

NI Group Limited
S. L. Panuccio
First Statement
"SLP1"
14 October 2011

IN THE MATTER OF THE LEVESON INQUIRY INTO THE CULTURE, PRACTICES AND ETHICS OF THE PRESS

**WITNESS STATEMENT OF
SUSAN LEE PANUCCIO**

(1) State who you are and provide a brief summary of your career history in finance and in the media.

1 I am the Chief Financial Officer ("CFO") of NI Group Limited (formerly News International Limited) ("NI"). NI is the parent company of Times Newspapers Holdings Ltd ("TNHL"), of which Times Newspapers Ltd ("TNL") is a subsidiary. TNL owns The Times and The Sunday Times. NI is also the parent company of News Group Newspapers Ltd ("NGN"), which owns The Sun and, formerly, The News of the World. Letters requesting witness evidence have also been addressed by the inquiry to the Finance Director of TNL and NGN. Neither of these roles formally exist and I respond to the questions set out in those letters in this statement.

2 I began my career working for KPMG in Melbourne, Australia in 1994, whereby I obtained my qualification as a Chartered Accountant in 1997. I subsequently worked in accounting roles at Ansett Australia, AngloGold (formerly Acacia Resources) and CorProcure. I moved to the UK in 2002 when I joined a subsidiary in the NI Group, Broadsystems Ltd, as the Commercial and Finance Director. I moved across to NI in 2004 where I held a number of different Finance and Programme Management roles until I was appointed CFO of NI in late June 2008.

(2) Explain how you understand the system of financial governance to work in principle and in practice at The Times, The Sunday Times, The Sun and the News of the World, 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.

3 The financial governance system in place across the titles is made up of a variety of structures, policies and checks, which are designed to ensure accurate financial reporting and proper financial management. Proper financial management clearly includes ensuring

that the disbursement of funds is approved in accordance with company limits, funds are not used for inappropriate or illegal purposes and, as I set out below, there are a number of policies and procedures surrounding payments which should operate to prevent such misuse of funds. It is important to recognise, however, that a degree of trust is an integral part of any financial governance system, as, in an organisation of any size, it is necessary that the individuals tasked with implementing the checks, and in particular with authorising payments, undertake their roles responsibly, legally and ethically.

- 4 The governance of how funds are used (including ensuring that they are not used for illegal or unethical purposes) is primarily monitored and controlled via the Managing Editor's Office for each title. I explain this in more detail below.
- 5 There are a number of policies in place at the titles that govern how payments can be made both to staff and non-staff. Some of these are formally documented in written policies, such as the contracts policy, the approvals policy and the editorial expenses policy, copies of which are available on the intranet for staff on all titles to see. I understand that copies of these policies have been included in the bundle of documents provided to the inquiry on behalf of NI (the "NI Bundle"). In addition we have automated the process for making many of our payments and the rules that exist within the policies are embedded within the systems. The types of payments covered by these policies are explained below.

5.1 *Payments to third parties (i.e. non-staff)*

5.1.1 *Editorial Commissioning System (the "ECS")*

- (i) The ECS is used for payments to contributors of editorial content, including lineage (payment for words) and pictures. It is a self-billing system, in other words, we prepare the supplier's invoice and forward a copy to the supplier with the payment.
- (ii) Generally, a contributor will request payment via an invoice, email, telephone or letter. These requests are entered onto the system by an administrator within the relevant title. The payment request must then be authorised in the ECS by the relevant Desk Head and by the Managing Editor's Office (the only exception to this applied on the News of the World, whereby certain Desk Heads could approve up to £2,000 within ECS without Managing Editor approval). The ECS has an Approved Signatory List (the "ASL") limits automatically built into it and will validate whether the correct authorisation has been provided prior to processing a contributor request for payment. The ASL governs who can approve a payment request and up to what value.

- (iii) Any single payment or annual commitment over £50,000 would come to me as CFO for approval. Such payments might relate, for example, to a new retainer or the renewal of an existing retainer with an annualised value over £50,000. If the retainer is one that I am familiar with, then I will sign off without speaking to the relevant Managing Editor, as the system includes relevant information, such as whether the payment has increased over the prior year. In addition, the Managing Editor will have already approved it prior to it coming to me. If it is for a retainer or Company that I am not familiar with, I would typically ring the Managing Editor for an explanation.

5.1.2 Accounts Payable - Invoices paid to suppliers (not for editorial content)

- (i) Where the suppliers in question are not providing services relating to editorial content (for example general office expenditure), then suppliers are required to send their invoices directly to the Accounting Centre which is located in Peterborough.
- (ii) These invoices are then processed by the Accounts Payable team and sent for on-line approval via the Common Approval System ("CAS"), which is NI's system whereby approvers can manage all their electronic authorisations in one place. This includes accounts payable, expenses and contributor payments. The approver is identified by the information on the invoice – for editorial invoices this will be the Managing Editor's Office.
- (iii) The ASL is built into CAS, so the system will govern the approval process and automatically seek a countersignature if the value of the invoice requires it. Once the invoice has been approved on-line (the approver can see a scanned image of the invoice) and is within the correct ASL, it is ready for payment in line with the payment terms of that particular supplier. Payments can be made via BACS, cheque, foreign bank transfer, foreign cheque, Chaps (same day transfers) or Direct Debit.

5.1.3 Cash payments

- (i) The position in relation to cash payments is set out in a new interim payments policy which came into effect on 5 of September 2011 and the approvals process is outlined in point (iii) below.
- (ii) This policy makes clear that, where payment is required to obtain information, journalists should use non-cash methods of payment, such as a bank transfer or a cheque. Only when the source insists on a cash payment and otherwise refuses to provide information is it acceptable to pay in cash.

- (iii) When it is necessary to make a cash payment, the following process must be followed:
- (a) the journalist requesting the cash should agree with his or her department head that the payment should be made;
 - (b) the journalist or department head will arrange for details of the proposed payment to be put into the ECS without necessarily naming the source;
 - (c) a cash payment request form will be produced by the ECS;
 - (d) this request must be approved in writing by the Desk Head;
 - (e) following this written approval, the request form must be counter-signed by either the Editor or a Deputy Editor;
 - (f) once the form has been signed by the Editor or the Deputy Editor, the request form must be provided to the Managing Editor's Office, where it will be checked to ensure that the above requirements have been met;
 - (g) if the requirements have been met, payment will be electronically authorised by the Managing Editor/Deputy Managing Editor (or, in their absence, by me in my capacity as CFO) via the ECS;
 - (h) the authorised cash payment form will be printed out and signed by the Managing Editor or Deputy Managing Editor; and
 - (i) the approved cash payment will be made directly to the journalist provided that the journalist has signed in person to confirm receipt of the funds.

There are no limits on the amount of cash that can be requested, providing the request is appropriately authorised in line with the ASL. These approval controls are predominantly built into the electronic approval systems, such as the ECS, used by NI and each of its titles. However, where approvals are required outside of electronic approval systems, individuals within Finance will manually check that they comply with the ASL prior to any payments being made.

5.1.4 *Cheques*

- (i) Although it is rarely used, an alternative method of payment is a manually raised cheque. A manual cheque will only be raised if supported by a documented request, approved by the Managing Editor's Office, subject to the ASL.

5.1.5 Wire Transfers

- (i) Wire transfers include money to be paid via Thomas Cook or Western Union for collection. These can be domestic or overseas transfers. A small percentage of editorial expenditure is paid via this method. Generally wire transfers are used for cash required urgently by domestic or overseas journalists who are in the process of gathering a story (i.e. for subsistence) or to make payments for a story.
- (ii) When a wire transfer is requested by a journalist, an administrator completes a cash payment request form, indicating that the cash is to be wired for collection. The form must then be approved by the Managing Editor's Office. The approved form is then faxed or emailed to NI's Accounts Department in Peterborough, which contacts the provider (e.g. Thomas Cook / Western Union) with payment details.
- (iii) Thomas Cook / Western Union process the request and advise the editorial department of the time the money was collected and the name of the person collecting the money (who is required to provide photo ID in order to collect).

5.1.6 Bank transfers

- (i) An alternative method of payment, which is rarely used, is a same day value bank transfer. This method is used for very urgent payments, and will only be processed if supported by a documented request, approved by the Managing Editor's Office, subject to the ASL.

5.2 Payments to staff and casuals

5.2.1 Payroll

- (i) Staff are paid through the NI payroll ("SAP") on a monthly basis by BACS and foreign bank transfer where appropriate. All new staff, contractual changes and additional payments (for example, bonuses) have to be processed through NewsPeople (NI's Human Resources Information System). These changes can only be initiated by approved staff within the Managing Editor's Office and all require a business justification.
- (ii) Until recently, all changes with a financial impact also required approval by NI's Remuneration Committee, which at the moment consists of myself and the HR Director. Going forward, any changes will need to be authorised by the CEO.

5.2.2 Staff Expenses

- (i) Staff complete expense claims via an online expense system within SAP. Details of the expenses claimed, including the date of the expense, the nature of it and its amount, are entered into SAP by the claimant. There are no limits on the amount of expenses that can be claimed, providing they are appropriately authorised. Depending on the nature of the expense, further information may also be mandatory. For example, for staff entertaining, the names of all people at the event require listing; for business entertaining, the business purpose is required in addition to details of those attending.
- (ii) Once entered into the system, the claimant prints off a cover sheet and attaches receipts. Expenses for which a receipt has not been provided are approved at the discretion of the relevant approver, and are treated as taxable and provided for accordingly with HM Revenue and Customs. The claimant sends the form to our Accounts Department in Peterborough, whilst at the same time submitting the claim for approval. The submission and approval of the claim is electronic.
- (iii) The ASL is built into the system, so that the claim is delivered online to the appropriate person within the Managing Editor's Office to approve. The relevant approver receives a daily email notifying him/her of any items awaiting approval and should then approve or reject the request online. Guidelines of what can be claimed are set out within the editorial expenses policy.
- (iv) In addition, the cover sheet and receipts are checked for correctness by the accounts team in Peterborough, before getting Finance approval from the Expense Administration Team, who check for completeness, accuracy and tax compliance prior to processing.
- (v) Once both Finance and Editorial approvals have been obtained, the claim is settled and paid via a weekly payment run by BACS.

5.2.3 Casual Management System ("CMS") – payment to non staff for casual shifts

- (i) Casual staff are required to enter the number of hours worked directly into CMS, which is a SAP module. As with the ECS, the ASL rules are held within CMS. That work record will then be validated at desk level, before

going to the Managing Editor's Office for financial approval. Once approved the casual employee is paid via a payment run carried out weekly.

- 6 As is apparent from the above, the governance of how funds are used (including ensuring that they are not used for illegal or unethical purposes) is primarily monitored and controlled via the Managing Editor's Office for each title. If it were to come to a Managing Editor's attention that funds were being misused, I would expect this to be reported by them to the Editor, Human Resources and/or the Internal Audit department; each of the Managing Editors reports to their respective Editors, rather than to me.
- 7 The Finance team, which reports into me, produces weekly and monthly reports to ensure that the revenue and costs of the business are adequately recorded. I review these reports with my Finance Director – Forecast and Reporting. I have an Editorial Finance Director who is responsible for the accurate reporting of the editorial numbers, who signs a monthly statement to attest that the numbers are materially accurate and represent a true and fair position of the accounts.
- (3) Explain what your role is in ensuring that financial governance and all relevant policies are adhered to in practice. If you do not consider yourself to be responsible for this, please tell us who you consider to hold that responsibility and why.**
- 8 It is my responsibility to ensure that our financial policies and procedures are adhered to in practice, although I obviously rely on the support of the Finance and Audit teams in this regard, as well as the assistance of the Editors and Managing Editors in supervising compliance and exercising primary oversight that the funds are used for appropriate and legal purposes on the editorial side.
- 9 There are a number of ways in which financial compliance is monitored across NI, NGN and TNL:
- We have an Internal Audit department which undertakes regular audits of our systems such as ECS, CMS, expenses, and NewsPeople. We also have external auditors, Ernst & Young, who are responsible for auditing the accounts of NI, NGN and TNL.
 - As NI's ultimate parent company, News Corporation, is a US listed company, NI is required to comply with the Sarbanes-Oxley Act of 2002 which requires a management certification signed by both myself and the CEO of NI confirming the accuracy of the financial statements and the effectiveness of the internal controls that support financial reporting. We rely on the support of the Finance team and key people within the business to ensure that the internal controls are working. These people also sign a management certification.

- Each month, the Editorial Finance Director attests that all balance sheet accounts are appropriately reconciled and supported and represent a true and fair picture of assets/liabilities at the respective month end, and that related P&L movements in the month are consistent with this in relation to the Management Accounts.
 - I have a Corporate Reporting team and a Financial Accounting team in Peterborough, who ensures that we comply with the relevant accounting standards (FRS and UK and US GAAP).
 - Ensuring the ASL is followed. ASL is discussed at paragraph 5.1.1 (ii) above. I would expect to be notified if the Finance team were alerted to any payments that were processed outside of the ASL.
 - I have a Taxation team to ensure Tax compliance is followed, particularly in respect of the tax implications and treatment of un-receipted expenses, anonymous cash payments, and HM Revenue and Customs self billing requirements.
- (4) Explain 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, to the best of your knowledge.**
- 10** The conduct of certain individuals at the News of the World is the subject of an ongoing police investigation. Without prejudging the outcome of that investigation, it appears that there were failings in the oversight, which should have operated to prevent payments being made, which facilitated illegal conduct.
- 11** As far as the remaining titles are concerned, to the best of my knowledge, the policies and procedures outlined in paragraphs 5.1 to 7 above are on the whole adhered to in practice. There have been instances whereby the Internal Audit department has identified deficiencies within the financial control environment. Where deficiencies have been identified, appropriate remedial measures are taken to address the issue. Actions are clearly defined, allocated to appropriate owners and have proposed deadlines for remediation. These actions are formally set out in an Audit Report and subsequently monitored.
- (5) Explain whether these practices or policies have changed, either recently as a result of anti-bribery laws, phone hacking media interest, or prior to that point, and if so, what the changes were and the reasons for them.**
- 12** A new interim payments policy was introduced on 5 September 2011 in an effort to tighten the controls surrounding cash payments by journalists to take account of the Bribery Act 2010. Prior to September, the approval of payments had been addressed in the approvals and expenses policies which encompassed cash payments. As outlined above in

paragraph 5.1.3, prior to the payment of any cash transaction, approval is now required from the Editor / Deputy Editor and the Managing Editor / Deputy Managing Editor (or in their absence myself). Prior to the new policy the ASL only required the Managing Editor / Deputy Managing Editor's approval.

- 13 The ASL is regularly updated for staff appointments / resignations and changes in organisational structure.
- (6) Explain the extent to which you, as a Finance Director, felt any financial and/or commercial pressure from the proprietors of the above newspapers, the editor or anyone else, and whether any such pressure affected any of the decisions you made in relation to the use of the newspapers' funds to secure information for news stories.
- 14 I am not responsible for making decisions relating to the use of the titles' funds to secure information for news stories. That is the responsibility of the Editors and the Managing Editors. My focus is on whether the titles remain within their overall editorial budgets, whether the numbers are reported in an accurate way in accordance with the relevant standards and that disbursements are made in accordance with the financial policies and procedures outlined above.
- (7) Explain whether, to the best of your knowledge, the above newspapers used, paid or had any connection with private investigators in order to source stories or information and/or paid or received payments in kind for such information from the police, public officials, mobile phone companies or others with access to the same: if so, please provide details of the number of occasions on which such investigators or other external providers of information were used and of the amounts paid to them (NB. You are not required to identify individuals, either within the above newspapers or otherwise).
- 15 Certain conduct by the News of the World is the subject of an ongoing police investigation and I therefore do not propose to comment specifically on this title. I understand that the CEO of NI, Tom Mockridge, will be explaining the background to this investigation in his statement to the inquiry.
- 16 As regards The Times, The Sunday Times and The Sun, I am aware generally that newspapers use private investigators or search agencies in the ordinary course of their business. I am not, however, aware of the specific details of any use of private investigators by these other titles. I understand that the Editors' statements will address this point. I am also not aware of any of these titles having ever paid or made payments in kind for information from the police, public officials, mobile phone companies or others with access to the same.

- (8) Explain what your role was in instructing, paying or having any other contact with such private investigators and/or other external providers of information.
- 17 I do not have any involvement in instructing or otherwise contacting private investigators or other external providers of information for editorial content purposes. The only circumstances in which I might conceivably be involved in their payment would be if approval was sought for a payment to them of more than £50,000 or if both the Managing Editor and Deputy Managing Editors were absent. I have no recollection of ever approving any payments to private investigators or other external providers of information.
- (9) Explain if such investigators or other external providers of information were used, what policy/protocol, if any, was used to facilitate the use of such investigators or other external providers of information (for example, in relation to how they were identified, how they were chosen, how they were paid, their remit, how they were told to check sources, what methods they were told to or permitted to employ in order to obtain the information and so on).
- 18 I am not in a position to comment on this question.
- (10) If there was such a policy/protocol, explain whether it was followed, and if not, what practice was followed in respect of all these matters
- 19 Similarly, I am not in a position to comment on this question.
- (11) Explain whether there are any situations in which neither the existing protocol/policy nor the practice were followed and what precisely happened/failed to happen in those situations. What factors were in play in deciding to depart from the protocol in practice?
- 20 See above.
- (12) Explain the extent to which you are aware of protocols or policies operating at the above newspapers in relation to expenses or remuneration paid to other external sources of information (whether actually commissioned by the above newspapers or not). There is no need for you to cover 'official' sources, such as the Press Association
- 21 Details of the applicable policies and procedures are set out at paragraphs 5.1.1 to 5.1.6 above.
- (13) Explain the practice of the above newspapers in relation to the payment of expenses and/or remuneration paid to other external sources of information (whether actually commissioned by the above newspaper or not). There is no need to cover 'official' sources such as the Press Association

22 So far as I am aware, and subject to the issues referred to in paragraph 11 above, the practice across the titles is in accordance with the policies and procedures I describe above.

I believe that the facts stated in this witness statement are true.

Signed

Dated 14.10.11