

IN THE MATTER OF:

AN INQUIRY UNDER THE INQUIRIES ACT 2005

INTO THE CULTURE, PRACTICES AND ETHICS OF THE PRESS

CHAired BY THE RT HON LORD JUSTICE LEVESON

FIRST WITNESS STATEMENT OF VIJAY LAKHMAN VAGHELA

I, **VIJAY LAKHMAN VAGHELA**, Group Finance Director of Trinity Mirror plc, One Canada Square, Canary Wharf, London E14 5AP **WILL SAY** as follows:

1. I am the Group Finance Director of Trinity Mirror plc ("**Trinity Mirror**"), one of the UK's largest newspaper publishers through its subsidiary group companies (the '**Group**').
2. I am making this statement in response to a notice dated 5 August 2011 pursuant to section 21(2) of the Inquiries Act 2005 (the '**Notice**').
3. I understand that the Notice has been sent to me in connection with Part 1 of the Inquiry chaired by The Right Honourable Lord Justice Leveson into the culture, practices and ethics of the press (the '**Inquiry**'), the Terms of Reference for which were published by The Right Honourable Mr David Cameron MP, Prime Minister on 20 July 2011 (the '**Terms of Reference**'). The Notice requires me to provide evidence to the Inquiry panel in the form of a witness statement and to provide any documents in my custody or under my control as specified in the Notice.
4. Where the contents of this statement are within my own knowledge they are true and where the contents are not within my own knowledge I indicate the source of my belief and believe them to be true. In particular, day-to-day management of the financial control environment for the editorial function at Trinity Mirror's National titles, including the Daily Mirror, the Sunday Mirror and the People, is undertaken by the Nationals finance department. The detail which I have provided about how systems and controls work in practice is derived from my knowledge of these systems and controls and discussions in particular with the Finance Director of the Nationals, Mark Mountford, who reports directly to me.
5. I am not authorised to waive any privilege on behalf of Trinity Mirror and nothing in this statement is intended to constitute a waiver of privilege on behalf of Trinity Mirror.
6. I have been asked in the Notice to provide copies of the policies and protocols to which I refer in this statement. I have also been asked to provide any details or documents relating to 'expenses' paid to private investigators and / or other sources of information. I have interpreted 'expenses' in this second request to mean 'payments'. I understand that these documents are being provided by Trinity Mirror in response to the Inquiry's notice dated 5 August 2011 to Paul Vickers in his capacity as Company Secretary (the '**Document Request**'). As such, rather than duplicate the material by attaching it to this statement, where applicable I cross-refer to Trinity Mirror's Document Request responses.

Overview of statement

7. The Notice, which is addressed to me as the Group Finance Director of Trinity Mirror, asks me to provide evidence in relation to a number of issues. I have interpreted the Notice to pertain to Trinity Mirror and the Daily Mirror, the Sunday Mirror and The People on the basis of the scope of the Document Request, which I have read, and the introduction of the Notice to me, which summarises the Document Request. I understand that the Inquiry has agreed that I should focus on the period from 1 January 2005, which is the period for which Trinity Mirror has been asked to provide the documents set out in the Document Request.
8. I have sought to include additional information where relevant, mindful of the Inquiry's request for important additional evidence beyond the scope of the Notice. I address the Inquiry's questions, which I refer to as 'Matters', as follows:
 - a. **Part 1:** About myself, my career and my position at Trinity Mirror (Matters 1, 3 and 6)
 - b. **Part 2:** Overview of Trinity Mirror businesses
 - c. **Part 3:** Trinity Mirror's system of financial governance (Matters 2, 3 and 5), including its application to external providers of information for stories (Matters 7 to 9, 12, 13)
 - d. **Part 4:** Adherence in practice (Matters 4, 10 and 11)
9. I have included in an Appendix hereto a Schedule showing the Inquiry's questions and where I have dealt with them in my statement.

PART ONE

Introduction

10. I was promoted to my current position of Group Finance Director and appointed to the Board of Directors of Trinity Mirror in April 2003. I provide an outline of my current role at Trinity Mirror after a summary of my background and career history in finance and in the media below.

My background

11. I began my career in finance at Touche Ross (now Deloitte) in 1988, where I completed my professional exams in November 1990 and qualified as an Associate Chartered

Accountant ('ACA') with the Institute of Chartered Accountants in England and Wales in September 1991. Whilst the majority of my role involved external audit, my work also included internal audits for external clients who outsourced their internal audit function. Internal audit essentially involves checks and balances on a business; it is like an internal system of policing compliance and identifying risks.

12. In August 1994, I joined the internal audit department of Mirror Group plc ('**Mirror Group**'). I was promoted to Head of Internal Audit during January 1996 and in December 1996 I became Group Treasurer of Mirror Group, reporting to the (then) Group Finance Director. I was responsible for managing the treasury function. As part of my role, I was engaged on all mergers and acquisitions ('**M&A**') and financing transactions. I retained this position when Mirror Group merged with Trinity plc ('**Trinity**') to form Trinity Mirror in September 1999.
13. Between August 2001 and June 2002 I was the Director of Accounting and Treasury. I reported to the (then) Group Finance Director and was responsible for all Group treasury activities, including corporate lending and banking relationships. Key corporate lending transactions undertaken during the period included two US private placements (valued at \$602 million and £32 million) and a new bank facility (of £369 million). I was also responsible for all aspects of Group Management and financial reporting. In addition to retaining this role, I undertook the role of Acting Group Finance Director between July 2002 and April 2003, reporting directly to the Chief Executive. This position involved attending all Board meetings and meetings of the Audit Committee of the Board, dealing with interim and annual results, and management and financial accounting.

My position as Group Finance Director and role

14. I am an executive director on Trinity Mirror's Board of Directors. As a director, I have a statutory and ethical duty to promote the long-term success of the business and to ensure that it is run in an appropriate way with due assessment and management of the risks that the business faces.
15. The Board agrees the overall strategy and plans for the business. The Chief Executive Officer, Sly Bailey, has overall responsibility for implementing these through the day-to-day management of the Group. She is assisted in this role by the Executive Committee ('**ExCom**'), of which Mr Vickers and I are members. Mrs Bailey determines our responsibilities on ExCom through the powers delegated to her by the Board.

16. My responsibilities as Group Finance Director are wide-ranging. Within them, I have day-to-day executive responsibility for ensuring that we operate a strong financial control environment. My general remit covers the following:
- a. development and implementation of Group strategy, working closely with Mrs Bailey;
 - b. M&A;
 - c. funding arrangements with the Group's defined benefit pension schemes;
 - d. membership of the Group Capital Expenditure committee;
 - e. procurement of newsprint and magazine paper across the Group;
 - f. working with the Director of Manufacturing and engaging on all major contract print negotiations;
 - g. all aspects of the Finance, Treasury and tax functions across the Group;
 - h. being a key contact for shareholders and analysts; and
 - i. responsibility for the Investor Relations function.
17. Matter 6 asks me the extent to which I, in my position as Group Finance Director, have felt any financial and / or commercial pressure from Trinity Mirror as the proprietor of its titles, Editors of those titles or anyone else, and whether such pressure has affected any of the decisions that I have made in relation to the use of the newspaper's funds to secure information for news stories.
18. Trinity Mirror (and prior to September 1999, Trinity and Mirror Group) is listed on the UK Stock Exchange and does not have a single proprietor or a shareholder with a controlling stake. Shareholders do engage with the business, but no individual or collective group of shareholders places or has placed pressure on me in relation to any specific use of newspaper funds to secure information for news stories. I do not believe that I have felt any financial or commercial pressure from anyone which has affected my decision-making in any way other than to promote the success of the Group through strategies and policies which are to the best of my knowledge and belief lawful in all respects.
19. Of course, as Group Finance Director and a member of the Board I am clearly subject to financial and commercial pressure from the Group's shareholders to run the business

profitably. In this regard, there is always a balance to be struck between the cost of producing the newspapers, circulation volumes and the other key levers for long term profitability. The Board operates the business in order to promote its long-term success. As is normal practice, the Group continuously monitors all costs budgets across the Group. There is always pressure by the editorial department to maximise editorial budgets, although Editors would in most instances have discussions about budgets with their Managing Editor, Managing Director and Finance Director (in Nationals, Eugene Duffy, Mark Hollinshead and Mark Mountford respectively), rather than with me directly. Editorial budgets are set with a balance between managing costs effectively to safeguard the value of the product and investing appropriately in it to drive circulation, which I outline further below. Essentially, although budgets are set, the business is fluid in the sense that there is flexibility to ensure so far as commercially possible that journalists can do their job of pursuing stories that drive the circulation and profitability of our papers.

PART TWO

Overview of Trinity Mirror businesses

20. In this Part, I give an overview of Trinity Mirror's businesses to provide the Inquiry with a context for Parts 3 and 4 that follow.
21. As mentioned, Trinity Mirror has a full listing on the UK Stock Exchange and does not have a single proprietor or a shareholder with a controlling stake. The business operates through three divisions, Nationals, Regionals and Central. The operating businesses are Nationals and Regionals. Central holds all costs not directly attributed to the operating businesses.
22. The core business of both the Nationals and Regionals divisions are the publications of newspapers. Whilst the Nationals core titles – including the Daily Mirror, the Sunday Mirror, The People, the Daily Record and the Sunday Mail – are paid for, the Regionals operate a portfolio of paid for and free newspapers.
23. Trinity Mirror's Board of Directors operates the business to drive maximum commercial benefit from the business, whilst ensuring that actions do not limit the future profitability and longer term prospects of the business. The Group seeks to maximise capital value and returns for its shareholders over the longer term.

24. The core revenue streams of the business are circulation and advertising revenues and the combination of these revenue streams drive the profitability of the Group. The Nationals have a higher proportion of circulation revenue and the Regionals have a higher proportion of advertising revenues.
25. The National newspapers of the Group are sold through the wholesale network, largely Smiths and Menzies. The wholesalers then sell these newspapers to retail. A margin of the cover price is retained by the retailer and the wholesaler. Therefore, the net revenue received by the business is lower than the cover price.
26. The dynamics of the business are fairly straightforward. The aim is to achieve an appropriate level of circulation volumes which drive advertising rates and volumes and therefore advertising revenues which collectively drive profitability. Just driving circulation volumes at any cost will not necessarily drive profitability either in the short or longer term. The key drivers of circulation volumes are:
 - a. appeal to readers in terms of editorial content and quality;
 - b. casual purchase driven by front page;
 - c. design of the paper;
 - d. overall package. On some days of the week, it is essential commercially to have supplements. In particular, the weekend papers all have glossy supplements;
 - e. cover price;
 - f. promotional activity. This includes both above the line, in paper promotion, and price discounting. This helps to maintain the brand awareness and sampling which are key to retaining readers, by increasing the frequency of purchase by existing readers and attracting new readers who may not normally buy the product; and
 - g. availability. This is crucial as we need to ensure that adequate copies are supplied to retailers to minimise sellouts.
27. It is worth noting that just driving circulation volumes does not necessarily drive or maintain profitability. For example, circulation volumes could be maintained or possibly grown through extensive promotional activity at significant cost, but when this activity is ceased, historical analyses confirm that volumes will fall again. This has been demonstrated by the significant cover price discounting implemented in the tabloid market

by the Daily Star and The Sun which has been costly and the short term increase in volumes has not been retained, nor has profitability been enhanced. Therefore, just selling additional copies through promotional activity may not, in itself, immediately improve profitability. This is normally the case with most promotional activity as costs could be fairly significant.

28. With this in mind, the Group's National titles are tightly managed to maximise profits in the short term whilst ensuring that the longer term future of the business is not impaired. Therefore the Group does not have a single goal of maximising circulation volumes at the detriment of profitability unless there is a compelling pay-back over time. In the challenging environment faced by the business since 2007, significant activity has been undertaken to drive efficiencies and cost savings and all costs, including editorial, have been reduced.

PART 3

Overview

29. Strong financial governance supported by robust systems and controls is of fundamental importance to Trinity Mirror. In this Part, I begin by describing the structure that we have in place, before turning to how these systems and controls work. In doing so, I address Matter 2, which asks me to cover how I understand the system of financial governance to work in principle and in practice at the Daily Mirror, the Sunday Mirror and The People, with particular emphasis on systems to ensure that the newspapers' funds are not used to pay bribes, or to fund the gathering of information by illegal methods. My response to this Matter also addresses Matters 12 and 13 in relation to payments to contributors of information for stories.

Financial governance: structure

30. The key team responsible for overseeing the financial control environment is the Finance Committee, which I chair. The Finance Committee gives prior approval to all Group financial policies and procedures, before they are ultimately approved by ExCom or the Board's Audit and Risk Committee, as appropriate, and then released across the Group and enforced under the oversight of the local finance teams, with any appropriate variation for local situations. However, as the Daily Mirror, the Sunday Mirror and The People are under the single Nationals management structure, the policies applicable across all three titles are identical.

31. The members of the Finance Committee are representatives from all business operations across the Group. At present, members of the Finance Committee are: the Deputy Finance Director / Finance Director of Regionals, the Group Financial Controller, the Finance Director of Nationals, the Regionals Divisional Financial Directors, the Director of Tax & Treasury and the Finance Director of Manufacturing.
32. Each member of the Finance Committee is responsible for ensuring that financial controls and procedures are appropriately enforced in his business or area of responsibility. Therefore, in the case of Nationals, Mr Mountford is responsible. As stated, Mr Mountford reports to me. I would add for clarity in terms of my role that, unless there is a financial issue that is reported to me that relates to the financial control environment or a financial fraud, I tend not to be involved in day-to-day Nationals financial and operational matters, which Mr Mountford and Mr Hollinshead look after.
33. The Finance Committee undertakes an annual review of finance controls. The Director of Risk and Audit, Charmian Steven, is engaged in this process. On occasion, she also attends meetings of the Finance Committee when we are discussing Finance controls. Trinity Mirror has a very strong internal audit function. This is segregated from the finance function in accordance with good practice. Ms Steven reports directly to Mrs Bailey and the Board's Audit and Risk Committee, not to me. At Board level, Kathleen O'Donovan chairs the Audit and Risk Committee. She is a non-executive director of Trinity Mirror. She is a Chartered Accountant and was a partner at Ernst & Young. She was the Finance Director of BTR plc (subsequently Invensys). She is also the Chairman of the Audit Committee of ARM Holdings plc and was the Chairman of the Audit Committee of Prudential plc from May 2006 until September 2009.

Financial control environment

34. Two key elements of the financial control environment at Trinity Mirror are tight budgetary control and the authority levels granted to senior personnel across the business.
35. In respect of budgetary control, the Group prepares quarterly three year projections with a forecast for the first year and projections for the following two years. At the beginning of each year the first year projections are the budget and thereafter there is a forecast for the first year until moving into the next budget process. Actual results are compared to the budget and forecast performance and any major variances are explained on a weekly and /

or monthly basis. The three projections are confidential and only circulated to the Board, EXCOM, Group finance and a limited number of other senior management.

36. Spending is controlled primarily by delegating authority levels to staff across the Group to approve payments within four defined and controlled categories. An individual authority level is granted on the basis of seniority and the types and potential value of transactions likely to be approved by the individual. Generally speaking, more senior employees are given greater authorities. The four categories are: (a) the purchase of goods and services; (b) contributions; (c) expenses; and (d) foreign expenses.
37. The Group maintains a centrally managed database of all authority levels for all staff who have been provided an authority to approve payments in any one or more of these four categories. Authorisers are given a fixed financial limit to their level of authority, which differs according to the category of payment. The overall picture of the authority levels and structure is kept confidential within Trinity Mirror at the level of ExCom and the Finance Directors as a control against potential abuse of the system.
38. The Finance Committee reviews authority levels periodically; the last review was in April and May 2008 in view of the material downturn in the economy at that time. ExCom endorsed the findings of this review and as a result, authority levels were reduced across the Group. I notified each authoriser of his or her new authority level and to remind him or her of how the authority levels should be applied. In particular, I reiterated that payment commitments should only be made if the authoriser has the appropriate authority level or has obtained prior approval for a commitment from his or her manager, who in turn needs to ensure that he or she has the appropriate authority, or obtains authority from the appropriate next person with sufficient authority. Example letters for Mr Mountford, Mr Hollinshead and Mr Duffy are at tab 8 of the bundle responding to category (a) of Trinity Mirror's response to the Document Request.

Policies underpinning the financial control environment

39. Trinity Mirror's system of financial control is underpinned by certain policies, with which all employees must comply. Authorisers of payments have no authority to approve payments that breach these policies.
40. The overarching context is that all staff must comply with Trinity Mirror's Code of Business Conduct. Staff must maintain the highest standards of integrity and personal conduct in all matters involving the company. Trinity Mirror's policies prohibit bribery

and corruption. They are also structured so that there should be no giving or receiving of preferential treatment by Trinity Mirror or its staff to or from any third party. Trinity Mirror's values, as set out in the Code of Business Conduct, were recently reaffirmed in its new Code of Business Conduct, which was updated to take account of the coming into force of the Bribery Act in mid-2011. These documents are at tab 2 and tab 3 of the bundles responding to categories (a) and (b) of the Document Request respectively. Trinity Mirror has a strict additional policy against all manifestations of fraud and dishonesty, the Fraud Policy. Linked in with this, it has a Whistleblowers' Charter through which employees can report any concerns. These documents are at tabs 5 and 9 of the bundles responding to categories (a) and (b) of the Document Request respectively.

41. Editorial costs include staff, casual labour, contributions, staff expenses and other content related costs such as studio hire. Given the scope of Matter 2, in the sections that follow I have focussed on the following and how they work in practice:
 - a. First, and in relation also to Matters 9, 12 and 13, in respect of payments for content, there is the Contributions system and the Accounts Payable system. The Contributions system is Trinity Mirror's process for paying for content costs provided by third parties, including for stories and information. Accounts Payable is the process for paying for all other goods and services, generally where these goods and services are contracted, for example material obtained from the Press Association or Reuters, although I understand from Mr Mountford that, for historical reasons, Trinity Mirror processes payments to picture agencies, notably Getty and Splash through its Contributions system. The Accounts Payable system covers a number of other suppliers, such as search agencies and private investigators. There is also a sundries payable system created on the Accounts Payable system to allow one-off payments to recipients for whom no account is set up in the Accounts Payable system – this covers recipients such as prize winners and based on Mr Mountford's explanations to me, I would not expect payments to contributors of information for stories to go through the sundries system.
 - b. Second, there is the Expenses system through which employees reclaim personal expenditure that they have incurred and paid during the course of their duties. For journalist staff, this naturally includes expenses that they incur in pursuing stories, for example coffees, lunches or dinners with sources to obtain information. Trinity Mirror's policy is that the Expenses system should not be used for payments for editorial content.

42. Revised Procurement and Expenses Policies were issued in 2009. This also linked in with the revision to authority levels in 2008 and the downturn in the economy, as mentioned above. These documents are at tabs 3 and 4 of the bundle responding to category (a) of the Document Request.
43. Following the discovery in 2008 of the fraud committed by the former sports editor of The People, Lee Horton, who fraudulently set up contributor accounts, Trinity Mirror tightened its procedures and policies in relation to approvals and payments, as identified below.

Contributions system and Accounts Payable: Group Procurement Policy

44. The Contributions system and Accounts Payable are governed by Trinity Mirror's Group Procurement Policy, which is implemented in conjunction with Trinity Mirror's Code of Business Conduct. The Group Procurement Policy has also recently been updated to reaffirm Trinity Mirror's values in light of the Bribery Act (see tab 3 and tab 4 respectively of the bundles responding to categories (a) and (b) of the Document Request). The Finance Committee monitors compliance with the Group Procurement Policy.
45. Essentially, all employees must act within the law. Ethical standards from suppliers are mandatory. Bribery and corruption are prohibited. In addition, hospitality given or received should be modest and proportional to the occasion and invitations do not extend to spouses or other guests except in exceptional circumstances and with line manager approval. Hospitality and gifts of value (other than of cash, which is prohibited) are required to be reported: line managers can approve up to a certain amount, beyond which approval of a senior direct report of an ExCom member is needed; if that person's approval limit is exceeded, approval is required from an ExCom member.
46. The Whistleblowers' Charter, mentioned above, provides a mechanism through which employees can report any concerns. In addition, the Group Procurement Policy requires any failures by suppliers to be reported to the relevant Finance Director or functional head and escalated as appropriate. The Policy emphasises that any actual or potential unethical behaviour, or information on illegal or unacceptable practices by a supplier which could be to Trinity Mirror's detriment as a customer must be reported directly to me and Mr Vickers.

Contributions system in practice

47. Each newspaper has a budget for editorial spend. Following on from above, this covers areas including staff, casual labour, accounts payable and other infrastructure, as well as

contributions. MGN has around 68,000 Contributions accounts, of which around 19,000 accounts have had at least one transaction processed since 2005 and of which around 9,000 are currently 'active' within the system (although this does not necessarily mean used recently – for example, in 2011 up to the date of this statement, around 2,800 accounts have been used and the remainder of the active accounts remain open but have had no transactions processed through them).

48. The Contributions system is an HMRC-approved self-billing system, with payments being generated by the business users, rather than on receipt of invoices from suppliers. As a consequence, Trinity Mirror does not hold invoices to support the majority of contributions payments that are processed through the Contributions system. Once words or pictures have been published, or commissioned work has been completed by a freelance contributor, a desk secretary will enter the payment due into the system. This payment will then be authorised according to the authority levels agreed and set within the system, as explained above. Once authorised, payment is made via BACS (or by cheque for overseas and Ireland), with a remittance being sent to the contributor. On occasion, Trinity Mirror will authorise cash payments to be made to contributors instead: as noted below, these are logged separately as having been cash payments.
49. In addition to there being appropriate levels of authority in place to authorise payments, there are further controls within this process. Authorisers are expected to have sufficient information about the payment before approving it. Since 2009, authorisers have no longer been able to create and authorise a contribution – this was one of the changes made following the discovery of the Lee Horton fraud. Only desk secretaries can set up new accounts, who must provide their names, full postal addresses and telephone numbers. All new accounts are written to and BACS and other details must be provided and confirmed before we make any payment. Where a contributor is VAT registered a VAT number must be provided. The VAT number is checked for authenticity through an algorithm.
50. Certain audit procedures are also run. The finance department runs postcode matches on our payroll data and contributor data to ensure that we are aware of any employees who have the same postcode as a contributor, and if so, why. It spot checks new accounts against directory services to validate the existence of individuals. It also spot checks published papers to trace back articles to payments and payments to articles, and runs and reviews contributor reports to monitor contributor expenditure per desk. All exceptions on audits are escalated to the relevant Finance Director, who will accelerate them to the Editors, editorial management and the Managing Director if appropriate.

51. A log is kept of all cash payments in Contributions, together with the requests for authorisation and the authorisations.
52. In addition, in editorial on the Nationals, there is a specific policy in relation to contributions paid in cash to anonymous sources (at tab 9 of the bundle responding to category (a) of the Document Request), although in practice very few are made. This puts a limit on the amount that a reporter can request for a cash payment to a confidential source without having to disclose the recipient's name in documentary form. These conditions include that the Editor or Deputy Editor must be completely satisfied that the payment is necessary in relation to an article, the request must be made in writing by the news editor / deputy news editor to the Editor / Deputy Editor, the Editor / Deputy Editor should (where possible) be told the identity of the recipient and must sign the request. The request must then be countersigned by one of the senior editorial in-house lawyers and the journalist must provide a written receipt to the accounts department for the cash.

Accounts Payable system in practice

53. In the Accounts Payable system, when goods or services have been received or provided, an invoice is submitted by the third party. The supplier's invoice will be scanned into Trinity Mirror's invoice registration and approval system and sent to the relevant editorial person for coding. It will then be forwarded onto the line manager for approval for payment according to the authority levels agreed and held within the system, as explained above. Once authorised, payment is made mainly by BACS, but where we do not have bank details, by cheque. All payments are supported by a remittance. The registration and authorisation system will not release for payment any unauthorised invoice.
54. Trinity Mirror's further controls on this process are that only staff within the Accounts Payable team can create new accounts in the system. A form is completed within Accounts Payable. It is authorised by an Accounts Payable Manager or Supervisor who details the checks that have been made to ensure that the supplier is bona fide. Where Trinity Mirror does not hold bank details, we write to all new accounts.
55. In terms of audit procedures within Finance, an automated duplicate invoice report is run daily or overnight. It is reviewed by the Accounts Payable Manager or Supervisor. An automated vendor changes report is run daily or overnight and is reviewed by an Accounts Payable supervisor and the Assistant Finance Director (Mr Mountford's deputy). The

payment run is reviewed and authorised by a bank authorised signatory within the finance department prior to making payment.

Payments to external providers of information identified by the Inquiry

56. As explained, I am responsible for the control environment and setting appropriate control and procedures, but in response to Matters 8 and 9, I do not have a role over selecting or instructing anyone, internal or external, for editorial content. This is the responsibility of the Editorial function at the titles, within of course the parameters of the law and Trinity Mirror's policies and subject to the financial oversight of Mr Mountford. In the event that a payment to any source of information is above lower authority levels, I may be requested to approve the payment. In the structure that we have in place, as explained, it is the responsibility of the authoriser with the appropriate delegated level of authority to be satisfied that the payment being approved is lawful and in accordance with Trinity Mirror's policies. Any requests that are identified as being in breach should be picked up and accelerated as potential fraud under the Fraud Policy.
57. The Inquiry has asked me, in Matter 7, about the use, payment or connection with private investigators by (as I have interpreted the Notice) the Daily Mirror, the Sunday Mirror and The People in order to source stories or information. As explained above, I do not tend to be involved at this level. My direct knowledge is therefore limited. I am generally aware that private investigators have been used in the past by these titles to source and investigate stories which are subsequently published, although I cannot recall having authorised a contributor payment to a private investigator for editorial purposes. Payments to them would have been governed by the policies that I have identified above in relation to payments, as they were in force at the time. They would have been processed either through Contributions or Accounts Payable according to the procedure that I have outlined and the controls in place for approvals. I understand that Trinity Mirror is disclosing schedules of payments made through Contributions or Accounts Payable to private investigators in response to category (d) of the Document Request.
58. I have also been asked, in Matter 7, whether the Daily Mirror, the Sunday Mirror and The People paid or received payments in kind for information for stories from the police, public officials, mobile phone companies or others with access to the same. Again, I do not tend to be involved at this level so my direct knowledge is limited. To the best of my knowledge however, I am not aware of payments to police officers for stories, or to public officials, mobile phone companies or others with access to the same. I also have no

knowledge of payments in kind received from the police, public officials, mobile phone companies or others with access to the same.

Expenses system: Business Expense Policy and reclaiming in practice

59. The Expenses system is governed by Trinity Mirror's Business Expense Policy. The Business Expense Policy has also been updated recently to reaffirm Trinity Mirror's values in light of the coming into force of the Bribery Act in mid-2011 – the Policies are at tabs 4 and 6 respectively of the bundles responding to categories (a) and (b) of the Document Request. Authority levels are also fixed with clear financial limits in respect of the authorisation of expenses, as explained above. The Business Expense Policy is distributed to all employees and, like all other policies, is also available on the group intranet.
60. All expenses require authorisation by an approved person who is not the claimant. Fundamentally, any expenses which are outside the parameters of the Business Expense Policy are unauthorised and will not be paid unless, in the case of Nationals, Mr Mountford or Mr Hollinshead have given prior agreement (Mr Hollinshead is also on ExCom). All expenses must be supported by receipts.
61. In relation to entertainment and gifts, approval should only be given where this is in the normal course of business and not to gain any unethical or unlawful advantage. With entertaining, which includes lunches or dinners between journalists and sources, the rules include that the expense must be essential to the business and that details of the people attending and the purpose of the entertainment should be recorded. Recognising that in the journalistic business anonymity of confidential sources must be preserved, Trinity Mirror's policy is that the Editor of a title makes the decision on whether names should be withheld or removed from an expense form. If the Editor gives approval for anonymity, he or she initials the expense form to indicate this.
62. Employees reclaim expenses by submitting an expenses docket. The docket is a standard group template with a separate form to capture additional information relating to entertaining. The docket is signed by the claimant and his or her respective manager in line with the authority levels. Once authorised, dockets are keyed into the finance system by the Accounts Payable team and paid weekly by BACS.
63. The controls that Trinity Mirror has in place in respect of expenses include that the Accounts Payable team checks all expenses to ensure that they are within the expenditure permitted by the expense policy, questioning them where appropriate. The amount of the

payment is authorised against the limit of the final authoriser. Dockets are reviewed by the Accounts Payable team to ensure that they add up / cross-cast, that the claim is supported by valid receipts, that the correct VAT recovery is made and that taxable benefits are identified. All expense dockets over a certain amount are reviewed by the Finance Director, i.e. Mr Mountford in the case of Nationals. New employees are notified to the Accounts Payable team from Payroll. Weekly expenses reports are distributed to senior managers for review. I understand from Mr Mountford that he reviews the summary file for matters including the total spend of each title, the amount spent on business entertaining, and also individuals' total claims for any large or unusual amounts. Mr Mountford has explained to me that all expense forms pass through his office and he will spot check to see the nature of claims being made for amounts authorised by other managers. In addition, he will monitor the run rate of expenses per week on the titles and if there is a material increase, he will look to establish the cause (for example, foreign currency claims).

64. I understand from Ms Steven, the Director of Risk and Audit, that the audit procedures in relation to expenses include (on Nationals) an annual review by Internal Audit. In addition, Internal Audit has been conducting a review of the processing of employee expense claims which as at the date of this statement is nearing completion; it has been to assess the level of adherence to the 2009 Business Expense Policy. The results of the review will be reported to me, Mrs Bailey and Trinity Mirror's external auditors and will be actioned by the Finance Committee. I understand that the review indicates that compliance is high, albeit with some areas for further improvement. Ms Steven has also been involved with me in the Risk Workshop run for the Finance Committee on a periodic basis with the most recent in November 2010. Such Workshops are run from time-to-time to confirm that financial controls and procedures remain appropriate and are operating effectively. The controls and procedures are also considered alongside any changing circumstances faced by the Group. Documents relating to these workshops are at tabs 18 to 22 of the bundle responding to category (a) of the Document Request.

PART 4

Adherence to the financial governance policies and practices

65. Matter 4 asks me to cover whether financial governance policies and practice, to the extent that they relate to anti-bribery measures and the prevention of funding illegal information

gathering activities, are adhered to in practice. Matters 10 and 11 ask me about the following of policies in relation to external providers of information.

66. To the best of my knowledge and belief, the financial governance policies and procedures are robust, including in relation to anti-bribery measures and the prevention of funding illegal information gathering activities and they are adhered to in practice. In addition to our systems and controls, there is also an important element of trust given that compliance ultimately depends on the honesty and integrity of individuals. Certain individuals have acted in breach of this trust in the past in financial frauds. Trinity Mirror has a no-tolerance approach in this regard. There is no materiality threshold and any instance of financial fraud is fast-tracked to the Executive Directors (Mrs Bailey, Mr Vickers and myself).
67. In relation to Matters 10 and 11, to the best of my knowledge and belief, Trinity Mirror's policies in relation to the payment of external providers of information are adhered to in practice. I am not able to respond further to Matters 10 and 11 since, as explained, the selection and use of external providers is ultimately a matter for the Editors of the titles, not me, beyond my role in ensuring that the financial control environment is sufficiently tight to pick up and to prevent bribery and corruption and the funding of illegal activities.
68. In 2011, Trinity Mirror conducted an Editorial Controls and Procedures Review, which included a review of the controls and processes for authorising contributions and other editorial payments, including any cash payments. I was not on the Review Team, but the results were reported to me. I understand that Trinity Mirror is making the results of this review available to the Inquiry. In relation to editorial payments, the review found that financial controls over editorial payments are comprehensive and subject to management oversight. A number of procedural actions have been recommended to strengthen the controls further, including that all payments relating to editorial content should go through the Contributions system. The Review is at tab 2 of the bundle of additional information provided by Trinity Mirror.

Signed...



Vijay Lakhman Vaghela

Dated: 14th October 2011