chapters 3 and 7).

- 16.7 Payments to various NGBs were made through the WCPB Barclays Bank Account between 2000 and 2006 (Chapters 3 and 7).
- 16.8 It was known by the Lottery Panel and management that some NGBs were failing and yet they continued to be funded through the WCPB for long periods of time (Chapters 3 and 7).
- 16.9 Neither the Board of Sport England nor the Audit Committee, nor the Internal or External Auditors, were given clear enough reports of the activities of the WCPB and in particular the fact that it was operating its own bank account (Chapter 8).
- 16.10 Neither the Internal Auditors nor External Auditors included the WCPB in their audit programmes of Sport England. (Chapters 3 and 8).
- 16.11 The WCPB was not used as a vehicle for fraud by staff at Sport England (Chapters 3 and 7).
- 16.12 The system of checking at Sport England of invoices submitted by NGBs was not robust enough, and it is not therefore possible to conclude that all payments requested and made were proper ones (Chapters 3 and 7).
- 16.13 It is doubtful that Sport England obtained value for money for the “investments” made into some of the NGBs which were handled by the WCPB (Chapter 7).
- 16.14 Management brought into Sport England in 2007 have addressed governance and control issues, and created a much improved control environment (Chapter 9).

16.15 The system now in place for NGB funding is significantly better than that in place for the period of the WCPB (Chapter 9)

Summary of Recommendations

17. My recommendations are summarised in Chapter 11. They fall into two categories:

NGB Governance

17.1 Sport England and UK Sport should establish a standing Sports Governance Committee to advise upon and vet governance arrangements for National Governing Bodies. Public funding should not be advanced to an NGB whose governance arrangements are not satisfactory. My recommendation is intended to build upon the enthusiasm to nurture sport which exists in society, and to ensure co-operation between the community of sport and Sport England/UK Sport on governance questions with access to high levels of expertise. I hope that statutory intervention can be avoided. The model I propose contains virtually no costs implications for Sport England or UK Sport, but it should be useful for all NGBs and ultimately for the public who take part in sport. I do not intend that there should be yet another Quango. As I make clear in chapter 11, this will not cause an additional obligation for National Governing Bodies that already meet Sport England's and UK Sport's funding and governance criteria. What is required is a service provided by Sport England and UK Sport which enables National Governing Bodies to achieve high standards of governance for all National

Governing Bodies in sport, and ensures that public funds are not wasted on failing National Governing Bodies.

- 17.2 I suggest that a review take place in two years time when the Sports Governance Committee has been working and the level of improvement of NGBs can be measured.

Sport England Governance.

- 17.3 Measures are being and need to be taken as set out in Chapters 9 and 11 to ensure that the Governance and Control environment at Sport England continues to improve. The recommendations are listed in Chapter 11.

CHAPTER 3
A NARRATIVE ACCOUNT
OF THE SPORTS COUNCIL AND THE WORLD CLASS PAYMENTS BUREAU

18. The Sports Council was established by Royal Charter⁹ which essentially provided for an organisation whose purpose was to promote sport within society for the benefit of all.
19. In the early 1990s the government announced that it would introduce a National Lottery.
20. As the legislation was being promoted there was a period during the development of the Lottery Bill of the promotion of “good causes” into which lottery monies could be spent. Sport was allocated 20% of the total funds generated for Good Causes with similar shares being provided for the arts, heritage, charities and the Millennium Commission. In due course the 20% share for sport was reduced to 16.6% when the New Opportunities Fund was established through legislation. The New Opportunities Fund was set up to make grants to education, health and environmental projects under initiatives specified by the Government¹⁰.
21. The Sports Council, which at that time had both English and Great Britain responsibilities, was designated as a distributing body for sport in England.

⁹ The most recent Charter is 1996

¹⁰ The New Opportunities Fund and the Community Fund became the Big Lottery Fund, administratively created in June 2004. In response by the CCPR to a DCMS document on National Lottery, it states “*The 1993 National Lottery Act allocated 20% of funding to sport. The 1998 Act reduced this to 16.6% the same figure as that proposed in the New National Lottery Bill.*”

22. The 1993 Lottery Act and the financial directions made under it allowed for distributing bodies only to allocate lottery funding for capital projects. With the Act came policy and financial directions which were issued by the Department for National Heritage which later became the Department for Culture, Media and Sport after 1997: “DCMS”.
23. The financial directions were onerous and mandatory. They cover standards and quality of governance which are expected from distributors including in such areas as processes, consultation, independence, information and reporting requirements, monitoring and evaluation requirements as well as accounting obligations.
24. The financial directions were further reinforced by the publication by the DCMS of accounting directions. I was told by David Carpenter that The Sports Council (hereafter “Sport England” – its commonly known name) took leading counsel’s advice as to the status of financial directions¹¹. According to Mr Carpenter, Sport England were correctly advised that financial directions had mandatory effect and that a failure to comply with them would render the Sport England action unlawful.
25. The effect of the primary legislation under the Lottery Act, and financial directions was that existing financial memoranda or guidance issued pursuant to the Royal Charter was now to be subject to the legislative provisions of the Act and the financial directions. .
26. The Sports Council continued to receive both Lottery and Exchequer funding throughout the period with which I am concerned. Lottery funding was subject to different

¹¹ My team could not locate this advice but I have no reason to doubt that it was given.

accounting requirements from Exchequer funding. To summarise a relatively complicated area, the important differences are as follows:

- 26.1 Lottery grants can be made, and were made, over a four year cycle in order to ensure that funding could be provided for the long term development of sports and athletes around major competitions such as the Olympic Games.
 - 26.2 Exchequer funding, by contrast, is accounted for annually and any Exchequer grant must be spent within the year of grant in question or will be subject to claw back by the Exchequer.
27. These are two fundamentally different accounting approaches and they have led to strands of funding being available within Sport England for the purposes of sport in circumstances where different considerations have applied to different funding streams. For present purposes what matters is that there could not be a simple amalgamation or intermingling of Exchequer and Lottery funding nor could Exchequer and Lottery funds be treated for accounting purposes in the same way.
28. Once the Lottery got underway National Lottery funds for the “good causes” were held by the DCMS (and its predecessor department) in the National Lottery Distribution Fund. Funds were then drawn down regularly as required by each distributor in accordance with that distributors funding profile, on a monthly basis depending upon the extent of requirements for payment to be made month by month. The evidence provided to me by

Mr Casey indicates that this process was tightly controlled and that in the first year of distribution of Lottery funds he recalls that the Sports Council drew some adverse comments from the National Audit Office because it had a “reserve” of £5 million at the year end despite having a turnover of nearly £100 million.

The Nature of Grants

29. In 1994 after a period of consultation, the Sports Council published its policies and processes for lottery distribution. The Sports Council expected that its annual budget, of then some £30 million, would increase by anything up to about £300 million¹² in the space of a matter of months. Mr Casey recounts that within the Sports Council a small project team was established in order to drive forward a project for the receipt and distribution of very large sums of money arriving via the lottery.
30. At the same time the National Audit Office, on behalf of government, began a process of scrutinising processes, procedures and overall corporate governance arrangements at the Sports Council so as to ensure that the Sports Council was competent to distribute lottery funding.
31. At the end of the period of adjustment and installation of new processes within the Sports Council, the National Audit Office conducted a formal review to satisfy itself that the Sports Council was compliant with the regulatory requirements of the Act, the financial directions as well as with the National Audit Office’s own expectations for audit purposes. In addition, the Department of National Heritage (as it then was) conducted its

¹² David Carpenter’s evidence.

own review through an independent adviser. It is to the Sports Council's credit and in particular the credit of Mr Derek Casey, the Chief Executive, and Mr David Carpenter Lottery Planning Team Leader and Director of Lottery Fund 1993 – 1999 (More Medals Director 1999 – 2003) that the Sports Council was found to be competent by all concerned, although there were some comments made during a DCMS Review of Internal Audit which merit discussion (see paragraphs 38-44). The Sports Council conducted the work with the intention of making it sufficiently robust to receive and distribute Lottery funds in a relatively short period of time.

32. On 21 March 1995 the Secretary of State, Stephen Dorrell, announced the inaugural awards of Lottery grant. The Sports Council was successful as a recipient of authorisation to receive Lottery monies for the purposes of sport.
33. Decisions as to the distribution of grant monies lay in the hands of the Sports Council itself. In order to ensure that decisions were properly made a Lottery Awards Panel¹³ was established to advise the Council and act as the primary scrutiniser of applications for Lottery money. When the rules were changed in 1997 to allow for Revenue Grants to be made the Lottery Panel was divided into two syndicates. The World Class Syndicate dealt with applications for World Class – i.e. elite performance – funding.
34. In addition to the establishment of the Lottery Awards Panel the Sports Council took steps to strengthen its Audit Committee. At all times following the award of the first lottery grant, representatives of the National Audit Office sat on the Audit Committee of

¹³ The name of the Lottery Panel was later changed to the Investment Panel

the Sports Council as observers and would take part in those meetings. The NAO representatives were in attendance and were not full members. They could, and did from time to time contribute, at the Chairman's invitation. In addition, Audit Committee papers were sent to the Department for National Heritage or DCMS, who were observers at Council meetings until 1998. The DCMS have also been attending as observers since at least 2007.

35. Before turning to the making of revenue grants, there are three other areas upon which I need to comment.

The Sports Council and UK Sport

36. First, during the period to which I refer, there was a significant reorganisation of the Sports Council which led to the Sports Council being named as "Sport England" and to a separate organisation being established known as "UK Sport". The purpose which lay behind this was to ensure that grants for sporting purposes which were relevant to England were suitably allocated and those relevant to the UK as a whole were similarly appropriately allocated. UK Sport is now the body with responsibility for the elite funding of Olympic and Paralympic sports. In the initial phase of revenue funding, Sport England dealt with UK revenue grants also on behalf of UK Sport from July 1999 until UK Sport was itself designated as competent by the National Audit Office following the Sydney Olympics in 2000.

Failure at the Atlanta Olympics in 1996

37. The second matter is that in 1996 the Great Britain team at the Atlanta Olympics fared extremely badly. The GB team fell to 36th place in the medal table and only won one gold, eight silver and six bronze medals. This was the worst medal haul for Great Britain since 1952. The summer of 1996 was therefore a summer of serious disappointment as to the performance of individual athletes and teams at the Atlanta Olympics. Sports administrators had seen the failure coming. This in turn created pressure on the government, politicians and Sport England to introduce Lottery revenue programmes as soon as possible in order to try to begin to reverse the failures in Atlanta and in particular to have in place high quality teams and athletes for the Sydney Olympics in 2000 as well as the Commonwealth Games in 2002 which were to take place in Manchester.

DCMS Peer Review of the Internal Audit Function of Sport England

38. The third point is that in 1997 the internal audit department of Sport England was itself subject to scrutiny and report by the DCMS. The director of that department until 2005 was Mr Barry Chivers. Indeed, he is one of the very few senior members of Sport England staff who remained in post throughout most of the period with which I am concerned: he was a long serving employee and served as Director of Internal Audit (or Management Audit) and as Director of Governance Assurance and Risk until May 2005.
39. The DCMS report into the internal audit function at Sport England whilst satisfied with some aspects was critical of other aspects of internal/management audit and of some of its processes.

40. In paragraph 2.4 of the report, the DCMS stated:

“In our opinion DCMS are able to rely upon the internal audit work carried out by and on behalf of the ESCs in both granting aid and lottery systems. However, we are concerned at the level of audit activity throughout 1996/1997 on which the DCMS will only be able to take minimal assurance. The ESC will need to ensure that the audit plan is met for 1997/1998. The Head of Internal Audit’s assurance also needs to cover the whole of the internal control system.”

41. In paragraph 3.3 of the report under the heading “Independence” the DCMS stated:

“The Head of Management Audit Reports to the Chief Executive of the ESC, with whom he has regular fortnightly meetings, and to the Audit Committee. However, the management audit function is not solely an internal audit unit. It also acts as a consultancy function and during 1996/1997, for example, the auditors were extensively involved with the reorganisation of the Sports Council into the ESC and UKSC and in the implementation of the recommendations from the D&T report. As a result of this additional responsibility work only 13 audits were undertaken.”

42. The report continued:

“GIAM (B2.11) states that “internal auditors should not have operational responsibilities outside audit. If internal auditors perform non-audit work it should be understood that they are working separately from internal audit”. GIAM (B1.11) also says that “internal audit should have no executive responsibilities”. We are concerned that these distinctions are not being made at the ESC. As a result there can be a blurring of independence. It is also more difficult to be objective when auditing systems that the auditors have assisted in setting up.”

43. These words were auspicious given the events which I describe in this report. The document from which I have just quoted was read by Mr Chivers as he acknowledged to me, and indeed handwritten notes have been made against the paragraphs from which I have just quoted.

44. Even without a report which makes the observations that I have just referred to, it is obvious to an auditor or accountant that a person discharging an internal audit function should not also have executive responsibility for the running of a part of the business. This gives rise to a conflict. All parts of the business need to be the subject of internal audit scrutiny, which must be independent from the business functions in the organisation. No witness who has provided information to this inquiry has sought to condone a practice whereby an internal audit function also has executive responsibility. .

Revenue Grants

45. Following a change of Secretary of State in late 1995 to Virginia Bottomley, the Government indicated that it might support a proposal whereby Sport England was not consigned simply to the making of capital grants from its lottery funding. Mr Casey recalls that in the spring of 1996 Sir Rodney Walker, then Chair of the Sports Council, and senior officers met the Secretary of State who indicated that she was prepared to consider allowing a small proportion, not more than 15% of the total Lottery funding for sport to be used to support and assist the development of high level performance.
46. As I have indicated in paragraph 37, the process towards permitting revenue grants was brought into high relief by the poor performance of British athletes in Atlanta in 1996. Within Sport England itself it was recognised that a “step change”¹⁴ was required. Sport England undertook research so as to be able to put in place the best model whereby UK and English sport should be able to support first class athletes into major competitions.
47. After considerable debate and lobbying the government decided that Sport England would continue its role as overall distributing body for capital grants for sport and for revenue grants. Sport England had a “World Class Fund” and a “Community Fund”, each had a revenue and capital section.
48. Once this decision was made Sport England needed to develop suitable systems and an appropriate methodology for investment into elite sport and elite athletes. A project team led by Roy Headey was created. Mr James Arnold was seconded from the National

¹⁴ Evidence provided to me by Mr Carpenter and Mr Casey.

Audit Office and he worked between late 1996 until 1998 with the Sport England team. Mr Casey and Mr Carpenter told me that this work resulted in the publication by Sport England of its policies and processes for lottery distribution for revenue grants known as the “World Class Performance Programme”. Set by November 1996 this programme encompassed initially world class performance and then progressively developed with “potential” (i.e. athletes already established who had the potential to develop into world class athletes), and “start” (i.e. athletes who were considered from a very young age to be worthy of encouragement¹⁵).

49. Much as for the capital grant systems so for revenue grants, Sport England was scrutinised by the National Audit Office to see that it was capable of dealing with revenue grants. In due course Sport England was considered satisfactory and the DCMS took its part in ensuring that Sport England had achieved the requisite minimum standards for distribution as a revenue grantor.

50. It was an essential part of the process by which Sport England was to make revenue grants that the governing body of any sport which was to be the recipient of any grant was “fit for purpose”. This phrase which appears in much of the documentation and was used by witnesses whom I interviewed is not a defined term, although it does appear in financial directions in relation to Sport England work with partners for example: it is a short hand way of describing the common sense requirement that any NGB which seeks public funding must comply with proper standards of good governance; for example that

¹⁵ The documents are not entirely clear as to whether the “start” programme was created with a view to world class performance in the longer term or was to allow young people of all abilities to participate in sport. There was also World Class Events set up in March 1997

it has an appropriately structured board, suitable governance arrangements for the sport, and a structure which means that it can responsibly handle and account for public money.

Audits of Governing Bodies

51. To assist Sport England in the process of establishing whether or not National Governing Bodies (NGBs) were fit for purpose, Sport England put out for tender a contract to undertake “audits” of all potential recipient organisations – the governing bodies of sport – so as to assist their competence and fitness for purpose to receive public money. Baker Tilly won the tender and undertook a number of audits of national governing bodies between 1997 and 2000. The contract was then awarded to Littlejohn Frazer/AHL Limited in 2001 until 2004. Sport England did not continue with audits of NGBs in the period 2004 to 2007 which, given the state of some NGBs was an omission. When new management was appointed in 2007 the system of NGB audits was revived.

52. There were regular reports provided to Sport England from Baker Tilly and then Littlejohn Frazer/AHL as to the fitness for purpose of particular national governing bodies. Although Mr Casey and Mr Carpenter told me that these reports went to the Audit Committee I do not think that is correct as I have not found any with Audit Committee papers. The reports certainly went to Mr Chivers. As far as I can tell the Lottery Panel (or the relevant syndicate) would be informed by Management Audit that a particular NGB had been found not to be fit for purpose but neither the Panel, Syndicate, or the Audit Committee received the actual audit reports.

The System of Funding National Governing Bodies (NGBs)

53. Sport England developed a system whereby governing bodies could submit applications for grants. Each NGB which sought a grant had to submit a formal application and supporting evidence in the form of a “World Class Plan” which was to be considered by the Lottery Panel – and the World Class Syndicate (for World Class funding applications). Sport England had a panel of “experts” who were able to advise the Council on performance proposals for a final decision by the Lottery Panel. The Lottery Panel’s “World Class” syndicate was chaired for much of the relevant time by Mr Garth Crooks, a Council member, and by Ray Carter and Brian Armstrong. These ‘syndicates’ came under the Lottery Award Panel umbrella which was chaired by Des Wilson until 2001 and then Brigid Simmonds until 2002. [See also Chapter 4] The Lottery Panel was disbanded in 2002 and replaced with the “National Investments Panel”.
54. Each application was developed in conjunction with an advisor from Sport England. Once an application had been developed peer review was undertaken by an advisor distinct from the advisor or relationship manager who had worked with the sport in question prior to final submissions to the Lottery Panel (or Investment Panel after 2002).
55. Applications essentially had two elements:
- 55.1 **The programme** – this included the sport’s structures. The structure of the sport in question so as to manage activities, administer the programme and coach athletes. The rule was that only direct costs with minor variations would be

funded. Eligible expenditure therefore included activities such as the recruitment and employment of a performance director, sports science and medical personnel, world class coaches, they obtained the hiring of training venues at home and abroad, the cost of attendance at competitions and non-personal sports equipment. Ineligible performance plan costs comprised items such as employment of a Chief Executive, admin/management costs of the NGB, marketing and promotion initiatives etc. These are deemed not to be direct costs to the World Class performance plan. Funding might have been available for some of these activities through Exchequer funding. Also a sport could apply for an interim performance plan award. An Interim World Class performance application and performance plan could be submitted to get a sports programme started. Awards were available on such applications for a maximum of one year to allow the sport time to prepare their detailed long term plan. This ensured that individuals eligible for subsistence awards were not disadvantaged in the short term. Receipt of an interim award was not a commitment on behalf of Sport England to fund a longer term performance plan.

55.2 **The athletes themselves** or subsistence awards (an athlete personal award – APA). The NGB in question would nominate within its plan which athletes they wished to be considered for funding. Normally the performance director of an individual NGB would set minimum criteria for entry against world class performance levels demonstrating how a particular athlete was expected to improve and to what level at major events. As World Class Potential and Start

were developed so most NGBs also developed a grading system for entry. Nominated athletes were then responsible for submitting an application to Sport England for a personal award. Each personal award was split into two elements: basic living costs (only for Elite and international), and sporting costs (Personal sports equipment/personal sports training). Other sporting costs such as coaching, sports medicine should be covered in the main Performance plan. The living costs element was means tested against the overall income of an individual athlete and included prize money, any personal sponsorship, or other income, and also lifestyle band e.g. senior, student etc Grants were paid directly by Sport England to athletes on a monthly basis under supervision of the relevant NGB. Athletes were responsible for ensuring that they kept appropriate receipts and accounts for all expenditure and were themselves subject to audit control in the form of sampling. The funding of athletes' subsistence was an important development. It relieved athletes of some of the pressures of making ends meet when, at elite level, they need to commit to intensive training programmes.

Governing Bodies who were not fit for purpose

56. Some NGBs were found unsatisfactory in their governance and accounting arrangements and therefore not “fit for purpose”. Baker Tilly or AHL might on an audit of a National Governing Body report that the NGB failed in certain particulars to be fit for purpose. Management Audit might also reach that conclusion. On the evidence which I have received it is apparent to me that there was a good deal of background lobbying by

certain sports, including those who were not “fit for purpose” but who nevertheless wished to receive grants from the Lottery.

57. There were numerous respects in which certain governing bodies were not fit for purpose. For example they may not have had accounting procedures or even appropriate arrangements with their banks to receive and manage the level of funding which might be obtained from Sport England. Their committees or governing bodies might not be suitably constituted so as to be able to receive public funds. They might lack adequate financial controls (such as appear to be the case certainly for Boxing, Hockey, Karate and Squash at various times – see below). They might simply have been too small to have had in place any of the appropriate mechanisms for the responsible handling of public funds.
58. It was not invariably the case that a sport which was deemed “not fit for purpose” was necessarily irresponsible or might be irresponsible with regard to handling of public monies. Some sports and in particular small sports for disabled athletes might simply have been too small or have had too few athletes to have had in place the infrastructure which was required for the responsible handling of public monies.
59. It was out of these concerns that the idea developed for the creation of the World Class Payments Bureau. At different times the World Class Payments Bureau was given different names. For the rest of this Report I shall refer to it as the World Class Payments Bureau and by the initials “WCPB”. In their written submissions to me Mr Carpenter and

Mr Casey have said that the World Class Payments Bureau was established purely as a “payment mechanism” and not as a separate decision making function within Sport England. This is indeed how certain members of staff saw the WCPB: the problem with a pure payment function is that it risked creating a culture where invoices and payment requests were not sufficiently scrutinised before payment was made.

60. I have considered it necessary to examine in detail precisely how the WCPB was established and I have considered whether in reality the World Class Payments Bureau was not just a payment function but formed part of the management function within Sport England.

How the World Class Payments Bureau was established

61. I have received differing accounts of how the World Class Payments Bureau was established from members of the former management team of Sport England. However, as a result of piecing together evidence from witnesses and from contemporaneous documents I have reached the conclusion that the World Class Payments Bureau was established in the following way.
62. When Mr Casey was Chief Executive of Sport England he had a Strategic Management Group which met fortnightly and dealt with the routine management of Sport England business. Area directors belonged to the Strategic Management Group, and the group’s business was minuted at its fortnightly meetings, each meeting being run with an agenda beforehand.

63. In 1996 it was decided by Mr Casey and others that a further committee should be established known as the “Accountability Committee”. This committee was formally established at a meeting of the Strategic Management Group on 25 June 1996, the Terms of Reference were later amended and both sets are contained in Annex 3.
64. I have concerns about the establishment of the Accountability Committee. The Accountability Committee was described to me by some witnesses as a sub-committee of the Audit Committee and Mr Casey described it as a committee which would ensure that individual senior officers would always have a mind to business and audit risk and the need properly to report and manage risk. However, the Terms of Reference for the Accountability Committee indicate that it was reporting to the Strategic Management Group and in effect the Chief Executive. From time to time there were reports and the noting of Terms of Reference of the Accountability Committee also to the Audit Committee. But I have concluded that the Accountability Committee did not consider itself to be reporting directly to the Audit Committee nor necessarily directly to the Strategic Management Group. Further, it appears that the “Accountability Committee” was used to endorse, by way of a “note”, a decision made by management, i.e. the decision to set up the World Class Payments Bureau.
65. At a meeting of the Accountability Committee in October 1999 it was “noted” that the World Class Payments Bureau had been established. A poorly drafted paper was provided to the meeting. The paper is so poorly drafted that Mr Casey did not believe it

represented the true paper that was presented to the Accountability Committee. Mr Carpenter said likewise when I interviewed him. However, the agenda of the relevant Accountability Committee demonstrates that this poorly drafted paper was indeed the only formulated basis for the foundation for the establishment of the World Class Payments Bureau.

66. I annex as Annex 4 a copy of the relevant paper. From this it can be seen that the World Class Payments Bureau was intended to have a developing management support function with regard to the sport which it was going to assist through the Bureau. This is different from what I was given to understand by Mr Casey and Mr Carpenter when they provided their submissions to me, and may explain their concern about the contents of the paper. What is more significant is that the establishment of the World Class Payments Bureau was not undertaken by the Council itself (known as “the Board”) at a meeting to which was presented a properly reasoned paper supported by the appropriate members of management. Instead, the World Class Payments Bureau was established by executives via a “noting” to a sub-committee of the Strategic Management Group, namely the Accountability Committee, which did not consider itself to be reporting directly to the Board. In other words, the World Class Payments Bureau grew out of an inappropriate process of decision making.

67. So far as the Board was concerned the only reference which it has been possible for my inquiry to find which refers to the establishment of the Bureau is simply to a reference in a document appended to Board minutes [Annex 5] which refers to the establishment of a

World Class Payments Bureau Agency. From time to time thereafter Mr Chivers (or another director) would provide a brief report which referred to World Class support (see Chapter 8), but there does not appear to have been any occasion when the Council actually discussed the activities of the WCPB or the system of payments which grew through the Barclays Bank Account.

68. At a meeting of the Strategic Management Group also in September 1999 the minutes record that a World Class Payments Bureau bank account was to be established. The minutes are attached at Annex 6. Mr Terry Price, the Director of Corporate Services, thinks he promptly went down to Barclays Bank and set up the account. The signatories to the account were the usual signatories to other Sport England bank accounts, although the list is likely to have been added to and changed from time to time. A copy of what Barclays Bank has retained as the list of signatories is attached as Annex 7. The bank statements for the account were sent to the Internal Audit or Management Audit Function at Sport England's offices. The bank statements were kept in this part of Sport England and probably remained there until the events which triggered this inquiry. They were internally reconciled until 2004: no one has explained to me why they were not pointed out to the internal or external auditors or to Mr Heaphy when he arrived as Finance Director. The existence of the WCPB and the existence of the bank account were known about by numerous people at middle and junior management levels, and the failure to report the existence of the bank account to more senior people (such as Mr Heaphy when he was appointed Finance Director), or the internal or external auditors, is down to bad judgment, and possibly an attitude that it was better to "leave things alone".

69. It may well be that these unusual beginnings for the World Class Payments Bureau occurred because it was considered by Mr Casey and Mr Carpenter that the World Class Payments Bureau would merely be a mechanism for the processing of payments when the Lottery Panel authorised the grant to a particular National Governing Body which was not fit for purpose, in circumstances where there would be no executive decision making by the World Class Payments Bureau itself. If this was their thinking it suffers from the fact that a pure payment function would have created a risk that there would have been insufficient scrutiny of payment requests. The reality turned out to be somewhat different as the years went by. It is clear to me that the World Class Payments Bureau was exercising a form of management function with regard to the National Governing Body which the World Class Payments Bureau was supporting, and that those who were responsible for the management of the Bureau were themselves on occasions making executive decisions such as to put a director into a sport in circumstances which were, in proper governance terms, inappropriate. The irony of the situation was that each of the sports in question did indeed require intensive care. On the one hand the Lottery Panel considered the Bureau would manage funds safely but on the other the WCPB was seen as a payment function. The effect of this lack of rigour in the approach to problematic NGBs was that some, such as Hockey, Boxing, Karate and Squash continued to be funded with public money for long periods without their governance arrangements being considered fit for purpose and also without sufficient steps being taken to make them so. Mr Nolan King gave compelling evidence that he was told not to question the invoices. Victoria Pace who dealt with Karate in the latter stages gave similar evidence. Each

indicated that the “no question” attitude came from more senior management although they did not identify who in particular.

70. From the modest beginnings which I have described above, the World Class Payments Bureau came to be managed by the Head of Internal Audit, Mr Barry Chivers. Mr Chivers, as Head of Internal Audit, should not have been given any executive responsibility for the management of the World Class Payments Bureau. The thinking which led to him being given this executive responsibility appears to have been that management audit would be concerned to ensure that only proper payments were made to governing bodies which were not considered fit for purpose. I was also told by Mr Chivers that he was given this responsibility because senior management did not have sufficient confidence in management in other parts of the business to be given the responsibility. However, the creation of a payment function for which the internal audit department was responsible served to create more governance problems – not less. I disagree with the thinking which led to Mr Chivers as Head of Internal or Management Audit being given this executive function.

71. It was therefore inappropriate for the Head of Internal or Management Audit (Mr Chivers) to be given the executive responsibility for the management of the World Class Payments Bureau: Mr Chivers agreed when I interviewed him, although he pointed out that senior management had given him an increasingly “trouble shooting” role which went beyond Internal or Management Audit. The reasons why Internal or Management Audit should not have a business management function are obvious, namely:

- 71.1 Internal Audit should never conduct executive business functions: there is a conflict of interest;
- 71.2 There is no clear line of reporting and responsibility for the activities of the World Class Payments Bureau established by the Board of Sport England itself;
- 71.3 The thinking which led to Mr Chivers being given responsibility for the World Class Payments Bureau was that he, as Head of Internal Audit, would see to it that only proper payments were made to the relevant governing bodies. But sufficient scrutiny of payments did not in fact occur, certainly for some sports, as I explain below.
72. The system which in fact operated so far as the World Class Payments Bureau is concerned was that an individual governing body would, through its officials, certify that a particular payment was due in accordance with its World Class Plan or Whole Sport Plan. On receipt of that claim supported, sometimes but not always, by supporting invoices or vouchers, a Sport England relationship manager would sign a form indicating that the payment should properly be made and that form with the supporting documents would go via Management Audit to the finance function of Sport England. The reality was that there was insufficient scrutiny or check of the request for payment by the governing body. Nolan King and Victoria Pace's evidence confirms this. The flaw which lay within this process was that the payment was being driven by a body, namely the National Governing Body, which had been found in some instances to be not fit for

purpose. Although the National Governing Body would certify that a payment was due against the grant award, such certification was not providing a form of independent assurance, nor was the adding of the World Class Payments Bureau to the payment process providing much scrutiny. Another witness Mr Geoff Thompson MBE, described the World Class Payments Bureau as operating as a form of “bank”. In the light of all of the evidence I have received I consider this to be an accurate assessment of what was going on.

73. Various witnesses have justified the establishment of the World Class Payments Bureau in the form in which it was established on the basis that there was no greater risk to Lottery funds which were paid via the World Class Payments Bureau than there would have been if those funds had been paid directly into an NGB which was fit for purpose. There is however a gap in the logic of this argument. If an NGB had been found to be fit for purpose by definition its own payment systems, its internal checks and balances, were considered adequate for the handling of public funds in accordance with relevant directions. This, in and of itself, was considered by Sport England to be a safeguard against abuse of Lottery funds. Conversely if a National Governing Body had been found not to be fit for purpose then at the very least what was required was a separate scrutinising function which turned an otherwise not fit for purpose governing body into one which was “fit for purpose”. But in reality the World Class Payments Bureau did not always provide this extra form of scrutiny so as to render a national governing body “fit for purpose”. As I say, what was happening during the years of the World Class Payments Bureau was a payment processing function on behalf of the NGB as opposed to

a scrutinising function. I have found some occasions when requests for payments were challenged, but they are relatively few.

74. It would have been possible for the risks to Lottery funds which I identified in the previous paragraph to have been alleviated had there been a robust system of auditing put in place by Sport England management with regard to the activities of the World Class Payments Bureau. But as I shall explain later in this report, there was no such system in place. On the contrary, neither the internal auditors (who were PricewaterhouseCoopers Mazars, and latterly Bentley Jennison) nor the National Audit Office were provided with information which led them to include the World Class Payments Bureau in their audit programmes. It follows that there were failures of governance with regard to the establishment of the World Class Payments Bureau.

75. It does not follow that the flaws in the system as I have described them necessarily meant that funds which the Lottery Panel considered should be provided to a governing body which was not fit for purpose, went astray. In order to establish whether that occurred it has been necessary to conduct an examination within each of the individual sports which received funding via the World Class Payments Bureau (see Chapter 7). However, the failures in the system as I have described them mean that one cannot be confident that Lottery monies were in fact spent appropriately or prudently, nor that there was a decent return for the “investment” made by Sport England via the World Class Payments Bureau.

Impact of Lottery Funding for Elite Athletes

76. Mr Carpenter and Mr Casey, in their written submissions to me, have emphasised that “performers win medals” and that in the twelve years since lottery funding was made available, Great Britain and Northern Ireland have risen from 36th (1996) to 4th (2008) in the Olympic Games Medal Table, in the Paralympic Games from 4th to 2nd. I have been provided with a chart which conveniently summarises the improvements

Olympic Games

Games	Gold	Silver	Bronze	Total	Position
Atlanta 1996	1	8	6	15	36 th
Sydney 2000	11	10	7	28	10 th
Athens 2004	9	9	12	30	10 th
Beijing 2008	19	13	15	47	4 th

Paralympic Games

Games	Gold	Silver	Bronze	Total	Position
Atlanta 1996	39	42	41	122	4 th
Sydney 2000	41	43	47	131	2 nd
Athens 2004	35	30	29	94	2 nd

Beijing 2008	42	29	31	102	2 nd
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77. The argument which Mr Carpenter and Mr Casey advance is that Sport England has been directly responsible for the improvement of elite athletes and in particular improvement at the Olympic Games, Paralympics Games, Commonwealth Games and, I would add, World Championships. However, as I point out in this report the funding of elite athletes was transferred to UK Sport and had been fully transferred to them by 2006. UK Sport is itself entitled to take credit for its part in what has been a vast improvement by Great Britain athletes, in particular at the Beijing Olympics in 2008.

78. It may also be true that funding of sports which have high quality, world class, national governing bodies led to more medals through encouragement of new entrants into strengthening teams. For example, sailing has been a sport which has grown in strength and at which Great Britain has excelled at the Olympic Games, and is very well run. Rowing has been a sport where there has been significant achievement with Great Britain producing one of the greatest Olympians ever through Sir Stephen Redgrave, and investment by Sport England into the sport. Cycling got off to a difficult start with its accounting for the Velodrome, but Sport England assisted with this and the sport has undoubtedly achieved consistent world class status in part due to the investment by Sport England and UK Sport into the sport, and good quality management of its NGB after an uncertain period when the Manchester Velodrome was being built. This has been the result of a combination of the building of the Manchester Velodrome which had Sport

England backing, and investment through the National Governing Body into the sport itself.

79. I am less convinced that the investment in the sports which drew most heavily on lottery funding via the World Class Payments Bureau, actually did result in appreciably better performance in elite championships or the long term encouragement of new entrants for sustained elite performance. The evidence which I have received tends to indicate that despite the provision of substantial funds into, in particular, the sports of Hockey, Boxing, Karate and Squash, there were quite long periods of governance problems with the National Governing Bodies. Improvement in overall elite results over the relevant period (i.e. during the period when the WCPB made payments) occurred despite the sports problems, and most probably because individual athletes received subsistence allowances which took pressure off them individually. All of this indicates, in my opinion, that a much more fundamental issue needed to be addressed and should have been addressed by no later than the Spring of 2002: that Sport England should not have been investing in governing bodies which were not fit for purpose, and should (as the Audit Committee itself recognised in mid 2002) have been concentrating on ensuring that NGBs improved their governance quickly.

What Happened to the Money?

80. I set out in detail in Chapter 7 what happened to the money which was paid into and out of the WCPB Bank Account. The diagram which follows contained a ledger which is

sufficiently accurate to demonstrate what has happened to the funds which passed through the World Class Payments Bureau.

WORLD CLASS PAYMENTS BUREAU												
SUMMARY FINANCIAL STATEMENT												
	Account	31-Mar-00	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	TOTAL
RECEIPTS	SE-Athletics	0	0	0	0	0	0	423,500	-45,482	0	0	378,018
	SE-Bowls	0	0	251,775	88,810	0	0	0	0	0	0	340,585
	SE-Boxing	0	134,334	1,585,612	1,077,443	1,708,862	621,612	0	0	0	0	5,127,862
	SE-Hockey	0	0	350,069	3,426,691	2,449,666	0	0	0	0	0	6,226,426
	SE-Ice Skating	0	216,000	369,740	100,308	0	0	0	0	0	0	686,048
	SE-Karate	0	260,691	466,640	278,652	222,742	282,835	451,014	244,512	0	0	2,207,086
	SE-PPB Project	0	0	0	0	0	0	200,000	0	0	0	200,000
	SE-Shooting	0	0	40,000	28,528	0	0	0	0	0	0	68,528
	SE-Squash	0	0	150,000	1,237,789	627,965	598,021	0	0	0	0	2,613,776
	SE-Wrestling	0	36,159	126,006	49,430	0	0	0	0	0	0	211,596
		0	0	0	0	0	0	0	0	0	0	0
	UK-Blind Goalball	29,566	40,792	10,131	3,465	0	0	0	0	0	0	83,955
	UK-Boccia	0	53,125	21,610	69,246	47,979	35,324	0	0	0	0	227,284
	UK-Disabled Fencing	0	45,000	30,524	28,524	37,946	22,329	0	0	0	0	164,324
	UK-Paraplegic Shooting	70,024	2,000	49,242	21,000	56,994	39,796	0	0	0	0	239,056
	UK-Weightlifting	60,066	0	54,102	57,464	54,914	40,855	2,046	0	0	0	269,447
	UK-Wheelchair Rugby	61,739	51,117	88,004	98,526	67,749	88,850	3,178	0	0	0	459,163
		0	0	0	0	0	0	0	0	0	0	0
	Suspense	1,406	0	0	22,972	7,790	94,910	5,763	91	0	-74,927	58,005
		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
	Σ RECEIPTS	222,801	839,218	3,593,456	6,588,849	5,282,606	1,824,532	1,085,500	199,121	0	-74,927	19,561,157
												0
PAYMENT	SE-Athletics	0	0	7,147	0	0	106,720	267,710	39,092	0	0	420,670
	SE-Bowls	0	0	210,788	134,482	0	0	0	0	0	0	345,270
	SE-Boxing	0	262,304	1,330,744	1,409,862	1,431,959	560,190	266,093	0	0	0	5,261,152
	SE-Hockey	0	0	7,800	2,760,813	3,280,388	0	313,674	0	0	0	6,362,675
	SE-Ice Skating	0	129,416	237,119	168,619	0	0	0	0	0	0	535,154
	SE-Karate	0	251,122	436,193	363,563	201,027	262,198	488,761	221,473	0	0	2,224,337
	SE-PPB Project	0	0	0	0	0	0	200,000	0	0	0	200,000
	SE-Shooting	0	0	0	75,346	0	0	0	0	0	0	75,346
	SE-Squash	0	0	304,106	965,838	799,701	563,253	0	0	0	0	2,632,898
	SE-Wrestling	0	28,751	142,772	63,561	0	0	0	0	0	0	235,083
		0	0	0	0	0	0	0	0	0	0	0
	UK-Blind Goalball	31,167	46,862	11,157	2,691	0	0	0	0	0	0	91,877
	UK-Boccia	6,606	39,016	16,007	44,309	62,951	36,456	0	0	0	0	205,346
	UK-Disabled Fencing	0	44,678	21,246	26,065	32,561	13,800	0	0	0	0	138,350
	UK-Paraplegic Shooting	18,467	12,187	42,028	35,235	38,240	32,860	0	0	0	0	179,017
	UK-Weightlifting	20,550	33,868	0	52,897	59,733	50,299	3,538	0	0	0	220,884
	UK-Wheelchair Rugby	58,488	56,247	96,076	116,083	93,547	64,576	698	0	0	0	485,715
		0	0	0	0	0	0	0	0	0	0	0
	Suspense	56	3,894	9,709	0	0	0	0	328	382	89	14,458
		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
	Σ PAYMENTS	135,334	908,345	2,872,890	6,219,364	6,000,108	1,690,352	1,540,474	260,893	382	89	19,628,231

81. As can be demonstrated from the ledger, in the period to 31 March 2000, £222,801 went into the World Class Payments Bureau bank account and £135,334 was paid out. In the following year to 31 March 2001, £839,218 was paid into the account and £908,345 was paid out. But in the year to 31 March 2002 there was a massive increase in the use of the World Class Payments Bureau account: in that year £3,593,456 was paid in and £2,872,890 was paid out. As I have already indicated, by April 2002 Sport England

should have been considering at Board level whether it was right in principle to be making any investment to National Governing Bodies which were not fit for purpose, and if so how to achieve the requisite standards. Had the correct decision then been made, which in my judgment was that national governing bodies which were not fit for purpose (or imminently to become so with immediate measures identified and achieved) should not have been supported, then the further funding which went through the World Class Payments Bureau between mid-2002 to 31 March 2007 would not have been paid.

Reconciling the Amounts Paid

82. When Mr Kelly undertook his work he found that there appeared to be £7.9 million (of the £19.6m) which had arrived in the WCPB Barclays Account whereas the BACs transfer documents which had been completed by Sport England staff showed the payee to be an NGB, and not the WCPB. In reality this meant that the WCPB Bank Account received £7.9 million when the internally created transfer records showed that the money had gone to NGBs. He also found £1.4 million which on BACs transfer forms completed in 2001 was shown to have gone to the WCPB whereas it did not arrive in the WCPB Bank Account. I was concerned by this. In particular I was concerned that there was a possibility that the sum of £1.4 million could have been removed dishonestly or fraudulently from the WCPB Lottery Account held at Lloyds Bank and not have been paid to an NGB. Error in recording what was on the BACs form was also a possibility. As a result of some painstaking work with the documents I am satisfied that each of these sums (save as to £36,079 shown as transferred to “management audit” which I have not yet been able to reconcile) was in fact paid to NGBs in accordance with their Lottery

Grants. The £1.4 million comprises in substantial part payments to two NGBs: the Squash Rackets Association and the Amateur Boxing Association. We have traced £1,040,119.00 as going to the Squash Rackets Association in 2001 even though the BACs transfer form shows the payee as the “Sport England Payment Bureau”. Our checks of the Lottery Grant award documents and our checks of the monies which were in fact paid to Squash via the WCPB indicate that the sport of Squash did indeed receive these funds under their Lottery Grant, and they would have complained if they had not done so. The Amateur Boxing Association did also receive £296,531.00 which had been misdescribed in the BACs form in a similar way (i.e. as a payment to the WCPB). I and my assistant are still trying to locate who the recipient was of the remaining sum of £36,079: it is likely that this too was a draw down on behalf of an NGB and was simply described as “Management Audit World Class Support” on the BACs transfer form. I rule out fraud or theft as to the £1.4 million. What all of this indicates is that the BACs transfer system was, certainly at this stage in its life, capable of having inaccurate information placed on the documentation. I understand that the BACs system could be used by employees in the WCPB relatively easily. I make a recommendation as to future security of the BACs system in Chapter 11. It may well be that what I recommend has already been attended to as BACs payments systems have become more secure since 2001. I have been informed work has started to secure the BACs payment system following Mr Kelly’s report. A secure system is obviously required for Lottery funds.

How Long Should the WCPB have lasted?

83. When interviewed by me, Mr Chivers indicated that he thought the World Class Payments Bureau should have had a life of no more than about one to two years. I think he meant that no sport should have been dealt with through the WCPB for more than 1-2 years. The thinking which lay behind this comment was that if the World Class Payments Bureau existed so as to nurture a governing body which was not fit for purpose back to health and if that governing body had not become healthy within a one to two year period, then it would not have been appropriate to continue funding that body. I agree with this analysis. As can be seen from the ledger and Chapter 7 some NGBs were funded for longer than 1-2 years when they were not fit for purpose.
84. There are however further reasons as to why Sport England should have taken a long hard look at whether the World Class Payments Bureau should have continued in existence. This is to do with the fact that an attempt formally to establish a support bureau operation was actually rejected by members of the Audit Committee of Sport England in 2001. At the point when a decision was made to reject a bureau, the staff of Sport England who were running something which existed in similar form, albeit on a much smaller scale than that which had been proposed, should have raised with senior management and the Board whether it was appropriate to continue with the bureau itself. They did not do this and the World Class Payments Bureau therefore carried on for a further five years in circumstances where I consider it should have not have done, and certainly not in the form which I have described.

85. I am conscious that this must be kept in perspective. Sport England did see 77% of its schemes rated satisfactory or better by the DCMS and they saw a 116% increase in facility usage (source the DCMS document ‘The First Seven Years’). But judged on its own terms the WCPB acted as a funnel for the provision of Lottery money to NGBs which were not fit for purpose and where some of those NGBs did not improve their own governance arrangements.

Consideration of the Establishment of the National Governing Bodies Support Bureau

86. In 2000 Mr Chivers, as Head of Internal Audit, commissioned Mr Peter Thomas to undertake some work with a view to making a recommendation that Sport England should create a National Governing Bodies Support Bureau. Mr Thomas undertook some work and prepared a report for Mr Chivers. The fact that Mr Chivers was able to commission such a report indicates the breadth of his own executive powers.

87. As a result of this work, a discussion paper was prepared which we have found loose amongst the Audit Committee papers for the end of the year 2001 (but see Chapter 8 for more detail as to the timing). That discussion paper sets out the pros and cons of establishing a National Governing Bodies Support Bureau.

88. The idea of establishing a National Governing Bodies Support Bureau was discussed at two Audit Committee meetings. It was decided that the Audit Committee should look at the issue with a view to taking it further, but when the issue was further examined, it was decided that it should not be taken further. Deciding on whether or not there should be a

new business function does not seem to me to be an appropriate task for the Audit Committee. Be that as it may, I have read documents which show that members of the Audit Committee considered that the establishment of a National Governing Bodies Support Bureau was not what Sport England was about and was considered, certainly by some members of the Audit Committee, to be inappropriate. The idea was therefore allowed to die.

89. Although the idea for the National Governing Bodies Support Bureau was for the establishment of a body which would have a wider remit than the World Class Payments Bureau, nevertheless the proposal was that the World Class Payments Bureau could be “subsumed” within a National Governing Bodies Support Bureau. The paper did not spell out what work the World Class Payments Bureau was in fact doing, nor did it spell out the degree of activity which by late 2000 and early 2001 the World Class Payments Bureau was undertaking.

90. In my view, at the point at which the Audit Committee decided that it was not going to take the National Governing Bodies Support Bureau idea any further, senior management of Sport England should have made it clear to the Board of Sport England precisely what activities were being undertaken by the World Class Payments Bureau and have sought instructions as to what should now happen.

91. In fact, as I detail later in this report, the World Class Payments Bureau continued in existence without sufficient reporting of its activities and functions going on either to the Audit Committee, or to the Board of Sport England.
92. The World Class Payments Bureau having developed out of an inappropriate process, was never brought within the internal or external audit programmes. Much clearer reports of its activities should have been given to the Audit Committee of Sport England. Further, the internal audit function, or management audit function, of Sport England should have reported to the externally contracted “internal auditors” and to the National Audit Office what business activities were being undertaken by the World Class Payments Bureau and that those activities were being undertaken through a separate bank account. This did not occur. Further, Barclays Bank, when asked annually by the National Audit Office to provide details of bank accounts held by Sport England, never provided information about the World Class Payments Bureau account¹⁶.
93. The result of these failures was that the World Class Payments Bureau was not brought within either the Internal or the External Audit programmes. Audit sample testing did not occur of transactions which went through the WCPB. Nor were the Barclays WCPB account balances reconciled by the auditors. The Bank Account was internally reconciled by Sport England staff until 2004. Reconciliation of the bank account is not the same as an audit of the World Class Payments Bureau itself. As far as I can tell, there was never any attempt by the internal auditors (i.e. PriceWaterhouse Coopers (PwC), Mazars and Bentley Jennison, or those contracted to undertake internal audit) to

¹⁶ NAO representatives tell me that this is not unusual.

undertake an audit of the World Class Payments Bureau, and the evidence provided to me by the National Audit Office indicates that they undertook no sample audit testing of payments or transactions undertaken through the World Class Payments Bureau. The reason why these failures occurred is because there were failures to report by management. The NAO did not therefore plan their audits with a view to including WCPB transactions as part of their audit work.

CHAPTER 4
THE SPORTS COUNCIL AND SPORT ENGLAND
RELEVANT STRUCTURE 1998-2007

94. I exhibit to this report a chart [Annex 8] of the relevant senior personnel at Sport England between the period 1995 to 2007. From this it can be seen that there were frequent changes of Chairman, Chief Executive, Finance Director/Head of Corporate Services, and others (not exhibited in the chart) during the years when the World Class Payments Bureau was established and run. One of the relevant lessons of this inquiry is that it is not healthy for a non-departmental governing body (or indeed any organisation) for there to be frequent changes of senior management and personnel: within Sport England a sense of instability and lack of corporate memory developed as there were senior personnel changes in part driven by politicians.
95. The structure of Sport England itself was as follows. The Council was and is responsible for the overall governance and direction of Sport England. Its members are described as “The Board”
96. A Lottery Panel was established chaired in the relevant period by Trevor Brooking, Gerald Dennis, David Oxley, Des Wilson, Ray Carter and Brigid Simmonds. It was this Panel which scrutinised applications for lottery funding and made recommendation to the Council which would ultimately be responsible for any grants made. Further details are contained in Chapters 6 and 7. The Lottery Panel was disbanded or renamed in 2002

when it became known as the Lottery /National Investment Panel. In late 1999 or early 2000 ‘syndicates’ were introduced to the Lottery Panel, one of which was known as the “World Class Syndicate”.

97. The Chairman of the Council chaired the “board”. The Chairs were Sir Rodney Walker, Sir Trevor Brooking, Lord Carter of Coles, Derek Mapp and Michael Farrar (who only took over in December 2007 and outside the period when the WCPB operated).
98. In the relevant years until May 2005 Sport England had an internal audit and/or management audit function which was headed up by Mr Barry Chivers. After May 2005 his place was taken by Mr Greig Alan who, in 2006, moved to Bentley Jennison, who themselves were the outsourced internal auditors.
99. Throughout the whole of the period with which I have been concerned, Sport England had an Audit Committee. The Chairman of the Audit Committee in 1998 and 1999 was Gerald Dennis and after that Mr Roger Bottomley until September 2002. In 2003 Brigid Simmonds chaired the Committee and from December 2003 to 2007 Sir Andrew Foster chaired the Committee. Sir Andrew continued in this role until his second term of office as a member of the Sport England Board expired in July 2009.
100. In his evidence to me, Mr Roger Bottomley indicated that he took on the role of Audit Committee Chairman as a result of a request made to him by Mr Derek Casey, the Chief Executive. The Chair of the Audit Committee of a body which controls public funds

needs to be somebody experienced in the work of accounts scrutiny, and preferably public sector finance and audits. By this I mean that the person concerned must either have specific audit experience or must have worked in an environment where he or she has undertaken scrutinising work of the kind which an audit committee would undertake. In the case of Sport England, for some of the relevant period, Mr Roger Bottomley chaired the Audit Committee (2000 until September 2002) but did not have particular audit experience as I have just described it. Mr Bottomley's background has been in local government (Westminster City Council), before working in Leisure Management. He was asked by Mr Derek Casey to chair the Audit Committee. Mr Bottomley is plainly an honest and conscientious person. It is not clear to me whether the appointment was undertaken through a public appointment process.

101. Mr Bottomley, in his interview with me, indicated that he did not consider it part of the Audit Committee's function to investigate, "dig" or police as to the activities of the officials and others who came before the Audit Committee and reported. By contrast, when I interviewed Sir Trevor Brooking on the same day, he did consider that the Audit Committee was a committee which would challenge relevant officials and scrutinise risk areas to the business. This misunderstanding meant that there may well have been an environment where the Audit Committee, until at least 2003, was not operating as a robust scrutiniser of management controls of risk within Sport England, which may have meant that Sport England officials themselves did not feel that they would be challenged at Audit Committee meetings. As I shall demonstrate in more detail (in Chapter 8), the reports as to the activities of the World Class Payments Bureau tended to be anodyne and

were not such as to give a clear indication to the Audit Committee as to what the World Class Payments Bureau was doing, and in particular that it was running its own separate bank account.

102. As I have already indicated (in Chapters 2 and 3), Mr Derek Casey established the “Accountability Committee”. It appears to have been reporting to the Strategic Management Group, although in reality its status within the organisation as a whole remains unclear to me. I do not regard the Accountability Committee as a committee which Sport England needed nor did it suit the Council’s structure. Sport England should have had a structure whereby an audit committee scrutinised management controls of risks to the business, supervises internal audit and controls, and maintains the relationship with external auditors. Sport England also required an executive management function, such as a strategic management group and board, through which management business decisions were made. An accountability committee which seems to mix and muddle both functions is inappropriate.

103. Finally, within the management functions of Sport England, there was the Strategic Management Group. This group met fortnightly with meetings which had an agenda and were minuted and papers were produced for the meetings. A strategic management group is entirely appropriate in order for there to be routine executive management on a day to day basis. What is inappropriate is for a strategic management group (or indeed an accountability committee) to establish and run a new function without having

authorisation from the Board (i.e. the Council) of Sport England. The Strategic Management Group also approved the agenda for the Audit Committee.

External Audit and External Auditors

104. As I have already indicated, Sport England operated a system whereby it contracted out its internal audit function to PriceWaterhouse Coopers, Deloitte & Touche who focused on Exchequer funding, between 1999 and 2001, then to Mazars between 2002 and 2004 and finally to Bentley Jennison between 2005 to 2009.
105. The external audit of Sport England has throughout the relevant period (and continues to be) undertaken by the National Audit Office.
106. The system for reporting to the National Audit Office was similar to, but not identical to, that which would apply to a publicly owned company whose shares are listed on the Stock Exchange. Thus, the National Audit Office would have representatives who attended the Audit Committee of Sport England although they were not members. The National Audit Office would have received reports from the Chief Executive (as Accounting Officer) and from Internal Audit or Governance, Risk and Assurance as it became known. I have been told by Mr Nolan King, an internal accountant who worked at the relevant time for Sport England, albeit on a temporary contract, that spreadsheets were provided to the National Audit Office which included descriptions of the business activities of Sport England and within which, he told me, there was reference to the World Class Payments Bureau and its activities year on year. I have been unable to

verify what Mr King has told me from our searches of the documents retained within Sport England. I have been able to establish what documents were prepared for internal audit purposes and these do not appear to show the World Class Payments Bureau as a separate line of activity within Sport England thereby drawing its activities to the attention of the internal auditors (PwC/Mazars /Bentley Jennison). It therefore seems to me to have been unlikely that the National Audit Office's attention was specifically drawn year on year to the actual level of receipt and spending of funds through the World Class Payments Bureau and its bank account. The NAO have informed me that they did not know of the existence of the separate bank account.

107. The fact that the National Audit Office never undertook sample testing of the transactions which were contained within the World Class Payments Bureau, the fact that no specific sample testing was undertaken by the internal auditors, and the fact that documents provided to the internal auditors by the accountants in the Finance and Management Audit teams who worked within Sport England did not detail the payment activities of the World Class Payments Bureau, all lead me to the conclusion that the National Audit Office was not specifically told of the Barclays Bank account or the payment or the funding activities which were undertaken by the World Class Payments Bureau itself. I deal later with where responsibility for these errors lies. But I ought to record here that the failure of the Finance and Management Audit teams (the latter becoming known as Governance Assurance and Risk) specifically to draw the National Audit Office's attention to the dealings that were going on within the World Class Payments Bureau and its bank account was a failure by Sport England management. There were a number of

failures which contributed to the fact that the National Audit Office itself did not know of the revenue stream that was coming into and going out of the World Class Payments Bureau. The Finance, and Management Audit (later the Governance Assurance and Risk) teams should specifically have drawn this to the attention of the National Audit Office.

Induction of Staff and Senior Members of Sport England

108. During the course of this inquiry, it has become apparent to me that induction of staff, and handover arrangements, for the period which I am enquiring into, i.e. 1999 to 2007 were poor.

109. For example, it does not seem to me that the incoming Chairs or Chief Executives of Sport England were given full written briefings, nor a full analysis of their duties and responsibilities within the framework of the Lottery Act 1993, financial directions, guidance and policy. Some members of staff did appear to receive some induction training. But there should have been a formal system for induction training of each member of staff no matter how senior or junior appropriately constructed for the responsibilities which that member of staff was going to undertake. This is true generally and of course for the WCPB in particular. The result of this failure is that when, for example, Derek Mapp became Chairman in 2006, he was given virtually no proper induction into his job. There were some training documents and a manual did exist for the WCPB. But staff have told me that they did not receive induction and training.

110. At a more junior level, I received a worrying account from Victoria Pace, who became responsible for the karate account whilst it was being managed through the World Class Payments Bureau in 2006. Her background was in sport management, and not in accounting or accountancy procedures. She was given no induction training in relation to the World Class Payments Bureau and in particular none which related to accounts, management accounts, nor any of the sorts of accounting issues which would arise in respect of a body which was not fit for purpose but which was receiving funds via the World Class Payments Bureau.
111. In addition to the foregoing, there was a serious problem created by the fact that many staff within Sport England and in particular within the World Class Payments Bureau were on temporary contracts. When Lord Carter and Roger Draper carried out a massive restructuring, and staff reduction, exercise in 2002 the annual report noted that temporary staffing was a problem. Temporary staff contracts had the effect of making those staff members, even if their contracts were renewed periodically, not to feel confident that they were long term members of the organisation.
112. The cumulative effect of all of these features was that senior management did not have after Mr Casey left (2001), and Mr Carpenter left (2003), a detailed working knowledge of what was going on within both the World Class Payments Bureau and the sports which they were managing through it. Mr Barry Chivers remained, until 2005, the longest standing senior member of staff within Sport England with responsibility for the World Class Payments Bureau, with a “trouble shooting” role. But in the absence of proper

reporting and induction to incoming senior executives, in the absence of proper inductions of members of staff who were employees on full as opposed to temporary contracts, the system was inevitably at risk that it was not going to achieve the standards which are required for an organisation which is responsible for public money.

Recommendations

113. A series of recommendations come from the findings which I have made in respect of the structure of Sport England at the relevant time. The recommendations are:

113.1 It is inappropriate for a person who holds responsibility for internal audit or the management of risk and assurance to hold executive responsibility for management of part of the business. This should not occur again. I understand from discussions with current senior management that it does not.

113.2 All members of staff from the most senior to the most junior must receive proper induction training at the point when they take up employment with Sport England. That training needs to describe their responsibilities as staff members within the legal and accounting framework within which they are operating. Both the legal and accounting framework are complex and all staff induction packages ought to contain relevant and comprehensible information as to the duties which staff operate under with regard to the law and accounting functions. Since 2007 the Chief Executive has inculcated into staff a culture change: Compliance is now high on the agenda.

113.3 A policy of employment of temporary staff is unsuitable for an organisation such as Sport England which is responsible for dealing with public funds. Of course, from time to time, it will be necessary to have temporary administrative or accounting staff. But staff who are holding responsibility for decision making about administration of public funds should, wherever possible, be long term employees on permanent contracts of employment.

113.4 Those who are appointed to committees of Sport England ought to be appointed through a recognised public appointment process with suitable vetting for their skills. The Chair of the Audit Committee needs to have experience of accounts scrutiny and audit work. Whilst he or she need not necessarily be an auditor, a background in scrutiny of accounts and business risk is required in Sport England, and preferably with public sector experience.

LESSONS FROM HISTORY

113.5 I make it clear that the following relate to the history relating to the WCPB and are not a comment upon current management or Council operations:

113.6 A new business function should not be established within Sport England without the imprimatur of the Board /the Council. Certainly, if an operation such as the World Class Payments Bureau is to be established, it is one which should be discussed by, and approved by, the Board / the Council.

- 113.7 It is wholly inappropriate for an audit committee to be the body which decides on the setting up, or establishment, of a business function within the organisation. The Audit Committee's function should be to scrutinise management controls of risk for the purposes of the proper conduct of audit and compliance with good governance and accounting procedures.
- 113.8 It is inappropriate for Sport England to establish committees or sub-committees such as the "Accountability Committee" which do not form part of a recognised management structure approved by the Council and the Board of Sport England. In future, committees of Sport England need to be established having been discussed and approved by the Board/Council.
- 113.9 Lines of reporting via committees or individuals must be in accordance with the particular management function of that committee or individual. It was inappropriate for an accountability committee to have a dual reporting function into the Audit Committee and the Strategic Management Group. Management and staff must be made alive to their duty to make frank and open reports to the Audit Committee. For reasons which I shall expand upon in Chapter 8 I have reached the conclusion that reports to the Audit Committee in relation to the World Class Payments Bureau were bland and uninformative as to risk.

CHAPTER 5

THE LOTTERY, SPORT ENGLAND AND THE LEGAL FRAMEWORK

114. I have given in Chapter 3 a history of the development of the Lottery as it relates to Sport England. It is however necessary for me to set out, not least so that those who have to plan training and induction in future, the legal and accounting framework within which Sport England operates. The scenario is not a simple one.

Sources of Sport England Funding

115. Sport England's funding may be split into:

115.1 Funding from the Treasury, i.e. granted aid from the Department of Culture, Media & Sport ("the DCMS") pursuant to the Physical Training & Recreation Act 1937; and

115.2 Funding from National Lottery funds.

Other Sources of Funding

116. The split in sources of funding is reflected in the manner in which Sport England accounts are organised and consolidated:

116.1 Consolidated accounts are prepared for the English Sports Council group which comprises:

- (a) The English Sports Council;
- (b) The Sports Council Trust Company (a charity);
- (c) Phoenix Sport Ltd; and
- (d) Caversham Lakes Trust Ltd.

116.2 These consolidated accounts represent the non-Lottery (i.e. granted aid) funded activities.

116.3 The financial activities in respect of National Lottery funds administered by the English Sports Council, under the title of The Sport England Lottery Fund, are the subject of a separate financial report.

National Lottery – Funded Activities

Establishment of the English Sports Council by Royal Charter

117. Both the English Sports Council (“Sport England”) and the United Kingdom Sports Council (“UK Sport”) were established by Royal Charter in 1996 and came into being on 1 January 1997¹⁷. UK Sport replaced the Sports Council of Great Britain (operating name GB Sports Council).

118. The Royal Charter established Sport England as a corporate body and defined its objects as:

¹⁷ Hansard, 12 July 2004, column 899w.

“fostering, supporting and encouraging the development of sport and physical recreation and the achievement of excellence therein among the public at large in England and the provision of facilities therefore.”

119. Article 2 of the Royal Charter lists Sport England’s various powers, which are to be exercised in furtherance of this object.

120. Article 2(h) lists one of Sport England’s powers as:

“h. [the power] to make grants or loans .. subject to such conditions and otherwise as [Sport England] shall .. deem fit provided always that [it] shall attach to any loan made by it such conditions as may be prescribed from time to time by [the] Secretary of State.”

121. Article 3(1) provides (amongst other things) that Sport England, in furthering its object in exercising its powers shall:

“have regard to any general statement on [government policy] that may from time to time be issued by the [Secretary of State].”

And take into account the objects and powers of UK Sport and the other home country Sport Councils.

122. Article 14 provides that Sport England shall keep proper accounts, records and financial statements to be submitted to the Secretary of State.

The National Lottery etc Act 1993

123. The National Lottery etc Act 1993 (“the 1993 Act”) established the National Lottery.

124. Section 21(1) of the 1993 Act establishes a fund maintained under the control and management of the Secretary of State which is the “National Lottery Distribution Fund”.

125. Section 22(3) provides that the Secretary of State may allocate an “*appropriate*” portion of funds paid into the National Lottery Distribution Fund for the payment of expenses.

126. Section 22(3)(a) provides that 16 2/3% of the balance of those funds (i.e. after deduction for expenses) shall be allocated for expenditure on or connected with sport.

127. There are a number of so called “good causes” set out in section 22(3) (although this is not a term which is actually used in the 1993 Act itself):

127.1 Arts – section 22(3)(a);

127.2 Sport – section 22(3)(b);

127.3 National heritage – section 22(3)(c); and

127.4 Prescribed expenditure that is (a) charitable, or connected with (b) health, or (c) education or (d) the environment – section 22(3)(d).

Previously, the Millennium (in the sense of projects relating to the Millennium) was a “good cause”. The Millennium Commission, which administered this cause, was wound up.

128. Section 23(2)(a) provides that 62% of any funds paid into the National Lottery Distribution Fund allocated for expenditure on or in connection with sport, shall be held for distribution by Sport England. 22.8% of that sum is held for distribution by UK Sport.
129. Section 24 provides for the Secretary of State, as he or she thinks appropriate, to pay money from the National Lottery Distribution Fund to the bodies listed in section 23 (out of so much of any money as is held for distribution by that body).
130. Section 25(1) states that, subject to the provision of the relevant part of the 1993 Act, a body shall distribute any money paid to it under section 24 (which provides for distribution of money from the National Lottery Distribution Fund to the bodies listed in section 23) for making expenditure of the relevant description mentioned in section 22(3).
131. Section 25(2A) provides for bodies to have the power to solicit applications for funding. Sport England did indeed encourage applications for funding and encouraged applications for funding after the period 1996-1997 from National Governing Bodies. It

was entitled to do so under section 25 of the Act. However, Sport England remained at all times subject to the governing requirements of the Act and in particular to the requirements of the financial directions to which I shall be referring. The fact therefore that there was a relaxation in 1996 so as to enable Sport England to fund governing bodies of sport, did not alter the requirements for high standards of governance when it came to accounting for lottery monies expended through Sport England and the World Class Payments Bureau.

132. Section 25(2C) explains that, in determining how to distribute money in accordance with section 25(1), a body may consult any person and take account of opinions expressed to it or information submitted to it. As I have already indicated, a number of governing bodies pressed Sport England, and indeed ministers, to distribute money in their direction in circumstances which I am sure created pressures all round on both ministers, MPs and Sport England itself. This is not what “consultation” usually denotes.
133. Section 25A provides that bodies which distribute money under section 25(1) may delegate their powers of distribution to any other body or person.
134. Section 26(1) of the Act provides that a body shall comply with any directions given to it by the Secretary of State as to the matters to be taken into account in determining the persons to whom, the purposes for which, and their condition subject to which the body distributes any money under section 25(1). Directions under section 26(1) were issued on 1st June 1998 and were revised on 22nd June 2002 and 17th May 2004.

135. Under section 26(3) it is provided that a body shall comply with any directions that the Secretary of State considers it appropriate to give the body for securing the proper management and control of money paid to the body under section 24. By section 26(5), the Secretary of State is obliged to consult a body in good faith before giving it any directions under section 26.
136. “Directions” is compulsory in character and requires the person to whom the direction is given to decide as directed: see *Laker Airways Ltd v. Department of Trade* [1977] QB 643 at p714. “Guidance” is a well established concept in administrative law and requires the body being “guided” to have regard to the guidance, to construe it properly, and to explain rationally if the guidance is departed from: see *R. v. North Derbyshire Health Authority, ex p Fisher* 1998 10 Admin LR 27, at p32A-E.
137. In December 1997, the DCMS issued Lottery Guidance under a note [97/4] (“the 1997 DCMS Guidance”). That Guidance Note takes a reasonably strict approach to the eligibility of an applicant for an award of lottery funds – see paragraph 6. An example of what is described as a grant being “ultra vires under the law” is where a distributor (such as Sport England) discovers after a grant has been made the applicant is one which falls outside the good cause provisions set out in the 1993 Act. In such a scenario, the 1997 DCMS Guidance Note states that the distributor has no discretion and must stop payment of the grant and seek repayment of the sums concerned, subject to the possibility of invoking certain parts of the Government Accounting (36.2.45) policy to authorise

“extra-regulatory and extra statutory payments to be made”. Paragraph 7 of the same note deals briefly with situations where a grant may be intra vires but ineligible, for example because of a failure by a recipient to comply with the internal policies of Sport England on, say, equal opportunities. On the face of it each of the sports to whom payments were made via the World Class Payments Bureau fell within the “good causes” set out under the Act.

138. The more interesting question is whether the establishment of the World Class Payments Bureau to handle payments, in effect on behalf of the national governing body, was lawful and intra vires. This requires consideration of the directions which were in force at the relevant time.

The Directions

1st June 1998 Directions

139. On 1st June 1998 directions were issued to Sport England under section 26(1) of the Act (the June 1998 Directions). The explanatory note (note 2 to direction B) suggests that the proper description of the contents of this document may be “Policy Directions”. In my view, these directions were intended to be, and were in fact, directions which had mandatory effect under the provisions of the Act to which I have already referred to.
140. The 1998 Directions list a number of matters which Sport England “shall” take into account in determining the persons to whom, the purposes for which, and the conditions subject to which it distributes money under section 25(1) of the Act.

141. It is worth setting out in summary form the specific Directions since they are plainly “relevant” considerations to which Sport England was required to have regard, albeit not exclusively:

141.1 Direction A: the need to ensure that money is distributed under section 25(1) of the Act for projects which promote the public good or charitable purposes and which are not intended primarily for private gain;

141.2 Direction B: the need to ensure that Sport England consider applications which relate to the complete range of activities falling within section 22(3)(b) of the 1993 Act (i.e. relating to sport – see above), and in respect of which it has the power to distribute money, having regard to

- (a) Its assessment of sport’s needs and its priorities in addressing those needs;
- (b) The need for equality of access to funding;
- (c) The need to reduce economic and social deprivation.

141.3 Direction C: the need for equality of access to sport from all sections of society.

Note: The support of the “Paralympic” and other such bodies via the NGBs which I have listed earlier in this report would at least in part have been fulfilling the need for equality of access to sport from all sections of society and would therefore have been proper both under the Act and under this Direction C.

- 141.4 Direction D: the need to promote knowledge of and interest in sport by children and young people.
- 141.5 Direction E: the need to further sustainable development objectives.
- 141.6 Direction F: the need for funds distributed under section 25(1) of the 1993 Act to go to projects only where they are for a specific and time limited purpose.
- 141.7 Direction G: the need for applicants to demonstrate a project's financial viability; the need for a clear business plan in relation to running costs where capital funding is sought; and the need to consider alternative funding availability as a project moves forward.
- 141.8 Direction H: the need to explore partnership funding and/or contribution.
- 141.9 Direction I: the desirability of working with other organisations.
- 141.10 Direction J: the need to ensure that the power to solicit applications under section 25(2A) of the 1993 Act are used in connection with the pursuit of strategic objectives.
- 141.11 Direction K: such information as is considered necessary to make decisions on each application, including independent expert advice when required.

142. A number of explanatory notes were provided with the Directions, published by the DCMS. They add little in terms of an analysis of what Sport England could lawfully do, but it is worth mentioning notes 1 and 2 to Direction B, which state not only that:

“[Sport England] has a legal obligation to consider all properly made eligible applications on their merits”,

But also that it is permissible to make clear that certain kinds of application will be given priority (and that others are less likely to be successful) provided that Sport England is ready to consider making exceptions when examining the merits of individual applications.

143. These notes are entirely consistent with the approach to lawfulness which I have set out above: Sport England was required to comply with the Act, and Directions made under it. It was required to take account of guidance and give rational explanations if guidance was not followed, and had to have regard to relevant considerations, and to disregard irrelevant considerations.

May 1998 and 22 June 2002 Financial Directions/Statement of Financial Requirements

144. In May 1998 and on 22 June 2002 the DCMS published “financial directions” that were issued under section 26(3), (3A), and (4) of the 1993 Act – “the May and June 2002 Financial Directions”.

145. These documents set out the financial framework within which Sport England was required to act in its role as a distributor of National Lottery funds under the 1993 Act.

146. Paragraph 1.3 of each set of Directions state that where a “financial memorandum” is in place its terms will apply to the costs of administering the distribution of National Lottery funds, unless the Directions state to the contrary. In order not to prolong and already detailed analysis I shall refer to the 2002 Directions

147. Paragraph 1.4 of the June 2002 Directions states:

“Sport England must operate within the principles of administrative law. Lottery proceeds allocated to [Sport England] from the National Lottery Distribution Fund are public monies. Consequently, the general principles of Government Accounting must be applied in the design and implementation of systems for the distribution of that money.”

148. “Government Accounting” is a document or documents available from the Stationery Office. So far as relevant for the purposes of this report, Government Accounting principles set out the principles of accounting against which Sport England will be judged and the NAO will organise its audit.

149. Paragraph 2.1 of the June 2002 Directions states that Sport England must publish and regularly update guidance advising potential applicants of how to apply for funds. It

provides that this guidance must be made widely available and should explain funding strategy so that applicants are aware of the context within which applications are considered.

150. There was no published guidance by Sport England in respect of the World Class Payments Bureau. In overall terms, the absence of publication of the existence and framework within which the World Class Payments Bureau operates is not of any legal consequence so far as Sport England is now concerned. However, if it were the case that a national governing body which was not fit for purpose could properly have its funding managed through the World Class Payments Bureau, one would have expected Sport England to publish guidance as to how such a governing body might apply for funds, receive such funds, and be managed through the World Class Payments Bureau. The fact that this did not happen underscores a problem with the establishment of the World Class Payments Bureau and its management over the period 1999 to 2007. In real terms, the worst that would have happened is that some governing bodies, who might otherwise have had their funds managed via the World Class Payments Bureau, may have failed to be successful in their grant applications. So far as Sport England is concerned, the time has now long passed whereby any proposed applicant might be able to bring proceedings against Sport England because of an unfair refusal to consider an application for management via the World Class Payments Bureau.

151. Paragraph 2.3 of the June 2002 Directions makes clear that National Lottery funds may only be distributed in response to a properly worked-up application from an outside

person or organisation, operating independently from Sport England (except where paragraph 2.10 applies). Paragraph 2.10 deals with potential conflicts of interest situations.

152. In my view, there was a problem for Sport England in that by managing funds as it did on behalf of those national governing bodies which were managed through the World Class Payments Bureau, there is a case for saying that such governing bodies were not “operating independently” from Sport England. The reality was that Sport England was acting as the account manager for the national governing body and as its finance and/or banking facility. It was not, in that respect at least, operating independently from the governing body itself. Insofar as this gave rise to unlawfulness, the challenge to the conduct of Sport England would not have come from the recipient governing bodies themselves (for they were the beneficiaries of the grants) but would have come either from the DCMS or from some other disappointed body or applicant who would have wanted to complain about unfairness as a result of the use of the World Class Payments Bureau which was not operating independently from the national governing body, and therefore gave rise to a breach of paragraph 2.3 of the 2002 Financial Directions. No such challenge has ever been made and it will be too late to make one now. This point, along with the others I have already identified, really serves to demonstrate that the absence of openness applying to the applicant community for grant funds as to what the World Class Payments Bureau was, how it existed and how it might serve to assist, demonstrated a lack of planning and consideration of the legal framework within which Sport England was operating at the relevant time.

153. The 2002 Directions contain a number of other requirements compliance with which fell to be tested by reference to individual grants, in this case made via the World Class Payments Bureau. These requirements relate to:

153.1 The recording of information about every fully worked-up application (paragraph 2.23 of annex B, and paragraph 3.1 of annex C and annex C);

153.2 Having in place clearly developed policies and procedures for the financial and (where appropriate) economic appraisal of projects (paragraph 2.24);

153.3 Appropriate assessment of risk analysis (paragraph 2.27);

153.4 Every grant approval being made subject to a set of terms and conditions of which the grant recipient must comply (paragraph 3.2 and annex D);

153.5 Project monitoring and evaluation (paragraph 3.19 et seq);

153.6 Audit (both internal and external) and account provisions (section 4);

153.7 The setting up and the maintenance of running costs, administration, banking and performance indication arrangements (paragraphs 5.1 to 5.8);

153.8 The maintenance of effective controls against fraud and systems in place to deal effectively with cases of fraud.

154. It is at least arguable that the failure to have internal (and external) audit arrangements in place for the national governing bodies which were not fit for purpose and which were therefore managed through the World Class Payments Bureau, caused Sport England to fall foul of the 2002 Directions. True it is that Sport England did have internal and external audit “arrangements” in place. But as it happened, Sport England did not have an actual internal and external audit arrangement in place for the management of its stream of activities relating to the functions of the World Class Payments Bureau. On the face of it therefore, Sport England may well have been in breach of the 2002 requirements.

155. Annex A to the June 2002 requirements sets out the “accounting officer responsibilities” (which are mirrored for all material purposes in the 1998 Requirements). The Chief Executive of Sport England is the Accounting Officer for the purposes of the legislation, the directions, and guidance.

156. Paragraph (b) of annex A of the June 2002 Directions refers to the DCMS’ Accounting Officer’s responsibilities for the Secretary of State (the relevant individual is referred to as the “DAO” (Departmental Accounting Officer)). These responsibilities include satisfying him/herself that:

156.1 Sport England has acted in accordance with the Directions issued under sections 26(1), (3) and (3A) of the 1993 Act;

156.2 Financial and management controls are appropriate and sufficient to safeguard the use of National Lottery funds, conform with requirements of propriety and regularity and good financial management and are regularly monitored.

157. Paragraph (c) of Annex A notes that Sport England’s Chief Executive is appointed as the “Accounting Officer” (the relevant individual is referred to as the “AODB”). The roles and responsibilities of accounting officers in the National Lottery distributors was set out in a DCMS paper issued in July 1996. Paragraph (c) of annex A (of the Directions) explains that:

“In respect of Lottery money, the accounting officer’s responsibility to the DAO is to ensure that it is distributed with due regularity and propriety (i.e. that all items of expenditure and receipts are dealt with in accordance with the legislation authorising them, any applicable delegated authority and the established principles of government accounting; and in accordance with Parliament’s intentions”

158. Paragraph (d) lists a number of important other additional responsibilities owed by Sport England’s Chief Executive and in respect of which absolute delegation is prohibited, including:

- 158.1 Advising on the discharge of Sport England’s responsibilities under the 1993 Act, including ensuring compliance with the Directions issued under sections 26(1), (3) and (3A) of the 1993 Act;
- 158.2 Ensuring that systems implemented to administer Lottery applications and monitor Lottery grants are sound and fit for purpose;
- 158.3 Exercising proper control over expenditure and resources;
- 158.4 Ensuring proper record keeping;
- 158.5 Ensuring that bodies engaged as partners are fit and proper and have established appropriate management arrangements; and
- 158.6 Informing the DAO of any systems failure in the distribution of Lottery money “*of such a size and nature as, in the opinion of the AODB, may call into question the propriety of continuing to draw down money from the Distribution Fund*”.
159. Annex (D) to the June 2002 Directions is important because it sets out standard conditions that are applicable to all projects. These include:
- 159.1 Reporting requirements (condition (3));
- 159.2 That the grant may have to be repaid in full or in part if any of the grant conditions are to be breached (condition (4));

159.3 Where the application form was completed fraudulently, incorrectly or misleadingly in any material particulars (condition (6)(e)); and

159.4 Where at any time during and in respect of the completion of the project or scheme, the applicant has acted (i) fraudulently; or (ii) negligently, to the extent that in the opinion of Sport England it has a material effect on the project or scheme.

160. Each of the Chief Executives to whom I have spoken after the departure of Mr Casey, that is Mr Roger Draper and Mr Stephen Baddeley (Mr Moffett was in place from January to November 2002 and I did not interview him), had no more than a rough knowledge of the World Class Payments Bureau and its activities. Whilst each knew that, for example, there was serious problems with the sport of karate, it seems to me that it would not have been possible for them, based upon the information which was being reported up to them via the Management Audit team, to have had a sufficient working knowledge of the systems which were in operation within the World Class Payments Bureau to have been able to discharge their obligations as accounting officer, reporting to the DCMS. As is apparent from this inquiry, the activities of the World Class Payments Bureau were not reported to, nor ever included in the internal or external audit programmes. Some of the applications for payments by the National Governing Bodies which were not fit for purpose, were not scrutinised to the degree one would expect for the proper stewardship of public funds. Had these matters been correctly reported to the Chief Executive, steps would have been taken to ensure that either the World Class

Payments Bureau's activities were brought to a close or it was put on a sound, proper footing, including having appropriate internal and external audit scrutiny. Since neither of these occurred, it was not possible for the Chief Executives of Sport England to report appropriately, specifically with regard to the World Class Payments Bureau. This does not mean that the grant award system (or grant management system) which was in place within Sport England for other, fit for purpose, governing bodies was in any way deficient. However, there were failures of process with regard to the World Class Payments Bureau which meant that in that specific particular, the Accounting Officer would not have been able to report that the World Class Payments Bureau was compliant with the Directions or Requirements as he would not have known that management controls including monitoring and audit were in place for it.. I stress (again) that I do not regard there to have been any dishonesty or wilfulness about this problem: there was a gap in the system of controls as they related to the WCPB.

2004 Letter from the DCMS to Chief Executives of National Lottery Distribution Bodies, attaching new Directions

161. In 2004 new standard directions were issued under cover of a letter from Simon Broadley of the DCMS, which stated that the text was "*designed to complement the new combined Management Statement and Financial Memorandum by dealing primarily with matters where National Lottery proceeds are treated differently from Exchequer funds*".

162. The new Directions abolished the information gathering requirement in annexes B and C and the standard conditions of grant that were previously part of the 2002 Directions (as to which, see above).
163. The points of significance in respect of the 2004 Directions are:
- 163.1 Sport England must act within the principles and requirements of administrative law (paragraph 2);
- 163.2 The new Directions are much simplified by comparison with the 2002 version, and they are much shorter;
- 163.3 The Directions state that Sport England's Chief Executive is responsible for ensuring that Lottery money "*is distributed with due regard to regularity and propriety*" and "*used economically, efficiently and effectively even though grant decisions may have been delegated ...*" (see paragraph 17).
164. Again, it would not have been possible for the Chief Executive of Sport England, had he been asked to report on whether with regard to the WCPB or the sports of hockey, boxing, karate, or squash that Lottery funds were being used "*economically, efficiently and effectively*". For the reasons which I give in this report, it is doubtful that those funds were after 2002 being used in compliance with such criteria. This is because the national governing bodies themselves were not fit for purpose and it would not have been possible

for the Chief Executive, as Reporting Officer, to have been able to report that this requirement had been complied with in that particular respect.

Changes to the Regime in 2004

165. In 2004 the revised Directions, referred to above, were issued. They came into effect on 17 May 2004.

166. In addition, there was a combined Management Statement and Financial Memorandum of 23 August 2002. The combined Management Statement and Financial Memorandum sets out the framework of accountability within which Sport England was to operate (see paragraph 2).

167. The important features of the Management Statement are as follows:

167.1 Sport England is classified for policy/administrative purposes as an executive non-departmental public body (“NDPB”) (see paragraph 9).

167.2 NDPBs are susceptible to judicial review on the basis of standard administrative law principles because they are subject to the provisions of administrative and public law. See, for example, *R (on the application of Weaver) v. London & Quadrant Housing Trust* (Divisional Court) 2008 EWHC 1377 (admin).

167.3 *“The object of such status is to enable the body to perform administrative activities free from direct governmental control. An “NDPB” must, however,*

have a sponsoring department, which provides its funding and is concerned to ensure that there is justification for the funding provided and that this is used appropriately by the “NDPB” – see Lord Phillip CJ in R (on the application of Brooke & Ors) v. Parole Board anor Court of Appeal (Civil Division) 2008 EWCA Civ 29.”

167.4 The Management Statement sets out the responsibilities and accountability of various officers and individuals in relation to Sport England, including:

- (a) The Secretary of State (paragraph 15);
- (b) The Permanent Secretary (who is the DAO referred to at paragraph b of annex A to the June 2002 Directions);
- (c) The sponsoring team in the DCMS (see paragraphs 18 and 19); and
- (d) Sport England’s Chairman, Council members and Chief Executive (see paragraphs 20 to 35).

168. The responsibilities of key Sport England individuals are described in the Management Statement, and amongst them they have responsibilities to:

168.1 Formulate Sport England’s strategy for discharging its statutory delegated duties and to ensure compliance (paragraphs 22 and 28);

168.2 Encourage and maintain high standards of propriety in corporate governance (paragraphs 22 and 28);

- 168.3 Ensure that Sport England, in reaching decisions, takes proper account of guidance provided by the Secretary of State or the DCMS (paragraph 28);
- 168.4 Ensure compliance with Sport England's Code of Practice (paragraph 29);
- 168.5 Ensure compliance with the rules relating to the use of public funds (paragraph 29);
- 168.6 Act in good faith and in the best interests of Sport England (paragraph 29);
- 168.7 Advising Sport England's Council on the discharge of its responsibilities under the Royal Charter, the Management Statement and Financial Memorandum and in any other relevant instructions and guidance (see paragraph 33); and
- 168.8 Ensuring adequate internal management and financial controls (including that standard financial appraisal techniques are followed as far as is practical), and that there are effective measures against fraud and theft in place (paragraph 33).
169. The Financial Memorandum sets out various financial and other management controls to be applied by Sport England. In particular, there are requirements for:
- 169.1 Ensuring the best value for money (paragraph 18); and

169.2 Ensuring effective internal controls to prevent and detect fraud and theft and systems to report any attempted, suspected or proven fraud (paragraphs 26 and 28).

Conclusions

170. There was an absence of internal and external controls with regard to the financial activities of the World Class Payments Bureau. It was not therefore possible for the Chief Executives of Sport England to report that the areas of activity undertaken by the World Class Payments Bureau had adequate internal management and financial control or that there were effective measures against fraud and theft in place or that there was an effective external audit control in the light of events which in fact occurred.

171. I have set out at considerable length the obligations which applied to Sport England and its relevant officers during the period of the operation of the World Class Payments Bureau. I make no criticism of the basic provisions of the grant system which Sport England had in place. But there were inadequate internal and external controls in place with regard specifically to the activities of the World Class Payments Bureau. The result of these failures was that it would not have been possible for the Accounting Officer of Sport England, had he ever been asked, to say that the activities of the World Class Payments Bureau did comply with the provisions as I have set them out in the earlier sections of this report. In short, there was an absence of effective internal controls to prevent and detect fraud and theft and there was an absence of systems to report any attempted, suspected or proven fraud. There was an absence of internal audit of the

World Class Payments Bureau itself and the activities of the World Class Payments Bureau were never themselves subject to external audit by the National Audit Office. Each of these is of concern, although none was the result of dishonest conduct.

Grant in Aid Funded Activity

172. I do not consider it necessary or proportionate to conduct a separate analysis with regard to grant in aid funded activity. As I have already indicated, Treasury funds need to be accounted for on a year by year basis and grants in aid funding operates differently from Lottery funding in that grants in aid projects need to be specific projects, accounted for year by year as opposed to over a four-yearly cycle such as occurs with Lottery funds administered through Sport England. However, the same broad principles, as I have set them out with regard to National Lottery funds, apply to grant in aid funded activities. Each is concerned with the administration of public monies and the high standards of accounting and controls which must apply in respect of them. It follows that the criticisms which I make with regard to the administration of National Lottery funds apply in equal measure with regard to the use of Treasury funds via the World Class Payments Bureau.

CHAPTER 6
OPERATION OF THE WORLD CLASS PAYMENTS BUREAU AND
THE LOTTERY PANEL

173. Sport England established the Lottery Panel which was the body which received applications for Lottery grants and which authorised the making of grants on behalf of Sport England. The Lottery Panel was divided into three Groupings. These comprised The World Class Syndicate, The Community Grants Syndicate and the full panel. From reading the minutes of the syndicates, it appears that the World Class and Community Grants syndicates made the decisions which were relevant to their areas and they reported those decisions to the main Lottery Panel. Within the Lottery Panel itself there would be one or two members who were members of all three groups. I have examined the minutes of the Lottery Panel and the syndicates in order to establish what their knowledge was of the World Class Payments Bureau and in particular how and why the World Class Payments Bureau developed.
174. There are a number of examples in Lottery Panel papers where members of the Panel wished to “take a stand” with regard to governing bodies which were not considered fit for purpose. In particular, the World Class Syndicate’s paper of 20 September 1999 – SELP 55 – specifically states that the Panel should take a stand when deciding whether or not to make a grant to judo. In the same set of papers there is a paper, SELP 56, also dated 18 October 1999, which, at paragraph 14.2, mentions that there were

“ no robust mechanism to deal with “difficult” governing bodies”.

175. Whilst members of the Lottery Panel were expressing concern about the quality of some governing bodies, I have also found expressions of concern about the problems that would be caused to individual athletes if funding to their governing bodies were stopped. In my view Sport England was right to consider that the appropriate routing for funding for revenue grants should be to the National Governing Body. This is for a number of reasons. First, the governing bodies of sport are more likely to have the experience and expertise with which to deal with their individual sport than would be the case if Sport England had funded athletes direct. Second, it is the National Governing Body of sport which must put athletes forward into competition. Sport England did not itself enter athletes for competitions. It follows that if Sport England had not funded governing bodies then individual athletes would suffer and be less able to train, prepare for and take part in competitions. Third, the National Governing Bodies through Performance Directors, coaches and others can develop and tailor the programmes required with each individual athlete to attain high performance. In short they can supply the support required to reach the highest levels.

176. The fact that there were national governing bodies who were not themselves performing, and the fact that if funding were to be stopped individual athletes would suffer, gave rise to a dilemma for the members of the Lottery Panel and the World Class Syndicate in particular.

177. At a meeting of the full Lottery Panel on 20 September 1999, it was recorded that:

“proposals are in hand to form a separate governing body panel to deal with governing body issues relating to structure, governance, and development.”

178. That very short reference appears to be a reference to plans to create the World Class Payments Bureau. It could have been a reference to the longer term thinking which led to the commissioning by Mr Chivers of Peter Thomas to write a report about the creation of a larger support bureau – but I reject this as a possibility as the timing is not right. The concept of a larger form of bureau came up for debate about a year later and was not debated by the Lottery Panel but by members of the Audit Committee. The September 1999 paper SELP 55 at paragraph 6.4 stated in relation to Karate that

“the success of the athletes in the past appeared to have been in spite of the governing body’s activities rather than a consequence”

179. The World Class Syndicate at its meeting in September 1999 was, as appears to have been the case throughout, concerned about funding of the English Karate Governing Body (“EKGB”) and it was suggested that if the Panel decided to reject the proposal to fund the EKGB then they would have to look to other ways to fund individual karate athletes. As I describe in Chapter 7 karate never became a sport which was properly governed by a single national governing body – a pre-requisite of elite funding for Sport England, but nevertheless Sport England continued to fund karate via the WCPB until

August 2006. There was a period in 2004-05 when funding was suspended because of concerns about governance of the EKGB. Following a report by Mr Nick Halifih in 2005 and the setting up of English Karate (2005) Ltd funding was restarted: see Chapter 7.

180. The first mention of the World Class Payments Bureau which I have discovered in Lottery Panel minutes appears to be at the World Class Syndicate meeting of the Lottery Panel on 21 February 2000. As I have already indicated in Chapter 3, the World Class Payments Bureau appears to have been established by the time of the Accountability Committee meeting of October 1999 albeit via an inappropriate decision making process. At paragraph 9.2 of the minutes of the 21 February 2000 meeting there is discussion again about the status of the EKGB.
181. The 21 February 2000 meeting of the World Class Syndicate is the first occasion where the World Class Syndicate of the Lottery Panel mentions the World Class Payments Bureau specifically. However, the mention is very brief and there is surprisingly no detailed discussion of the World Class Payments Bureau at the Lottery Panel itself. The Full Panel minutes for the February 2000 meeting do contain discussion about the potential loss of Lottery income and the consequential impact upon the functions of Sport England. But there is no mention of the World Class Payments Bureau.
182. As I have already indicated, Sport England had a sensible programme for the conduct of external audit of national governing bodies. These were undertaken by Baker Tilly,

Littlejohn Frazer, AHL & on occasions Deloitte. These reports indicated to Management Audit that certain national governing bodies were not fit for purpose. So far as I can tell the Lottery Panel was not provided with these audit reports but they relied upon what they were told by Management Audit.

183. In addition, in order for an application to be made for grant funding from the Lottery Panel, an applicant would need to complete a form and plan which would be worked on in conjunction with Sport England by a Sport England official. Through this process knowledge would be acquired about the workings of the National Governing Body and its fitness for purpose.

184. As I detail in paragraph 7 the Lottery Panel's World Class syndicate would sometimes stipulate that an NGB which was not fit for purpose but for which a grant was to be made should be dealt with by the WCPB. I am sure that the members of the Syndicate would have thought that the WCPB would scrutinise the propriety of individual payments before making them so as to ensure that they complied with the terms of the award of grant. But as I have already indicated a contrary message was being sent down to staff such as Nolan King – which was that the invoices should be paid.

185. It is understandable that the Lottery Panel should have been concerned about the fact that applicants for grants for Lottery funding were not fit for purpose. It is also understandable that the Lottery Panel should have been concerned that individual athletes should not be starved of funds to enable them to perform at elite levels simply because

the National Governing Body of their sport was disorganised, or could not be trusted with public funds. However, as I have indicated elsewhere in this report, the solution which was required for this problem was to ensure that national governing bodies were brought up to proper levels of governance as quickly as possible rather than to deal with them through the World Class Payments Bureau without in fact bringing them up to proper standards of governance. I should add that some of the sports which started off their life as recipients of grants via the WCPB do seem to have turned the corner: Ice Skating is an example where there was some improvement. But others did not as I describe in Chapter 7.

186. Once the World Class Payments Bureau bank account was set up following the Strategic Management Group meeting of September 1999, the Lottery Panel would, where it was confronted with a national governing body which was not fit for purpose, but where it also wished to make a grant, make a grant which sometimes, but not always, stipulated a term that the management of the grant should be conducted through the World Class Payments Bureau.

187. The establishment of the World Class Payments Bureau meant that Sport England needed an accounting system with which to handle, in effect, the receipt of grant monies. In order to do this Sport England used initially Excel Spreadsheets and later a SAGE Accounting System. Within that system each sport which was the recipient of a grant managed through the World Class Payments Bureau was given its own client ledger. Staff would enter the details of each payment requested by the NGB on the SAGE

system. Drawdowns from the Lottery Account into the Barclays Bank WCPB Account would be requested by the WCPB staff based on their and the relevant NGB's calculation of likely cash flow. So far as the managers of the Lottery Account were concerned the money had gone to the Sport in question as it was drawn down against the award of grant.

188. I took evidence from Richard Clarkson who was responsible for payment of funds out of the Lottery Account at Sport England. He told me that his concern was to know the amount of grant awarded, the terms of the award, and that the requests for draw down fell within the amount outstanding under the award. He would receive quarterly management accounts from each NGB which was the recipient of an award although it was not his responsibility to read these accounts: he simply placed the accounts with the records for that particular NGB. So far as draw down requests by the WCPB were concerned he would expect to know from the terms of the Lottery Panel grant award that the grant was to be administered through the WCPB, or would presumably have been told by Management Audit, and therefore he would honour the requests for draw down from the Lottery Account into the Sport England Barclays Bank WCPB Account. It was not his function to check on the propriety of individual payments made out of the WCPB: that was a matter for others, and he had no dealings with that side of the operation. He did continue to receive the quarterly management accounts of the NGBs and would file them. Overall this left me with the uncomfortable impression that whilst the WCPB was receiving draw downs from the Lottery Account there may well not have been scrutiny going on of the quarterly management accounts of the relevant NGB so as to ensure that all was well. Indeed one relationship manager I interviewed confirmed that whilst she

did receive management accounts they did not mean anything to her as she was not qualified in accounting matters. She said she did not have the skill set to set up the governing body back to functioning. Yet as I have already indicated in Chapter 3 she was the person who was required to sign off the payment to the NGB concerned.

189. Thus it was that Sport England created a separate accounting system, namely the SAGE Accounting System, and a separate bank account at Barclays through which it dealt with recipients of grants through the World Class Payments Bureau. There are obvious risks to any business if it creates a separate accounts system and a separate bank account. In his evidence to me Mr Clive Heaphy (appointed Finance Director in September 2003) who was not told about the separate bank account for the World Class Payments Bureau when he became Finance Director, made it clear that the use of a separate accounting system and bank account as a method of financial control was wholly inappropriate. I agree with Mr Heaphy. I would add that if a separate accounting system and bank account were to be used in future for a discrete part of the business of Sport England, it would heighten the need for suitable reports to be made as to the operation of the accounting system and the bank account to senior management, the Audit Committee, and to the internal and external auditors.

190. The separate SAGE Accounting System was operated for the World Class Payments Bureau until it was amalgamated with the Great Plains System which was used for the rest of Sport England's activities in 2005.

191. The World Class Payments Bureau was managed under the Director of Internal Audit, later known as Director of Governance, Assurance and Risk, who was Mr Barry Chivers, until May 2005. As I have said in Chapter 3, this was inappropriate for there was an amalgamation of business and internal audit or risk management functions. When Mr Terry Price was first interviewed by me, he did not appear to disagree with this division of responsibilities: the World Class Payments Bureau was supposed to provide some form of scrutinising or audit checking function for those national governing bodies which were not fit for purpose but which were being funded through Lottery grants. At the relevant time Mr Price was Head of Corporate Services. Mr David Carpenter was the Director of Lottery within Sport England. In my view, if it were appropriate to establish a World Class Payments Bureau, it needed to be established outside of the internal audit or risk management function of Sport England and should have been established either within the finance function or within the Lottery function itself with appropriately qualified staff employed to check the validity of individual payments which were being sought from Sport England. In his second interview with me, Mr Price wished to retract any suggestion that it was appropriate for the World Class Payments Bureau to be managed from within the internal audit function of Sport England and suggested that it should have fallen under the auspices of the Lottery function. He also said that he had at one stage raised a protest about the establishment of the World Class Payments Bureau within the internal audit function. I have been unable to find any record of this protest being made. It sits uneasily with the initial impression given to me in interview by Mr Price that it was appropriate for the World Class Payments Bureau to be managed within the internal audit function of Sport England. Martin Ball (who worked under Mr Price)

when interviewed by me was clear that WCPB should have been in Management Audit. Mr Ball's evidence tends to show the thinking in the Finance Department at the time.

192. As I have already recorded, there were flaws in the establishment of the World Class Payments Bureau which I summarise as follows:

192.1 The Board should have had a paper presented to it at which it agreed whether or not to establish the World Class Payments Bureau. This did not happen.

192.2 The Bureau should not have been established via a "noting" by the "Accountability Committee".

192.3 A separate bank account should not have been established, and if a separate bank account was required for the World Class Payments Bureau its existence and operation needed to be reported to internal and external auditors.

192.4 It was inappropriate for a separate accounting system to be used for the management of the World Class Payments Bureau and the existence of that system should have been reported to internal and external auditors.

192.5 Regular reports as to the actual operation of the World Class Payments Bureau and its activities should have been provided at least to the Lottery Panel which was scrutinising applications for grants, so that the Lottery Panel was fully alive to the problems in certain NGBs. The Audit Committee which was scrutinising management control of risk and audit risk for the business, and the Board which

had overall responsibility for the operation of the Sport England's activities should also have received reports.

193. During the course of this inquiry I have considered where in truth the “ownership” of funds which were handled within the World Class Payments Bureau lay. Ultimately, I do not think it matters whether the beneficial ownership of the monies being handled within the World Class Payments Bureau rested with the national governing bodies or with Sport England. In either case, the managers, accountants and auditors of each body needed to know what was the status of the money, to whom it belonged, and whether or not it was being properly spent in accordance with the award of grant by the Lottery Panel, and in accordance with the regulatory framework for Lottery Grants.

194. However, I have reached the conclusion that at the point when a Lottery grant was made, and the terms and conditions of grant were signed up to by the relevant national governing body, the monies when drawn down from the Lottery account into the World Class Payments Bureau account became, beneficially, the money of the national governing body. This analysis fits both with the contractual position and with the fact that governing bodies who were not the subject of World Class Payments Bureau treatment did, at the point of receipt of money, have the freedom to use that money as theirs, albeit in accordance with the terms they had agreed with the Lottery Panel when the grant award was made. It also happens to fit with the brief reference in the Board papers of the time of the Bureau as an “Agency”. This does not mean that Sport England would not have been able to “claw back” money when it had been paid to a national

governing body and not used it for the purposes of the grant. On occasion this did indeed happen with some governing bodies. When it came to the £75,000 residue held in the World Class Payments Bureau account that was treated as money which had been “de-committed”.

195. Unfortunately, the records within Sport England inherited by its incoming management in 2007 were such that it is not clear what the residual amount of £75,000 related to, and neither Mr Kelly nor I have been able without conducting an inordinate amount of research with accountants to discover what the money was intended for. I have not come across any claims by any of the national governing bodies who received their grants through the World Class Payments Bureau that they had been underpaid in the relevant period. It is likely that this residual sum of £75,000 had been money drawn down against the expectation of continuing funding for karate which in fact went into liquidation and no further sums were paid over.

196. The question of ownership of money is relevant for another reason. Sport England, by managing the funds of a national governing body, had constituted itself the agent of that governing body for this purpose. This meant that it had taken upon itself duties and responsibilities for the proper stewardship of monies which belonged to national governing bodies. I do not think that those involved within Sport England had thought through the consequences of becoming managers of other people’s money. For example, the monies were not held in an interest bearing account. There were substantial balances on the Barclays Bank Account but the question of making the account an interest-bearing

one was never considered. Nor did Sport England set up and operate a proper system of charging the National Governing Body for the provision of this agency service. They should have done both.

197. There is a further consequence in that there was no reference in Sport England's annual accounts to the monies which were held in the World Class Payments Bureau Barclay account. In any year there might be up to £1 million (or more) held in the account. This should have been recorded in a note to the accounts as assets held on behalf of governing bodies. This never occurred and in that respect the Sport England accounts were deficient. It does not follow that the accounts as presented to Parliament did not present a true and fair view overall. A note to the accounts which described the sums held for NGBs by Sport England was missing.

New Management

198. Jennie Price became Chief Executive of Sport England on 2 April 2007. As part of the improvement to Sport England's financial management and grant making, she requested Philip Mabe, the then Finance Director to implement the recommendations made following a Deloitte's review of SE's financial systems and process. It was as a result of this process, that Barclays informed Philip Mabe of a bank account called World Class Payments Bureau in December 2008. I deal specifically with the development of knowledge of the WCPB by incoming management and of the Chairman and Chief Executive in particular in Chapter 9. As I point out, in that Chapter, having reviewed the evidence carefully, there is no basis for criticism of them.

Lessons to be Learned

199. There are a number of obvious lessons which arise from this history.

Historical Matters

200. I am dealing here with lessons relating to the WCPB and not on current matters at Sport England, and I refer also to the specific recommendations which are set out in full in Chapter 11.

200.1 The Board of Sport England should be the body which authorises new business activities by Sport England.

200.2 There should never be a business management function undertaken by internal audit.

200.3 There must always be clear reporting to the Lottery Panel, Audit Committees, and the Board about activities of the business and in particular, activities in risk areas which the World Class Payments Bureau was.

200.4 Sport England should not establish committees or sub-committees without clear lines of reporting running directly to the appropriate arm of management or the Board. The Accountability Committee was not a committee which had an

appropriate reporting line to the Board, nor to either of the committees (Audit or SMG).

200.5 It is inappropriate to establish separate bank accounts or separate accounting systems as a means of financial control. Financial control of areas of business activity comes from having appropriate checks and balances in place within preferably a single accounting system for the business's operations. However, if any separate accounting system or bank account is to be established then there must be a clear set of financial controls in place to ensure that scrutiny of that system and that account is not lost by management, or by internal or external audit.

200.6 Training must occur of staff who are to undertake accounting functions so as to ensure that they understand accounts and the legal duties which apply in the context of Sport England's essentially public law obligations.

CHAPTER 7
LOTTERY AND EXCHEQUER EXPENDITURE THROUGH THE WORLD CLASS
PAYMENTS BUREAU (WCPB)

Introduction

201. In this chapter I deal with the expenditure of monies through the World Class Payments Bureau in relation to each of the 16 sports which were paid monies by Sport England through the World Class Payments Bureau Barclays Bank account.
202. It should already be apparent from Chapter 3 that in order for a fraud to have occurred within Sport England it would have been necessary for there to be collusion operating between the person seeking the payment from Sport England and the person making the payment out of Sport England. An alternative possibility would be for the WCPB Bank Account simply to have been used as a means to channel money to a person or persons who were not entitled to it. So far as corruption is concerned, it is not necessary to establish that there was a fraudulent payment involved passing from one party to another, what I have been looking for is to see whether or not payments were made in either direction (that is whether going from Sport England into an NGB or in the other direction) in exchange for favours.
203. There are within the histories of some of the sporting bodies concerned issues which arise as to the nature of some individual payments. Because of the state of the accounting

records and the passage of time since these events occurred, it has simply not been possible for me to reach a firm conclusion as to the propriety of individual payments. However, I do not think that there was fraud operating within Sport England, nor have I found that any member of the Sport England staff was acting dishonestly. I have not found corruption at Sport England. I do not exclude the possibility that within some of the sports where monies were claimed and payments were made, excessive payments may on occasion have been made to such sports, and payment may have been made in circumstances where they were not actually going to advance the performance of elite athletes or improve the elite aspects of the sports in the long term.

204. I am conscious that in order for me to have reached the conclusion that there was dishonesty on the part of any individual or individuals I would need to have been persuaded by cogent evidence that dishonesty had occurred. The same applies with regard to corruption. The fact that I do not make findings of either fraud or corruption does not mean that the system as it operated through the World Class Payments Bureau was one which was entirely satisfactory. On the contrary: so far as the sports which were poorly governed or in financial difficulties are concerned, the history is indeed an unsatisfactory one both with regard to the governance of the particular sports, and with regard to the payment and approval system as it operated within the World Class Payments Bureau with regard to some sports.

205. I deal with the sports concerned in categories starting with what I shall call the “disability sports” then progressing to other sports, all of them appearing in the ledger which has

been exhibited in Chapter 3 which the reader will find is helpful to have in mind when reading this chapter.

206. When this inquiry started there was publicity about it. My inquiry team established a specific inquiry phone line and email address and we invited anybody with relevant information to contact us to assist with the inquiry. It is significant that I have received only one allegation (in reality a “suspicion”) of serious wrongdoing which is alleged to have occurred within Sport England. The person concerned who eventually came forward with this “suspicion” turned out to be someone who has never dealt with by the World Class Payments Bureau, represented a section of a sport which Sport England was not itself prepared to fund, and was making allegations about a sport which was not dealt with by the World Class Payments Bureau, and as to which I have not been made aware of any wrongdoing. I invited the person to provide me with any information he could, and none was forthcoming. I was not satisfied that this particular source of information was of any value whatsoever for my inquiry into the World Class Payments Bureau. I was alive to the fact that the person concerned was a disappointed applicant for funding and had been to the police without the police wishing to open an inquiry.

Payments to Disability Sports

The Sports Concerned

207. The sports with which I am concerned in this section are UK Blind Goal Ball, UK Boccia, UK Disabled Fencing, UK Paraplegic Shooting and, Wheelchair Rugby. These

Sports were funded through the WCPB by arrangement with UK Sport and as a result of the fact that they did not have Governing Bodies.

UK Blind Goal Ball

208. UK Blind Goal Ball was made an award of grant by UK Sport. This is a small sport, which had no governing body which was equipped to handle public funds. Further, it was a sport which fell within the requirement to encourage access to sport for all (including the disabled) and it is unsurprising to me that Sport England should have been asked by UK sport to manage the grant through the WCPB. The records reveal that, of the grant monies awarded, £83,955 was paid into the Sport England bank account and a sum of £91,877 was paid out of the World Class Payments Bureau bank account in respect of blind goal ball. There was thus a greater spend on the sport than there was recorded in the ledger for that sport. But the money did indeed go to the sport and has been accounted for.

UK Boccia

209. UK Boccia was made an award by UK Sport.

210. As can be seen from the ledger in Chapter 3, the amount received into the World Class Payments Bureau for UK Boccia was £154,324, whereas the amount paid out was £138,350, which appears to show that there was overall an underpayment to UK Boccia as against this grant. It does not follow that because the full amount of the grant was not used up that any sum is actually due to UK Boccia and I have not come across any claims

by this or any of the other sports with which I am dealing for monies which have not been paid. Just as there appears to have been an “overspend” on Blind Goal Ball, so the full amount of grant appears not to have been required for UK Boccia. In the end, as will be seen from the Ledger in Chapter 3 the monies paid in and paid out of the WCPB Bank Account can be accounted for, and payments in excess of funds held on a ledger for one sport in the end are exceeded slightly by “underspends” on others.

Disabled Fencing

211. UK Sport made an award to Disabled Fencing. This was paid into the Sport England World Class Payments Bureau account after 31 March 2000 until 31 March 2005 in the total sum of £164,324. Again, the reason for the making of the award and the payment of it through the World Class Payments Bureau was because Disabled Fencing did not have a National Governing Body which was capable of dealing with public monies. The amount paid out in the relevant period to Disabled Fencing was £138,350. Again, this demonstrates that there was a surplus on the account for Disabled Fencing in all probability explained by the fact that the sporting body itself was not able to undertake some part of the programme for which it had received the award.

Paraplegic Shooting

212. UK Sport made an award to Paraplegic Shooting, and in the years between 2000 and 2005 £239,056 was paid into the World Class Payments Bureau account and £179,017 was paid out. Again, the likely explanation for the underpayment is that not all of the programmes in the plan put forward for the award of grant were undertaken.

Wheelchair Rugby

213. UK Sport made an award to Wheelchair Rugby and between 2000 and 31 March 2006 the total sum paid into the World Class Payments Bureau account in respect of Wheelchair Rugby was £459,163. The reason for the inclusion of Wheelchair Rugby within the World Class Payments Bureau was the same as for the other disability sports. The amount in fact paid out for Wheelchair Rugby was £485,715, i.e. a sum of £26,552 greater than that received. This, on the face of it, demonstrates that Wheelchair Rugby was overpaid monies by Sport England in the relevant period. However, it may be possible that the amount of monies in fact expended did comply with the award but that the World Class Payments Bureau itself did not draw down from the UK Lottery account the amount specifically required for Wheelchair Rugby. At this distance of time I have not considered it proportionate to carry out what would be a detailed and time consuming investigation in order to reconcile the specific amount. No one has provided information to me which indicates that there has been any dishonesty or impropriety involved in the handling of the Wheelchair Rugby grant, and as I have already indicated the WCPB Account ended up with a slight surplus overall.

Karate

214. Most of the publicity and concern expressed in public about the World Class Payments Bureau has involved the funding of English Karate during the period 2005-2006. The press articles (for example, The Times, Wednesday, November 1st 2006) raised questions surrounding payments made during the period when the World Class Payments Bureau

was making payments to a company Karate England (2005) Ltd. In fact, Sport England supported karate as a sport in some form or other during the late 1990s and began to make payments to the sport of karate through the World Class Payments Bureau in the year 31 March 2000 – 31 March 2001, in which time £260,691 was paid into the World Class Payments Bureau bank account and £251,122 was paid out. I have therefore examined the whole of the funding of the sport of karate through the World Class Payments Bureau throughout the time that the Bureau existed.

215. I have reached the conclusion that within the sport of karate different people were pursuing different agendas in circumstances where they were not ultimately prepared to work together for the good of the sport as a whole and that the efforts by those within Sport England to bring the different factions together so as to have a unified governing body for the whole of karate turned out to be wasted. It was, of course, worthwhile for Sport England to try to obtain coordination, cooperation, and good governance across the sport of karate. However, by the spring of 2002 this had not happened and the further efforts which were made between 2004 and 2006 turned into disaster. During the period that Roger Draper was Chief Executive of Sport England, he wanted to encourage karate to become unified. The problem with the idea was that those involved in the sport itself, and those introduced into the sport from 2004 onwards at administration level, were not able to achieve the objective. Over the course of the period with which I am dealing there was paid out of the World Class Payments Bureau in favour of karate in its different guises £2,224,337. In theory, this money was intended to ensure that there was greater sustained participation in the sport of karate and greater medal success. So far as I can

tell from the volume of papers I have examined and the witnesses I have spoken to, although Mr Halifihi considers there were some improvements, neither objective was achieved.

The Sport of Karate – A Brief Background

216. Amongst the papers which I have read, estimates as to involvement within the population in England in the sport of karate vary upwards from a low figure of 65,000 people towards a higher figure of about 135,000 people. In a paper prepared for an EKGB meeting on 2nd July 2003 the numbers of members were put at EKGB 60,000 (90 associations) , ETKB, 26,000 (14 associations) and NAKMAS 29,000 (1 association). Geoff Thompson MBE, who gave helpful and dispassionate evidence to me and who was for some of the relevant period a member of the Sports Council, put the level of involvement at the higher end of the scale – i.e. towards the 135,000 mark. Ultimately, it may not matter what the precise figure is but the evidence tends to indicate that there are over 100,000 people who participate in karate within England and there may well be as many as 135,000 as Mr Thompson said in his evidence to me. Further, there is considerable interest in karate amongst the young. If the sport were able to manage itself nationally in a coherent way so as to sustain long term participation, investment by Sport England was not in and of itself wrong. On the contrary, the signs are that the sport has the potential to grow and that there is amongst the young an increasing desire to take part.
217. There were three main players in the “administration” of karate in England prior to the events which led to the attempted unification of karate in 2005. The English Karate

Governing Body (EKGB) was a small body which was run by Suzanne Genery MBE as the Performance Director from Doncaster. There was correspondence in the late 1990s between the DCMS and the EKGB in which the concern was expressed that the EKGB ought to be working on unification of the bodies involved in administration of the sport of karate for the good of all. Thus it was that by the late 1990s Government and Sport England were already concerned about the fact that there was not unification within the sport itself.

218. The second body was the National Association of Karate and Martial Art School or “NAKMAS”. The driving force behind this body was its Chair, Mr Joe Ellis. Mr Ellis’ and NAKMAS’ main concern was the teaching of karate at school/children level. In his evidence to me he made it clear that, in his view, less than 10% of the participants in karate wished to take part in competitions and therefore investment into the sport ought to be primarily directed towards greater participation at community level rather than for elite, medal winning competitions.
219. The third body was the English Traditional Karate Board (ETKB) and the person who was the driving force behind that was Mr Bob Poynton.
220. There was tension between these three organisations and a desire on the part of the ETKB and NAKMAS who had not hitherto received Lottery funding to be recipients of Lottery funding. Equally, Sport England was concerned throughout the period with which I am dealing that although it was funding the EKGB, funding should have been provided to the

sport as a whole for the cohesive development of karate on a sustainable basis and to elite levels.

221. It is sensible to divide the events with which I am concerned into two. The first part concerns the funding of karate prior to 2004: It was in late 2004 that Mr Nick Halifhi was retained by Sport England as a consultant to provide a report on the possible unification of karate. The second concerns the period after he delivered that report and the events which then transpired.

Funding by the WCPB of Karate in the Period Prior to 2004

222. We have traced awards to the EKGB during the WCPB years in the following amounts on the following dates during the WCPB's existence:

Award Letter

- 21 February 2000 1/1/00 – 31/12/00 = up to £223,817 (allowable annual expenditure up to £248,685) (the letter mentions the Bureau)
- 25 October 2000 performance award 1/1/01 – 31/12/2001 = up to £359,181 (letter mentions the Bureau)
- 20 December 2001 performance award 1/1/02 – 31/12/02 =£258,861 and interim potential award £100,320 (the letter mentions the Bureau)
- 1 January 2003 and 5 February 2003 (1/1/03 -30/6/03) = £140,000

- 27 June 2003 (to attend Women’s World Cup in July 2003) £26,998 (email from David Sanders at Sport England. Probably not paid as World Cup was cancelled (see below))
- 7 July 2003 interim payment of salaries , not specifically for any award, but paid as to £82,364
- 16 July 2003 (1/7/03-31/8/03) = up to £60,538 (mentions the Bureau)
- 21 October 2003 (period 1/9/03 – 31/3/04) =£120,000
- 15 March 2004 =£205,714

Funding to “English Karate” After 2004

223. To complete the story: Sport England ran out of patience with the EKGB in 2004, and possibly in 2003. The documents indicate that funding was suspended in 2003 to the EKGB part, not its athletes (although this is far from clear), and it was stopped in 2004. However, there is an interesting episode in May 2004 when UK Sport indicated that they were not prepared to spend £166,000 on a “modernisation” programme for Karate indicating that this was a luxury and that Karate ought to be able to modernise without funding at this level. They provided £72,000. Sport England did in due course agree to fund the employment of an officer at the EKGB and then at Karate England to “modernise” the sport. Mr Halifihi then acted as consultant in late 2004, prepared a report, and in November 2005 English Karate (2005) Ltd was formed (“English Karate”) with Mr Halifihi as Chief Executive and Sport England then recognised this body as the Governing Body for the sport. The suspended funding for the EKGB was then awarded to English Karate (2005) Ltd (“English Karate”) (in the sum of £200,000 raised to

£220,000 by the Board) and a further award was made by the Investment Panel of £1.5 million payable as to £500,000 per annum for three years 2006-2009. English Karate ran into difficulties very quickly and all funding was suspended in August 2006. English Karate was made the subject of a winding up order on a creditor's petition in June 2007

The EKGB – Funding until 2004

224. The EKGB was recognised by those who ran international competitions for karate such as the World Karate Federation as the body which could provide English athletes in international competitions. On the face of it therefore, it was not wrong for the Lottery Panel to attempt to fund the EKGB for elite athletes but with a view to ensuring that there was sustained development of the sport, and that unification of the sport occurred as quickly as possible, so that there should be cohesion within the sport as a whole. Funding of the EKGB was started by Sport England in 1998
225. I attach to the report as Annex 9 a spreadsheet which has been made arising out of the sample testing of the EKGB invoices and vouchers which were provided to Sport England during the period that the World Class Payments Bureau made payments to the EKGB.
226. Broadly speaking, the money that was provided out of the Lottery Fund to the EKGB was spent on salaries, payments for coaches, medical services, and supplies for physiotherapists, insurance when sportsmen and women were travelling, travel and hotel

expenses, badges and team kit, competition entry fees, and expenses for officials supporting competition participants at events.

227. The invoices which we have recovered as part of this inquiry were not kept in perfect order against payment vouchers nor have we been able to recover all of the invoices. However, I and criminal counsel have been able to examine a sufficient number of invoices to indicate that there was an open system of requests for payment, with general descriptions of what the payment comprised and a willingness on the part of Sport England to make the payment in accordance with the request made. As I have already indicated in Chapter 2, I am not satisfied that there is evidence of dishonest or improper conduct going on either within the EKGB, which was run by a reputable sports administrator, or within Sport England itself. I am however concerned by the level of scrutiny of payments and the absence of rigour.

228. On close scrutiny of the invoices questions arise as to why a particular payment should or should not have been made. To take one example, we have found that a payment of £111.62 was made on 1 April 2003 to a hotel for a damaged mirror. Similarly, there are some requests for payment where portions of the demand are not backed up by invoices or vouchers. For example, we have found a head of delegation claiming expenses in June 2004 where there is a single voucher of £100 for parking but the balance of the expenses claimed for meals (£84.00) does not appear to be supported by vouchers.

229. More significant is the fact that the largest proportion of the expenses during this period (and indeed in the period post October 2004) went on the significant cost of employing officials. Appendix 10 which has got a summary arising out of the sampling exercise demonstrates that a large part of karate's expenditure went on the cost of officials. There was nothing dishonest or fraudulent about it, indeed (subject to what I say below about June 2003) it formed part of the World Class and latterly Whole Sport Plan which was put forward to and approved by the Lottery Panel at Sport England.
230. However, Exchequer Funding was stopped to the EKGB in December 2001 because of the lack of progress by the sport of karate towards unification. The continuation of support via the Lottery fund for any length of time after Exchequer Funding was stopped, in the absence of unification and good governance for the sport as a whole, does not seem to me to have been a sensible use of public funds. As long ago as September 2001 Geoff Thompson MBE had chaired a meeting of the various Karate bodies at which the minutes record agreement in principle to unification, but arguments carried on regardless in the years which followed. It is fair to say that he voiced despair at this lack of progress to me.
231. The EKGB continued to seek Lottery funding and submitted a World Class Programme in support of their application. A Monitoring and Evaluation review by Kevin Hickey and Dr Auriel Forrester in September 2002 identified weaknesses in the World Class programme. Kevin Hickey of Sport England assessed the EKGB plan in June 2003 and recommended no further funding because of the weakness in the plan. In a letter to Suzanne Genery dated 11 August 2003 from Hamish McInnes of Sport England he said that the

EKGB's application for further World Class funding had been unsuccessful. Complaint was then made by the EKGB about the Case Officer. The case officer was then removed at the recommendation of Mr Chivers – Head of Management Audit. Mr. Chivers also stated:

“SE should take a lead role in the establishment of a separate unified World Class performance company, in order to maintain the World Class Programme and support of elite athletes”

This recommendation was rather late. The comment also amply demonstrates the extent of Mr Chivers' executive functions at Sport England.

232. On 27th June 2003 a Sport England Official David Sanders wrote an e-mail complaining about a request generated internally to him to pay the EKGB yet another grant in the sum of £26,998. It is worth noting that by this stage there had been nearly two years of arguments about unification and governance in karate since the September 2001 meeting. Awards had been made to the EKGB despite the concerns voiced within Sport England by letters as I have set out above. The e-mail was sent to Mr Chivers (Head of Management Audit) and Lloyd Conaway (Director of Partnerships) and copied to Hamish McInnes (Senior Development Manager at Sport England) and Greig Allen (Management Audit and Mr Chivers' Successor). It states:

“Reluctantly I have drafted an award letter to Karate for £26,998 as requested by Greig this morning but someone else will need to complete the conditions of award as I am totally in the dark as to why we are paying them and what conditions should be applied to safeguard our investment.

On that note I must say I have real concerns about issuing an award letter at all to Karate, especially in this way. There has been no Paper for it, no Council decision and I have heard nothing in writing from senior management requesting an award letter.

I also have real concerns about the fact that we are paying for 6 athletes to compete in Tokyo when we don't know who they are, why they are going, not to mention the fact that they are taking 5 support staff for 6 athletes. We would never normally support this kind of thing without further information etc.

Barry, Lloyd please can you let me know if you are happy and fully aware of this situation and that you wish me to continue drafting an award letter to Karate?

I understood there was a complete stop in their funding and their governing body status had also been withdrawn? Obviously, I could be wrong on every account but as I do not know the situation and have not been officially requested and briefed to do this I can but be cautious in a situation such as this. I have never

written a letter like this before without a Council minute etc and do not wish to jeopardise my position or indeed Sport England's.

Can you please let me know how you wish me to proceed.

Many thanks

Dave

[David Sanders]”

233. This e-mail is important, and would not have been written by Mr Sanders unless he had serious concerns about what was happening with Karate and at Sport England. It demonstrates how bad things had become internally, and how a request had been made for an award to be given by a member of staff who was concerned not with the grant-making function. Advice was being sought from Management Audit about a grant payment function in respect of a body (the EKGB) which was being managed though the WCPB and therefore by Management Audit. The request to draft the letter of grant had apparently come without Council authority. I have caused searches to be made for the e-mail traffic in response to this e-mail and have found none. However, it does appear that Mr Conaway signed an award letter on the same day (27th June 2003) making an award of £26,998 in favour of the EKGB despite Mr Sanders very strongly expressed concerns. Mercifully (as it happens) the women's karate competition in Tokyo which the £26,998 was supposed to pay for was cancelled, and as far as I can tell the money was not paid to the EKGB. (Because of this, I did not interview Mr Conaway). However, this episode encapsulates the internal governance problems which I address in this report, as well as a

concern about the continued funding of the EKGB against the history as I describe it. So far as I can tell action was not taken to suspend funding to the EKGB, despite these voiced concerns, until 2004, as more awards were made during 2003.

234. What is of concern from the public's point of view is that the expenditure on the EKGB and their officials did not lead to unification of the sport itself for the greater benefit of all, the subject to which I now turn.

235. My conclusions, having reviewed the history of karate at some length, is that by no later than the spring of 2002 (shortly after Exchequer Funding was stopped), it was necessary for Sport England to have taken a view that karate itself as a sport should come forward immediately with a properly structured plan for its own unification, good governance, and development if karate were to receive any further funding. A unification plan did not happen until the involvement of Mr Nick Halifihi in the latter part of 2004 at the encouragement of Mr Roger Draper, the then Chief Executive, and Mr Barry Chivers, the Head of Management Audit. In the meantime, the sport of karate received payments through the World Class Payments Bureau as the ledger in Chapter 3 demonstrates (and see the summary set out above) and continued to do so throughout each of the years 2002, 2003, and 2004. During this period there was no real progress towards unification, and although the sport had ambitions for greater numbers of medals at international competition, there is little evidence that the level of investment which was made into karate actually achieved much for the sport as a whole. There is some evidence of

improvement in medal awards¹⁸, but against the levels of investment which I describe in this report, the return was a poor one.

Events From and After 2004

236. Mr Nick Halifihi has a background as a player at international level in Rugby League Football. He became Performance Director of the Rugby Football League between 2000 and 2002 and Chief Executive of Hull Kingston Rovers between 2002 and 2004. In 2004 he was commissioned with the encouragement of the Chief Executive of Sport England, Roger Draper, and the Head of Management Audit, Barry Chivers, to prepare a report which might lead to the unification of the sport of karate. He was paid a consultancy fee by Sport England for this task.

237. Mr Halifihi organised working groups of those involved in karate in order to encourage them to work on ideas for unification and in the early part of 2005 he provided his report to Sport England and to those involved in karate on a possible route to unification. To put this into context, Mr Geoff Thompson MBE had chaired a meeting of those involved in karate nearly four years before this in September 2001 at which he felt he had obtained agreement in principle for unification but it had not occurred. Further, the DCMS and Sport England had for a period of three to four years before Mr Thompson chaired the meeting in 2001, been encouraging the sport to unify.

¹⁸ There is a report by a World Class Advisor at Sport England, commenting that there had been a steady improvement by karate athletes at World Class level. I have no evidence that establishes that this improvement was due to the funding of the EKGB.

238. I have already said in Chapter 2 that it is startling that sports have not in the 20th and 21st centuries created unified systems of good governance. Against the background of frequent encouragement in the sport of karate with the prospect of significant Lottery funding should the sport unify and become well governed, the failure to unify under good governance arrangements is not simply startling but, from the perspective of those involved in the sport, damaging.
239. In my view, the reasons why those involved in karate had not been prepared to unify and create good governance arrangements were not to do as some of the evidence given to me indicated with the fact that within the sport there are different disciplines and approaches to the sport. Many sports have a variety of disciplines within them but manage to achieve a single cohesive structure. The argument that karate is not a sport suitable for unification because within it there are different disciplines is, in my view, not a good one.
240. The real reasons for the failure to obtain unification within a sport which cried out for it were twofold. First, the sport has grown up through a number of small clubs and associations into which individual participants pay modest sums of money from which the local clubs and those who run them benefit. There is therefore a tradition of financial benefit around small clubs. In my view, those involved in the world of club participation were unwilling to give up what they saw as their club activities for the greater good of participation in a unified body for the sport as a whole. This is what witnesses have told me. The second reason is that I have detected character clashes amongst those involved with the sport. These are, in my view, the reasons why karate had not been able to unify

itself under a single governing body. They were in substantial part also the reasons as to why, when an attempt at unification was made in 2005, it collapsed.

241. There is a further reason as to why karate collapsed in the period 2006-2007. As I shall demonstrate, the money which was obtained from the Lottery for the purpose of Karate England (2005) Ltd – the new single unified governing body for the sport – was used in very large measure for the salaries of those who were supposed to administer or modernise the sport, office, travel and subsistence expenses with very little of the money indeed percolating down to the sportsmen and women. It rapidly became apparent that the level of expenditure for a small governing body of a relatively small sport was both too large and far too heavily concentrated upon the bureaucracy of its own management. Karate England had not sorted out its own banking and payment arrangements when payments started; it failed to pay PAYE and National Insurance for its own staff for a period of time. In reality a small company collapsed under its own weight.

242. Turning back to the narrative, in 2005, a meeting was held at which all of the parties agreed that a new company, Karate England (2005) Ltd, should be formed. Collyer Bristow were employed to create the Memorandum and Articles of Association of this company which was intended to become the umbrella governing body for the whole of the sport. In order to achieve this, it was necessary for those involved in the EKGB, the ETKB and NAKMAS to have membership rights and they wanted a say in the running of the company. Very quickly arguments developed as to whether or not each had got a proper say in the running of the company. The company was incorporated on 11 November 2005.

243. In the meantime, a Chief Executive needed to be installed who had the confidence of what everyone assumed was going to be the primary funder of Karate England (2005) Ltd – Sport England.
244. The interview panel met to interview candidates for the post of Chief Executive of Karate England (2005) Ltd – Karate England. Mr Philip Don was the Sport England representative on that panel and the other members of the panel were representatives from EKGB, NAKMAS and ETKB. Richard Sheppard from the recruitment consultant from Sport Exec – the head hunters, also sat on the panel, as did Mr Halifihi.
245. Having conducted interviews of those who had responded to an advertisement for the post, the Panel, on which Mr Halifihi was himself sitting, decided that none of those they had interviewed were appropriate for the post. There was some discussion as to whether Mr Halifihi was prepared to “put himself forward” and matters were left on the basis that if Mr Halifihi was prepared to put himself forward then the members of the Panel would recommend his appointment.
246. Later that evening Mr Halifihi let it be known to the head hunter who had been recruited for this task that he was prepared to serve as Chief Executive of Karate England. He provided a presentation to the Mr Sheppard and, armed with the knowledge that the other parties had consented to his appointment, he was appointed. Since this was a post which had required an open appointment process, the method by which Mr Halifihi was appointed was inappropriate. However, in fairness to Mr Halifihi, it is clear to me that there was disagreement within the constituent participants of Karate England as to the

other candidates and that there appeared to be agreement that they should have Mr Halifihi as a potential unifying force as their Chief Executive. On the evidence which I have received, this explains why he was appointed in this unusual way.

247. Within Mr Halifihi's contract of employment with Karate England there is provision for him to receive a car allowance of up to £5,000 per annum. There is also provision in clause 7 of his contract for him to receive up to £5,000 from Karate England to convert his garage to an office which sum was to be repaid if Mr Halifihi's employment came to an end within 1 year.

248. The office of Karate England was established at Bisham Abbey near London whereas Mr Halifihi lived in North Yorkshire. According to Mr Halifihi, he was encouraged by members of the Karate England Board to convert his garage so as to be able to work from home rather than travelling several hundred miles per week to and from the Bisham Abbey office. This account is consistent with clause 7 of the Employment Contract. There are two aspects of this which I therefore deal with. First, the expenditure by Sport England on Mr Halifihi's car and second, the garage conversion. Each has received publicity and concern has been voiced in the press.

249. Mr Halifihi was indeed paid the sum of £14,100 by Karate England and in turn by Sport England in order to enable him to purchase a second hand Mercedes E Class. He asked in effect that he should be able to "roll up" (i.e. be paid in advance) three years' worth of car allowance so as to enable him to purchase the car. In the circumstances where Karate England was a small sport funded by public funds, this was inappropriate: the agreed contractual allowance was for £5,000 per annum. It was however, done openly and

without dishonesty. To move matters forward, when Mr Halifihi fell out with the rest of the Karate England Board in 2006, he departed with the car but there were also some salary and other benefits which he claimed were owed to him by Karate England when he resigned by letter dated 27th June 2006 giving 3 months notice. Mr Halifihi offered to work out his notice period but was not wanted back at Karate England. He claimed that he was owed 3 months gross salary amounting to £16,249.98, a 5% bonus amounting to £3,250 – in total £19,499.98. He would have been bound to return the £4,550 paid to him for the garage as he did not survive as Chief Executive for one year. It is questionable whether there was an actual net “loss” to Karate England by virtue of his being provided three years’ worth of car allowance in one year, for he was not allowed to return to work out his notice and was not paid salary or compensation in lieu. However, we are here dealing with the payment in advance by Sport England, who were not Mr Halifihi’s employer, of money for the car: as I say this payment in advance was inappropriate. I have exhibited within Annex 10 the documents relating to the car.

250. As to the garage conversion, Mr Halifihi tells me that he was encouraged by members of the Board of Karate England to convert garage space into an office at his home in North Yorkshire in order to save him from travelling as often as he was down to Bisham Abbey which was having a disruptive effect on him and his family. Mr Halifihi tells me that he obtained quotes for the garage conversion and accepted one in the sum of approximately £4,550 (his contractual right was up to £5,000). A claim in this amount was certified as properly due by Joe Ellis on 12th January 2006, the Chairman/President of Karate England, and forwarded to Sport England for payment [the document is to be found in

Annex 11]. Victoria Pace, who gave plainly honest and convincing evidence to me, made a note that she was not prepared to sanction the payment of this sum by Sport England and passed the note on to her superiors.

251. At this point the story about the garage becomes confused. Mr Halifih, when I interviewed him, was insistent that he was indeed paid for the garage conversion and that the work was carried out. Conversely, I have been unable to find within Sport England itself any record that, following Victoria Pace's protest, authorisation was actually granted for the payment, nor have I been able to find a bank statement entry which indicates that the payment was made by Sport England. There are two possibilities. First, that the payment for the garage was made out of other funds which had been passed over to Karate England by Sport England. For example, there were funds at this point in the Karate England Bank Account and there was an employee who, when Karate England was about to collapse in mid 2006, made a claim for over £9,000 in unpaid salary directly from Sport England: money was available in the Karate England Bank Account in January 2006. Alternatively, someone senior to Victoria Pace may have authorised the payment for the garage within Sport England. In the end, I have not been able despite probing, to find the answer to how Mr Halifih received the payment which he did for his garage. It was not in his personal interest to admit to me that he had actually received the payment. I therefore reach the conclusion that he was indeed paid for the garage conversion, that it was a payment certified as properly due by the President of Karate England, and that he received the payment via funds derived from Sport England, out of the Karate England Bank Account. So far as Mr Halifih is concerned, he considers that his claim was properly and honestly made and he is supported in this by the fact that Mr

Ellis, as President, certified that the payment was properly due, and that his contract of employment recorded the entitlement in Clause 7. I ought to add that reports in the press that “hundreds of thousands of pounds” were spent on a garage conversion have not been borne out by the facts. £4,550 was spent on the garage conversion, and no dishonesty was involved.

Karate – the Bigger Picture

252. Questions about the car and the garage must not mask a much bigger issue so far as Karate England is concerned and that is the scale of funding generally into this company via the WCPB, and its predecessor the EKGB, in circumstances where Karate England went into liquidation in early 2007 and, in my opinion, failed to achieve anything of real significance for the sport of karate. It is important that those who examine the issues which arise out of the World Class Payments Bureau should not be distracted from this bigger question by the question of the payments for the car and the garage. I therefore turn to the funding picture of Karate England more generally.

The Funding of Karate England

253. In 2004 Celia Godsall was brought in to Karate (the EKGB) to assist them in their “modernisation programme”. The cost of doing this was funded by Sport England. Mr Halifihi was given his consultancy contract and he produced a Unification Plan in 2005. On 11th November 2005 Karate England (2005) Limited was incorporated.

254. In November 2005 the Sport England National Investment Panel made an award to Karate England (2005) Ltd of £200,000 in order to fund Karate England through to March 2006. The Board of Sport England in fact then approved a higher amount of £220,000 to go to Karate England. The money (as to £200,000) was allocated from the previous award which had been in place with the previously recognised body, the England Karate Governing Body (EKGB). That funding was awarded to EKGB for EKGB to run a World Class programme. In reality therefore Sport England were giving English Karate an award which had been made to the EKGB for its programme. What Sport England was doing was providing money to enable a new Governing Body to get started and to pay its executives and staff.
255. The National Investment Panel went on to make an award to Karate England based on a Whole Sport Plan which had been drafted by Mr Halifih principally in conjunction with Sport England. This award was for £1.5 million for the period 2006 to 2009 at a rate of £500,000 per annum. The funding which was being made by this award was predominantly for staffing and office running costs rather than for the benefit of individual participants in the sport, and the award was to a fledgling company.
256. Very quickly after Karate England (2005) Ltd was established things began to go wrong. The papers which I have read indicate that Karate England did not establish for a period of some months full banking facilities. During this period it did not pay PAYE or National Insurance to the Inland Revenue. An attempt was made to start to pay PAYE but there was still a substantial amount owing when the company went into liquidation.

Further, Karate England did not appear to have a proper finance function so that there could be proper supervision of its financial controls. In due course a Mr Shaw was appointed on a temporary basis in 2006 and not long after his appointment he indicated that Karate England was actually insolvent.

257. Despite the governance problems that existed within Karate England, neither of the 2005 awards which were made by Sport England to Karate England in fact stipulated that karate should be handled through the World Class Payments Bureau. The offer letters from Sport England to Karate England contained no clause which required management through the World Class Payments Bureau. As it happened, the payments to Karate England were largely paid for through the World Class Payments Bureau although one payment to karate, as a draw down from their grant, was not made in this way. This can be deduced from the Whole Sport Plan which at paragraph 2.2 states:

“On checking through the accounts it has been discovered that quarter three and quarter four payments amounting to £250,000 were not made to the Karate England via the World Class Payment Bureau account. Therefore, a de-commitment of £250,000 needs to be made against the Award”.

258. For convenience I attach an “analysis of Karate’s spend 05-06”. [Annex12] From this it can be seen that administration and employment of staff accounted for 64% of the expenditure of Karate England, funded by Sport England and only 36% went on sport costs.

259. Within the 36% that was spent on sport costs, a significant proportion went on clothing, travel and accommodation.
260. I have conducted an analysis of this expenditure as has criminal counsel. Behind the chart which appears on the first page of the analysis of Karate spend 05-06, there is a detailed trial balance for 2006 which will give the reader a reasonably clear indication of the way money was spent by Karate England.
261. Within the various items of expenditure, I draw attention to the following.
262. First, Mr Nick Halifihi's salary was paid to Pow Wow Sportz Ltd, his company. That company did indeed pay PAYE and National Insurance, whereas Karate England itself did not for the first several months of its existence.
263. Questions have been raised about expenditure made to Harness Technology. Harness Technology was employed by Karate England to install its computers, website, and software. The contract for this work was not put out to competitive tender, but the evidence I have received indicates that the work was carried out. I have found no dishonesty involved in the payment to Harness Technology: Karate England needed computer equipment, a website and appropriate software in order to run its office systems. It would obviously have been better for the sport (and Sport England) if its governing body had sought competitive tenders

264. A significant proportion of the expenditure went on salaries to the officials who had hitherto been working in the three different organisations, EKGB, ETKB, and NAKMAS. Expenses were claimed for by directors of Karate England including subsistence when they attended meetings. Given the fact that this was a new company, largely funded by public funds, it seems to me that paying for relatively expensive meals and subsistence for directors to attend meetings was something of a luxury and in the circumstances not justifiable. However, claims were openly made to Sport England for these sums and I have not detected dishonesty in the claims. It is of course a different matter as to whether this expenditure was worthwhile: I doubt it was.
265. Victoria Pace told me that she became increasingly concerned about the frequent demands for payment which were landing on her desk from Karate England. She also felt that there was no control being operated from within Sport England and she felt unable to turn for advice elsewhere – indeed when she did she told me that she was encouraged to keep paying the invoices.
266. On 9 August 2006, after Victoria Pace had obtained the advice of Perry Crimmins at Sport England, funding was officially suspended by Sport England. It was formally withdrawn on 19th March 2007. The Audit Committee were informed of this in a note, dated 22nd August 2006: and indeed they were also informed that *“Due to the NGB being a brand new organisation the funds for KE have been held by the payments bureau in the Sport England finance team, which means that KE has to apply to the Sport England*

client manager for the release of funds, for payment of invoices and other costs of running the organisation” There is, thus, no doubt that by this stage at least the Audit Committee was told of the existence of the World Class Payments Bureau albeit it was now only in terms of its dealing with karate (as was the case). The briefing note to the Audit Committee of 22nd August 2006 is much fuller and more detailed than any which had been provided in relation to an NGB which was in difficulty up until then.

267. Eventually, in January 2007, matters were brought to a close following a note from Victoria Pace dated 19 January 2007 which was circulated to the Executive Group of Sport England. Karate England at this stage was between £230,000 and £270,000 in debt, its creditors included HM Revenue for unpaid tax and National Insurance contributions and Sport England for the unpaid rental of the offices at Bisham Abbey.
268. On 27th June 2006, Mr Halifihi gave notice of resignation to Karate England and the temporary finance manager, Mr Shaw, indicated that Karate England was insolvent which was relayed to Sport England on 4th August 2006. Mr Ellis resigned as President/Chairman on 16th August 2006. Mr Halifihi did not return to work following an altercation prior to his going on holiday and he kept the Mercedes car in effect as a lien against unpaid salary. In due course Karate England was put into liquidation following a winding-up order which was made on 27 June 2007. In the period between the cessation of funding in August 2006 and liquidation in June 2007, Karate England abandoned the office in Bisham Abbey, moved with a skeleton staff to an office in

Redcar and, to all intents and purposes, karate broke out into the three groupings which I have already described. Unification was therefore a complete failure.

269. Mr Philip Don was a relationship manager at Sport England who dealt with karate during the course of his employment at Sport England. When Karate England was established, Philip Don moved to become employed by Karate England. I consider it to be inappropriate for a person who has had involvement at Sport England with a particular sport to move to that sport when it is the recipient of the very grant which the person who makes the move may have been involved with. I am fully alive to the fact that the sporting community benefits from expertise gained by those who work at Sport England or indeed within sport and who wish to move to Sport England. The problem arises where you have someone who has been involved in the administration or work on a Lottery grant who then moves across to the sport which is the recipient of the grant. There is, at the very least, a perception that this gives rise to a conflict of interest. As it happens, Mr Don resigned in the summer of 2006 and I have not come across any evidence that his position at Sport England had any effect upon Karate England receiving its grant nor did it have any effect with regard to karate during the period between the start of grant monies at the end of 2005 and the suspension of them in August 2006.

270. Sport England became so concerned about Karate England that in March 2006 (barely 4 months into its existence) they asked Deloitte & Touche to carry out an inquiry and to make recommendations. Deloitte & Touche provided a final report in June 2006 of their review of internal control systems. That report contained a litany of problems with the

set up at Karate England. Amongst the lists of concerns set out in the report, Deloitte & Touche comment that the Board of Directors appeared not to have received training, that the members of the Board had their own agendas to follow for the organisations which they otherwise worked for apart from Karate England, that there was little business or performance monitoring, that there was no performance or assessment of Board Directors, that the Board itself was not balanced with appropriate external appointments, that the process for approving invoices and expenses appeared to be taking up excessive executive and Board time and that in reality the Chief Executive was dealing with routine payment administration and arguments about it for much of his time, that the budget and all forms of expenditure appeared to be measured against the Whole Sport Plan of March 2005 rather than concentrating on the core activities for karate which was preparation of members for events and competitions. The litany of concerns continues beyond what I have summarised thus far. As I have already indicated, Karate England was not a company with a suitable skills mix of individuals on its Board, nor did it have a sustainable plan which all involved were prepared to carry through for the development of the sport which would ensure that investment would provide a return for those involved in the sport.

271. Finally, I draw attention to the fact that in mid 2006 the Child Protection Officer of Karate England also resigned: In his resignation letter he indicated that he felt bullied out of the role. I have not reached any conclusion about the facts surrounding his allegations. He resigned at the same time that Philip Don resigned. Within the papers which I have read, there is evidence that there had been a reasonably long standing concern within

Sport England about the level of attention to child protection issues within karate. Yet within six months or so of the start of a funding stream to a new, so called unified, governing body, the Child Protection Officer resigned. I have not, in the course of this inquiry, found out whether within the various bodies of karate, there are suitable child protection measures in place, being operated by each relevant body. Mr Ellis has assured me that within NAKMAS there are such measures in place. But it seems to me to be very unfortunate that a sport which is attractive to children and which should therefore have in place responsible child protection measures which are operated throughout the sport, has fragmented again in circumstances where, had it remained unified, it would have had a full-time Child Protection Officer in a senior position able to ensure that good standards were applied throughout the sport. This is exactly the sort of thing which Sport England would want to pay attention to when considering funding any sport. It is also something which is of importance for public confidence in sport more generally.

Lessons to be Learnt

272. Karate England may not be the only sporting organisation which has not managed to create a unified governing body for the good of all involved in the sport. It is however an extreme example of it. I ought to stress that there is nothing wrong with Sport England investing in parts of the administration of an NGB if by doing so they are assisting the NGB to achieve better standards and better reach into the community for the sport in questions. So far as this inquiry is concerned, the lessons to be learned from the Karate episode are as follows:

272.1 There was a proper desire on the part of Sport England to encourage a unified national body for karate. However, the failure of karate to achieve this of itself by about mid 2002 should have indicated to the management of Sport England that further attempts at unification without those attempts being driven from within karate itself were almost infallibly doomed to failure, and funding decisions should have been made accordingly.

272.2 The amount of the award made in November 2005 of £1.5 million to a fledgling new and untested governing body was very high. Fortunately, from the public's point of view, it was not all drawn down before funding was stopped in August 2006. However, it is surprising that the Lottery Panel, which by this time was known as the National Investment Panel, should have seen fit to make an award in such a large sum where a significant proportion of the award was to be spent on the salaries and administration costs of the fledgling company. To this extent I agree with Mr Ellis that the investment seems to have been driven at a top heavy bureaucracy and not sufficiently towards the encouragement of participants in the sport itself.

272.3 There was inadequate assistance provided to Victoria Pace to assist her in the growing crisis that developed within karate. To her credit she moved to stop the funding stream in the middle of 2006 as the demands for payment from Karate England increased. She also refused to sanction the payment for Mr Halifihi's garage.

272.4 The Board of Karate England itself was not properly constructed with an appropriate skills mix for efficient and economical administration in the interests of karate as a whole. In reality the Board comprised those who had for years had disagreements about the development of the sport and who now sat together on the Board of a company each being paid their salaries from Sport England.

272.5 As I shall demonstrate in Chapter 8, there was inadequate reporting of the risks to the Audit Committee of Sport England during the whole of the karate period. The first adequate report of the problems occurred when funding was suspended in August 2006 (the report of 22nd August 2006).

272.6 The fundamental proposal which I make that there should be a small group which sets the minimum standards by which sporting governing bodies should operate is made starkly necessary by the experience which Sport England had with karate. Karate is still not governed by a single unified governing body and is no longer funded by Sport England. It has therefore been left to karate enthusiasts to organise the operations of their separate concerns as they see fit even though as many as 135,000 people wish to take part in the sport and those involved in the sport want to see it grow.

Hockey

273. In the 1980s and 1990s the English & Great Britain Men's & Women's Hockey Team achieved success at international level.

274. English hockey was, during this period, organised by the English Hockey Association (EHA). Because of the resurgence of hockey and success at international level, the English Hockey Association decided to build a stadium in Milton Keynes.. In 2001 English Hockey also agreed to host the World Cup: this was a financial strain and caused a crisis.
275. The cost of the World Cup caused the English Hockey Association to overreach itself and to become bankrupt. The EHA was an unincorporated association whose membership comprised hockey associations and clubs as well as individuals.
276. Sport England has funded the sport of hockey to a very significant degree over the years. Hockey has been one of the largest recipients of “revenue” funding and the events within the English Hockey Association and its collapse caused obvious concern within Sport England. What ought to have happened was that following the insolvency of the English Hockey Association, a new governance structure should have been created by those leading the sport of hockey in consultation with Sport England so as to ensure that a new robust national governing body emerged. As the history recounted below demonstrates, this did not happen – at least not for some time - and the attempts to salvage hockey from the fires of the collapse of the English Hockey Association got off to a faltering start.
277. Before turning to more of the history, the amount of money which was paid into the World Class Payments Bureau Barclays Bank account in respect of grant awards for hockey amounted to £6,226,426. The amount paid out of the account on behalf of

hockey was £6,362,675. The period in which this funding occurred was in the years ending 31 March 2002 (£350,069), 31 March 2003 (£3,426,691) and 31 March 2004 (£2,449,666).

278. The collapse of the EHA created a crisis. The intention of those involved in hockey and Mr Chivers in particular as well as others at Sport England was to create a separate, ring fenced, organisation into which funding could be paid so as to ensure that world class, competitive hockey (and the sport more generally) could remain funded by Sport England.

279. On 31 March 2002 Sport England withdrew grant funding for the performance hockey activities of the EHA and on 1 April 2002 Sport England started making payments of that funding to “World Class Hockey” as it was called (WCH). The remainder of the award was transferred to WCH. WCH was to look after the World Class performance unit of EHA. Other activities transferred to Hockey England Limited. However, the company into which the World Class payments were made was actually Fitness Exchange at Brentwood Ltd, which was a dormant company within a corporate group: Mike Corby Holdings Ltd. It changed its name to “World Class Hockey Limited” in April 2002¹⁹ Mike Corby was the President of the English Hockey Association at the time of its collapse when funding was withdrawn by Sport England. It would seem that the plan was for the directors who had previously been in place in Fitness Exchange at Brentwood Ltd (FEB) to resign so as to be replaced by a new Sport England nominated board with others nominated by those involved in the sport – formerly at the EHA. Mr Corby was

¹⁹ And changed its name back to Fitness Exchange at Brentwood Limited in April 2003.

apparently providing a corporate vehicle through which hockey could continue to receive Sport England funding at short notice.

280. Two directors were nominated to go onto the Board of FEB being Mr Peter Thomas appointed in 2002 and reappointed in 2004 and Mr PA Kimberley appointed in May 2003 and re appointed in 2004 as Chair. Mr Peter Thomas was nominated by Mr Barry Chivers, the Head of Management Audit at Sport England. The papers demonstrate that Mr Chivers had a good deal of personal involvement in the issues surrounding hockey. The Strategic Management Group discussed the situation of Hockey at its meeting in May 2002.

281. FEB was an inappropriate vehicle into which to place public funds. It was a dormant limited company which was owned by its shareholders. An appropriate vehicle would have been a non-profit making company limited by guarantee run by Sport England nominees and responsible officers of the sport itself on behalf of the sport. It was a further year before such a company was established and received Sport England's funds. The company that was created was World Class Hockey Ltd (which was originally incorporated under the name Performance Hockey Limited). From 1 April 2003 the Sport England was paid to World Class Hockey Ltd and no longer to Fitness Exchange at Brentwood Ltd.

282. This, unsatisfactory, beginning then gave rise to accountancy and other problems. Mike Corby Holdings Ltd treated FEB as a dormant company filed its own set of accounts at

Companies House indicating that FEB had been dormant. This was not of course correct: FEB had (as “World Class Hockey”) been receiving Sport England funding from 1 April 2002 until 31 March 2003. As the incoming Finance Director, Mr Wilson, indicated in a recent note provided to me, it “*took a long time to sort out the difficulties that this caused*”.

283. The accounts which were eventually filed by FEB were entirely based on the management accounts maintained by Sport England. Even after World Class Hockey Ltd began trading, it did not maintain its own accounting records until 1 January 2004 (i.e. nine months after it had started receiving Sport England funding). It was at this point – 1st January 2004 – that World Class Hockey Ltd stopped receiving Sport England funding via the World Class Payments Bureau. On 31 August 2005 World Class Hockey Ltd ceased to operate when the performance side of hockey was reintegrated into England Hockey.

284. The public face of “World Class Hockey” existed from 1 April 2002 and its board was chaired by a Sport England nominee – Mr Eady – with an additional director also appointed by Sport England, Mr Peter Thomas, as well as Mr Kimberley. It operated as the Board of World Class Hockey Ltd from 1 April 2002 in fact independently of Mike Corby Holdings Ltd even though it remained part of the Mike Corby Holdings Group until 31 March 2003. Although Mr Eady was appointed Chair in 2002 he also resigned in the same year. Mike Hamilton was appointed a director, and remained as Performance Director.

285. I attach to this report the accounts of the Fitness Exchange at Brentwood Ltd as Annex 13 for the years ending 30 June 2002 and 30 June 2003. These accounts were audited by Littlejohn Fraser. They demonstrate that in the year to 30 June 2002 the turnover of FEB was £633,615 and that it had administrative expenses of £303,458. In reality, its administrative costs were being funded by Sport England (see above and see the ledger in Chapter 3). In the year to 30 June 2003 the turnover increased to £1,750,793 and the administrative expenses were £774,310. Again, all of the administrative costs were in reality being borne by Sport England. Further, Sport England was funding hockey to a much more significant extent than simply funding the administrative expenses of FEB. Also exhibited within Annex 13 are the audited accounts for World Class Hockey Ltd for the period to 31 March 2004. From this it can be seen that the income of World Class Hockey Ltd was derived entirely from the Sport England grant and was £3,316,880 and that the administration expenses accounted for £962,845. These accounts revealed that World Class Hockey Ltd had a surplus of £319,648 after tax and it is recorded in the accounts that “*the company has obtained agreement from Sport England that the surplus of income and expenditure of £319,648 as at 31 March 2004 can be carried forward and used to fund elite hockey activities in the future*”. This is a reference to a letter of consent from Sport England. Peter Thomas' recollection is that Roger Draper agreed that the surplus could be used for these purposes.

The Governance of FEB and World Class Hockey Ltd

286. I have received in this inquiry considerable assistance from Peter Thomas (now Professor Peter Thomas). He has also provided me with a volume of documents which relate to the period of his involvement at the request of Mr Barry Chivers as a Director of FEB and then as a Director of World Class Hockey Ltd. The basic premise upon which Sport England was operating was twofold. First, Sport England wanted to ensure that English hockey (men and women) was able to remain at the forefront of international competition. Second, Sport England did not wish to pour public money into a financially failed organisation which is what the English Hockey Association had become. Whilst these are perfectly laudable reasons for the establishment of a ring fenced, elite hockey organisation, the actual arrangements as I have indicated above were unsatisfactory. I have been unable to find a clear structural or business plan for the new organisation – whether that be called FEB or, as it subsequently became, World Class Hockey Ltd. There were tensions relating to the management and organisation of the company FEB and later World Class Hockey Ltd.

287. For example, in late 2003 Mr Thomas wrote a confidential letter to Mr Chivers. He has asked me to maintain the confidentiality of that letter and I shall. I am, however, able to say from surrounding documents, and Mr Thomas's evidence to me that he was deeply dissatisfied with the quality of management of World Class Hockey. He considers that there were conflicts of interest operating and that he was, despite being the Sport England nominated director in the organisation, being kept in the dark about certain developments. The confidential letter is lengthy. In a piece of internal correspondence of 14 May 2002

from Barry Chivers to David Carpenter and Terry Price (copied to Fiona McCulloch), Mr Chivers stated that *“an increasing number of NGBs have been referred to WCS [World Class Support] on the basis of “concerns” over their own ability to manage and account for world class funding. This most recently included the Squash Racket Association with annual awards of approximately £1.1 million and the English Hockey Association with an award of approximately £2.8 million per year”*.

288. He goes on to describe that there has been, because of the current reorganisation of Sport England, a decrease in temporary staff which would not, given these extra referrals, be sustainable. He therefore recommended the staffing costs for the world class support function be *“top sliced from the world class awards of the respective NGBs on a pro rata funding and timing basis”*.

289. In due course the sum of about £30,000 was taken from the hockey funding award in order to assist in funding the operation of the World Class Payments Bureau. As far as I can tell, there was no consistent application of charges for other sports.

290. So far as the funding of World Class Hockey Ltd is concerned, there are a number of invoices which were paid to the company which lack detail or sufficient back up.

291. For example, Sport England have discovered that on 6 June 2003 an invoice was submitted for a “float” totalling £30,000. It is unclear to me how this money was spent

and I have not been able amongst the papers provided and retrieved from the archives been able to discover whether or not it was ever properly vouched for.

292. On 2 September 2003 an invoice was apparently presented for “Orange Mobile Phones” totalling £4,481.89. This did not have cross-referencing or sufficient detail to enable Sport England to discern whether this was a proper sum for Sport England to be paying.
293. On 5 March 2003 an invoice for salaries in the sum of £58,040.53 together with an undated invoice in the sum of £56,885.88 were also provided to Sport England. Again, whilst I assume that Sport England was indeed funding the salaries for the staff of World Class Hockey Ltd, I have not had information which has enabled me to investigate so as to reconcile these payments with the underlying salary obligations of World Class Hockey Ltd.
294. Internally, I believe that Sport England have, in my view, correctly, reached the conclusion that attempts to claw back these or any further sums from World Class Hockey Ltd will be futile. World Class Hockey Ltd, the recipient of the money, no longer exists. Further, the Chief Executive of Sport England agreed when the sport ceased being dealt with through the WCPB that a surplus should be carried over into the further activities of hockey although it would have been open to him to have challenged the requests for payment as they had been put forward to his staff until that point. This did not occur.

295. Criminal counsel and I have reviewed the invoices which have been found amongst the Karate England boxes of papers. As with karate so with hockey. There are, for example, invoices where round sum figures are claimed and paid but there appears to be no back up documentation. For example, we have come across a float for “SA” at £1,500 but we have not found a paper trail which indicates how this was accounted for and indeed whether it was ever reconciled. We have found claims for hotel rooms which may indeed amount to proper claims relating to attendance by athletes or officials at competitions but we have been ourselves unable to verify them.
296. Similarly, some phone bills were paid but without itemised billing and without my inquiry team being able to satisfy itself that calls were being paid for which were necessarily made on hockey business.
297. There are suspicions within the current management of Sport England that in the years prior to the involvement of the World Class Payments Bureau and those of the World Class Payments Bureau’s involvement in hockey, excessive payments were made. For example, there is an indication that there was excessive use of leased cars by the EHA prior to its insolvency. At this distance and with the paperwork provided to me I have not been able to verify these concerns. However, the history as I have recounted it above indicates that there was, as I have said in Chapter 2, a failure to grasp the governance issues as they related to hockey by those involved at senior levels of hockey and those involved at senior levels in Sport England so as to ensure that the elite aspect of hockey, together with its communities part, were properly governed in a robust and economical

way as quickly as possible when the funding crisis occurred. The saga surrounding the use of FEB and World Class Hockey Ltd in many ways demonstrates the problem.

Lessons and Recommendations

298. Hockey ceased to be funded by the World Class Payments Bureau at the end of March 2004 with one further payment being made (which represented the balance of monies held on the account) in the year ending 31 March 2006. The recommendations which I make elsewhere in this report also are sufficient to cover the lessons to be learnt from the episode so far as hockey is concerned.

Boxing

299. The amateur sport of boxing in England was governed by the Amateur Boxing Association of England Ltd (ABA). The ABA used a company Amateur Boxing England Ltd (ABE) to carry out its administration. It would appear that Sport England treated the ABA as the governing body of the sport of amateur boxing in England and as the body responsible for the promotion of the sport and the practice of amateur boxing. So far as I can tell, the ABE was used pursuant to an agreement dated 22 February 2001 to carry out the process of delivery of the award by Sport England of a grant to the ABA. As ever with sports which have a somewhat complicated background, the need for there to be two separate bodies involved in the promotion of amateur boxing may be explained by the desire to “ring fence” the Sport England award.

300. The ABA was founded in 1880 and ABAoE (or ABE) was formed in 1993 following difficult years and a lack of support for the ABA. By 1998 the ABA was in serious financial difficulties due to the large deficit incurred on running the European Junior Championships. This was resolved by the Chief Executive of Sport England (Mr Casey) saying he would make a proposal to the Council for further funding which duly followed (see below)
301. Tony McNab conducted a review of Boxing in England in August 2001 which recommended major structural changes to the way in which the Sport is managed. Further, in 2004 Littlejohn Fraser conducted an NGB audit of the ABA. Their report confirmed that the ABA was still managed in the WCPB. Page 17 of their report records and warns *“we have not taken a detailed review of ABE’s controls of its lottery grant, as at the time of the audit it is in SE’s Payments Bureau. We understand that there are plans for the grant to come out of the Bureau and to be processed by ABE. As highlighted in this report, the financial management systems operated within the ABEA require improvement. As such, there may be some risk associated with the management of the lottery funds once they are removed from the bureau...”*
302. The history therefore is that amateur boxing has been beset by a number of difficulties which its leaders had failed to overcome in order better to promote and regulate the sport of boxing in England. I ought to stress that I am aware that boxing has significantly improved since the events which I describe, and I am confining my observations to the period under inquiry. The difficulties of which I speak are:

- 302.1 Although boxing is an amateur sport, for example for the purposes of the Olympics and other international competitions, professional boxing promoters tend to take those who are emerging as talented amateur boxers and offer them lucrative professional contracts without involving themselves in the investment required during the amateur career of the young boxer. This gives rise to tension and conflict.
- 302.2 The ABA itself was at the early part of the period with which I am dealing, not managing its books of accounts satisfactorily. I have seen papers which indicate that the ABA was at one point only recording 13% of its turnover in its books. In other words, 87% of its financial turnover was not being recorded at all and there was a situation of chaos which required to be remedied.
- 302.3 Boxing is perceived to have a particular social usefulness. It thrives in inner city areas such as the East End of London and Liverpool where young potential boxers might otherwise be on society's fringes and at risk of becoming involved in crime. So far as Sport England was concerned, it was important to support boxing where it could in order to assist in strengthening sport in deprived inner city areas and assisting in the progress of youngsters who might otherwise become some of society's rejects.
303. At the Sydney Olympics in 2000, Audley Harrison won a Gold medal in the Heavy Weight division. This was seen by some as proof that England could continue to produce

world class amateur boxers. The difficulty in the past had always been that boxing had appeared to be unable consistently to produce high quality boxers who would win medals at international tournaments.

304. The ABA received their first Sport England Lottery fund award in 1998. This was an eight month interim programme which supported a small number of boxers in their 1998 Commonwealth Games preparation programme. At the 1998 Commonwealth Games England came top of the boxing medals with four golds, and two bronze medals. This first programme was followed by another short term skeletal programme which was designed to support a small number of boxers in their preparations for the 1999 World Championships. At these Championships England won three top ten places. As I have already indicated, England won its first gold medal at boxing for 32 years at the 2000 Olympics. This second interim programme was intended to allow the ABA to put down the foundations for a long term integrated world class programme through the recruitment of a performance director and staff. Funding was therefore provided with the intention of enabling the ABA to recruit a performance director. Mr Ian Irwin, the National Coach, took on the role of Performance Director of the ABA. It is fair to say that without Lottery support during these two periods, it is unlikely that boxing would have had the infrastructure necessary to support teams to success at the 1998, 1999 and 2000 competitions which I have just mentioned.

305. The fact of these successes between 1998 and 2000 did not prevent the ABA from encountering serious financial difficulties and suffering widespread internal dissent.

306. From 1998 onwards, the Lottery Panel made the following awards to the ABA:

Award Period	Amount of Award
1/2/98 – 31/9/98	75,450
1/5/99 – 30/4/00	357,900
1/5/00 – 31/12/00	160,943
1/5/00 – 31/12/00	127,566
1/1/01 – 31/12/01	1925,500
1/1/02 – 31/12/02	1,512,555
1/1/03 – 31/12/03	1,557,932
1/1/04 – 31/12/04	1,607,670

307. Each of the awards to boxing from the end of 1999 were paid through the World Class Payments Bureau. In all there was received into the World Class Payments Bureau bank account the sum of £5,127,862 for boxing and in total there was paid out of that account the sum of £5,261,152.

308. In a report provided to the Lottery Panel of 20 November 2000, the plans for boxing were set out in some detail for the ensuing years until 2008. The report to the Lottery Panel recognised that the ABA “*had endured a testing time in recent years arising from serious financial difficulties and widespread internal dissent*”. The report carried on:

“the administration of the office was, and remains, reasonable if somewhat outmoded and uninspired. It was hoped that the appointment of a general manager in 1999 with a remit to promote the strategic development of the sport and to implement proper financial controls would have rectified this, but his suspension (and the simultaneous resignation of the Finance Officer) in September 2000 has necessitated that Sport England’s management audit unit continues to keep the association under strict observation, and at times, strict control. The sport itself tends to be fractious, personal disputes are common and the managerial ability of many of the representatives involved is generally very limited ...”

309. That report went on to say that in the light of the situation it was not appropriate that the executive directors of the ABA were given the responsibilities of managing the finances of the world class programme. It was therefore recommended that a grant be made but that it should be administered through the World Class Payments Bureau (described in the report as “Sport England World Class Bureau”). As I have now repeatedly indicated, it is very unfortunate that the sport of boxing should have had this chequered history. The report from which I have quoted indicates that amateur boxing was concentrated in 565 affiliated clubs through eight regional associations providing for 6,800 registered club boxers with a comprehensive domestic competition programme. A further 16,000 boxers who were not registered with the ABA were nevertheless registered as members of their local boxing club.

310. Further, English boxers had won medals at 11 of the last 14 Olympic Games (16 medals) and at all of the 16 Commonwealth Games (a total of 89 medals). Junior English boxers had won medals at all but one of the 16 European Championships since 1970 (a total of 35 medals) and by 2000 six of the last ten World Junior Championships.
311. The plan which was put forward to the Lottery Panel sought awards for the year from 1 January 2001 to 31 December 2001 of £795,065 (for performance), £835,000 (for potential) and £488,500 (for start). Similar sums were sought for the ensuing years to the end of December 2004. It was acknowledged that the sport would have to be “managed” through the World Class Payments Bureau.
312. Alongside the plan, there were various targets set out in Appendix 1 as “competitive and milestone targets”. From my reading of these, they were modest medal targets in which the ABA was anticipating up to no more than three medals in each relevant major competition through to 2008. It has been commented to me by Lisa O’Keefe, currently the Director of Sport at Sport England, that the milestone targets such as those I have just described were relatively easy to achieve which in turn meant that there were not particularly high quality measures in place against which the investment by Sport England could be valued. I agree with her analysis.

Management through the World Class Payments Bureau

313. Save for two payments (which I shall come back to) the World Class part of the ABA's award was paid through the World Class Payments Bureau as I have already indicated. This meant that invoices were submitted to Sport England for payment.
314. My team has examined such boxing invoices as we have been able to recover from the Sport England archives with a view to seeing whether or not there is any pattern of impropriety surrounding the raising of them or the payment of them. There is no evidence from the information we have from which we could conclude that there was dishonesty involved in the payment of the invoices to boxing. True it is that the process of scrutiny which was plainly required for a sport which had a history of not being able to manage its payments was not as good as might have been expected of a body which was supposed to be scrutinising payments before they were made. Some checks were carried out on boxing invoices by the WCPB but there is a letter from Boxing to World Class Support dated 10 July 2001 which stated that World Class support is a payment and reporting support system and not an overseer of World Class expenditure and should not operate as such. Yet the very reason for amateur Boxing to have been included within the WCPB was that it required oversight.
315. As with other sports who were being dealt with through the World Class Payments Bureau, Sport England should have taken vigorous steps with the ABA itself to ensure that the ABA became a properly constituted and well governed sport by the early part of 2002. As it was, the World Class Payments Bureau operated as the banker for the World Class part of the ABA's grant until 31 March 2005. After that date, boxing was taken out

of the WCPB. As it turns out Mr Derek Mapp, who had previously been Chairman of Sport England, ultimately became the Chairman of the British Amateur Boxing Association of Britain (the performance arm of boxing) and a non-Executive Director of the ABA, and I understand that under his guidance better systems of financial control have been installed. It is sad that a sport which has such a high profile and which has produced significant medal winners had taken so long to reach a form of proper financial management and governance. As I say, I do not comment on the current governance structure of amateur boxing.

316. As I have indicated in Chapter 3 I have been concerned about two payments which on the BACs transfer forms are identified as being in the sums of £196,531.00 made on 31st March 2001 as a payment for Boxing and which should therefore have gone through the WCPB Account. It did not do so. A second payment of £100,000 shown on the BACs transfer form as made on 4th April 2001 to Boxing also did not go through the WCPB Account. Both payments should have gone through the WCPB Account as Boxing was being handled by the Bureau. As a result of some careful work with the award papers, correspondence and documents we have satisfied ourselves that these two payments were made direct to Boxing and did not go astray.

Invoice Analysis

317. I have caused an analysis to occur of such invoices as survive from Boxing. Criminal Counsel advises that there is no basis for a case of fraud. There are some occasions when the WCPB refused payment – for example when taxis were claimed in circumstances

which were not thought to be appropriate. But there are also cases where invoices appear to have been paid against invoices not backed by vouchers or which do not seem on their face to be appropriate for payment out of a Lottery grant. For example, one boxer was reimbursed £690 for boxing in Lithuania: there are no air tickets or hotel bills to back up the claim. A phone bill for in the sum of £199.33 was paid for an individual which appears without explanation when there is also a bill for the ABA at the same address. Some individuals have their phone bills reimbursed without apparent explanation. It is simply not possible for me to say given the material which is contained in the archives whether or not these, or similar such claims, were proper claims.

Ice Skating

318. I was assisted in the inquiry by Mr Keith Horton who was appointed as the Secretary to Ice Skating in April 2001. The history is as follows. In about late 1999 or early 2000, the sport of ice skating was found to be unfit for purpose by Sport England. This was because its administration was not considered suitable for receipt of public funds. Thereafter any funds paid to ice skating were paid via the World Class Payments Bureau.
319. The total amounts received into the World Class Payments Bureau account for ice skating were £686,048 and the amount recorded as paid out was £535,154.
320. Mr Horton's evidence indicates that the arrangement with the World Class Payments Bureau enabled the small sport of ice skating to turn itself around and with his and the

assistance of new management to begin to thrive again. Ice skating is a relatively small sport in overall terms with a membership of the National Ice Skating Association of about 4,500 people. Relatively few ice skaters compete in national or international competitions although there has in the past been conspicuous success for some who have competed at international level such as Torville & Dean, Robin Cousins and others. The level of participation within the country as a whole is proportionately much higher than the membership of the National Ice Skating Association.

321. The National Ice Skating Association provided me with its accounts for the relevant period – that is for the financial years ending 2002, 2003 and 2004. The 2001 accounts were not available but I draw no adverse inference from this, it is simply a reflection of the passage of time.
322. The arrangement that was made for ice skating was that its plan for the sport was approved by Sport England, a grant was made by the Lottery Panel, and a cash flow calculation was made for each relevant year in question. There was then a draw down from the Lottery account into the WCPB Barclays Account in accordance with the cash flow calculation with payments across from the World Class Payments Bureau to the Association in accordance with the approved plan. Money was paid in advance in each quarter in order to ensure that the Association remained properly funded.
323. Budgets were prepared by the Association's Performance Director and would be signed off by the Association's own panel. The Association was very careful to ring fence the

monies which were allocated for competition and were, Mr Horton told me, still able to run a successful short track competition despite the administrative difficulties which had beset the sport in 1999-2000.

324. Mr Horton pointed out, as have other witnesses, that the devolution of Sport England's activities to the regions was of no help to the sport of ice skating. This comment was made to me not only by those involved with ice skating but also by others.

325. I was assured by ice skating, and I have no reason to doubt, that the money which was paid over by Sport England through the World Class Payments Bureau was properly spent and that ice skating's own accountant and auditors were able to account for the expenditure. Ice skating's accounts are audited annually and in the years for which I have the accounts there have been no qualifications by the auditors.

326. The overall conclusion from the foregoing is that ice skating is a relative success story in Sport England terms: it was a sport which needed care, it improved its internal systems of administration and management and it emerged in better shape from a period with the World Class Payments Bureau by or about the spring of 2003.

Squash: World Class Funding started in September 1997.

327. The World Class Payments Bureau made payments to the sport of squash in the period for the financial years ending 31 March 2002 to 31 March 2005. In that period of time, the World Class Payments Bureau Barclays account received £2,613,776 and there was paid out in favour of squash £2,632,898. If the payments made in the year 2001 are included (see para 328) then the amount paid out to Squash increases by £1,040,119 bringing the total in the period 2001 to 2005 to £3,673,017.00

328. As I have indicated in Chapter 3 I have been concerned to find BACs transfer forms which appear to show payments in respect of Squash made to the WCPB in the sum of £339,590 (31.03.01), £94,587.00 (31.03.01), £84,810 (22.05.01), £152,982.00 (14.06.01), £88,287.00 (14.06.01), £191,355.00 (21.09.01) and £88,508.00 (21.09.01) (totalling £1,040,119.00). None of these payments in fact arrived in the WCPB Bank Account. Again, as a result of painstaking work with documents we are satisfied that these sums were in fact paid to the sport of Squash under Lottery Panel Awards made to the sport. What is revealed by the BACs transfer issue is (a) that the BACs system was at that time susceptible to error or misdescription and (b) that Squash had been in serious financial difficulty in 2001 and oddly was not dealt with through the WCPB during that period.

Brief History

329. According to the papers which I have read, there may be as many as 250,000 people who take part in the sport of squash. Within the sport in England there have been high calibre professional coaches capable of delivering world class technical, and programme support

to players at international level. However, the sport itself has suffered from governance problems which I now summarise. In 1998 Baker Tilly conducted an audit of Squash which was critical of its governance. Mr Casey described it as a “disaster”. There are internal documents at Sport England which indicate that in August 2001 England Squash was regarded as technically insolvent. It had not separated out its World Class funding from other funding and had used its Exchequer Funding to support its running costs. A note from Management Audit at this time stated that Sport England should work with Squash rather than force it into insolvency.

330. In about January 2002 Peter Hirst and Lynne Booth provided a monitoring and evaluation report of England Squash. It is quite clear from their report that it was considered that there was potential within England Squash to develop the sport at national and international level. However, their report to Sport England indicated areas of concern. In summary

330.1 The Performance Director had resigned which caused concern within England Squash;

330.2 There was no Chief Executive which had a detrimental effect on the whole of the organisation, in particular with team building and the linkage of all departments for the maximum benefit of its members and potential members;

330.3 There had been a debacle concerning an investment by “Fablon” which had done damage to the overall morale of England Squash;

- 330.4 A new strategic plan was required for the development of the sport;
- 330.5 Greater integration was required for centres, coaches and players outside the world class programme;
- 330.6 A coaching director needed to be appointed;
- 330.7 For players outside the world class programme, there was no perceived recognised and recommended route into the world class programme;
- 330.8 There was too great a gap between club structure and England Squash for player and coach development;
- 330.9 There needed to be an appointment of appropriate staff in particular to ensure proper collection of membership data;
- 330.10 England Squash needed an internal revenue generating system possibly through a better membership scheme so as to reduce reliance on public funding.
331. In an assessment undertaken for the Lottery Panel, Sport England reported as follows in respect of “finance/compliance issues”:

“In October 2001 the Chairman of England Squash informed Sport England that the organisation was in severe financial difficulty and that the Board feared that it was trading insolvently, potentially in contravention of company law. It was

decided that due to the extent and seriousness of the issues, additional resources should be provided to help identify and sort out the problems identified.

An interim Chief Executive, Jeremy Lister, was recruited to work for a maximum of six months to carry out two roles:

- (a) To identify the extent of the financial problems and underlying organisational difficulties;*
- (b) To undertake a strategic analysis of the functions and operations of the organisation.*

It was further agreed that future Exchequer funding would be dependent on the outcome of the strategic analysis work and the Board's reaction to it. It is clear that further investment of public funds can only be committed in (sic) where future stability can be to all intents and purposes guaranteed.

The initial exercise indicated that England Squash was insolvent; there was a lack of financial management expertise; the absence of leadership (the previous CEO had left in August 2001); an underperforming Board and a lack of strategic direction.

The financial position of England Squash has now been stabilised. Financial administration of the world class programme has been taken into Sport England's

bureau service from March of this year [this appears to be a reference to March 2002]. Agreement has been reached with England Squash on waiving claw back on specific amounts of underspend against previous years world class awards. This will allow England Squash to continue trading and operate from a stable, if not strong, financial base. Sport England now have two of those on the Board – the governing body manager and a representative from management audit. England Squash have recently appointed a new CEO who will be in place from [the date was not in fact completed].”

332. England Squash therefore was placed within the World Class Payments Bureau. It continued to provide plans to Sport England for the funding of its world class performance activities and it was made awards by the Lottery Panel. So far as I can discern it was never made a condition of the Lottery Panel award that squash should receive its payment through the World Class Payments Bureau. Nevertheless this is in fact what occurred starting in the year ending 31 March 2002 and continuing until 31 March 2005.

333. Over the period of these years England Squash took steps to improve its administration. It appears to have taken a long time to do so. On 5 January 2004, for example, an acceptance form was provided by Squash England, (known as the Squash Rackets Association), for a world class performance and potential programme award for the period 1 January 2004 to 31 March 2005. This acceptance form was signed by Peter

Hirst, the Performance Director, and by Nick Rider, who had become the Chief Executive of the Squash Rackets Association/England Squash.

334. I have been told by witnesses that Mr Rider provided the requisite degree of improved management skills which was required by England Squash. I ought to explain that he was appointed to his post at the end of 2003 but was for personal reasons unable to take up the appointment for a period of time. It was for this reason that England Squash continued to be paid through the World Class Payments Bureau until 31 March 2005. Mr Rider made the improvements required for the sport.

335. For a sport which enjoys such large public participation, the period of time during which there were concerns about its governance is a long one. I also ought to point out that Mr Rider had himself been an employee of Sport England: there is no evidence that he had ever been involved in the grant side of awards to squash, and every indication that he effectively turned things around once he was able to work for the sport.

Payment of Invoices

336. It has not been possible for my team to retrieve the invoices which were submitted by squash for payment during the period when payments were made out of the World Class Payments Bureau bank account. However, it is at least clear from correspondence which I have read, that there were concerns about individual claims for payment by those involved with squash of which the following gives a flavour. On 28 March 2002 Martin Colwell, a Senior Compliance Manager (World Class) at Sport England, sent a detailed

letter to the acting Chief Executive of England Squash raising concerns about claims for payment. In the course of the letter he indicated that he was prepared to release a payment of £80,000 to England Squash to relieve “immediate cash flow difficulties”.

337. However, he raised a considerable number of concerns about claims which were being made upon Sport England. For example he raised the following:

337.1 Bank charges were not considered to be an allowable expenditure, although they had been claimed;

337.2 The cost of mobile phones has been claimed for some members of staff which were not considered justifiable;

337.3 Claims for BUPA payments have been made without supporting documentation;

337.4 A payment of £5,000 was made to Manchester City Council with a narrative “*contribution to National Squash Championships 2002*”, but without a sufficient explanation;

337.5 There appear to accepted expenditure on corporate credit cards;

337.6 Entry fees of £907.80 and £484.54 had been claimed for (twice in the first case) but without supporting documentation;

337.7 Hotel bills for staff staying in Birmingham had been claimed for but no information had been provided as to what it related to;

- 337.8 One particular person's gym membership had been claimed for despite the fact that the individual should have received that membership via her own athletic personal award;
- 337.9 A babysitter had been claimed for one squash player;
- 337.10 A relocation package had been sought for a member of staff;
- 337.11 Salary increases have been claimed for without prior agreement;
- 337.12 There was a lack of breakdown of salary costs;
- 337.13 A telephone line had been charged for without Sport England staff knowing what it related to;
- 337.14 An engraved plaque costing £69.09 had been charged to Sport England;
- 337.15 A sportsman had attended the French Junior Open in Marseilles without Sport England understanding which part of the world class programme this related to;
- 337.16 A figure of £1,812.69 relating to travel costs had been claimed but without supporting documentation;
- 337.17 A camcorder and other equipment had been purchased for use by a particular individual. Sport England wanted to be sure that ownership remained with the governing body.

338. On 4th April 2002 Mr Colwell expressed further concerns.

339. It is apparent from the foregoing that there were concerns about the charging of expenses and attempts to reclaim them from Sport England. These concerns were answered by England Squash by a letter of 10 April 2002, with justification being given for some of the claims which had been made.

340. The important point is that there was plainly a concern within Sport England about the rigour with which Squash England was at that time dealing with expenses claims. I have been provided with a chart which shows the performance of English Squash teams. I exhibit the chart. Whilst players may have been funded as a result of the support which came via sport England in the period 2001-2005 it seems reasonable to me to conclude that there would have been greater achievements for squash and the encouragement of emerging talent in depth if the governance arrangements had been sorted out much more quickly::

Year	Team and World Open		World Cup (mixed)	Commonwealth Games	
	England ranking men	England ranking women	England ranking	England ranking men (single/doubles)	England ranking women (single/doubles)
1996			2nd		
1997					
1998				1st/1st	1 st
1999	3rd		1st		
2000		1st			
2001	3rd				
2002		2nd		2nd/1st	2nd

2003	3rd				
2004		2nd			
2005	1st				
2006		1st		1st/1st	?/?
2007	1st				
2008		2nd			
2009	4th				

341. The concerns about financial management within England Squash/The Squash Rackets Association were raised between Sport England officials and the SRA itself. Indeed by letter dated 21 November 2001, various terms and conditions were imposed upon the award of grant including:

341.1 Funding for the Commonwealth Games programme will not be released to England Squash until Sport England's management audit has passed the sport fit for purpose and are satisfied that Lottery funds have been specifically ring fenced.

341.2 England Squash must work with Sean Holt of Sport England and Manchester City Council to confirm facility hire and usage in the lead up to the games.

341.3 Funding for [a particular person] will not be released until the sport has received a firm commitment from her that she is prepared to take part in the Commonwealth training and preparation camp, squad and competition. It was made clear that if the governing body failed to meet any of these conditions then the offer of award would be withdrawn and no award would be payable.

342. It is fair to say from the foregoing that there were plainly concerns within Sport England about the quality of administration and governance at England Squash. It is also apparent that concerns were raised with England Squash.

343. To summarise, the real issue that arises from the payment of England Squash through the World Class Payments Bureau is that it took the sport (and Sport England) so long to bring the sport into a state in which Sport England considered that it no longer needed to be paid for through the World Class Payments Bureau. England Squash did not leave the Bureau until the end of the financial year 2004/2005 even though it had been receiving Lottery support since 1997. In short, this is too long for a single sport to take to organise its governance arrangements.

Wrestling

344. Sport England supported the British Amateur Wrestling Association for the financial years ending 31 March 2001, 31 March 2002 and 31 March 2003 in the sum of £211,596 which was paid into the World Class Payments Bureau bank account. Out of that account there was paid in favour of wrestling the sum of £235,083.

345. The reason why wrestling was included within the World Class Payments Bureau was that it was a small sport which did not have governance arrangements suitable for the receipt of public funds, and was found by Baker Tilly to be not fit for purpose in 2001 (this information was relayed to the Audit Committee by paper 01/2.4). By an award

letter dated 27 April 2000 the British Amateur Wrestling Association (BAWA) was awarded for the period 1 January 00- 31 December 00 up to £70,934 (annual allowable up to £78,815) in order to prepare for the Commonwealth Games. There was a requirement that payment should be through the Bureau. By letter dated 25 July 2000 the BAWA agreed to the management and accounting services of WCPB and accepting responsibility for PAYE and NI.

346. By an award dated 22 March 2001, an award was made to wrestling for the period 1 April 2001 to 31 August 2002 of £171,028 by the Lottery Panel. It was made a condition of this award that *“the British Amateur Wrestling Association would confirm that the World Class Bureau will continue to manage the planned financial procedures”*.
347. The support which was being offered to wrestling was specifically to cover preparation for and participation in the Commonwealth Games. The awards were therefore to enable the BAWA to prepare for and compete in the Commonwealth Games.
348. As far as the papers which have been provided to me indicate that the BAWA provided a cash flow forecast broken down by reference to staff costs, national squad training programme, development costs, athlete support, travel and accommodation, sports science/medicine, clothing, training facilities and so on, on a regular basis and that they provided invoices in support of their cash flow forecasts which were duly paid.

349. As far as I can discern from the documents and information provided to me, the British Amateur Wrestling Association was paid in accordance with the Lottery grants made to it and there was no impropriety in the making of these payments.

350. I have read a report from a World Class advisor who indicated to Sport England that the results at the Commonwealth Games were disappointing.

Shooting

351. In the years ending 31 March 2002 and 31 March 2003, the English Target Shooting Federation (ETSF) was paid the sum of £75,346. This sum was paid out of the World Class Payments Bureau Barclays Bank account in the year ending 31 March 2003. An award of grant was made and paid into the World Class Payments Bureau account of £68,528. The two figures do not reconcile and I have considered it disproportionate to attempt to reconcile this difference at this distance in time.

352. However, I have a report by Littlejohn Frazer made in 2002 which provides further information. It states that £67,326 was provided for the financing of the Commonwealth Games Shooting programme and this element of the funding is accounted for by the WCPB provided by Sport England who also manage the Athletes Personal Awards for the athletes. The report also states that ETSF was an unincorporated association.

353. No one has come forward to this inquiry to suggest that either the award of grant was incorrectly made or that the payments to shooting should not have been made. In the

circumstances I do not consider it worth while to take this particular payment through the World Class Payments Bureau further.

Bowls

354. There was received into the World Class Payments Bureau Barclays Bank account the sum of £340,585 in the financial years ending 31 March 2002 and 31 March 2003. There was paid out to bowls a total sum of £345,270 in the same years.
355. The English Bowling Association was placed into the World Class Payments Bureau because it was considered not to have appropriate governance arrangements for the proper management of public funds.
356. I have been provided with a number of invoices together with correspondence concerning the administration of the grant award to bowls. So far as I can discern, invoices were paid against requests made by the English Bowling Association in accordance with the grant. However, there is a letter from Bowls to Sport England in which it was observed that “overpayments” had been made and a query is raised about the quality of checking at the WCPB.
357. By a letter dated 7 January 2002, an invoice for the English Bowling Association was authorised for payment directly by Mr Barry Chivers in the sum of £610. His letter stated:

“I authorise payment of this invoice prior to receiving proper authorisation from the Treasurer. We have confirmed the details of the invoice and would appropriate arrangements for payment being auctioned as soon as possible [sic]. Should you have any further queries please do not hesitate to contact me on ... [telephone number was provided].”

358. This letter highlights the fact that Mr Chivers had the power to authorise payment in circumstances where proper authorisation from the Treasurer of the English Bowling Association had not arrived. It also highlights the conflict between Mr Chivers’ position as Head of Management Audit and his management of the operation of this side of Sport England’s business.

359. So far as I can discern, and subject to what I have said about the concern as to over-payment and the payment authorised by Mr Chivers, the payments made to the English Bowling Association were payments made in accordance with proper requests by that Association in accordance with the terms of their grant, albeit the EBA itself was concerned about proper checks by the WCPB. As is apparent from the figures set out above, there is a difference between the amount paid out and the amount paid into the World Class Payments Bureau account. I do not consider it proportionate to investigate this difference any further.

PPB Project

360. As is apparent from the ledger exhibited in Chapter 3 and to which I have been referring in this Chapter, the activities of the World Class Payments Bureau were scaled back on the departure of Mr Chivers in the middle of 2005. However, in the year to 31 March 2006, the sum of £200,000 was received into the World Class Payments Bureau for the “PPB Project”. This sum was also paid out of the World Class Payments Bureau in that period. The sum represented part of a Lottery grant in respect of the PPB Project.
361. In 2005 Sport England decided to assist the National Association for Sports Development (NASD) to develop a new sports organisation. This involved the Institute of Leisure Amenities Management (ILAM) and the Institute of Sport and Recreational Management. Sport England agreed to provide £200,000 of funding each year for three years to help establish this new sports body. There were regular meetings with the Project Professional Board (PPB): an official name had not been selected for the new organisation. In January 2007, there was the amalgamation of two previous bodies, ILAM and NASD into the new body, the ISPAL (The Institute for Sport, Parks and Leisure).
362. Bentley Jennison were requested in June 2006 to conduct a review of this grant award in which they were only able to give limited assurance as there was no established process to control the award, no evidence of approval of the award by Director of Sport or Chief Executive and no supporting documentation or award letter relating to conditions of grant. The Grant Management System stated that the PPB had been presented to the Board when in fact it had not which resulted in a lack of awareness at Board level of

Sport England's activities. The papers do not indicate why the PPB project was funded through the WCPB. It appears that one payment was made to this project through the WCPB bank account. Bentley Jennison presented their report to the Audit Committee as part of their 2006/2007 internal audit review.

363. Internal Auditors did therefore become aware of the situation at the PPB and a full detailed report of the problems was presented to the Audit Committee. Funding through the WCPB account (at least) was stopped. I have not seen any explanation in the papers as to why the award of grant had not gone through proper channels.

UK Weightlifting

364. In the period ending 31 March 2006 there was received into the World Class Payments Bureau bank account a total sum of £269,447 in respect of UK Weightlifting or more accurately the British Amateur Weightlifter's Association (BAWLA). There is evidence in the papers that the Governing Body was not financially secure. Of the sum of £269,447, the sum of £220,884 was paid out to the Sport.

365. As the organisation was a British governing body, their main relationship was with UK Sport. Therefore as with the UK Disability Sports, funding was received from UK Sport by Sport England and channelled through the WCPB to the individual NGBs.

366. The BAWLA received grants from Sport England for the 2002 Commonwealth Games. Initially the Sport England grant was not paid through the WCPB as there later follows a

recommendation by Martin Colwell that due the sport's poor financial management the sport should go into the Bureau. He agreed following a discussion with the NGB to delay the decision until June 2001. We have been unable to find further documentary evidence as to whether the decision was taken to pay the Commonwealth grant through the Bureau although they certainly did receive UK Sport funding through the WCPB.

367. I have not been provided with much information about the UK Weightlifting award. I have no reason to doubt that the funds arrived into the hands of the Sport. I think it likely that this was another case of the WCPB managing a payment for UK Sport.

368. Nor have I been provided with any indication that there was any impropriety so far as the administration of the UK Weightlifting Lottery Grant was concerned.

Athletics

369. Little John Fraser reported to Sport England in March 2002 in relation to Athletics. Their report explains that "UK Athletics" is the NGB and "Performance Athlete Services" was the separate legal entity through which World Class Plans for athletics was delivered. In the period to 31 March 2006 the sum of £423,500 was received in respect of athletics into the World Class Payments Bureau bank account. Of this sum, a total amount of £420,670 was paid out of the account. However, the payments out of the account in respect of athletics occurred in the years ending 31 March 2002, 31 March 2005, 31 March 2006. As far as I can discern the payments were for the "ring fenced" World Class part of athletics.

370. However, no explanation has been provided to me by former staff of Sport England as to why payments were being made in respect of athletics, for example, in the year ending 31 March 2002. By contrast, it was indeed the case that in the period 2005-2006 athletics ran into financial difficulties. Sir Andrew Foster was appointed to investigate athletics and pursuant to a report athletics was reorganised. It was during this latter period that part of the grant for athletics was paid into the World Class Payments Bureau bank account in order better to manage the payments to athletics in circumstances where athletics were in financial difficulties. I have not been given to understand that there was any impropriety either in the making of the payment into the World Class Payments Bureau account nor in the administration of it out of the account. However, there is indeed an oddity in the way the World Class Payments Bureau account was administered. The result of this is that so far as athletics is concerned, there was an overall “deficit” on the World Class Payments Bureau bank account of £42,652.

Conclusions

371. As I have said on several occasions, by the spring of 2002 Sport England should, in my view, have got to grips with the question as to how to deal with the issue of the need for good governance within sport and in particular the sporting bodies which were being dealt with through the World Class Payments Bureau.

372. Had appropriate measures been taken to ensure that national governing bodies of the sports concerned were fit for purpose in the early part of 2002, it would not have been

necessary for the World Class Payments Bureau to continue to handle payments, and in particular the problems which I have identified in karate, for example, would have been avoided. Not all of the national governing bodies who were dealt with through the World Class Payments Bureau failed to perform. On the contrary, although athletics went through a particularly difficult period, it emerged from it with some international success. Ice skating was dealt with through the World Class Payments Bureau and emerged from it in better shape than it entered. By contrast, sports such as Boxing, Hockey, Karate and Squash spent long periods with payments being made through the World Class Payments Bureau when in reality their governance arrangements should have been addressed by the sports concerned with Sport England much more quickly.

CHAPTER 8

REPORTS TO THE AUDIT COMMITTEE, THE AUDITORS AND THE BOARD

373. I have examined the question of audit as it relates to the World Class Payments Bureau. In order properly to understand what has happened, I have examined (1) what was reported to the Audit Committee of Sport England, and what they did or did not do, (2) what internal audit work was or was not undertaken, and what was reported, (3) what the external auditors were told and what audit work they did or did not carry out.
374. I have also examined what was reported to the Board of Sport of Sport England about the World Class Payments Bureau from the point of set up until it ceased its activities.

Overview

375. Prior to the establishment of the World Class Payments Bureau in late 1999, Sport England had an Audit Committee. The terms of reference of the Audit Committee for the relevant years are annexed to this report [Annex 14]. The fundamental purpose of the Audit Committee was to ensure that it knew the business risks which Sport England was undertaking, that proper controls were in place to deal with such risk, and that appropriate audit work was undertaken having regard to the risks to the business. The Committee needed to ensure that Sport England liaised appropriately with its external auditor the NAO.

376. Sport England had an internal audit unit headed until May 2005 by Mr Barry Chivers, and he later became “Director of Internal Audit”. Thereafter Mr Greig Allen was appointed to the job until he joined Bentley Jennison in 2008. Bentley Jennison) had been awarded the Internal Audit contract. As I have indicated in Chapter 3, concerns were raised about the effectiveness of internal audit by the DCMS in 1997. One of the comments made in their report was that insufficient internal audit examinations were undertaken of parts of the business. In order to provide for an internal audit function, Sport England tendered for and then contracted this service out. Mr Chivers was Head of Internal Audit (or as it was renamed Management Audit or later Governance Assurance and Risk). The external audit was undertaken throughout the period of which I am concerned by the National Audit Office. Two officers from the National Audit Office attended Audit Committee meetings as observers.

Reports to the Audit Committee

377. Considerable efforts have been made by myself and my assistant to obtain all of the papers and minutes which went to the Audit Committee from the end of 1998 until the middle of 2007. Retrieving these documents has been a considerable exercise. We have managed to obtain sufficient documents (if not all relevant documents) in order to enable me to understand what picture was being presented to the Audit Committee about the activities of the WCPB by Mr Chivers and his team. I have structured this report in such a way as to enable those who read it to have seen from the perspective of those dealing with the World Class Payments Bureau at Sport England what was going on (see Chapter 7) which in turn informs the question as to whether or not sufficient reporting of these

activities was going on to the Audit Committee (and indeed the Board). It will be remembered that the World Class Payments Bureau was established in September 1999.

378. My examination of the Audit Committee minutes and papers for the year 1999 reveals that no report was made to the Audit Committee about the establishment of this new area of activity. There were three meetings of the Audit Committee in 1999, the first occurring on 1 February 1999. Five meetings had been planned.

379. The first meeting of 2000 took place on 3 April 2000 and was chaired by Mr Roger Bottomley (at which were also present, amongst others, Mr Derek Casey, and Trevor Brooking CBE, as well as a representative from the National Audit Office). Mr Chivers presented a guide to Internal Audit and also a review on “Developing an Audit Process for national governing bodies of sport”. He indicated to the Audit Committee that the overall objective of this was to determine the “fitness for purpose” of the governing bodies. This was a reference to the review process of governing bodies which was undertaken by Baker Tilly, to which I have referred elsewhere in this report. Mr Chivers is reported as stating: “*the basics of corporate governance are in place at all governing bodies, but a programme of improvement would continue*”. As this report indicates, I regard this statement as optimistic.

380. It is however worth quoting in full the comment made by the NAO representative. The minutes record:

“The [NAO] said that we need a statement of Sport England’s role as a regulator of governing bodies, the NAO does not have a remit to investigate these cases. The [NAO] suggested that we might want an organisation more independent than Sport England to investigate these issues.”

These words were timely, and in the context of the matters which I have examined, telling. The recommendation which I make for a sports Governance Committee (see Chapter 11) accords with the NAO’s thoughts as long ago as 2000.

381. At the second meeting of 2000, which took place on 5 May (also chaired by Mr Bottomley, with Mr Brooking CBE, Mr Casey and two representatives of the NAO amongst those present), the following is recorded at paragraph 18.3 of the minutes:

“Mr Casey said that when a governing body was found not fit for purpose it was important that the Athlete was still supported. This has been achieved by funding them in house through World Class Support.”

382. At this meeting Mr Chivers presented a report which *“details the bodies that were found not fit for purpose”*. He stated that *“our approach in these cases was to work closely with the governing bodies until they had reached an acceptable standard”*. He went on to say that there were about four governing bodies that had long standing individual complaints against them. There was mention of problems with the ETTA (Table Tennis) and some discussion at the meeting about problems with the ETTA.

383. It is also clear from this meeting that there cannot have been a fourth and fifth Audit Committee meeting in the latter part of 1999 as item 4 of the minutes records that “*the minutes of the meeting of July 1999 were agreed as an accurate record of the meeting*”. The reality, I think, is that there had been no chair of the Audit Committee and it simply hadn’t met since July 1999 until the 3 April 2000 meeting.
384. At the May 2000 meeting a paper to the Audit Committee from Management Audit was presented under the heading “review of funded bodies”. Amongst the bodies which had been found “not fit for purpose” were included the British Amateur Weightlifters Association, the Amateur Boxing Association and the English Volleyball Association.
385. Bodies which were listed as requiring special attention were named as the Squash Rackets Association, the Amateur Boxing Association, the Amateur Athletics Association, the English Volleyball Association, the English Netball Association, the British Judo Association, Exercise England and Modern Pentathlon. Various items were listed as being attended to either by the body itself or with the assistance of Sport England.
386. Under the heading “other matters” the following was recorded:

“Management Audit has also conducted other work as follows:

7.2 *world class support – Management Audit is currently undertaking the responsibility for the administration of this bureau which provides assistance on finance and administration matters to seven sports.”*

This paper contains the full extent of the disclosure of what was occurring within the World Class Payments Bureau.

387. By this stage, the World Class Payments Bureau was in fact managing payments for the sports which have been listed in a ledger exhibited in Chapter 3 of this report. Thus far, the reports to the Audit Committee had indicated that there was “*payments to individual athletes*” and “*assistance on finance and administration to seven sports*” through “*world class support*”.

388. At the third meeting of the Audit Committee in 2000 which took place on 3 July 2000, there was no discussion of the World Class Payments Bureau and as far as I can discern no report to that meeting of the activities of the Bureau.

389. The fourth meeting of the Audit Committee took place on 12 September 2000 (chaired by Mr Bottomley, with Mr Casey, Mr Chivers and two representatives of the National Audit Office, amongst others present).

390. At this meeting, Mr Chivers presented a review of “*funded bodies*”, which was supported by a paper. That paper identified that four bodies had been found not fit for purpose,

namely Amateur Athletics, British Baseball, the Squash Rackets Association and the National Ice Skating Association of UK Ltd. Within section 7 of the paper information was provided about the bodies which were requiring “*special attention*”. So far as the four bodies were concerned, the Amateur Athletics Association was found, following recent audit, to have improved its internal controls and was therefore to be reclassified as fit for purpose. So far as the British Baseball Federation was concerned, it was stated that “*accountancy assistance is being provided by Management Audit to help with the accounting records pending the merger of baseball and softball*”. So far as Squash was concerned, it was stated that “*accountancy assistance is being provided to help train the finance staff on the new computer system*”. Finally, so far as the National Ice Skating Association was concerned, it was stated that meetings/discussions had taken place and there was to be a follow up audit of the Association. .

391. Within the papers for this fourth meeting of 2000, a paper was provided “*for information*” headed “*Accountancy and Consultancy Assistance Provided to National Governing Bodies (NGBs)*”. So far as this paper is concerned, it is recorded that accountancy assistance was provided of a training and advisory nature for Squash, Judo, Boxing, Volleyball, the Manchester Velodrome, the English Ski Council, the Modern Pentathlon, Baseball, Tennis and Racquets, Ice Skating, Netball, Table Tennis, Swimming, Rugby Union, Badminton, Triathlon, Gymnastics, the Keep Fit Association, Rowing, and the Amateur Athletic Association.

392. At paragraph 29 of this paper under the heading “*World Class Support*”, the following is stated:

“Management Audit continues to provide financial assistance and support in respect of world class operations to the following nine organisations:

Paraplegic Shooting

Wheelchair Rugby

Wheelchair Fencing

Karate

Boccia

Boxing

Goalball

Disabled Power Lifting

Wrestling”

The members of the Audit Committee were invited to “*note the contents of this paper*”.

393. By this stage, of course, the World Class Payments Bureau was up and running and was operating a payment function against invoices. In my judgment, the reporting thus far to the Audit Committee was not apprising the Audit Committee of the real nature and extent of the World Class Support operation which was being undertaken. However, and in fairness to Mr Chivers and his team, it would have been apparent to the Audit Committee

on a reading of the paper to which I have just referred, that it was stated that *“Management Audit continues to provide financial assistance and support”*. As far as I can tell, no member of the Audit Committee asked questions of Mr Chivers or other executives as to what precisely was the nature of the financial assistance and support that was being given. Indeed, the history is that probing questions do not appear to have been asked of management despite language such as that to which I have just referred in their report to the Audit Committee.

394. In paragraph 7 of the fifth meeting of the Audit Committee of 2000, the following is recorded:

“Mr Casey referred to the proposal in paragraph 16 of the paper for a formalisation of the work already undertaken by Management Audit with NGBs. The question of staffing still needs to be addressed in more detail and a further report on progress will be submitted to the next Audit Committee meeting. Mr Bottomley added that this was becoming a very large area of work for Sport England and needed to be recognised as a major role for Management Audit.”

395. In my discussion with Mr Bottomley, he indicated that he did not appreciate that there was a separate payment function being operated by Management Audit under the guise of the World Class Payments Bureau through its own bank account. The minuted discussion that I have just referred seems in reality to be a request for further staff on the part of Management Audit to assist them with their work with NGBs. It is not a specific

disclosure of the fact that the World Class Payments Bureau was operating as a unit with its own bank account and exercising banking and payment functions or that the NGBs which have been taken under the wing of the World Class Payments Bureau were being paid through a WCPB Bank Account..

The Audit Committee 2001

396. The first meeting of the Audit Committee in 2001 took place on 5 February 2001. Included amongst those present were Roger Bottomley (as Chair), Trevor Brooking CBE, Derek Casey, Terry Price, Barry Chivers, the Head of Lottery Finance and a representative from the National Audit Office and two Senior Audit Managers. At this meeting, there were discussions about Management Audit's work with governing bodies. However, there was no reference to the fact that Management Audit was operating the World Class Payments Bureau and making payments for governing bodies out of a bank account operated by Sport England. Mr Chivers introduced the paper about the First Life Saving Association which he gave as "*an example of the types of issues which could arise from Management Audit's work with NGBs*". The paper which he introduced about the First Life Saving Association did indeed refer to a breakdown in management which had occurred within that Association, and the steps taken by Management Audit in the form of recommendations for the better governance of the Association. However, none of the papers which were provided to this Audit Committee meeting referred to the activities of the World Class Payments Bureau as I have set them out in Chapter 7 of this report.

397. The second 2001 meeting of the Audit Committee took place on 2 April 2001. Amongst those attending were Roger Bottomley (As Chair), Trevor Brooking CBE, Derek Casey, Terry Price, Barry Chivers and three representatives of the National Audit Office as well as three representatives from PwC, who had, it will be remembered, in the early part of 2001 held a workshop at which risks to the business had been examined with members of staff. During the meeting, the PwC representatives were invited to present their “*findings on a number of key themes identified during the course of recent review*”. As I have indicated earlier in this report, PwC had identified the risks created by the management structure inside the World Class Payments Bureau. They had also, of course, identified a number of other issues. So far as I can tell from the report which was presented by PwC to this meeting their representatives dealt with the following topics: key themes, namely the grant management system, compliance, monitoring and new programme development.

398. In the discussion which followed this presentation, the National Audit Office representative said:

“Agreed that the external pace of change caused difficulties. However, in his view this would only increase after the General Election and Sport England may need to undertake a rigorous risk assessment process to identify those risks which could be accepted or managed. Mr Brooking raised the problem of finding the right balance between the increased Government requirements and Sport England’s resources to deal with them in an appropriate way. [The NAO]

suggested that the Lottery Distributor's Chief Executives' Group was a useful forum for discussion of such issues and also recommended the use of a risk register for Lottery grant programmes which may assist in identifying risks that cannot be managed by Sport England."

399. From this it can be seen that although there was general discussion about risks to the business, there was none about the World Class Payments Bureau specifically.

400. Also at this meeting the terms of reference of the Accountability Committee were noted as having been revised and "*agreed by the Accountability Committee*". Discussion about this Committee went no further. There is a comment by Derek Casey that the intention of the Accountability Committee was to complement and inform the work of the Audit Committee.

401. The National Audit Office is recorded as stating as follows:

"...the NAO had been particularly impressed with the quality of the papers presented to them for audit, and that they were also satisfied with the high level management controls in place. The monitoring of Exchequer budgets was also of a strength which needed to be continued and, overall, the NAO was comfortable with Sport England's performance. The issue of soft commitments was discussed and Mr Carpenter stated that this was being addressed with a view to dealing with it more effectively in this year's accounts. Members of the Committee

complimented the work of officers and stated that they were satisfied with the content of the NAO management letter.”

402. It seems to me that such comments could not have been made on behalf of the National Audit Office if he had been fully apprised of the nature of and operations being undertaken by the World Class Payments Bureau. It follows that in my view the reporting which had occurred to the Audit Committee thus far about the activities of the World Class Payments Bureau had been insufficient to apprise the external auditors (i.e. the NAO) of the nature and extent of what was going on with the World Class Payments Bureau.

403. The third meeting of 2001 took place on 2 July. Included amongst those present were Mr Roger Bottomley, Terry Price, Barry Chivers, one representative of the National Audit Office and others from Financial Services, Lottery Finance and a Senior Audit Manager. It was at this meeting that the annual accounts were approved. Included amongst the papers for the meeting was a paper “*for information*” entitled “*Annual Assurance 2000/2001*”. This paper was presented to the Audit Committee by Mr Chivers. The paper dealt with the Accounting Officer’s statement on the system of internal financial control which was to be included in the annual accounts for 2000/2001. It also addressed the steps being taken in order to meet the new Treasury requirements for a broader statement on internal control for the 2001/2002 financial year. Treasury directions required that the Chief Executive as the Accounting Officer provided as part of the annual accounts, a statement on the systems for internal financial control.

404. In order to support this statement each director had provided an “*assurance statement*” for their area of responsibility.
405. The paper records that in order to begin addressing the new requirements Management Audit had facilitated a series of risk workshops. This is a reference back to the workshops which PwC had organised at which, as I have indicated, the risks to the business created by the management structure of the World Class Payments Bureau had been identified. Included within the “*statement on systems of internal financial control*” the Chief Executive stated:

“The English Sports Council has an internal audit service, which is supported by external contractors. The internal audit service and the supporting external contractors operate to standards defined in the Government’s Internal Audit Manual. The work of the internal audit unit is informed by an analysis of the risks to which the organisation is exposed, and the annual internal plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Council’s Audit and Accountability Committees and approved by me. At least annually, the Head of Internal Audit (HIA) provides me with a report on internal activity in the Council. The report includes the HIA’s independent opinion on the adequacy and effectiveness of the Council’s systems of internal financial control.”

406. Mr Chivers, as director of Management Audit, provided a report to this Audit Committee meeting headed “*Summary Annual Report 2000/2001*”. Within the heading “*Summary of Activity*” there was included the following under paragraph 5:

“5.2.3 Provision of World Class Support service”

No detail is given about the nature of the support service and an assurance is given in the following terms:

“... an assurance is given that satisfactory systems and an appropriate control environment exists to ensure the propriety of transactions, and on which reliance can be place. This assurance applies to both Exchequer and Lottery systems.”

407. Some reservations were expressed as to that assurance, which were contained in paragraph 16 of Mr Chivers’ paper. However, no reservation was given as to the nature and operation of the World Class Payments Bureau and the fact that the operation of that Bureau had within it risks which had been identified as a result of the PwC workshop.

The Fourth Meeting of 2001

408. The fourth meeting was held on 3 September 2001. Included amongst those present were Roger Bottomley, Trevor Brooking CBE, Terry Price, Barry Chivers, a representative from the National Audit Office as well representatives from PwC.

409. It was indicated at this meeting that the role of the Audit Committee which had been signalled as being under review at the previous meeting by Mr Bottomley, remained under review and it was intended to rename the Committee the “*Audit and Corporate Governance Committee*”. In other words, the remit of the Committee was to be widened and the members agreed that it should acquire this new title at this meeting. During the course of the meeting, directors were asked to confirm their annual “*assurance*” for audit purposes (i.e. a statement of a good control environment).
410. It is fair to say that the Audit Committee, from documents which I have seen, was shocked by the sudden departure of Mr Casey. This had led to something of a crisis at Sport England and Mr Bottomley, who as I have indicated had been the Chair of the Audit Committee, stepped into the breach to become the acting Chief Executive of Sport England.
411. Included amongst the papers for this meeting was the annual programme of Exchequer audit. Within this annual programme there was no provision for review of any matters relating to the World Class Payments Bureau. The Lottery internal audit programme was also reported on to this meeting. That programme appeared to contain no provision for auditing of the World Class Payments Bureau. In a paper headed “*Work with Funded Bodies*”, numerous national governing bodies had been found to be not fit for purpose: 20 are listed in section 2 of the paper alone. Amongst those listed were a number of major sports. were a . Whilst the report indicated that follow up was achieving “fitness for purpose”, and I understand they all did so, to an outsider it is surprising that many well

known sports should not have had governance arrangements in place by this stage such that they were considered fit for purpose.

412. A further ten bodies are listed as being not fit for purpose with the comment “*advice and assistance is being provided to all the above funded bodies with a view to them being shortly reclassified as “fit for purpose”*”. Within paragraph 5 of the report, there is a description of the fact that consultancy advice and assistance was being provided to various national governing bodies.

413. In paragraph 20 of the report under the heading “*World Class Support*”, the report simply states:

“We continue to provide assistance through our Bureau service in respect of world class operations to eleven organisations. Detailed exit strategies for bodies with accountability problems are currently being devised.”

414. That report is the full extent of any description of the work which was going on within the World Class Payments Bureau. In my view, it is not a clear and full report of what was going on within the World Class Payments Bureau and the operation of its own separate bank account.

415. The fifth meeting of 2001 took place on 11 December. Included amongst those attending are Mr Roger Bottomley, Trevor Brooking CBE, Mr Price, Mr Chivers and a representative of the National Audit Office.

416. It was at this meeting under item 12 that Mr Chivers presented a paper outlining proposals for the establishment of a support services bureau to provide routine business functions for small and medium sized governing bodies. He *“noted the concept had received support from several governing body chief executives and also from UK Sport”*. One member of the Audit Committee, Sir Robin Knox Johnson, had indicated his support for this proposal.

417. The National Audit Office representative suggested that the next step would be to write a specification as if the service was to be contracted out and cost it on that basis. Discussion ensued about the project with the Committee formally recording (see paragraph 14) that:

“It was agreed that the project would be taken forward following the nomination of a lead responsible officer from governing body services.”

418. It seems to me that this really was an occasion at which the Head of Management Audit should have spelt out in precise terms what was being undertaken by the World Class Payments Bureau. He was seeking approval for an expanded bureau function and was presenting a paper to the Audit Committee for this purpose. If, as was clearly the case, a

support function was already operating in the form of the World Class Payments Bureau, a clear description of the nature of that function being undertaken by Management Audit should have been presented to the Audit Committee so that they could have been fully informed as to what was already going on. As it was, the paper which was described as a discussion paper under the heading “*National Governing Bodies Support Bureau*”, simply stated as follows in paragraphs 21 and 22:

“Sport England’s world class support should be subsumed within the new Bureau.

The assistance Management Audit Services currently provides to governing bodies should be transferred.”

419. The problem with this was that it was not identifying the full nature of the operation already being undertaken. When I spoke to members of the Audit Committee, including, in particular, Mr Bottomley, he expressed surprise that there was in reality a payment function being undertaken through a bank account operated by Sport England. The reason for his surprise, in my opinion, was that he did not feel that he had ever received a full account of what had been going on with the World Class Payments Bureau.

Audit Committee 2002

420. By 2002 the Audit Committee had become known as the Audit and Corporate Governance Committee. Its first meeting was held on 11 February 2002. Included

amongst those present were Roger Bottomley, Trevor Brooking CBE, David Moffett Chief Executive, Terry Price, Barry Chivers, two representatives of the National Audit Office and Senior Audit Managers.

421. By this stage the DCMS had conducted its quinquennial peer review of internal audit. There had been a review in 1997 which I have already referred to in Chapter 3, which had raised concerns about the question of independence.

422. The DCMS had, according to a paper provided to the Audit Committee by Mr Chivers, given an overall opinion in paragraph 3.1 of its report, that the Sport England internal audit service was carried out to professional standards, was valued by management, and had a valuable impact on risk management and internal control with Sport England. It was stated that it was “*considered that the internal audit arrangements are in accordance with the Government’s Internal Audit Manual*”.

423. However, under the heading of “*Independence*”, the following was stated:

“The internal audit service is sufficiently independent to enable auditors to perform their duties in a manner which allows judgment and recommendations to be effective and impartial. However, there could be potential conflicts of interest arising from the wider range of work undertaken by Management Audit services.”

424. An obvious potential “*conflict of interest*” was the fact that Management Audit was running the World Class Payments Bureau. However, this does not seem to have been picked up in the DCMS peer review and was not therefore commented upon by Management Audit in its report to the Audit Committee.

425. During the course of the meeting, an oral update was provided to the Committee by Mr Chivers, to the effect that:

425.1 The Squash Racquets Association was experiencing severe financial problems and that if Sport England sought to recover money owed, then the governing body would be “*bankrupt*”. There was also concern about the quality of Board members and their ability to run the organisation.

425.2 The English Hockey Association was described as likely to have “*no financial resources by May 2002*”. It was stated that the financial records were not up to date although this was now in hand. It was also stated that it was “*possible that creative accounting had occurred in previous years to present a better financial picture and Management Audit services were keeping a close eye on the situation*”.

425.3 Rugby Football League was “*involved in providing assurance to the Accounting Officer in respect of this governing body*”.

426. The only other reference to the work of the World Class Payments Bureau was provided in a paper headed “*Funded Bodies Programme*” which, at paragraph 3, said as follows:

“We are providing assistance to a number of governing bodies who have financial and operational problems. These are summarised in the Annex.”

427. The Annex has not survived but there are no indications from the minutes of the meeting itself that the Annex had revealed the nature and extent of the payment operation which was going on inside the World Class Payments Bureau.

2003

428. It will be remembered that a working group had sensibly been established in the middle of 2002 to deal with problems in national governing bodies. Six months later, at the meeting of 6 January 2003, the following was recorded:

“Arrangements for the provision of advice and guidance to governing bodies on business management and corporate governance matters were being put in place, and a report would be made to the next meeting of the Committee.”

429. There was a discussion triggered by a paper provided by Mr Chivers in relation to funded bodies. In particular, the Audit Committee agreed in relation to the English Hockey Association that “*robust action should be taken to address the potential loss of funds*”.

My review of the World Class Payments Bureau payments does not indicate that robust action was in fact taken.

430. There was also a general discussion about the problems of poorly governed governing bodies with members agreeing that:

431.1 all governing bodies should be required to become incorporated organisations, preferably as companies limited by guarantee;

431.2 all governing bodies should receive formal letters advising them of the need to ensure that grants were used solely for the purpose for which the award had been made;

431.3 greater use should be made of individual governing bodies' auditors to ensure compliance with conditions of grant;

431.4 all governing bodies should be required to provide an annual assurance statement;

431.5 a further approach should be made to UK Sport in order to seek access to the modernisation funds which were available to governing bodies;

431.6 consideration should be given to the preparation of guidelines to governing bodies onboard membership such as maximum terms of membership and appointment procedures.

432 These are all worthy aims and attributes but as has been demonstrated by the history in Chapter 7, steps were not taken which led to either the cessation of funding for, for example, karate (until the suspension in 2004) nor squash, nor boxing.

433 There was no other discussion at the first meeting of 2003 of the work of the World Class Payments Bureau.

434 At the second meeting in 2003 held on 14 April there were present, amongst others, Brigid Simmonds (in the Chair), Patrick Carter, Roger Draper, Barry Chivers, three representatives of the National Audit Office and two Management Audit team members.

435 There was discussion about the proposed assurance risk and governance function of Sport England as a result of the presentation of a paper by Mr Chivers. It is worth noting that:

435.1 The NAO's senior representative noted that there were "*possible conflicts between the advice and assurance elements of the new structure*". However, the Audit Committee appeared to agree that suitable controls were in place to counter any possible problems. I doubt that the Committee would have reached such an agreement had it had a full and complete briefing about the work of the World Class Payments Bureau.

435.2 Patrick Carter raised the question of funding for advice work to governing bodies. The Committee agreed that those costs should be top-sliced from the body's

funding. However, although there was some charging to NGBs for work by the World Class Payments Bureau, this was not in fact commonly done.

435.3 Patrick Carter also suggested that the National Audit Office could take an active role in how NGBs spend their money; a trial of up to two large NGBs was suggested.

436 Had the Committee been fully apprised of the level of activity within the World Class Payments Bureau, in my view more active steps would have been taken to ensure that closer attention was given to the, by now, plainly serious problem of governance within national governing bodies and the funding of such bodies via the World Class Payments Bureau.

437 Under a paper headed "*Funded Bodies Review*" Mr Chivers presented a paper which said that three governing bodies had received advice and support, being Rugby Football Union for Women, British Amateur Rugby League and Rugby Football League and Squash. In relation to Squash, the paper said "*the World Class funding for this organisation is currently handled by Management Audit services*".

438 Again, this gave the opportunity for the Audit Committee to question Mr Chivers, albeit his report was not giving a detailed account of what was in fact happening.

439 Finally, at paragraph 5 of that same paper under the heading "*World Class Support*", that Mr Chivers simply stated "*we are currently providing a service for nine funded bodies*".

- 440 At the third meeting of 2003 which took place on 14 April and was again chaired by Brigid Simmonds with (amongst those present) Patrick Carter, Roger Draper, Barry Chivers, two members of the National Audit Office present and one member of Management Audit.
- 441 During the discussion at that meeting, Mr Chivers stated that a process had been agreed for the selection of governing body representatives to a proposed funded body “*assurance and compliance process*” and that meetings were being held with some of the governing bodies to “*refine the process*”. I have not found any evidence that these meetings achieved any substantial progress towards better governance arrangements within governing bodies.
- 442 There was no substantive discussion about the work of the World Class Payments Bureau.
- 443 The fourth meeting of 2003 took place on 10 July. Representation was similar to the third meeting.
- 444 Because of changes to the organisation, the Committee was informed that the annual assurance process would only give rise to “*limited assurance*” because of the changes which had taken place within Sport England during the current “*modernisation process*”. Patrick Carter made the point that the Council “*should improve its operation in order that a greater level of assurance could be provided next year*”. As a result of this comment, the Committee agreed that Management Audit services would provide members of the Committee with a progress report at future meetings.

- 445 The minutes do not record any discussion of the World Class Payments Bureau. Annexed to the Committee's papers was an assurance statement by Roger Draper, the Chief Executive, in which he provided assurance as to the quality of the control environment within Sport England. That document did not refer to the activities of the World Class Payments Bureau, nor did it refer to the level of control surrounding those activities.
- 446 The fifth meeting of the Audit Committee of 2003 was chaired by the incoming new Chair, Sir Andrew Foster. Amongst those present at the meeting were Patrick Carter, Roger Draper, Barry Chivers, and the new Director of Finance – Clive Heaphy. Also present were two representatives from the National Audit Office and two members of Management Audit.
- 447 I interviewed Sir Andrew Foster as well as Lord Carter, Roger Draper, Clive Heaphy and Mr Greig Allen.
- 448 When I described the payment operation which was occurring through the World Class Payments Bureau through the separate Barclays Bank account, Sir Andrew Foster expressed himself to be surprised at this operation and made it clear that he did not consider that a clear report had ever been provided to him whilst he chaired the Audit Risk and Governance Committee, such as to give him and other members of the Committee a clear understanding of what was going on.

449 At this meeting (the fifth of 2003) Mr Chivers presented an oral report outlining the main work areas currently undertaken by his team.

450 The minutes record that a National Audit Office special investigation was underway but that investigation did not cover the World Class Payments Bureau.

451 Annexed to the papers for that meeting were revised terms of reference for the Audit Risk and Governance Committee and a National Audit Management letter. The National Audit Office had raised concerns, particularly from two points of view:

451.1 There was a lack of compliance with the Lottery directions;

451.2 Certain routine systems were not functioning properly.

452 I have also received evidence from the current manager of the National Audit Office (he took over the management of the NAO audits in 2006) who described the audits which he inherited as “high risk”. He made it clear to me that there had been a background of significant management changes and re-structuring, and an attitude to risk and compliance which he inferred had been a cause of concern. He confirmed that there was a change in the approach to compliance with the arrival of new management under the new Chief Executive in 2007. The first meeting chaired by Sir Andrew Foster in 2003 makes it clear that there were compliance concerns being expressed by the National Audit Office and as I

read the minutes of this and subsequent Audit Committee meetings, there was an attempt made under the guidance of Sir Andrew Foster to improve reporting to the Audit Committee, the clarity of such reports and the frankness with which reports were made by internal management. The impression gained from the Audit Committee minutes prior to the Chairmanship of Sir Andrew Foster is that there was not a culture of clear reporting of business risk and control issues to the Audit Committee, and that this was a culture which Sir Andrew Foster wished to change.

453 At this Committee meeting a paper headed "*Funded Bodies Review*" was presented by Mr Chivers. An account was given of the funded bodies review programme and under the heading "*Governance Risk and Assurance Support Services*" it was said that Mr Chivers' team had provided "*appropriate professional advice and support to four governing bodies included within which were Squash and Karate. In respect of Karate it was stated:*

"We are currently working with EKGB, NAKMAS and ETKB towards the unified bodies of karate. The World Class Support Bureau currently handles the World Class funding of this organisation."

454 To the astute observer that might have given the Committee an opportunity to question Mr Chivers about the nature of the "*handling [of] ...World Class funding for karate*". What was not provided to the Committee was a detailed account of what was in fact going on within the World Class Payments Bureau. .

2004 Audit Risk and Governance Committee Meetings

455 The first meeting was held on 1 March 2004. Amongst those present were Sir Andrew Foster (Chair), Roger Draper, Barry Chivers, Clive Heaphy and two representatives of the National Audit Office.

456 Mr Chivers presented an organisational risk strategy paper to this meeting which Sir Andrew described as a “*very good start that should be built on for the next meeting*”. He added that the strategy would benefit from further input from both the executive group and the main Board. It seems clear to me that Sir Andrew was beginning to want to exert pressure on management for better management of risk and for the creation of better strategies to deal with business risk.

457 There was no specific reference to the work of the World Class Payments Bureau recorded in the minutes. A “*funded bodies review*” paper was provided to the meeting by Mr Chivers. This referred to some of the problematic governing bodies including karate, which was referred to in identical terms to the previous paper at the last meeting of 2003. That apart, there is nothing which indicates what was the payment activities through a separate bank account of the World Class Payments Bureau.

458 The risks paper which had been provided for discussion contained no reference to the risks which surrounded the operation of the World Class Payments Bureau. The Audit Committee would not therefore, without specific cross-examination relating to the nature of the “*funding*” referred to with regard to karate, have been able to appreciate the nature

of the risks being undertaken through the payment activities of the World Class Payments Bureau.

Second Meeting 2004

459 The second meeting of 2004 took place on 7 June and, amongst others, was attended by Sir Andrew Foster, Roger Draper, Barry Chivers, Clive Heaphy and two representatives of the National Audit Office. Four members of the Management Audit team were also in attendance. A paper was introduced on the topic of the governance risk and assurance work programme in respect of which Sir Andrew Foster suggested that what was needed was not a “*heavy handed*” bureaucratic control environment, but one that provided key reasoning.

460 I ought to point out that when I interviewed Mr Clive Heaphy he made it very clear to me that he was never told that the World Class Payments Bureau was operating a separate bank account. He brought a more rigorous approach to the question of controls than had hitherto been the case. He was disappointed (to put it mildly) that he was never given this information (ie payments through a separate bank account) as the incoming Finance Director.

461 The papers which accompanied that meeting provide no greater insight to the World Class Support operation than had hitherto been provided. What was needed by the time of this meeting was a report to the Audit Risk and Governance Committee as to how national governing bodies were going to be audited in future to ensure that they were fit

for purpose. No such report was provided to this meeting, nor was any report provided which would have given the Committee information about the current state of activity of the World Class Payments Bureau.

462 The fourth meeting of 2004 took place on 1 November and was chaired by Lord Carter of Coles. Amongst those present were a representative of the National Audit Office, Mr Roger Draper, Mr Barry Chivers, Mr Clive Heaphy and four members of Management Audit.

463 The organisation had now been through continuous change since 2001. At this meeting the National Audit Office representative reported that 2003-2004 had been “*epitomised by structural change, and it was now important for the Audit, Risk and Governance Committee to oversee more robust controls in the organisation in the future*”.

464 Mr Chivers gave details of the routine internal audit programme. There was no programme for the auditing of the World Class Payments Bureau.

465 Mr Allen provided a presentation and demonstration of the “*Funded Body Assurance Process – a web-based application designed to fit into Whole Sport Plans*”. *All funded bodies were now to be required to use this tool in order to give a level of assurance on given areas to ensure that they were fit to receive public funds*”. This was obviously a step in the right direction: but the reader of this report will note that there had been

concerns expressed about governing body assurance for years prior to this programme being put in place.

466 There was no report made to that meeting of the activities of the World Class Payments Bureau.

467 Amongst the miscellaneous papers for the year 2004 is a report “*for information*” of a meeting which took place on 5 October 2004, which had been chaired by Sir Andrew Foster and at which were present, amongst others, Barry Chivers, Clive Heaphy and six members of the Management Audit team.

468 This meeting was plainly intended to provide information in particular to Sir Andrew Foster, as well as others, about areas of risk and levels of assurance. Nothing was said about the work of the World Class Payments Bureau to him at that meeting.

Audit Risk and Governance Meetings 2005

469 The first meeting took place on 7 March 2005 and was chaired by Sir Andrew Foster. Amongst those present were Lord Carter, a National Audit Office representative, Roger Draper, Barry Chivers, Clive Heaphy, six Management Audit officers and others..

470 There was no information given to that meeting about the work of the World Class Payments Bureau. However, there was discussed at the meeting the audit strategy for 2004-05. It will be remembered that within the World Class Payments Bureau by this

stage funding had been stopped to the sport of karate and that attempts were being made to unify karate. Also by this time large sums of money had flowed through the World Class Payments Bureau without either an internal nor indeed an external audit of the Bureau. Unfortunately, the audit strategy did not provide for an audit of the World Class Payments Bureau. The strategy is a high level document. However, by this stage with the absence of audits that I have just described, it would have been necessary for the Management Audit team to ensure that an audit took place of the World Class Payments Bureau certainly by the contracted-in “Internal Auditors”. Further, in section 1 of the Audit Strategy the following is stated:

“Previously, we have raised concerns over aspects of the procedures and controls relating to purchases and contract letting. We understand that during 2004 an electronic purchase ordering system (Pro Active), which should address some of these concerns, has been piloted and the full system is due to be rolled out before the end of the 2004-2005 financial year.”

471 In a memorandum attached to the meeting papers, Mr Chivers set out the “*internal audit planning*” which was to be undertaken for 2004-05. Although that plan says that there will be “*substantive testing*” of a “*judgmental sample of grant payments for evidence of management checks, authorisation controls and the existence of appropriate supporting documentation*” it does not seem that any attempt was made to sample test transactions which were handled by the World Class Payments Bureau. I find the omission pursuant to a high level testing programme of any sample test of the World Class Payments Bureau

transactions surprising, particularly after the long period since the workshop in 2001 when PwC had identified risks.

472 The second meeting of 2005 took place on 6 June. Amongst those present were Sir Andrew Foster, a representative of the National Audit Office, Roger Draper, Clive Heaphy and three members of the Management Audit team.

473 A paper was presented to that meeting by the Management team entitled "*Statement on Internal Control 2004-05*".

474 No report was made to the Committee about the activities of or risks surrounding the World Class Payments Bureau.

475 The 6 June meeting occurred very shortly after the departure of Mr Chivers from Sport England.

The Third Meeting of 2005

476 The third meeting took place on 4 July and was again chaired by Sir Andrew Foster with three representatives of the National Audit Office present, the Chief Executive, the Finance Director and others.

477 Under the topic "*Statement of Internal Control*", Mr Hollis asked the Chief Executive about "*Sport England's reputational risk?*". Mr Draper responded that the main issues

were around communications, major projects and finance, i.e. Wembley, the five national centres, London 2012.

478 Neither he nor anybody else provided a report to that Committee meeting of any risks surrounding the World Class Payments Bureau.

479 It is fair to say that by this stage the activities of the World Class Payments Bureau were reducing. However, the saga with Karate England (2005) Ltd still lay in store.

480 The fourth meeting of 2005 took place on 5 September and was chaired by Sir Andrew Foster with similar representation to that already described at previous meetings. Nothing was said at this meeting about the activities of the World Class Payments Bureau.

481 The fifth meeting of 2005 took place on 28 November. It was again chaired by Sir Andrew Foster with similar representation to previous meetings. Again, nothing was said at that meeting about the World Class Payments Bureau.

Audit Committee Meetings 2006-2007

482 The Governance Risk and Assurance Committee was provided in the period 2006-2007 with one further report which was relevant to the World Class Payments Bureau. During this period the remaining activity of the Bureau was predominantly concentrated upon the payments made to karate, which I have described in Chapter 7. Of course, karate ran into

serious difficulties but these were not reported to the Governance Risk and Assurance Committee until the meeting which took place on 4th September 2006 when a report dated 22nd August 2006 was presented. This report recorded that payment was suspended to Karate England on 9th August 2006. I annex a copy of that report at Annex 15. As I have already indicated this was, so far as I have discovered, the most detailed factual report ever provided to the Audit Committee about any failing NGB.

Internal Audit Reports

- 483 The internal auditors for Sport England were Pricewaterhouse Coopers (2001-2002). Followed by Mazars (2002 – 2004), Bentley Jennison (2005 – 2009) and now Deloitte.
- 484 The work programme for the contracted-out internal auditors was discussed with Management Audit at Sport England.
- 485 No arrangements were made by Management Audit for the externally contracted “internal” auditors to conduct an audit of the World Class Payments Bureau. As the World Class Payments Bureau operated from September 1999 through until March 2007, I regard this as a serious omission. Whilst it is fair to say that the activities of the Bureau were not necessarily always material in terms of the Annual Accounts of Sport England, nevertheless the activity of the World Class Payments Bureau was a significant area of business, undertaken under the wing of Management Audit, and it had risks attached to it.

486 In the circumstances, it was a failure by the Management Audit function to ensure that there was an internal audit undertaken by the auditors who were contracted in to provide this service.

External Audit

487 The evidence provided to me on behalf of the National Audit Office, confirms that no audit was undertaken by the external auditors which included the World Class Payments Bureau in the audit programme. Further, as I understand it, the National Audit Office did not sample test transactions which went through the World Class Payments Bureau. It was said by the NAO, when this inquiry was announced, that the National Audit Office was not aware of the World Class Payments Bureau Barclays Bank account. Indeed, I have reached that conclusion independently of confirmation given publicly by the National Audit Office by virtue of the fact that Barclays Bank did not, in its annual letters, reveal the existence of the account to the National Audit Office, and I have found not other report to the NAO identifying the existence of the Account.

488 Having discussed these matters with representatives of the NAO it is fair to say that had they been informed of the activities of the WCPB and in particular that the WCPB was operating its own bank account and accounts system for NGBs which were not “fit for purpose” the NAO would have planned their audits with a view to ensuring that they included WCPB functions within the annual audit. This would have meant that they would have:

488.1 Planned the audit so as to sample test some WCPB transactions and

488.2 reconciled year end bank balances, including the WCPB year end balance.

(They would not necessarily have audited transactions through to the bank statements at the relevant time; by this they mean that they would not specifically have checked to see whether the recipients of payments were those shown on the bank statement).

489 The NAO, when conducting an audit of Sport England, is concerned also with regulatory compliance. This will have given rise to two concerns. First, the NAO would have been concerned as to whether draw downs into the WCPB Bank Account were occurring ahead of need. It will be remembered that there were quite large balances on the WCPB Bank Account in some years. Second, the NAO would have been concerned, assuming my analysis is correct that the funds in the WCPB Bank Account were those of the NGB, as to whether Sport England complied with the requirements of agency fund holding and whether or not Sport England, and the NAO as auditors, were satisfied that there were sufficient controls in place coming up from the NGBs in relation to those funds – i.e. that they were being handled in accordance with the award of Grant.

490 Officers from the National Audit Office were present at all of the Audit Committee meetings which I have described earlier in this Chapter. They were not members of the Audit Committee but were there to acquire information to inform their work, and to provide advice and comments as requested by the Committee Chair. They plainly had a

great deal of ground to cover so far as the Sport England audit was concerned. The report to the Audit Committee as to “*World Class Support*” tended, as I have already said, to be anodyne and bland. Nevertheless, there were opportunities for members of the audit committee, if not the officers from the National Audit Office themselves, to raise questions about the nature and extent of the World Class Support operation.

491 The fact that BACs transfers were occurring from the Lottery Number 1 account at Lloyds Bank to the World Class Payments Bureau bank account, would have been noticeable from a detailed review of the Lloyds Bank statement bank transfers. I understand, however, that it would not have been standard auditing practice at that time to undertake such a review in the absence of indicators of higher than usual risk in this area. It is a question of judgment as to whether such indicators were present. In addition, if questions had been asked within the finance function as to the nature and operation of World Class Support, I would have expected staff to have confirmed the existence of the World Class Payments Bureau and of the bank account into which transfers were being made. Similarly, if such questions had been asked specifically of the Director of the Internal Audit function or his staff, a similar response ought to have been given.

492 None of the foregoing excuses the absence of clear and cogent reports by Management Audit of the fact that a bank account existed at Barclays Bank through which World Class Payments Bureau payments were being made. Nevertheless, such an inquiry during the course of the audit by the National Audit Office could have revealed the existence of this account and have led to sample testing of WCPB transactions. Questions, had they been

asked at Audit Committee meetings, might have revealed the existence of the account and better explanations of the activities of the WCPB.

493 It is unfortunate that, for whatever reason, management did not discuss clearly and openly the existence of the Barclays Bank World Class Payments Bureau account. The problems to which I have referred were compounded by the fact that Barclays Bank did not itself reveal the existence of the account when routine letters were sent to them annually. The combination of all of these factors has meant that the World Class Payments Bureau was never included within the external audit programme, and was never the subject of an internal audit.

Audits of Governing Bodies

494 Sport England, sensibly and properly, put out for tender a contract for the audit of governing bodies. This was won initially by Baker Tilly and from 2001 by Littlejohn Fraser jointly with AHL. I have been provided with helpful evidence by Sarah Hillary of AHL. The system for review of funded bodies worked as follows.

495 The purpose of these audits was to discover whether or not national governing bodies were “fit for purpose”.

496 The work required Baker Tilly and Littlejohn Fraser to discover whether or not the National Governing Bodies were spending their money correctly. A governance review would be undertaken which would look at the structure and operation of the governing

body in question. The auditors would examine how the Board of the national governing body was operating, how it undertook strategic business planning, risk management. In addition, the auditors would examine whether the finance team was appropriately resourced and managed and whether accounts were appropriately managed. The question of separation of functions would be examined. The auditors would check whether or not there was sufficient communication, whether information technology and human resources were all properly in place.

497 A system of review would be agreed annually with the Audit Management function of Sport England.

498 The auditors of the NGBs knew of the existence of the World Class Payments Bureau. Where the World Class Payments Bureau was dealing with a particular NGB, then the audit of that governing body would not look specifically at the finance/accounts function because that would have been undertaken by the World Class Payments Bureau on behalf of the NGB. The assumption was that the WCPB was managing the payments system correctly. In any event it was the Sport England Management Audit team who asked that NGBs who were being dealt with by the WCPB should not have their accounting or payment functions examined.

499 The audit programme for NGBs continued until 2004. Again, because of management changes within Sport England, the contract with the then auditor, Littlejohn Fraser, came

to an end in 2004. It was not revived until new management came in 2007. This was an omission.

Reports to the Board

500 We have searched the archives, and our document management system, specifically for Board agendas, minutes and any reports to the Board about the World Class Payments Bureau (or any similar such name), and have examined the documents retrieved. I have also asked questions of former members of management about Board involvement in the establishment of the WCPB or its continued operation.

501 The most important point which emerges from a large document search is that we can find no occasion when the Board either decided to establish the World Class Payments Bureau, discussed or debated it, or made decisions about its future direction. The Board Minutes (which is what auditors will routinely examine) reveal no discussion or debate about the Bureau by the Board. There are, however, a number of occasions when the Board received a report from the Head of Management Audit (and occasionally others) which referred to the existence of a Bureau. I summarise these reports in the following paragraphs. As with the reports to the Audit Committee the reports did not go into any the detail about what was happening and did not disclose the existence of a separate bank account, although a well judged question might have revealed more had the director been asked about the detail of what was happening within the Bureau.

Management Audit Director's Reports to the Board

502. In September 2002 in his *Directors Report Management Audit ESC(02)10.17* - Mr Chivers stated at paragraph 25: "*We are currently providing a service for fourteen funded bodies through the World Class Support Bureau*". The nature of the service is not discussed.

503. In October 2002 in his *Directors Report Management Audit ESC(02)11.14* - Mr Chivers stated: "*We are currently providing a service for fourteen funded bodies through the World Class Support Bureau*".

504. In a report dated March 2002 headed *Directors Report Management Audit ESC(02)4.17* - Mr Chivers stated:

3.3.1. Problem Lottery Schemes: We are currently working on eight schemes.

3.3.2. NGB Support: We are currently providing support for six funded bodies.

3.3.3. World Class Support Bureau: We are currently providing a service for fourteen funded bodies

This language was repeated in *Directors Report Management Audit ESC(02)5.17*, *6.16*, *7.20* and *8.18*.

505. In his report of November 2002 entitled *Directors Report Management Audit ESC(02)12.17* Mr Chivers stated at para 3.3.3. *“World Class Support: we are currently providing a service for fourteen funded bodies. Rugby Football Union for Women has requested that the Bureau take over the operation of their finances until the body is stabilised. Additionally UK Sport has requested that a modernisation grant for English Bowls Association is channelled through the Bureau.*

506. In a report headed *Governance Risk and Assurance Directors Report SEMB(03) 8.6* provided to the Board in 2003 it was stated:

“WORLD CLASS SUPPORT BUREAU

10. We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.

11. Although some bodies are leaving the bureau as their financial and governance systems are improved there are a number of small bodies that are interested in having their finance and administrative operations maintained by the bureau.

12. We are anticipating that the work on athlete payments will be transferred to the bureau shortly.”

507. In a Director's Report – Governance, Risk and Assurance Directorate SEMB (04) 2.7 presented by Mr Chivers in 2004 he stated

“World Class Support Bureau

We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.

Although some governing bodies are leaving the bureau as their financial and governance systems have improved there are a number of small bodies that are interested in continuing.”

508. Likewise in the Director's Report – Governance, Risk and Assurance Directorate SEMB (04) 3.11 (by B Chivers)

“World Class Support Bureau

We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration. Although some governing bodies are leaving the bureau as their financial and governance systems have improved there are a number of small bodies that are interested in continuing.”

509. Likewise in the November Director's Report – Governance, Risk and Assurance Directorate SEMB (04) 9.12 (SE) (by B Chivers)

“World Class Support Bureau

We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.

We now provide services to the funding allocated to UK Athletics re Foster Project Board.”

A report in similar terms was made in the January and April 2004.

510. Director's Report – Governance, Risk and Assurance Directorate SEMB (04) 1.7 (by B Chivers)

“WORLD CLASS SUPPORT BUREAU

14. We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.

15. Although some governing bodies are leaving the bureau as their financial and governance systems have improved there are a number of small bodies that are interested in continuing.

16. It is anticipated that the work on athlete payments will be transferred to the bureau shortly.

17. We are currently providing the finance function for Phoenix Sports Limited.”

511. Director’s Report – Governance, Risk and Assurance Directorate SEMB (04) 6.4 (by B Chivers)

“World Class Support Bureau

We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.

We are currently taking positive steps towards the closure of this function and anticipate that this will be achieved by the end of September.”

The same language is used in the May 2004 Director’s report 5.11.

512. But in February 2005 and April 2005 the Director’s reports states

“World Class Support Bureau

We continue to provide accounting and administrative services to a number of small governing bodies and to other organisations where Sport England needs to secure effective financial administration.”

Other Director's Reports

Hockey

513. Hockey it will be remembers from Chapter 7 went through a very serious crisis. I summarise what the board was told below:

513.1 In 2002: Directors Report More Medals ESC(02) 10.12 *EHA (Hockey)* “*World Class Payments continuing to be processed through the Bureau. A decision needed concerning EHA’s debt of £450,000 to Sport England and the possibility of EHA not being able to make the payment.*” and: “*Discussion held with Management Audit (MA) regarding the Compliance function. The following areas will be reviewed with MA over the next three months*

14.1. Risk Assessment for NGBs

14.2. Role of Compliance for the future

14.3. Run down of the World Class Bureau”

513.2 Directors Report More Medals ESC(02) 8.12 *EHA (Hockey)*: “*Payments now being processed through the Bureau. World Class Payments continuing to be processed through the bureau and a separately established company. Work continuing with the EHA over financial/insolvency issues. Situation remains critical. Exchequer payments remain suspended.*”

513.3 *Directors Report Performance Sport ESC (02)11.11 - EHA (Hockey): “World Class Payments continuing to be processed through the Bureau”*. This paper was produced by D Carpenter.

513.4 *Directors Report Partnership ESC (02) 12.9 EHA (Hockey): “World Class Payments still being processed through the Bureau. Board of World Class Hockey now fully in place. EHA member clubs now novated to new Hockey England Limited governing body. The Constitution of a new hockey governing body has been agreed and FIH membership will be sought in December.”* This paper produced by Lloyd Conaway November 2002.

Other Papers to the Board

514. **Board Paper 2000 (2.23)** for decision on English Institute of Sport. It states: *“English Institute of Sport pays for usage via a national discounted rate, consistent on all English Institute of Sport sites, with money from World Class programmes, ring-fenced and managed within the World Class Bureau”*.

515. We have come across a **“Draft Board Paper 2000 (4.8)”** on the English Institute of Sport. It states: *“Guaranteed Income for Guaranteed Time: there was an acceptance of the bureau solution to facility hire, from the sports who attended.”* In other words, the budgets for facility hire, once agreed with NGBs, could be held within a bureau and bills paid from that source, rather than paying the money initially to the NGBs.

516. **The Operation Plan 1999-2000** - *“World Class Payments Agency The World Class Payments Bureau is now up and operating effectively through the Management Audit team”*.
517. **Operation Plan 2001/2002 Quarterly Update of Progress:** *“Management Audit Provision of services to appropriate schedule and quality Services provided include: internal audit, funded body reviews, special investigations, World Class Bureau, EIS support, other support services, advice and assistance Ongoing work within a continuous programme covering the services identified last quarter”*. The same comments on Management Audit are repeated at the Quarterly Review April - June 01.

The Rugby Football League

518. In a report of December 2001 - **RFL Case Profile December 2001** • it is stated *“The RFL should provide a detailed financial recovery plan for 2002-03 embracing all aspects of its activities. This should be closely monitored by Sport England to ensure the lessening of risk to Sport England investment. If this is found to be unsatisfactory, consideration should be given to making payments through the World Class Payments Bureau.”* Nick Halafihi is identified as the Performance Director.

Conclusions

519. As can be seen from the history set out in this chapter reports to the Board and the Audit Committee which touched upon World Class Support were made from time to time. The

existence of a Bureau which provided support (of some kind) to Governing Bodies was not therefore a secret within Sport England. In my opinion the Board should have debated the establishment of the Bureau before it was set up, and should at that stage have had a business and organisational plan for it, so that the Board could have made an informed decision about this new activity. Reports to the Audit Committee and the Board after the WCPB was established in my opinion lacked detail and precision.

CHAPTER 9

DEVELOPMENTS SINCE MARCH 2007

520. I am conscious that reports in the press have questioned why the incoming Chief Executive did not know about the World Class Payments Bureau Barclays Bank account until December 2008. I have investigated this question and sought evidence from the Chief Executive, and also separately from the Chairman. I also interviewed the interim Finance Director, Philip Mabe, at the start of this inquiry.

521. The facts are as follows. Jennie Price, the incoming Chief Executive, understood that she was the Accounting Officer for Sport England and inquired immediately upon her appointment about the systems which were in place for financial controls, bank accounts, and all relevant information in order to inform herself with relevant facts for the discharge of her duties. She commissioned Deloitte to review the accounting systems. She was not told about the existence of what had become a dormant bank account at Barclays Bank. Indeed, the intention, as I understand it, of those who had until mid 2006 operated the bank account, was that it should have been closed. The existence of the WCPB Barclays Account was brought to Mr Mabe's attention in December 2008 as a result of the receipt of a Bank Statement from Barclays Bank. Mr Mabe emailed Ms Price on Christmas Eve 2008. This is (to the best of her recollection) the first time she became aware of the WCPB and its bank account. When she first arrived in the post, there was a huge volume of paperwork. The term 'World Class' was widely used by documents generated by Sport England. However, Ms Price is certain that she did not know there

was a separate account of that name, separate arrangements or that money had been handled outside the normal control systems. In any event, the account had been dormant since the middle of 2006.

522. Richard Lewis was appointed Chair of Sport England in April 2009. By this stage current management were aware of the WCPB bank account and investigations were ongoing. Mr Lewis joined the Rugby Football league in 2002 which is when he first heard about the WCPB. He recalls discussions with Sport England about the possibility of the RFL being put into ‘special measures’ which was the WCPB (see the brief report to the Board referred to in Chapter 8). Mr Lewis was later appointed in 2004 to the National Investment Panel at Sport England by Lord Carter. He remembers that the WCPB was discussed in an open and transparent manner with no suggestion of any thing untoward. He does not recall any mention of a separate Barclays Bank Account.
523. There remained approximately £75,000 in December 2008 in the account but it was not used at all since about the middle of 2006. That money was paid back into the Sport England Lottery Account.
524. As I indicated in Chapter 1, an employee of Sport England, Keith Jones, was informed of the existence of the Barclays Bank account in an email of June 2008 of the World Class Payments Bureau account, but he missed the reference, or did not act upon the reference. It was not therefore until December 2008 that the existence of the account was discovered by senior management when a bank statement was provided routinely by Barclays Bank

to Sport England and was referred to the new Finance Director. As I say, he immediately informed Jennie Price.

525. No one at Sport England considered it relevant to inform Jennie Price or the incoming Finance Director about the fact that a World Class Payments Bureau had operated within Management Audit. It was they who instigated enquiries in order to discover what had happened. They did so quite properly, and without any restriction on the scope of those inquiries. I have noted questions which have been asked in the press as to why the incoming Chief Executive was not aware of the World Class Payments Bureau account. The answer is that amongst large volumes of information no one informed her of the existence of this, now dormant, account. No criticism can, in my view, be levelled either at the incoming Chief Executive, nor the Finance Director, Philip Mabe, who came into Sport England in 2007.

526. In 2006 the remaining elite or world class part of Sport England's activities were transferred to UK Sport. Since the suspension of funding in August 2006 to karate, there has been no world class or elite funding activity undertaken by Sport England, and there was no use made of the WCPB Barclays Account. The whole of the elite side of the Sport England operation has now transferred to UK Sport.

527. However, Sport England does still deal with National Governing Bodies. I have therefore enquired into the way in which governing bodies are dealt with under the new management.

528. To this end I conducted a long interview and have been provided with detailed documents by Lisa O’Keefe, Director of Sport at Sport England.
529. A joint approach to governance of funded NGBs is now adopted by UK Sport and Sport England, to ensure consistency, and to require all NGBs to be fit for purpose before they receive funding. This is defined as meeting minimum standards in governance, financial management, and risk management, HR and organisation policy.
530. I exhibit as Annex 16 the charts and other documents which demonstrate the methodology by which national governing bodies are now dealt with by Sport England. These describe the full ‘measurement and understanding’ regime, which includes the joint approach to assessing governance by Sport England and UK Sport. In short, Sport England has developed the fitness for purpose requirements for national governing bodies so that relevant governance requirements are required to be in a proper state before a national governing body will be considered for funding. The requirements are listed in Annex 16.
531. An NGB must submit bi-annual self-assessments of progress on delivery intervention/spend date/forecast of spend. There is also a detailed governance assurance process which operates on an annual basis. Governing bodies are required to be a registered company, and to be audited. Self assessments, and the back up evidence provided in support by NGBs, are subject to external audits. An NGB cannot rely on a previously good self assessment but must keep its governance in good shape.

532. Key performance indicators (the measures by which achievements required for grant funding are measured) are much better defined and much more closely monitored by Sport England. There is a close “partnership” arrangement whereby Sport England works with National Governing Bodies in order to ensure that the NGB is well-governed, disciplined and focused on achievements of measurable targets.
533. External auditing of NGBs’ governance was re-started in 2007. This is an on site audit by external (Sport England and UK Sport appointed) auditors. These audits are done on a rolling basis but also NGBs of concern are added to the audit programme. Once in receipt of a report, Sport England will consider whether money is at risk; if it is then funding is stopped. If it is not then Sport England will assist the NGB with a recovery action plan. However, an NGB which fails in proper governance terms may find that its funding is simply stopped. The on site audit has two purposes: to check against self assurance and there is an in-depth analysis of the NGB. It is a traffic light system. If an NGB receives a ‘red’, the sport has 3 months on which to improve. Current Sport England guidance states that no sport should remain on ‘red’ as this indicates that the NGB is not fit to receive public funds.
534. Within Sport England a financial consultant, experienced in accounts matters, is employed within the NGB team to assist and advise staff when an NGB sends management accounts to the relationship manager.
535. Sport England is also creating a mentoring system with the larger /more established sports to assist smaller NGBs by sharing advice and experience in governance and finance.

536. Sport England is making it clear to NGBs that governance and compliance are key business building blocks. Training has been held for finance directors of NGBs to explain the financial controls which apply to funding they receive from Sport England.
537. Sport England are prepared to offer a Governance and Assurance consultant to an NGB, at no cost, to provide them for example advice and templates to assist them with completing the self assurance part of the application to Sport England. This should serve at least to focus attention on what matters for good governance.
538. Whilst Sport England will offer advice and assistance, it is also felt within Sport England that they should not interfere with an NGB nor tell them how to run a business. The approach is that if the NGB cannot run the organisation properly, it should not be funded.
539. In addition to the yearly self assurance process there are bi annual review meetings with the NGB and the Sport England relationship manager.
540. Any system of revenue funding of a national governing body is bound, from time to time, to find that some NGBs perform less well than expected. However, the ethos and atmosphere within Sport England has, in my opinion, changed for the better.
541. So far as reports to the Audit Committee (or its modern equivalent) are concerned, a change in the quality of reporting occurred with the appointment of Sir Andrew Foster as Chair, and the improvements in reporting have continued. For example, internal audit reports are now routinely provided in full to the Audit Committee. Reports of

management and staff to the Audit Committee are focused, factual and therefore more likely to identify risk areas in the business.

542. As said in Chapter 1, incoming management inherited a serious problem of poor document management and archiving, combined with poor corporate memory. Frequent and radical changes to the organisation had contributed to an atmosphere of instability, as well as a loss of corporate memory as files were archived without proper order.

543. I have been assured that steps are being taken to carry out the recommendation which I make which is that there must be a much better document management system, a better archiving system and a system of relationship of computer account information to hard copy documents. Sharing of information between different directorates within the organisation will assist in its smooth running. Better systems will allow Sport England to use existing knowledge and experience for future work, proper handover with staff changes and promotion, and the education of colleagues. It is for Sport England with its current management to work out the best system that is required to achieve these objectives.

544. It follows from this brief summary of the modern management structure at Sport England that some of the recommendations which I make in this report will already have been acted upon. The fact that they have been acted upon before I have reported is a healthy sign that the present management of Sport England are getting to grips with some long standing problems.

545. As to audit risk and control, I set out in Chapter 11 recommendations as to the way in which business risk and controls can be improved. However, when I interviewed the National Audit Office's representative and current manager of the external audit of Sport England, one of the first things I was told is that the incoming management inherited a business which was in audit terms "high risk" and have brought about a sea change in attitude towards risk and control. I was informed that there is now an approach whereby senior managers inculcate into those working at Sport England an attitude that good governance is a priority throughout their work. Certainly during my investigation, evidence taking, and visits to Sport England, the attitude of compliance with good governance is one which is obvious.

546. I expect that the recommendations which I make will all be acted upon if they have not been already. The main recommendation I make, regarding governance of NGBs, requires review in a period of about two years. All will require regular monitoring. I very much hope that the first recommendation I make, which is to ensure that there is a standing committee which oversees national governing bodies' governance structures, will make it unnecessary for legislation to be enacted to enforce good governance practice in NGBs. So far as all of the other recommendations are concerned, they are ones which will require vigilance under Sport England's management. I also very much hope that the past culture of change driven by politicians and new policies which gave rise to frequent changes of structure, executives, managers and objectives, does not occur again. Sport England requires a period of sustained stability which will enable it to deliver its objective of getting over one million more people participating regularly in sport for the good of society generally.

CHAPTER 10

ADVICE

547. I have been asked to provide in short summary form, my advice to the Board of Sport England as to whether or not steps should be taken to recover any of the monies spent through the World Class Payments Bureau. I am providing a short summary of my advice on the basis that this summary is intended for publication.

Auditors

Auditors of Governing Bodies

548. There is, in my view, no basis upon which Sport England could make a claim against the auditors who conducted reviews of governing bodies. The reviews which were conducted of governing bodies were done on an agreed programme with Management Audit. The reports relating to those governing bodies which were audited were, so far as I can discern, carefully undertaken – indeed they often formed the basis for the decision to place an NGB into the WCPB. Once it was known that an NGB was being paid through the WCPB the auditors were not instructed to audit the accounting function of the NGB because they knew that the accounting function was being dealt with by the WCPB: this was an agreed arrangement with Sport England Management Audit. There is, therefore, no basis upon which it could be said that the reports themselves were careless. It follows that in respect of these reports, there would be no cause of action against the firms which conducted the audits of NGBs.

549. The only other basis upon which a claim might possibly be brought would be that there was a careless omission to audit a particular governing body which remained funded by Sport England in circumstances where, had there been an investigation by the external auditors, it might be argued the funding would have ceased.

550. I do not consider that there would be a factual basis for a claim to be made based upon such an “omission” to act. Even if there were some culpable omission to act, I am not persuaded that any loss could be established as being caused to Sport England by the omission. The reality is that the Lottery Panel, or the Investment Panel as it became known, or Management Audit, funded failing NGBs in circumstances where they knew, or certainly had the means to know, that the NGBs in question were not fit for purpose. Often, the designation of a governing body as not fit for purpose derived from the work of the independent auditors. In some cases, NGBs were considered not fit for purpose based upon the assessment of Management Audit themselves. In either case, Management Audit knew perfectly well what risks it was taking when it funded these NGBs. In these circumstances, there is no basis for a claim, in my opinion, against the auditors of the NGBs.

Internal Audit

551. When PwC undertook the contracted out, internal, audit in 2001 they drew attention as a result of the workshop undertaken in early 2001, to the structural failings of the World Class Payments Bureau. Their report was read by, and understood by, Sport England’s management. Despite that report, Sport England management maintained the World

Class Payments Bureau with the system of payments made through the Bureau for the ensuing years until mid 2006. There is, therefore, no basis for a claim against PwC. Any claim would in all probability also be statute barred.

552. So far as the subsequent internal auditors are concerned, although none of them undertook an audit of the World Class Payments Bureau, a claim against them would, in my judgment, be unlikely to bear any fruit for the following reasons:

552.1 Management Audit itself knew what was going on with regard to the World Class Payments Bureau.

552.2 The Lottery Panel, or the Investment Panel, made decisions to invest in the NGBs through the World Class Payments Bureau, in the knowledge that they were not fit for purpose.

552.3 The scheme for work to be undertaken by the internal auditors was agreed by Management Audit, with the knowledge as I have set it out above. If there were any negligence on the part of the internal auditors by virtue of the fact that they did not carry out audits of the World Class Payments Bureau, the contributory negligence on the part of the managers of the World Class Payments Bureau, who knew of its activities, would in all probability eliminate any recoverable loss.

External Auditors

553. The external auditors were the National Audit Office. Their reports are covered by Parliamentary Privilege. As I have indicated, they did not either through the Audit Committee, nor when they were receiving briefings on the business activities of Sport England, receive details of the operation of the World Class Payments Bureau account or the payments that were being made through that account. If officers of the National Audit Office had discovered the existence of the World Class Payments Bureau bank account, and the funding stream which went through it, then they would have included the WCPB's activities as part of their audit plan. It does not follow that they would have qualified their audit opinion.
554. However, that begs the question as to whether or not the failure to include the World Class Payments Bureau in the annual audit gave rise to any loss. I have received no indication that those who ran Sport England in the relevant years would have been dissuaded from funding the NGBs they funded year in year out, by virtue of any qualified or adverse audit report or management letter (had there been one) so far as the World Class Payments Bureau is concerned. Much more likely is the fact that closer scrutiny would have been made of payments to the NGBs concerned, but that in the climate as it prevailed at the time, the funding would have continued.
555. Putting on one side therefore, the question of privilege, and the unattractiveness of one publicly funded body suing another, I do not consider that there would be a sustainable factual basis for a claim to be made by Sport England against the National Audit Office.

Individuals

556. In order for a claim to be brought against any of the individuals involved in the management of the World Class Payments Bureau or their superiors, it would be necessary to show that loss has been occasioned to Sport England itself either by virtue of breach of duty by them as employees under their contracts of employment, or by virtue of misfeasance in public office.

557. As to the first of these, for the same reasons that an action would in all probability fail as against the auditors because the investment decision would have remained the same, a claim against individual employees is also likely to fail for the same reason. There is no basis of a claim in misfeasance: misfeasance requires bad faith or dishonesty, neither of which I have found to have existed amongst the former management of Sport England. In addition, it is futile bringing expensive proceedings against former employees in circumstances where the cost of doing so would be unlikely to be recouped as against those employees, let alone any damages, should a court be prepared to award them. In all of these circumstances, I do not consider that claims should be brought against former employees.

Conclusions

558. The lessons that need to be learnt about the World Class Payments Bureau, and the bank account which was operated by Sport England at Barclays Bank, are lessons which relate to the good governance of Sport England and of National Governing Bodies. Nothing, in

my judgment, will be gained by the current management of Sport England making claims or launching proceedings against any of those who were involved in the World Class Payments Bureau or who failed to report on its operations.

CHAPTER 11
RECOMMENDATIONS

559. The recommendations which I make fall into various categories. I therefore set them out by reference to the subject matter of each recommendation.

Proper Governance in National Governing Bodies

Recommendation 1

560. The papers are replete throughout the seven year period of the existence of the World Class Payments Bureau with concerns about the quality of governance within some National Governing Bodies. As I have indicated, by the spring of 2002, Sport England should itself have been taking robust steps with National Governing Bodies (NGBs) who were seeking funding from Sport England to ensure that no NGB was funded unless it was fit for purpose.

561. Good governance is not something which can be plucked off a shelf and placed into the lap of a governing body. Good governance requires willingness and active engagement on the part of those involved in the governance of a particular sport, sufficient funding, and application of the principles of good governance within the governing body itself. Further, it is vital for the future health of sport that a situation is not allowed to develop where good governance becomes a bureaucratic or box ticking exercise thereby causing people to lose the spirit and enjoyment of the sporting activity itself. I have been very

much alive to concerns expressed to me by those involved in sports administration that red tape should not beset sport as it has other areas of national life.

562. What then is the solution to a history of poor governance in some National Governing Bodies? The answer, it seems to me, is that **Sport England and UK Sport should create a permanent, small, and expert Standing Committee to which governing bodies can turn for advice and approval as to their governance arrangements. I suggest that this should be known as the “Sports Governance Committee”** I make it clear that I regard this as a joint operation drawing on expertise and resources which are now available between existing bodies: Sport England, UK Sport and within the sporting community and not as a newly created “Quango” or other separate body.

563. The membership of such a Committee need only comprise the following individuals.

- The Chief Executive or a Senior Director of Sport England
- Chief Executive or a Senior Director of UK Sport
- A lawyer expert in sport regulation and governance
- A senior administrator drawn from the sporting community
- A senior sportsman or woman
- One other external member, possibly drawn from the Charities Commission, who can provide expert advice and assistance from the world outside of sport but in an area where similar governance issues arise

564. The Sports Governance Committee should meet regularly, and promulgate through Sport England and UK Sport its current advice as to good governance arrangements for National Governing Bodies.
565. Any governing body which seeks public funding, whether that be from Sport England, UK Sport or indeed elsewhere, must achieve a minimum level of governance which accords with the standards set by the Sports Governance Committee. From my inquiries of the current system as it operates at Sport England (see Chapter 9) I do not think it will be necessary for those bodies that reach Sport England's or UK Sport's current standards already to have to re-apply so as to comply with this additional burden. I do not wish to create an extra burden for those sports who are already properly governed and are supported by Sport England or UK Sport. I am, however, very much concerned with those sports which do not achieve minimum standards of good governance who may yet seek public funding or may simply be taking subscriptions from members of the public. The sport of karate, for example, is not in receipt of public funding at present, but did not solve its governance problems when funded by Sport England.
566. There is a risk and concern for the public taking part in sports sponsored by failing governing bodies. The simple solution is for all governing bodies to be able to certify that their standards of governance accord with those which are set by the Sports Governance Committee. Thus, it should be the case that any National Governing Body which takes subscriptions from the public, or receives public funds, or organises and

provides competitions, or teaches aspiring sportsmen and women, will be able to certify that it complies with minimum standards of good governance.

567. All of the foregoing assumes a willingness on the part of the sporting community to ensure that its standards of governance are ones which accord with good practice. Although it has been urged upon me, I do not recommend that there should be statutory regulation of the principles of good governance unless and until the recommendations which I make in this report have not succeeded. I intend that they should succeed. I recommend that a Sports Governance Committee be put in place as I have set out in this report, and that sporting bodies which have not already gone through the process of approval by Sport England or UK Sport take steps to acquire certification from such a Committee as quickly as possible and that they keep their own governance arrangements under review. If such a system works, there will be no need for statutory regulation, there will be co-operation, and standards will rise for the good of all.

568. In my opinion, a period of about two years should be given for these arrangements to be set up, allowed to bed down, and reported on before any statutory intervention is considered. I well understand a concern which would otherwise be voiced within the sporting community, that statutory regulation is not required and is a piece of red tape too far.

569. However, if a voluntary system (but one which must be complied with for public funding purposes) such as I describe is not demonstrably working for the good of the public, then

at the end of the two year period following a further report, it seems to me that a mechanism for regulation of the governance arrangements of sports governing bodies will need to be put in place. I very much hope that statutory regulation will not be necessary.

570. There remains the question as to what issues a Sports Governance Committee ought to be addressing for the sporting community as a whole so as to ensure that standards of good governance are put in place across the board. This should be one of the first issues to be addressed by the Committee, but it seems to me that the minimum standards of good governance which would be required in any sport are:

570.1 An appropriate mix of skills on the Board or governing body.

570.2 A robust and coherent set of rules governing the sport

570.3 Robust financial and accounting procedures.

570.4 Separation of functions for the proper protection of funds.

570.5 Annual audits.

570.6 A performance director – in sports aspiring to international competition.

570.7 A development director – in a national sport seeking to increase participation

570.8 Sound information and data management.

570.9 Suitable child protection measures.

570.10 Appropriate Diversity policies.

570.11 Appropriate Drugs policies

571. Ultimately of course, it will be for the Sports Governance Committee in conjunction with sporting bodies to work out what is the most effective, economical, and efficient way of setting out governance models for particular sports. What I have listed seem to me to be essential features of good governance in sporting bodies, but these can be added to or varied depending upon the exigencies of particular sports.
572. I do not consider that the establishment of a small Committee of the kind I have just described will have any major budgetary or other resource implications for Sport England, or UK Sport, or sport in general. If a sport is well governed, it will operate more economically and more efficiently than a badly governed sport. If a sport is well governed, those who participate in the competitions sponsored by the governing body will enjoy well run, high quality, competitions. If a sport is well governed, more people will be attracted into it, with economies of scale, and suitable protection and diversity policies to ensure a safe and enjoyable environment for all of those who take part.
573. National Governing Bodies which receive public funds should be the subject of periodic audits by the funding body of their governance arrangements. I understand a system to achieve this is already in place at both Sport England and UK Sport. The gap which occurred at Sport England between 2004 and 2007 ought not to be repeated.

Recommendation 2

Governance at Sport England

574. I make the following recommendations. As explained in Chapter 9, a number of these relate to the history surrounding the World Class Payments Bureau and are not a comment on current practice in Sport England. I have indicated below where this is the case:

Historic:

574.1 Sport England must not embark upon new areas of business without the approval of its Board. Plainly any new areas of business requiring Board approval must be material having regard to the activities of the Council as a whole. The World Class Payments Bureau was an activity which required Board approval.

574.2 All members of staff from the most senior to the most junior must receive proper appropriately targeted induction training at the point when they take up employment with Sport England. That training needs to describe their responsibilities as staff members within the legal and accounting framework within which they are operating. Plainly, induction and training should be concentrating on the key objective of the Sports Council which is to promote sport for the good of all. This cannot be done in a regulatory or accounting vacuum. Both the legal and accounting framework are complex and all staff induction packages ought to contain relevant and comprehensible information as to the duties which staff operate under with regard to the law and accounting functions.

Since 2007 the Chief Executive has inculcated into staff a culture change: Compliance is now high on the agenda, and I expect it will continue to be so.

574.3 The Audit Committee of Sport England must remain a Committee which supervises the audit functions of Sport England and is carefully and accurately apprised of risks to the business and what controls are or are not in place. Openness of reporting of risk should be encouraged. Reports should be factual and sufficiently detailed to enable the Audit Committee to understand at first reading what risks are faced by the business.

574.4 New committees should not be established without the Board of Sport England approving them and without such committees fitting appropriately into the known management structure of Sport England.

574.5 No new additional accounting system should be introduced into Sport England unless it is absolutely necessary and clearly identified to line managers, internal and external auditors, and justified for the business interests of Sport England. There was no such justification for the running of the World Class Payments Bureau through a separate SAGE accounting system.

574.6 New bank accounts should not be opened for discrete parts of the business activities of Sport England unless absolutely necessary. A separate bank account does not provide much, if any, extra control. Good control comes through the robust operation of a good accounting system. There was no justification for the setting up and running of the separate WCPB Barclays Bank account.

574.7 Auditing and Business Management Functions must remain separate.

574.8 Sport England's bankers must be asked to disclose all of Sport England's accounts to its auditors in good time for audit, and the bankers need to conduct a review of all accounts held by Sport England and not simply to provide details of those historically disclosed to the auditors.

574.9 There needs to be a regular audit undertaken by the contracted out internal audit function of Sport England's separate areas of business activity. Long periods should not expire before a business activity is subject to internal audit.

574.10 There must be a clear report provided to internal and external audit of each of the areas of business activity of Sport England so as to enable internal and external auditors to plan and target their audits appropriately.

574.11 Electronic Bank transfers must be secure. By this I mean that staff authorised to instruct a transfer are identified, have appropriate management authorisation, and that there is security of computer access to bank transfer instructions through a log-on and password mechanism.

Current:

574.12 A policy of employment of temporary staff is unsuitable for an organisation such as Sport England which is responsible for dealing with public funds. Of course, from time to time, it will be necessary to have temporary administrative or accounting staff. But wherever practicable, staff should be employed on

permanent contracts of employment. A system which involves heavy use of temporary staff on short term contracts is not likely to engender loyalty, experience or knowledge of the areas in which Sport England requires to be expert. I now understand Sport England's policy to be the reverse of that which applied during the period I have inquired into and that they actively endorse a policy to employ permanent staff whenever possible.

574.13 Those who are appointed to committees of Sport England ought to be appointed through a recognised public appointment process with suitable vetting for their skills. The Chair of the Audit Committee needs to have experience of auditing. Whilst he or she need not necessarily be an auditor, a background in scrutiny of accounts and business risk is essential in Sport England, and preferably with some public sector experience

574.14 A much improved system of document management and archiving needs to be developed within Sport England.

574.15 The system of document management and archiving needs to ensure that the computerised accounting function tracks where the hard copy documents are to be found and the hard copy documents need to be systematically archived. Steps are underway to achieve this and they will need to continue. I recommend that a report be provided to the Board of Sport England as to the document management and archiving system within six months.

