



## CARILLION

In January when Carillion collapsed I didn't pay too much attention because I didn't know anything about them. That all changed when the local media highlighted that they were part of the consortium building a brand new secondary school in nearby Wexford town. It just so happened that this secondary school is the school my daughter is due to start in at the end of August. Once I realised that Carillion was potentially impacting upon my daughter's future education I started to pay attention to what had happened to them.

Last month I noticed that a House of Commons committee had investigated them and had just published a report that tried to highlight exactly what had gone wrong.

I quickly discovered that the committee had interviewed all of the relevant people involved: management, directors, large shareholders, auditors, and regulators. I even discovered that it was possible to watch recordings of all these interviews and that transcripts of the interviews were also available.

I watched a few interviews and the one thing that hit me straight away was how similar it was to the investigation into the Irish bank collapse in the sense that all these directors and auditors want ordinary people to believe what they do is so difficult that they deserve to earn a fortune but then as soon as things go wrong they have to admit that they didn't really have much of a clue as to what they were doing.

There was one particular exchange I watched that brought home this reality. It was an exchange primarily involving Rachel Maclean, a Conservative Party Member of Parliament and Peter Meehan the lead external auditor from KPMG. The transcript of part of this discussion is included below but in order to understand it fully I first need to explain the background to the issues covered.

One of the many reasons Carillion got into trouble was because they messed up on a contract to build a major new hospital in Liverpool. The first signs of a problem emerged in Nov. 16 when one of the beams holding up the structure was found to be cracked. Even after this cracked beam was found management continued to presume that this was still a profitable contract and the auditors went along with that assessment. The MPs wanted to find out if management had misrepresented the situation in the 2016 accounts that were published in March 2017 and they wanted to find out if the external auditors had done their job properly in the period after the problem emerged. This is how the discussion went:

**Rachel Maclean:** It sounds like it was a surprise that something like this could go wrong. Carillion is a major constructor. They have built hospitals before. They surely know what to look out for when putting in beams and seeing if beams are cracked and, all of a sudden, there is a surprise that these beams have been put in. They are already in the hospital. It is not like they are in the beam factory being made or checked. Who is checking them to see that they are not cracked before they go into the hospital?

**Peter Meehan:** As a non-builder, I would be as shocked as you that that happens, but it did happen.

**Rachel Maclean:** You are there to challenge those judgments made by the management, are you not?

**Peter Meehan:** These are eight-foot-by-four-foot concrete beams. They are massive. I am not qualified.

**Rachel Maclean:** How big is the crack, then? The whole thing looks like this situation has allowed to happen where these enormous cracked beams have gone into this huge hospital, costing millions of pounds, where taxpayers and residents in Liverpool are waiting for this hospital to treat them. They are waiting for their operations and someone is not even looking, doing the basics, to check that the construction is continuing properly. You have a part to play in that.

**Peter Meehan:** I have a part to check what is recorded in the accounts, in respect of the construction project. I appreciate that and I try my best to understand what is happening at the grass roots to help in that understanding. What I saw myself was that, at the year-end last year, there was one cracked beam as we approached the year-end. The company made an adequate provision based on what they knew at the time. That was being investigated. I got comfortable with the position they took on that beam, but then they went through this phase of looking at other beams around the hospital. They found six or eight; I do not know. What I do know is, from them finding those in the April or May time, but still working on those now, it has been a long journey to repair those.

**Rachel Reeves:** Mr Meehan, we have a letter here from The Hospital Company (Liverpool) Ltd. It says that cracks were first discovered in two beams on 24 November 2016. That was before the 2016 year-end when you signed off the accounts and well before the March when those accounts were presented. In fact, the exclusion zone above the beams was in place until 24 March 2017, so about the time that the 2016 accounts were presented, the work had been done on the six beams that required remedial work. Should all this not have been identified in the 2016 accounts and report?

**Peter Meehan:** The work on the remedial beams is still ongoing now, when I was there in January.

The reason why I highlighted this discussion is because Peter Meehan is paid multiples of what teachers, nurses, electricians, plumbers and other workers get paid but surely as a society we should ask ourselves if it is justified? He just accepted what management told him because as he said himself “I am not qualified”. He may know his accounting standards but if the assumptions behind the accounts are wrong then the accounts are pretty meaningless. (This sounds so similar to the “mark-to-model” approach used to value asset backed securities during the financial crisis).

If we do not tackle this system of concentrating high pay among people that have created the system for their own benefit, we run the risk that someday we will wake up with an electoral backlash beyond the current Trump regime. The gap between the top earners and those on lower incomes has gone too far in my opinion. I have seen

far too many examples like Carillion of highly paid people blaming it on the system but never on themselves!

Why do we continue to believe that a report from KPMG, PWC, EY or Deloitte is worth the cost? (I still think back to the PWC report that said the Irish banks were well capitalised!) Garbage assumptions put into garbage models enrich the authors and give the bureaucrats and politicians the pretence that experts have backed up their decisions but I think we could save ourselves a fortune by accepting that just like Peter Meehan, none of the big 4 accountancy firms is likely to truly have the necessary expertise.

The former Carillion Chief Executive was asked by an MP if he would make a gesture and give back some of the millions he received in compensation and I think the silence in the room said everything to me.

To me the game seems to be one of somehow getting yourself into one of these well compensated roles and if you are lucky you can claim you are brilliant and thereby justify earning millions but if you are unlucky you can blame it on someone else and still get to keep the millions! This is a game that is very different to the game played by entrepreneurs that set up their own business and make their fortune through the ownership of that business. This is the game we need to encourage even if it means someone like Jeff Bezos or Bill Gates end up being billionaires!

At the end of the day I still presume my daughter will end up in a lovely new school even if she has the inconvenience of starting off in the old school that is no longer fit for purpose. (I don't think even our politicians and civil servants are so bad that they would leave a new school lying empty for too long). I do however feel sympathy for the people of Liverpool because they are going to have to wait for their new hospital. On their website I found the following: "*Discussions regarding a new construction partner to complete the new Royal are ongoing. These discussions are very complex and involve a number of organisations and stakeholders including:*

- *Funders; Legal and General, the European Investment Bank*
- *Government departments from the Treasury and Cabinet Office – the Infrastructure and Projects Authority and the Department of Health's Private Finance Unit*
- *The official receiver's representatives; PwC*
- *The Hospital Company (Liverpool)*
- *NHS Improvement*
- *Various legal representatives*

*As you can appreciate with so many interested parties, reaching agreement is not a simple task and this process is taking longer anticipated."*

I just hope a solution is quickly found and the people of Liverpool get their hospital.

## **DAVID DRUMM TRIAL**

Given the theme of this opinion piece I think it is timely that the David Drumm trial has finally reached a verdict. Here is an example of somebody that did his best to put the blame on other people. He tried to blame the audit committee, the non-executive directors, the external auditors, and the regulators for allowing things to happen. For once however he didn't manage to get away with keeping the multimillion pound compensation package and has ended up in prison.

I think the “Anglo tapes” that were used as evidence in the trial gave a true insight into the culture that existed in Anglo and I also think it showed David Drumm was not an incredible banking genius but instead he was a brash and aggressive bully that happened to benefit from a global property boom. He is another example of why I believe that executive compensation should be reduced.