

Emerging Business Trust

Report to the Board in accordance with Rule 7(11) of the AADB Scheme

Introduction

1. This investigation was commenced on 25 July 2006. The scope of the investigation was the conduct of Members and Member Firms of the Institute of Chartered Accountants in Ireland ("ICAI") in relation to the Local Enterprise Development Unit ("LEDU") and the Emerging Business Trust ("EBT").

2. The scope of the investigation included, in particular:

The role and conduct of Teresa Townsley, Michael Townsley and MTF Chartered Accountants ("MTF") in relation to the operation and affairs of LEDU and the establishment, operation and affairs of EBT and EBT Venture Fund Limited ("EBT VF").

The role and conduct of Teresa Townsley, Michael Townsley and MTF in relation to applications to EBT and EBT VF and the approval of those applications;

The role and conduct of Michael Townsley in relation to his purchasing / holding of shares in Arcom Limited, Fusion Antibodies Limited and Genomic Mining Limited.

The conduct of McClure Watters, Chartered Accountants, as auditors of the EBT and EBT VF.

3. The matter was referred to the AADB by ICAI in June 2006.
4. This report is made in relation to that part of the investigation concerning Teresa Townsley, Michael Townsley and MTF and in accordance with rule 7(11) of the AADB Scheme.

Background

5. EBT was established in September 1996 with approximately £3.75 million of grants from the International Fund for Ireland (“IFI”) and the Local Enterprise Development Unit (“LEDU”). Its objective was to provide access to finance for businesses in Northern Ireland.
6. MTF, an accountancy firm owned by Michael and Teresa Townsley, was appointed as administrators and managers of the EBT Loan Fund following an invitation to tender from IFI. Another firm of chartered accountants, FPM, was appointed to assist MTF but its role was confined to carrying out loan application appraisals. Teresa Townsley was also appointed as company secretary to EBT Board.
7. EBT VF was set up in June 2000 in response to a perceived need for equity finance to be available for start up technology companies in Northern Ireland. EBT VF received funding of £500k from IFI and £250k from LEDU. EBT VF shared common directors with EBT and its shares were allotted to EBT, MTF and certain of the directors.
8. In early 2002, Invest Northern Ireland (“INI”) (formerly LEDU) instigated a review of EBT’s files. Following the review, PricewaterhouseCoopers (“PwC”) were appointed to investigate events surrounding the establishment and operation of EBT and EBTVF, and their interaction with INI. In their report dated 4 November 2005, PwC raised a number of concerns in respect of the operation and affairs of EBT and EBTVF. In February 2006, the Comptroller and Auditor General of the Northern Ireland Audit Office reported on the investigation and its findings. The matter was subsequently discussed by the House of Commons Public Accounts Committee (“PAC”) and that committee produced a report, (its 46th of Session 2005-06) on the 10th May 2006. The PAC considered the issues raised in its report were so serious that it sent a copy to the Institute of Chartered Accountants in Ireland (“ICAI”) for consideration.
9. Liquidators were appointed to EBT and EBTVF in April 2005.

The AADB Investigation

10. The investigation was conducted by me with the assistance of an external firm of investigative accountants and a forensic Information Technology consultant.

11. Documentation was obtained from Teresa Townsley, McClure Watters, BDO (the liquidators of EBT and EBT VF) and INI. A number of witnesses were interviewed.
12. During the investigation, I encountered significant problems in obtaining cooperation from certain bodies and individuals. Two of the EBT directors declined my request to be interviewed. I was also unable to obtain full and unencumbered access to INI's and LEDU's books and records or to the files and documents underlying PwC's investigation (although I was given access to the PwC investigation report).
13. The investigation was also hampered by my inability to interview Teresa Townsley on the key issues due to the state of her health. Mrs Townsley did, however, provide written representations to me.
14. The investigation focussed on a number of areas in respect of which there were concerns relating to the conduct of Mr and Mrs Townsley, which were, broadly:
 - a. The setting up of EBT
 - b. The setting up of EBTVF
 - c. Applications for funding by clients of MTF
 - d. Applications for funding by companies in which Mr Townsley had a financial interest
 - e. Provision for bad and doubtful debts in the accounts of EBT
15. The investigation also considered the conduct of McClure Watters, the auditors of EBT and EBT VF. Following this part of the investigation, complaints were filed against McClure Watters and Rollo McClure. On the 27 November 2008 Rollo McClure (acting on his own behalf) and David Watters on behalf of McClure Watters entered into a "Carecraft" agreement that enabled the complaints to be disposed in a summary manner. As a part of the agreement Rollo McClure and McClure Watters admitted the complaints and accepted the Statement of Facts attached to the agreement and agreed to pay fines of £6,000 each and costs of £60,000. This is the subject of a separate report by the Tribunal.

Conclusion

16. I have now considered all the evidence obtained in the course of my investigation into the conduct of Michael Townsley, Teresa Townsley and

their firm, MTF. To all intents and purposes MTF was Michael and Teresa Townsley and I have therefore not sought to deal with the firm separately from them. Advice on the evidence has been obtained from external counsel.

17. Having considered the evidence and external counsel's advice, I do not consider that there is a realistic prospect that an AADB tribunal would make an adverse finding against either Mr Townsley or Mrs Townsley in relation to any of the matters under investigation. The investigation will therefore be closed and no further action taken against them.

Cameron Scott

Executive Counsel

05 March 2009