

Auditor-General of Queensland

Report to Parliament No. 1 for 2010 Audit of A1 Grand Prix Agreements

A Financial and Compliance Audit



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QUEENSLAND

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Auditor-General Act 2009

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Auditor-General of Queensland

February 2010

The Honourable R J Mickel MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is on the audit conducted of A1 Grand Prix Agreements. It is the first in the series of Auditor-General's Reports to Parliament for 2010.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



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1 | Executive summary

1.1 Audit overview

On 17 October 2009, the A1GP World Cup of Motorsport category (A1GP category) advised that it would be unable to comply with its contractual obligations to participate in the 2009 Nikon SuperGP event held on the Gold Coast from 22 to 25 October 2009. A timeline detailing the activities leading up to this event occurring is included in Appendix 4.3.

The event is undertaken by the Gold Coast Motor Events Co. (GCMEC), a partnership in which the Government has a 50 per cent interest as outlined in Section 2.2 and Figure 3.1.

On 26 October 2009, I announced that I would be undertaking an audit of the arrangements associated with the participation of the A1GP category in this event. My decision to conduct this audit was taken in response to the significant public interest generated following the failure of the A1GP category to comply with its contractual obligation to participate at the event and speculation on the future of the event.

The audit focused on the due diligence conducted in deciding to contract the A1GP category, ongoing monitoring of contract performance, governance arrangements established by the Department of Communities and other key entities responsible for the State Government's contribution to the event, the financial implications of early termination of agreements in relation to the A1GP category and the probity and propriety of the processes and decision making.

1.2 Audit conclusions

The audit identified some fundamental weaknesses in current practices. These weaknesses include:

- The due diligence processes for the preparation of the agreement with A1GP World Cup of Motorsport (Australia) Pty Ltd (A1GP Australia) were inadequate in a number of material aspects.
- Some of the inadequate due diligence issues impacted on the ability of GCMEC to address subsequent issues as they arose during the period immediately prior to the 2009 event.
- Contractual arrangements did not include formal commitments from all entities involved with the control of the A1GP category.
- An active risk monitoring program was not developed and implemented in response to the known financial and contract concerns which may have allowed timely action to be taken in the case of potential non-performance.
- Lack of clarity about the roles and responsibilities of the various parties involved in the event.

1.3 Key audit findings

1.3.1 Due diligence

Although preliminary analysis of options for an international racing category for 2009 and subsequent years started during July 2008 in the lead up to the 2008 event, the critical due diligence and contract negotiations did not commence until October 2008 after the conclusion of the 2008 event when it became apparent that GCMEC and Indy Racing League (IRL) were unable to agree terms relating to the continued participation of IRL at the event.

There were therefore significant time constraints for this process which added to the difficulty of completing the due diligence prior to the announcement on 11 November 2008 of an in principle agreement for the inclusion of the A1GP category in the 2009 event. The negotiations for the final agreement were completed immediately prior to the announcement of the format of the 2009 event on 22 November 2008.

In the context of these time constraints, the process could have been more adequately undertaken in the following areas:

- *Documentation* – There was an absence or limited amount of documentation available which would have demonstrated the analysis undertaken and key decisions made during the negotiation process.
- *Analysis of the relationships and operating structures of the companies within the A1GP group of companies* – Greater knowledge of the relative roles and assets of each of the companies in the group may have assisted in understanding the impact on the whole group of the subsequent liquidation of one of the companies which had apparent control of the motor racing vehicles.
- *Analysis of the financial capacity of the A1GP group of companies and specifically A1GP Australia which was the company contracted for the event* – A good understanding of the credit risk attaching to the A1GP group of companies may have alerted GCMEC to observe the event arrangements in a different light.
- *Analysis in relation to the impact of contracting with A1GP Australia, a subsidiary of one of the overseas subsidiaries of the A1GP group of companies* – This company had to rely on other companies in the group to deliver the obligations under the agreement with GCMEC but there were no guarantees or formal cross agreements with the other companies. While the risks for GCMEC in contracting with a subsidiary company which did not control the major physical and intellectual resources necessary for the conduct of the event were known, no compensating measures were implemented to minimise the risk or provide a strategy to respond in the event of a failure of A1GP Australia to meet its obligations.

The history of this event as discussed in Section 2.2 shows that this is not the first time that a party contracted to the event had experienced financial difficulties. This is an industry where a number of motor sport categories have financial problems and have been significantly impacted by the global financial crisis. In these circumstances, it may have been considered by GCMEC that this situation was no different to those experienced in the past.

Improvements to due diligence practices will reduce the risk of the problems experienced with contracting with the A1GP group of companies occurring in the future.

1.3.2 Contract monitoring

Based on the material provided during the audit, representatives of GCMEC were actively involved in making detailed arrangements for the 2009 event in consultation with various representatives of the A1GP group of companies during the period December 2008 to October 2009.

However several of the deficiencies identified in relation to the due diligence process appear to have significantly impacted on the effectiveness of the monitoring activity. The following observations point to GCMEC's lack of knowledge of the relationships and financial dependencies within the A1GP group of companies:

- Once advice was received by GCMEC on 9 July 2009 that A1GP Operations Ltd had been placed in liquidation, no independent advice was sought or analysis undertaken on the capacity of the A1GP group of companies to continue to perform under the agreement.
- The first sanction fee instalment was paid one day after the advice of the liquidation was received and 14 days prior to the payment date set under the agreement in consideration of an agreement reached with the A1GP group of companies to defer US\$400,000 of the second instalment payable by GCMEC to later years.
- Legal advice obtained by GCMEC on 15 October 2009, confirmed that at that point in time the partnership had limited options under the agreement and faced the potential for legal action by A1GP Australia if it took action to terminate the agreement, whilst it was still possible for A1GP Australia to perform its obligations under the agreement.

Advice provided to the Minister regarding the preparations for the 2009 event and the capacity for the A1GP group to meet its obligations to participate in the event was based on the information provided to GCMEC by the A1GP senior executives and the actions of A1GP representatives in preparation for the event.

Advice gained by audit from representatives associated with the liquidation of A1GP Operations Ltd indicates that the position of the A1GP group of companies during the period from July 2009 was significantly different to that advised to GCMEC by the Chairman, A1 Holdings Ltd in the following areas:

- *The liquidation of A1GP Operations Ltd was commenced by creditors applying to the court* – It was not part of an internal group restructuring initiated and controlled by A1 Holdings Ltd.
- *Business offices used by the A1GP group of companies were closed and the premises repossessed by the landlord* – It was not business as usual for the companies.
- *The race vehicles were held by a major creditor of A1GP Operations Ltd under a lien* – The teams were not accessing the vehicles in preparation for the trip to Queensland and the Gold Coast event.
- *Other major creditors of the A1GP group of companies were refusing to do business with the A1GP group of companies* – “Cash up front” was required by those creditors for any further transactions.

1.3.3 Governance arrangements

The company model chosen to own and operate the event was unduly complex with the Government's involvement being through a company owned by the State of Queensland with the Minister for Child Safety and Sport as the State's representative, and a partnership with a private sector event provider.

A simpler structure should be considered for future events to enable greater clarity of responsibilities and more effective government oversight. A number of Auditor-General Reports to Parliament since 2002, have highlighted the difficulties departments have in adequately controlling and monitoring the activities of companies operating within a departmental context.

The following specific issues were noted during this audit of the 2009 Nikon SuperGP:

- While the Chairman, GCMEC provided verbal briefings and advice to the relevant Ministers, limited written notes or advice were maintained of key conversations and decisions.
- The written reporting processes through the Department to the Minister which had been in place for earlier events had lapsed in recent years.
- There was a lack of clarity about the roles and responsibilities of people involved in the event arrangements.

1.3.4 Financial implications

The first sanction fee instalment of US\$1,837,500 was paid to A1GP Australia on 10 July 2009, 14 days earlier than the date in the agreement, in consideration of an agreement between GCMEC and A1 Holdings Ltd to defer US\$400,000 of the second fee instalment to subsequent contract periods.

The second instalment of US\$1,437,500 (after deducting the US\$400,000 referred to above) was due to be paid on 9 October 2009, 14 days prior to the event. This amount was not paid because at this time there was uncertainty about the ability of the A1GP category to deliver the motor vehicles for the event.

GCMEC is currently pursuing A1GP Australia for the return of the sanction fee instalment paid.

The overall financial outcome of the event will be heavily dependent upon whether GCMEC recover these monies from A1GP Australia and the result of actions taken by third parties against GCMEC in relation to the event. The financial audit will be completed early in 2010 for GCMEC's financial statements which have a 31 December 2009 balance date. Under the partnership agreement with International Management Group of America Pty Ltd (IMG) the Government is entitled to receive a share of any net profits generated, with net losses being underwritten by IMG.

1.3.5 Other matters

During the conduct of the audit certain issues were disclosed regarding some of the communications provided to GCMEC personnel by external parties during the period prior to the event. A preliminary briefing has been provided to the Queensland Police Service on this matter.

1.4 Recommendations

A number of improvement opportunities have been identified during the audit and are outlined in Section 3 of this report. Based on these conclusions, three recommendations are made which may be applied to the Government's involvement in all major events.

It is recommended that future major events have:

- a governance structure which enables effective government oversight through formal reporting and monitoring.
- adequately documented processes for due diligence which ensure that adequate analysis is undertaken of key features of contract agreements to support decisions made during the evaluation and negotiation stages and that critical assertions by the party being contracted are independently verified.
- contractual arrangements with formal commitments, guarantees, and progressive performance targets to allow for early termination of arrangements where non-performance is identified. Where the nature of the event is such that progressive performance targets are not possible, an appropriate risk identification and monitoring program should be developed and actively implemented.

1.5 Responses

1.5.1 Department of the Premier and Cabinet

The Director-General provided the following response:

"...I note the terms of reference for the audit relate to the contractual arrangements with A1GP, the due diligence undertaken, ongoing monitoring of contract performance, governance arrangements, probity and the financial implications of early termination of the agreements.

The draft audit conclusions and the draft recommendations regarding governance structures, due diligence processes and the need to improve contractual arrangements are supported in principle. In this regard, the Queensland Government has moved to ensure greater alignment with Queensland Events Company administered under the Premier's portfolio with the appointment of Messrs Chris White and Cameron Hart.

Given the experience of this department in the staging of major events and in established governance and reporting arrangements to the Premier with respect to the Queensland Events Corporation, the Department of the Premier and Cabinet will provide advice to the Government and the Department of Communities in implementing any actions arising from your report..."

1.5.2 Department of Communities

The Director-General provided the following response:

"...The department notes the key audit findings and improvement opportunities in relation to due diligence, contract monitoring and governance arrangements and agrees with the recommendations. The department also notes that the report predominantly applies to entities which are not under the direct control of the department..."

...The department acknowledges the comments regarding the need for clarification of roles and responsibilities and increased formal reporting to the Minister and will consider these recommendations in light of the future actions associated with the Gold Coast motor racing event.

The State Government has already moved towards creating closer alignment with the Queensland Events Corporation, subsequent to the resignation of the Chairman Terry Mackenroth and Managing Director Ian Whitehead and the recent appointments of Chris White as Chairman and Cameron Hart as Managing Director...

1.5.3 Treasury Department

The Under Treasurer provided the following response:

"...Treasury has perused the report and supports your recommendations.

Treasury Department will of course provide advice and assistance to Government in its consideration of the final report and any implementation actions arising."

1.5.4 GCMEC response

The following response was provided by the Partnership Management Committee:

"The event has been successfully staged through the current partnership since 1996. The event in 2009 was obviously not as successful as its predecessors, after A1GP failed to comply with its contractual obligation to participate at the event, giving rise to questions as to the arrangements with A1GP and the suitability of the partnership structure in place.

GCMEC's comments on the sections of the report that have been made available to it for review are set out below.

1. The event has been successfully staged by GCMEC for many years, and discussion of recommendations for change to the current structure should occur in this context.

In the period prior to 2009, the event won multiple tourism and sports events awards and has consistently attracted very high attendances, with crowds exceeding or nearly exceeding 300,000 persons in every year since 2002. In this period the event has delivered outstanding exposure of the Gold Coast to television screens all around the world, attracted thousands of visitors to the Gold Coast and established itself as one of the world's premier motorsport events. In recent years when economic impact studies have been conducted (2003, 2005 and 2007), the economic return to Queensland of the staging of the event has been independently calculated as A\$50.4m, A\$60.1m and A\$60.9 million respectively.

2. The existing structure protects the Queensland taxpayer from financial risk of losses from the event, and discussion of the financial implication of the 2009 event and recommendations for change to the current structure should occur in this context.

There are inherent financial and commercial risks associated with promoting international motorsport events. The successes and benefits of the event have been achieved under the existing partnership structure which, whilst complex, has ensured that the Queensland taxpayer has never been exposed to the not insignificant risk of financial losses from staging a large scale motorsport event.

3. GCMEC's ability to conduct adequate due diligence was constrained.

GCMEC's ability to conduct adequate due diligence on the A1GP group of companies was constrained by:

- (a) the limited timeframe it had to conduct due diligence;
- (b) the limited timeframe coinciding with the demands of the completion of the 2008 event and negotiations with V8 Supercars Australia regarding the replacement of IRL at the event; and
- (c) the limitations on the information that was available in relation to the A1GP group of companies as a privately owned corporate group with very few public filing obligations and key entities within the group domiciled in the British Virgin Islands and Guernsey, Channel Islands.

The report records that it is questionable whether GCMEC had the ability to complete an appropriate level of due diligence and conclude the contract negotiations in the short timeframe available. In light of the above factors, it is GCMEC's view that the constraints on GCMEC's ability to complete an appropriate level of due diligence should be stated more unequivocally than it being merely recorded that it was "questionable" as to whether adequate due diligence was possible.

4. At the date due diligence was conducted A1GP was in its 4th season and had no track record of defaulting on its major contractual obligations.

Indicators of the concerns that subsequently emerged for A1GP and its ability to perform the agreement were not present at the time of the due diligence process¹

5. As recorded in the report, GCMEC's commercial leverage in contract negotiations with A1GP was very limited.

The final stages of the A1GP agreement negotiation occurred in circumstances where the A1GP group of companies knew that GCMEC could not fail to reach agreement without severely damaging the public credibility of the event, itself and the Queensland government. Additionally, GCMEC was under strong pressure to conclude negotiations quickly (whereas the A1GP group of companies was under no equivalent pressure). GCMEC's lack of commercial leverage at this point prevented GCMEC in securing guarantees from other entities in the A1GP group that A1GP Australia would perform its contractual obligations.

6. Contract monitoring was compromised by reliance on misleading statements and assurances by A1GP, as well as weight placed on the substantial operational activities of the management of A1GP that were consistent with A1GP Australia complying with its contractual obligations.

When A1GP Operations Ltd went into liquidation in July 2009, the Chairman of A1 Holdings advised GCMEC that the liquidation was part of an organised restructure and that the A1GP was not adversely affected. Subsequent statements from the Chairman of A1 Holdings were similarly misleading and obscured the real situation of A1GP.

GCMEC also received repeated representations and assurances from the Chairman of the A1GP group of companies that the A1GP category would race at the event. These representations misstated the position regarding the circumstances and status of A1GP Operations Ltd and the availability of the racing cars to participate at the event.

¹ Subsequent to GCMEC's entry into the sanction agreement for the participation of the A1GP category at the event, in May 2009 the Dutch government announced a multi-year agreement for the A1GP category to race at the Assen track in the Netherlands.

The assurances were received in the context of the operational activities of the management of the A1GP group of companies that was entirely consistent with the proposition that A1GP Australia would comply with its contractual obligations to attend the event. This was reflected in A1GP management engaging in ongoing and detailed dialogue and correspondence with GCMEC regarding arrangements for implementing its participation at the event in the areas of sponsorship, marketing, risk management, operations, television, accommodation, track scheduling, testing and transport right up to the date that the A1GP group of companies advised that the A1GP category would be unable to participate at the event.

The report sources considerable information regarding the status of the A1GP group of companies from the report of the liquidator of A1GP Operations Ltd dated 29 September 2009. The liquidator's report did not become publicly available until 15 October 2009 by which time GCMEC's options had become effectively limited to utilising a termination right grounded on the failure of A1GP Australia to procure the participation of the A1GP category at the event to bring the agreement to an end.

7. Fundamental principles applicable to event management were already in place.

Many of the fundamental principles listed in the report as applicable to event management were in place in the GCMEC structure, as follows:

- (a) No public funds were at risk due to any financial loss from the event.*
- (b) There is an independent director on the Partnership Management Committee.*
- (c) Industry experts were observers on, and/or invited to attend meetings of, the Partnership Management Committee, and are involved in the planning and staging of the event.*
- (d) GCMEC's financial management has always been transparent and rigorous. GCMEC's operations under the current partnership have been subject to Queensland Audit Office financial audit since 1996. In this period GCMEC has never received a qualified audit opinion, and any issues reported have always been resolved.*
- (e) Budget control and planning was extensively undertaken by GCMEC management and regularly communicated to the Partnership Management Committee."*

2 | Audit focus

Summary

Background

An audit of the governance arrangements and probity and propriety associated with the participation of the A1GP category has been undertaken following its advice that it would be unable to comply with its contractual obligations to participate at the 2009 Nikon SuperGP.

Key activities

- The scope of the audit was to:
 - examine the governance arrangements for the State's contribution to the event
 - consider the appropriateness of due diligence performed in contracting the A1GP category
 - consider any financial, probity and propriety implications of the early termination of agreements.
- Discussions were held with key staff, relevant documentation was reviewed and documentation supporting financial transactions examined.
- Requests were made to individuals pursuant to s.47 of the *Auditor-General Act 2009* for relevant information in their possession.

2.1 Reason for audit

An audit of the arrangements associated with the proposed participation of the A1GP category has been undertaken in response to the significant public interest generated following the failure of the A1GP category to comply with its contractual obligations to participate at the 2009 Nikon SuperGP and speculation on the future of the event.

2.2 Background

The Queensland Government has a 50 per cent interest in the partnership of Gold Coast Motor Events Co. (GCMEC) through Gold Coast Events Co. Pty Ltd (GCEC), whose shares are held by the State of Queensland with the Minister for Child Safety and Sport the current responsible officer of the Crown representing the State for company matters. The other 50 per cent interest in the partnership is held by International Management Group of America Pty Ltd (IMG) through its ownership of five companies that participate in the partnership (Igli Holdings Pty Limited, Raxmont Pty Limited, Southcoast Tyre Services Pty Limited, Truffle Pty Limited and Papandrea Pty Limited). The event is operated by the employees of GCMEC and IMG. In accordance with the partnership agreement, IMG is the manager of the partnership and in that capacity is responsible for the day to day management of the operations of the partnership in accordance with the directions of the Partnership Management Committee for the partnership. IMG underwrites the event and is responsible for any financial loss arising from the event.

GCMEC has run a motorsport event each year since 1991, with 2009 being the 19th year of the event. More recently, the event has consisted of the V8 Supercar category and an international category in accordance with the partnership agreement. IMG has managed every event since 1996. From 1991 to 2003, the international category included in the Gold Coast event was an open wheel racing category originally part of the CART World Series. In 2003, a five year agreement was signed by GCMEC with CART Inc (CART). At the conclusion of the 2003 racing season, the CART World Series was declared bankrupt. Its assets were purchased by Champ Car World Series LLC (Champ) and as part of the proceedings, the CART sanction agreement was assigned to Champ. Champ became bankrupt in early 2008 and subsequently merged with Indy Racing League (IRL) in February 2008.

The merger between IRL and Champ meant that the existing contract between GCMEC and Champ for the 2008 event was no longer valid. A memorandum of understanding was signed between IRL and GCMEC for IRL's future participation from 2008 to 2013. In July 2008, a contract to cover the 2008 event was signed with IRL to race at the Gold Coast in a non Championship round, while negotiations continued to secure a longer term agreement.

The contract negotiations for the 2009 to 2013 events ceased when agreement could not be reached between the parties regarding the amount of sanction fees payable to IRL, freight, travel and accommodation costs to be paid by GCMEC and the dates for the event. Consequently an alternative international category of motorsport was sought by GCMEC to participate in the 2009 and future events.

On 11 November 2008, the Premier and the then Minister for Police, Corrective Services and Sport jointly announced that an in principle agreement had been reached for the A1GP category to race in the 2009 Gold Coast event.

An agreement with A1GP Australia was subsequently signed on 21 November 2008 for the provision of an international category for the 2009 to 2013 events.

Although the agreement was signed with A1GP Australia, the contract between A1GP Australia and GCMEC identified that the event would be primarily organised through the international company, A1 Holdings Ltd. Figure 2.1 shows the relationship between A1GP Australia and the international companies associated with the A1GP category, as advised by GCMEC.² Independent advice provided to audit indicates that the control of the racing assets is unclear.

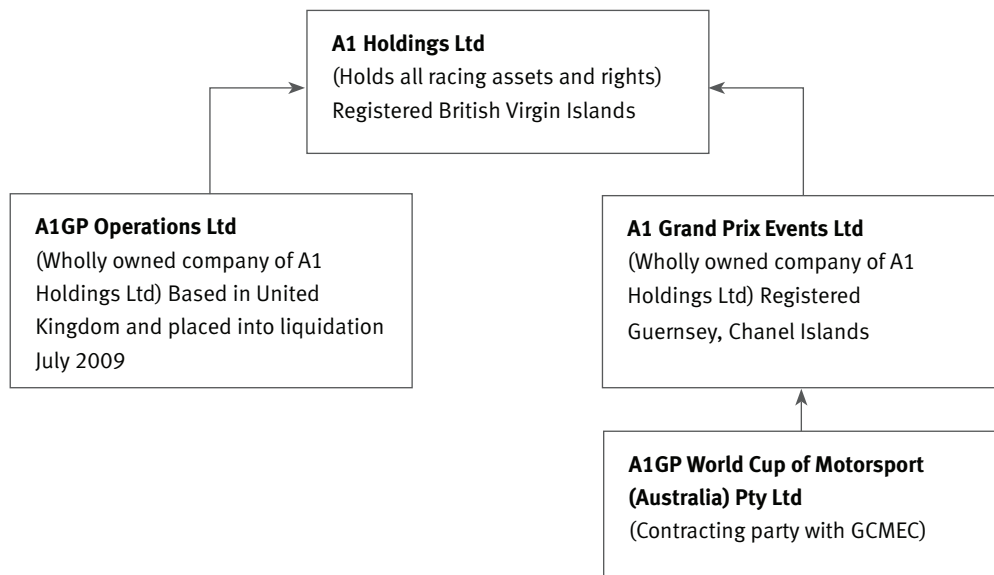


Figure 2.1 - Structure of A1GP group of companies

In July 2009, the Chairman, A1 Holdings Ltd advised GCMEC that the United Kingdom operating arm of the series (A1GP Operations Ltd³) had gone into liquidation in order to refinance the A1GP group of companies, but this would not impact on agreements already in place. However the liquidator's report received during the audit indicates that A1GP Operations Ltd was integral to the operations of the A1GP group of companies. The capacity of the A1GP group of companies to participate in the event was diminished significantly following the liquidator's appointment on 21 July 2009.

On 17 October 2009, the Chairman, A1 Holdings Ltd announced via a media release that as a result of the liquidation of A1GP Operations Ltd, access to the A1GP cars and the ability of the company to pay its suppliers had been impeded. Therefore, the cars could not leave London to be on track at the Gold Coast on 22 October 2009 as required by contractual arrangements. At that point, A1GP Australia advised that it would be unable to fulfil its contractual obligations to participate in the 2009 Nikon SuperGP.

² The *First Report to all Creditors* (the liquidator's report) issued by Mr Tim Branston, the liquidator of A1 Grand Prix Operations Ltd on 29 September 2009 identified two further A1 Group companies – A1 Grand Prix Hospitality Ltd and A1 Grand Prix Productions Limited. A1 Grand Prix Productions Limited was placed in liquidation by the court on 10 December 2009.

³ The liquidator's report states A1GP Operations Ltd has a very strong claim to ownership of the racing cars that were to take part in the 2009 Nikon SuperGP.

The agreement between GCMEC and A1GP Australia was subsequently terminated due to the breach of contract. The contract was terminated by GCMEC in accordance with independent legal advice at the point in time when it was no longer possible for A1GP Australia to comply with its contractual obligations to procure participation of the A1GP category at the event. The legal advice indicated that termination of the agreement for A1GP Australia's failure to procure the participation of the A1GP category at the event could not occur whilst it was still possible for A1GP Australia to procure such participation without A1GP Australia potentially having the right to sue GCMEC for breach of contract and seek to recover damages.

On termination of the agreement with A1GP Australia, an alternate race program for the 2009 event was developed based on the V8 Supercar category.

At the time of signing of the agreement with A1GP Australia, the responsible Minister was the then Minister for Police, Corrective Services and Sport and the responsible department, the Department of Local Government, Sport and Recreation. Following the machinery of government changes which occurred on 26 March 2009, the Department of Communities became the responsible department with the Minister for Child Safety and Sport, the responsible Minister.

On 26 October 2009, Mr David Williams was appointed by the Queensland Government to conduct an independent review of this event. The initial scope of Mr Williams' review was 'to analyse the governance and due diligence undertaken by the event organisers ahead of the 2009 event and provide recommendations for the future of the event on the Gold Coast'.

2.3 Audit scope

The scope of the audit was to:

- examine the governance arrangements established by the Department of Communities, GCEC and GCMEC for the State Government's contribution to the event
- consider the appropriateness of the due diligence performed by GCMEC in deciding to contract the A1GP category to participate in the Gold Coast event
- consider financial, probity and propriety implications, if any, of the early termination of these agreements.

On 17 November 2009, following discussion and agreement with Mr Williams that certain elements of his review would more appropriately be handled by the Auditor-General, the Director-General, Department of Communities wrote to request the Auditor-General consider in the scope of the audit the following objectives:

- an analysis of the circumstances with a focus on governance and due diligence including the adequacy of contractual oversight and management of the event including the sanctioning agreement with A1GP Australia
- provide conclusions and recommendations on the implications for government with regard to governance and due diligence for the future staging of the event.

Without limiting the scope of the audit, the Auditor-General agreed to consider these objectives in conjunction with the scope of work already being undertaken.

2.4 Audit procedures

Over the period October to December 2009, discussions were held with key staff from the Department of Communities, GCEC and GCMEC as well as the Minister for Child Safety and Sport and the former Director-General, Department of Local Government, Sport and Recreation.

Relevant documentation held, such as contracts, agreements, and the GCMEC Partnership Management Committee and board of management minutes were reviewed as was further correspondence between these entities, A1GP Australia and the A1GP group of companies. Documentation supporting financial transactions was examined.

Discussions were also undertaken with representatives associated with the liquidation of A1GP Operations Ltd.

Pursuant to s.47 of the *Auditor-General Act 2009*, the Auditor-General wrote to key individuals requesting all information of which they were aware and documents in their possession or power that dealt with, or related directly or indirectly, to the A1GP category's participation in the 2009 Nikon SuperGP.

These individuals included:

- The Honourable T Mackenroth, the then Chairman of the GCMEC Partnership Management Committee
- The Honourable J Spence, Parliamentary Secretary to the Premier and Minister for the Arts, Leader of the House and former Minister for Police, Corrective Services and Sport
- Mr G Pitt, Secretary, International Management Group of America Pty Ltd
- Mr A Evans, Chairman and Director, A1GP World Cup of Motorsport (Australia) Pty Ltd
- Mr N Mowat, Secretary, A1GP World Cup of Motorsport (Australia) Pty Ltd.

Although ready assistance and cooperation had been provided in relation to the Auditor-General's enquiries and documentation had been received from the Department of Communities, GCEC and GCMEC, this formal action was undertaken to ensure that the Auditor-General was provided all relevant information and documents pertinent to the audit, in addition to what had already been provided to audit staff.

The information requested included but was not limited to:

- files in electronic or paper form
- correspondence, memoranda (including electronic mail communication) reports and briefing notes
- diary notes
- records and minutes of meetings.

While responses were not received from Mr Evans and Mr Mowat, the other individuals fully co-operated.

3 | Audit findings and recommendations

Summary

Background

The audit covered four key areas:

- due diligence activities performed by GCMEC
- GCMEC's ongoing monitoring of performance under the event agreement
- governance mechanisms for the conduct of the event
- financial, probity and propriety implications of the termination of contractual arrangements.

Key findings

- Due diligence activities were not adequately documented to demonstrate the analysis conducted and decisions made.
- The extent and effectiveness of the due diligence activities prior to the signing of contractual arrangements with A1GP Australia were constrained due to time pressures.
- Assertions made by contracted parties about their capacity to perform in accordance with the agreement were not independently verified.
- A payment under the agreement was made earlier than contracted.
- There was a complex corporate structure in place governing the event.
- There were no formal lines of reporting between the Minister for Child Safety and Sport, Department of Communities and the key entities running the event.
- Verbal updates were provided by the Chairman, GCMEC to the Minister on event issues but these key conversations were not documented.
- The overall financial result of the event will not be able to be determined until early in 2010 when the financial audit of GCMEC for the financial year ended 31 December 2009 has been completed.

3.1 Areas audited

The audit covered four main areas:

- due diligence activities of GCMEC in contracting A1GP Australia to the Gold Coast event
- ongoing monitoring of the capacity of the A1GP group of companies to deliver the contracted event
- governance mechanisms in place between the Minister, the Department of Communities and key responsible entities
- financial, probity and propriety implications of the termination of contractual arrangements.

3.2 Due diligence

Documentation reviewed by audit relating to the period April to October 2008 showed that as the likelihood of GCMEC coming to a further agreement with Indy Racing League (IRL) for the 2009 to 2013 events decreased, GCMEC began investigating alternative options to secure an international category beyond the 2008 event.

GCMEC commissioned marketing agency Clemenger Harvie Edge to produce a brand report and reviewed visitor survey results to determine the best format and the best international category for future events.

Interviews conducted by audit with GCMEC staff indicated that, from the lead up to the 2008 event through to the official signing of the agreement with A1GP Australia in November 2008, GCMEC management considered a range of alternative international categories of motorsport to jointly headline the event with the V8 Supercar category from 2009 to 2013.

In a report prepared by the General Manager, GCMEC on 10 November 2009, primarily to address the issues raised by this audit and the separate Government review of the event, it was stated that the above categories were analysed based on the following criteria:

- *'goodwill/pulling power*
- *suitability of racing format*
- *international focus*
- *cost affordability*
- *television coverage*
- *interest in staging outside of home market*
- *marketability and ability to grow the event after rebranding.'*

Audit was advised that in addition, IMG used their industry knowledge and consulted with their overseas counterparts who have industry knowledge regarding the categories being considered.

In addition to this analysis, GCMEC reported to audit that they took into account the following commercial and operational factors:

- need for a racing schedule that could be aligned with the existing event dates
- acceptance that the international series would be subject to specific broadcast requirements
- acceptance that the international series could not bring sponsor branding which conflicted with the existing sponsors.

The report also stated that *'GCMEC determined that A1GP was easily the strongest international motorsport series in terms of the above criteria'*.

The report further stated:

'As a consequence of the inherent risks associated with international motorsport promoters...and worsened by the ongoing financial crisis and limited credit available, GCMEC considered that contracting with any one of the available series, with the exception of [another category] carried with it material levels of financial risk and/or risk of non-performance. Given that this was a consistent factor, and there was little likelihood of being able to access information that would give a true picture of the financial state of the international motorsport series being considered, risk of financial problem/contract default was not considered as one of the criteria.'

The report goes on to state that:

'Following determination that A1GP was the best series to replace IRL, GCMEC conducted the following due diligence enquiries regarding A1GP:

- *review of performance of the 2007-2008 and 2008-2009 A1GP series*
- *review of the A1GP teams' structures*
- *inquiries within IMG motorsport and other divisions, and other motorsport "intelligence" sources as to prospects of the series, past compliance with contractual obligations and financial stability*
- *questioning and receipt of explanations of the historical financial performance of the series and future prospects of the series from the owner of the series*
- *Dun & Bradstreet financial search undertaken on the A1GP contracting entity, A1GP World Cup of Motorsport (Australia) Pty Ltd.'*

Audit examination of the Dun & Bradstreet report, which was compiled on 19 November 2008, revealed that the extent of analysis undertaken was limited as financial information for the company was not available to Dun & Bradstreet. Given the known limitations of this report, consideration should have been given by GCMEC to undertaking further financial analysis.

GCMEC has confirmed that no research or analysis was conducted on international companies related to the A1GP category, however conversations regarding financial viability of the series were held with the Chairman, A1 Holdings Ltd.

GCMEC also indicated that they relied upon A1GP Australia's willingness to sign an agreement containing specific clauses regarding the ability of A1GP Australia to deliver at the event, along with the fact that GCMEC were aware that the A1GP program was into its fourth season of racing with Round 2 in China and Round 3 in Malaysia being successfully completed immediately before and after the Gold Coast agreement was signed.

Audit was advised that presentations about the due diligence analysis performed were provided to the GCMEC Partnership Management Committee meetings by GCMEC representatives. However the minutes of the meetings reviewed by audit did not show any documentation of this analysis being tabled to support the decisions made.

Audit was advised that the former Minister for Police, Corrective Services and Sport was also kept fully informed of the progress of negotiations with IRL during the 2008 Nikon Indy 300 on 25 and 26 October 2008.

Audit was advised that at these meetings an approximate 14 day time limit after the 2008 event was set to conclude the negotiations with IRL. Once the negotiations with IRL failed to reach an acceptable agreement this timeframe became the period in which to finalise negotiations with the A1GP group of companies and V8 Supercars representatives to enable the Premier to announce a replacement for IRL.

There is evidence of preliminary negotiations having commenced between GCMEC and A1GP group of companies representatives prior to 25 October 2008. However it is questionable whether GCMEC had the ability to complete an appropriate level of due diligence and conclude the contract negotiations in the short timeframe prior to the joint announcement of an in principle agreement by the Premier and the former Minister for Police, Corrective Services and Sport on 11 November 2008 and the final agreement with A1GP Australia which was signed on 21 November 2008.

A review of email correspondence supporting the development of the agreement indicated that a number of representatives from GCMEC and the A1GP group of companies were kept informed of progress. Legal advice during the development of the terms and conditions of the agreement was provided to the A1GP group of companies by their Head of Legal Affairs and to GCMEC by IMG's Director of Corporate and Legal Affairs who is also a member of the GCMEC Partnership Management Committee.

From drafts of agreements provided to audit, it is apparent that the original intention was for the contract to be drawn up between GCMEC and A1 Grand Prix Events Ltd. Had this proceeded, independent taxation advice provided to GCMEC indicated that as A1 Grand Prix Events Ltd was registered in Guernsey and there was no tax treaty between Guernsey and Australia, that element of the sanction fee payable which was considered to be a royalty rather than a service fee would have attracted withholding tax of 30 per cent which was not recoverable by either party to the agreement. GCMEC's view based on its independently provided tax advice, was that if 40 per cent of the sanction fee was considered the royalty component, this would have resulted in additional cost to GCMEC of at least US\$0.630m, and should the A1GP contracting entity have failed to obtain an Australian Business Number this additional cost could have increased to US\$2.500m for each year of the five year term, so that the A1GP group of companies could receive the full amount of the agreed fee.

As neither party would agree to incur this additional cost of the transaction, the A1GP group of companies advised that they would contract through an Australian based company. This was accepted by GCMEC and the final agreement was signed by GCMEC and A1GP Australia.

It would appear that A1GP Australia would not have had the capacity to meet its obligations under the agreement with GCMEC without significant support and cooperation from other entities in the A1GP group of companies which owned the intellectual rights and the assets necessary to stage a motor event.

GCMEC accepted its lack of capacity to gain a formal agreement between A1GP Australia and the other relevant entities within the A1GP group of companies on the provision of performance guarantees. It is recognised that the GCMEC had limited commercial leverage in the late stages of the sanction agreement negotiations following the announcement of an in principle agreement with A1GP and the deadline to complete the agreement.

GCMEC have acknowledged that they identified that the A1GP group of companies was not in a sound financial position but accepted that this was consistent with a number of entities within the motor racing industry. Despite this, GCMEC did not develop and actively implement a strategy to respond in the event of a failure of A1GP Australia to meet its obligations.

Improvement opportunities

It is recommended that for future major events:

- all due diligence processes be adequately documented to ensure written evidence can be produced to support analysis conducted and decisions made.
- A formal written contract summary be prepared once negotiations for an event agreement have been completed which identifies the major obligations for each party and the risks to the successful completion of the event that are inherent in the agreement.
- adequate time be given to those responsible for conducting due diligence processes on all agreements being entered into for the conduct of major events.
- contractual arrangements should include formal commitments and guarantees from all entities necessary to ensure that the desired outcome is achievable.
- progressive performance targets should be built in to agreements to allow for early termination of agreements where non-performance is identified. Where the nature of the event is such that progressive performance targets are not possible, an appropriate risk identification and monitoring program should be developed and actively implemented.

3.3 Contract monitoring

Based on information provided by GCMEC, representatives of the A1GP group of companies and GCMEC were actively involved in making arrangements for the contracted event to proceed as planned throughout the period December 2008 to October 2009.

It is not clear from copies of emails provided by GCMEC which A1GP entities were involved in these discussions and correspondence but it was accepted by GCMEC that they represented A1 Holdings Ltd, who GCMEC understood to hold the intellectual rights and racing assets required for the event. Generally, all activities were conducted under the banner of "A1GP World Cup of Motorsport" without it being identifiable which corporate entity within the A1GP group of companies the respective representatives worked for.

GCMEC advised that the first indication they had that the A1GP group of companies were experiencing financial problems was through an email from the Chairman, A1 Holdings Ltd on 9 July 2009 which stated in an attached letter:

"As stated at the end of the 2008-09 A1GP season we have had to seriously consolidate and begin restructuring A1GP in the most effective way in order to guarantee the future success of the series. This means that A1GP Operations UK do not have any commitments in terms of existing and future commitments to events, TV contracts, hospitality contracts, merchandising and licensing or any material situation which will affect A1GP Holdings. Subsidiaries in A1GP Holdings UK that do not serve an integral part and/or function in A1GP and more specifically if they cannot stand alone in terms of financial independence and will not be relocated then those subsidiaries and companies would be closed or liquidated."

A1GP Operations UK was liquidated last week in London as one of those subsidiaries and therefore all creditors will be settled by A1GP Holdings shareholders and it forms part of the RAB Capital/Lyndhurst Holdings 2008 partnership. The liquidation of this company does not affect the efficient running or continuation of A1GP Holdings. All staff members which were held under A1GP Operations UK have been moved to where they are most required in operating subsidiaries within the group. We therefore wish to confirm once again that A1GP will continue going from strength to strength with the full funding being put in place for next season and some very beneficial contract announcements will be made in due course in order to strengthen what is really one of the worlds greatest motor series. To this end, I ask that you continue supporting A1GP Holdings in order for us to deliver to you what is ultimately one of the most exciting and most enjoyable motor racing series in the world.”

GCMEC accepted this explanation and paid the first instalment of the sanction fee on 10 July 2009. While this amount was not due to be paid until 90 days prior to the event (24 July 2009), it was paid early when the Group Chief Operating Officer and Regional CEO, Europe and Russia, A1 Holdings Ltd agreed to defer US\$400,000 of the second instalment of the sanction fee to subsequent years of the agreement. No formal variation to the agreement between GCMEC and A1GP Australia was signed by these parties but the agreement was confirmed by an exchange of emails.

The Chairman, A1 Holdings Ltd sent via email to GCMEC a letter to the Minister for Child Safety and Sport on 3 September 2009 stating:

“I have been asked to put in writing my assurances to your Government that A1GP will be at Surfers Paradise for the race on 25 October 2009. These assurances are unconditional and irrevocable from my point of view together with the assurances and support I have from major suppliers.

To reiterate and to confirm that A1GP as a series like many other businesses globally has had to restructure itself financially and logistically in order to survive the present recession and more specific, in order to maintain a global sport property that in today’s world can only survive by being streamlined, efficient and affordable to all stakeholders. A1GP series from its beginnings in 2004 has always kept its word, has always delivered what it set out to and the only difference in 2009 is that the rationalisation and refinancing of the series has to be of a nature to carry it to 2013 and beyond.

Due to us not having our major financial partner from May 2008 in order to keep A1GP a global series delivering the show that A1GP has become known for and to position itself in the global motor sports arena as a profitable series it had to be of a permanent nature and therefore like any other business who wants to succeed beyond 2009 has had to refinance to achieve this.

As A1GP’s balance sheet in its current form could not seek its own stand alone financing, a finance proposal from its major shareholders was approved by the bank (the signed loan agreement is available by request through the honourable Minister in order to appease himself of the facts of such loans). This loan to Lyndhurst Limited was due to be released on 14 August but, due to confusion, unfounded rumours, further explanation had to be given to our bankers in order to satisfy themselves to the capability of the bank loan being repaid. We eventually reached agreement with our bankers, our major suppliers and all stakeholders that the financial situation of A1GP will be normalised and finalised no later than the 12 September 2009. In the meanwhile I can assure you that our equipment is not being auctioned in any way, shape or form but, is being prepared for the Surfers Paradise race. Our balance of our calendar for 2009-2010 will be released in the next seven working days.

Our major TV partner which contracts were signed on 12 August will be announced in the next seven working days, our freight bookings for Surfers can be confirmed by our shippers Deliver on Time and our teams will be announced by 20 September once all interested participating teams have met the minimum requirements to enter the 2009-2010 series.

In all our arrangements for Surfers, the only setback we have had is that we will be flying our equipment and not shipping as previously anticipated.

The liquidation of A1GP operations GBR, A1GP USA and more recently A1GP Operations has caused confusion in terms of A1GP as a going concern but, we can assure you that none of these companies have any effect on the ongoing contracts of A1GP Holdings as a series and as a matter of fact A1GP UK and A1GP USA have been replaced with two new team owners and companies and the structure of A1GP globally as a series as such is that there are 32 global companies which are franchisees and franchisor.

We are not saying for a minute that it has been an easy period for A1GP but, like every other global racing series A1GP has had its problems but, all we would like to state is that the shareholders have invested almost US\$1b in this series and are totally committed to see a successful future and most definitely a very successful Surfers Paradise event.

Should any further information be required by this Government in order for it to satisfy itself of A1GP's future financial standing please don't hesitate to contact me."

Up to 17 October 2009, when A1GP Australia advised that it was unable to comply with its contractual obligations to participate at the event. GCMEC received ongoing assurances from representatives of the A1GP group of companies that the event would proceed as planned. GCMEC also placed weight on the operational activity by the A1GP group of companies in preparing for the event, which was consistent with the A1GP category's participation at the event.

Based on its assessment that as a non-creditor of A1GP Operations Pty Ltd it could not make enquiries of the liquidator, GCMEC confirmed to audit that it at no time contacted the liquidator of A1GP Operations Ltd. Despite the overwhelming anecdotal evidence that was available indicating the poor financial health of the A1GP group of companies, GCMEC does not appear to have contacted anyone independent of the A1GP group of companies to corroborate or challenge any of the assertions that had been made to them by the A1GP group of companies.

While representatives of the A1GP group of companies were providing these assurances, evidence obtained by audit from individuals associated with the liquidation of A1GP Operations Ltd portray a different situation:

- The liquidation of A1GP Operations Ltd was not entered into voluntarily by the A1GP group of companies but was the result of creditors petitioning the court following non-payment of debts.
- Several locations from which the A1GP group of companies were purportedly continuing to do business with GCMEC had been closed and repossessed by the landlord.
- The A1GP racing cars that were to travel to Surfers Paradise for the event had been impounded by a major creditor since May 2009 who held a lien on these vehicles. This creditor had not allowed access to the vehicles by the various teams for maintenance and race preparation.
- A number of other major creditors of the A1GP group of companies were refusing to do business with the companies except on a "cash up front" basis.

GCMEC should have acted to independently assess the capacity of the A1GP group of companies to meet the terms of the agreement as soon as they received notification of the liquidation of A1GP Operations Ltd and sought to defer payment of the first instalment of the sanction fee until this assessment had been completed.

Improvement opportunities

It is recommended that for future major events:

- **critical assertions made by contracted parties about their capacity to perform in accordance with the agreement need to be independently verified.**
- **payments made under agreements should not be paid earlier than contracted without adequate guarantees of future performance.**

3.4 Governance arrangements

A complex corporate structure has been established to govern the Gold Coast event. The Queensland Government has a 50 percent interest in the partnership of Gold Coast Motor Events Co. (GCMEC) through Gold Coast Events Co. Pty Ltd (GCEC). The shares in GCEC are owned by the State of Queensland with the Minister for Child Safety and Sport as the State’s representative for company issues. The other 50 per cent interest in the partnership is held by International Management Group of America Pty Ltd (IMG) through its ownership of five companies that participate in the partnership (Igli Holdings Pty Limited, Raxmont Pty Limited, Southcoast Type Services Pty Limited, Truffle Pty Limited and Papandrea Pty Limited).

The event is operated by the employees of GCMEC and IMG. In accordance with the partnership agreement, IMG is the manager of the partnership and in that capacity is responsible for the day to day management of the operations of the partnership in accordance with the directions of the Partnership Management Committee for the partnership. IMG underwrites the event and is responsible for any financial loss arising from the event.

The company model chosen to own and operate the event resulted in a complex set of relationships. With the Minister acting on behalf of the State, the Department had no formal relationship with GCEC or GCMEC other than the provision of the Government’s annual financial contribution for the event and a Departmental officer acting as company secretary for GCEC.

Figure 3.1 shows the relationships between the parties.

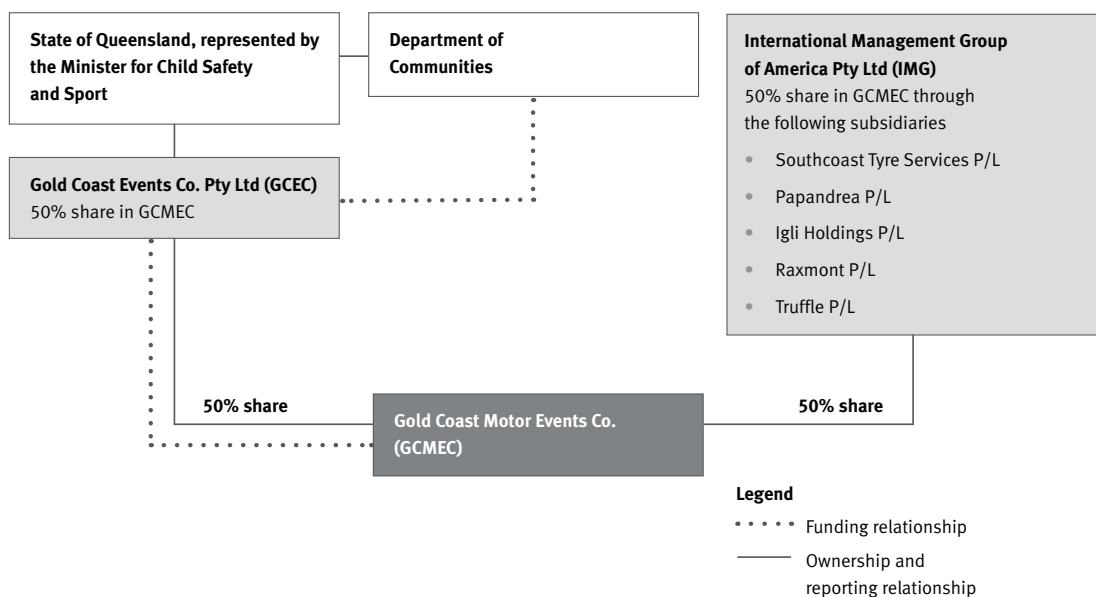


Figure 3.1 – Relationships

The three directors of GCEC are external to the department. Two of the company directors serve as the government appointed members of the GCMEC Partnership Management Committee and the third director is a non-voting member of the GCMEC Partnership Management Committee.

It is noted that other significant events where the government has a direct involvement are the responsibility of Queensland Events Co Pty Ltd (QEC) or one of its subsidiary companies. The governance framework and event management expertise of QEC was however not included in the management of GCMEC.

Because of the Government's financial commitment to the event through the Department, GCEC and GCMEC, the audit examined how these entities communicated progress on contracting the A1GP category, management of the event and any issues about any aspect of the event to the relevant Minister and the Department.

The communication processes followed before the establishment of the agreement with A1GP Australia, and during and after the termination of the agreement were discussed with the Minister for Child Safety and Sport; former Director-General, Department of Local Government, Sport and Recreation; and senior management of the Department of Communities, GCEC and GCMEC.

These discussions indicated that the Chairman GCMEC provided verbal updates on significant issues to the Minister on an as required basis. In addition, up until late 2007, GCEC prepared a brief to the former Department of Local Government, Sport and Recreation after each GCMEC Partnership Management Committee meeting to provide a formal advice to the Department and Minister. By mid-2008, the process of Departmental briefings had ceased although the GCMEC Chairman continued to keep the Minister informed through verbal updates.

As the written reporting process through the Department was no longer in place after 2007, when information was required for ministerial purposes, Departmental staff obtained a verbal update from GCEC and GCMEC staff.

Interviews conducted with GCMEC management have indicated that discussions to update the Minister occurred during the due diligence period, however no written evidence regarding these conversations could be produced for audit review.

There was no evidence of formal lines of reporting being in place between GCMEC and GCEC or the Department of Communities. No reports from GCMEC were tabled at senior management meetings held by the Department or of the GCEC.

The GCMEC Partnership Management Committee and board minutes examined by audit had not been signed by the Chairman to indicate that the minutes represented a true record of the meeting.

There was no clarity about the roles and responsibilities of the involved parties, in particular the Department, in monitoring the operations of GCEC and GCMEC. The use of a company structure with the Minister holding the shares and gaining limited advice from the Department on the management of the event may have contributed to the confusion of the roles of the different parties. In comparison to a board of a government owned corporation where the Office of Government Owned Corporations provides advice about shareholding/ownership issues, there was no person with the formal responsibility to provide advice to the Minister on ownership issues apart from those people directly involved in the management of the event.

During the period under audit, machinery of government changes also occurred transferring responsibility from the Department of Local Government, Sport and Recreation to the Department of Communities, further impacting on the governance arrangements.

A number of Auditor-General's Reports to Parliament since 2002 have highlighted the difficulties departments have in adequately controlling and monitoring the activities of companies operating within a departmental context.

Auditor-General's Report to Parliament No. 4 for 2005 on the results of audits completed at 31 October 2005 contained an analysis of issues which had been identified relating to the governance arrangements for companies controlled by public sector entities. The report addressed the features of the legislative frameworks within which companies operate and the skills and responsibilities of directors.

Auditor-General Report to Parliament No. 7 for 2002-03 highlighted some fundamental principles that should apply to the management of major events, which are equally applicable to the events which occurred with the 2009 Nikon SuperGP:

- A company structure does not necessarily protect public funds.
- There is a clear need for the inclusion of independent directors on boards.
- There should be transparent accountability with clarity of roles and responsibilities between management and boards.
- It would be good practice to include industry experts such as QEC in the planning and staging of major events.
- A robust and effective governance and risk management process is essential to ensure that public funds are expended in a way that ensures achievement of objectives in an effective and efficient manner.
- There should be transparent accounting and accountability with clarity of roles and responsibilities between the controlled entity and the controlling agency.
- Boards should ensure that there is an effective management and reporting framework to monitor the quality of services provided.

It is noted that some, but not all of these principles were incorporated into the governance framework for GCMEC.

Improvement opportunities

It is recommended that for future major events:

- **the use of a company framework within a departmental context for the management of events be reviewed to ensure clarity of the roles and relationships between the Minister, Departmental Director-General and other senior officers who serve as company secretary and/or director.**
- **formal reporting mechanisms, roles in monitoring the operations of GCMEC and processes for the investment of annual government grants by the responsible Minister and the Department of Communities in conjunction with GCEC and GCMEC be reviewed to provide clear expectations of requirements by each party.**
- **significant verbal updates be documented as evidence of due process being followed.**

3.5 Financial implications

Since 1996 when the first event was held under the current partnership structure, up to and including the 2008 event, the Queensland Government has provided \$129.35m towards the cost of staging a motorsport event on the Gold Coast. Cash returns to the Government in the order of \$7.9m have been made as divided payments by GCEC out of its share of profits generated by the event as shown in Appendix 4.4. During the period from 1996 to 2008 GCMEC have generated a profit in each year, with the amount of the profit varying between \$.418m and \$5.289m.

Over the five years prior to the 2009 event (i.e. 2004 to 2008), the average total cost to stage an event was approximately \$28.1m. In 2009, the Government provided \$11.6m by way of non-refundable grant monies to GCMEC to be expended on staging the 2009 event in accordance with the GCMEC partnership agreement. Consistent with previous years, the funds were not required to be spent on specific items of expenditure but were provided for general operational purposes. Apart from funds provided by the Government and revenue from ticket sales, a number of sponsorship arrangements are in place to contribute to the overall cost of running of the event.

A review of the GCMEC Partnership Management Committee meeting minutes showed that only the first instalment of US\$1,837,500 had been paid to A1GP Australia prior to the agreement being terminated. This amount was paid earlier than contracted in consideration of the agreement by the Group Chief Operating Officer and Regional CEO, Europe and Russia, A1 Holdings Ltd to defer US\$400,000 of the second instalment to future contract periods. The second instalment of US\$1,437,500 (after deducting the US\$400,000 referred to above) was due to be paid 14 days prior to the event. This amount was not paid because at this time there was uncertainty about the ability of the A1GP category to participate in the event and A1GP Australia was advised accordingly.

GCMEC is currently pursuing A1GP Australia for the return of the sanction fee instalment paid and associated costs incurred as a consequence of the non-attendance of the A1GP category at the 2009 event. The overall financial outcome of the event will be heavily dependent upon whether GCMEC recover these monies from A1GP Australia.

Other costs that were incurred by GCMEC as a result of operating the revised event include additional sanction fees paid to V8 Supercars Australia Pty Ltd to increase their involvement and the supply of historical cars.

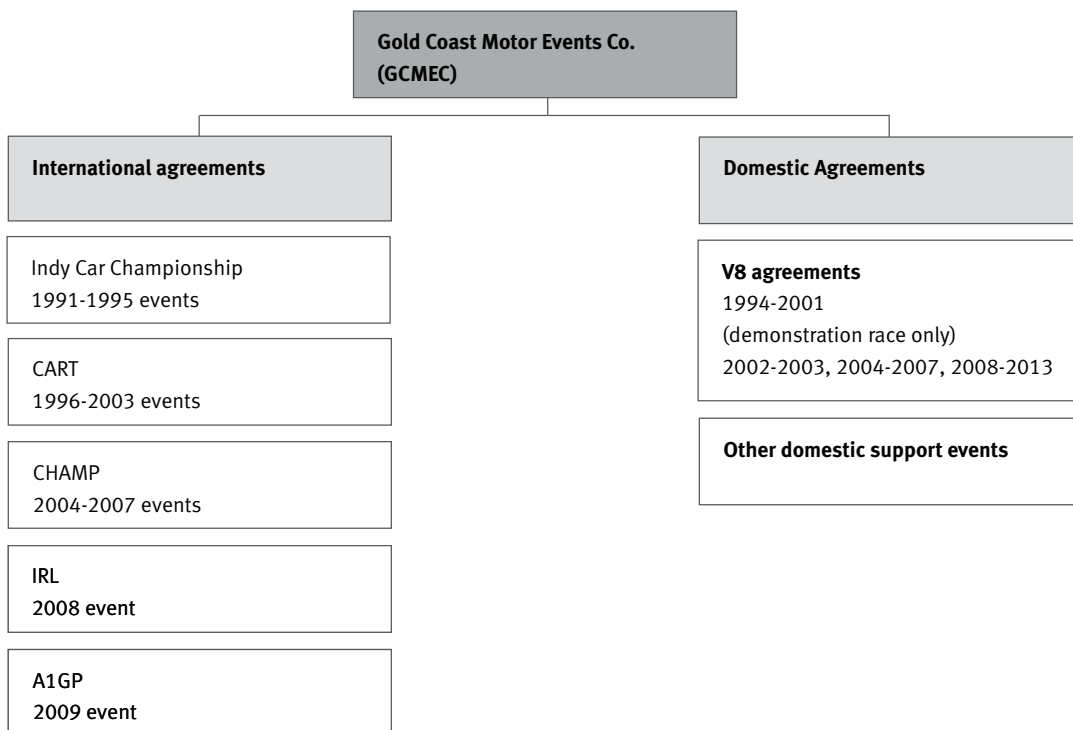
GCMEC has been audited by the Auditor-General on a by arrangement basis at the request of the Minister since the inception of the event. Due to the partnership having a financial year ending 31 December 2009, the overall result of the event will not be able to be determined until early in 2010 when the current financial audit has been completed. The Government is entitled to receive a share of any net profits generated, with net losses being underwritten by IMG.

4 | Appendices

4.1 Acronyms

A1GP Australia	A1GP World Cup of Motorsport (Australia) Pty Ltd
A1GP category	A1GP World Cup of Motorsport category
A1GP group of companies	A1GP World Cup of Motorsport group of companies as shown in Figure 2.1
CART	CART Inc
Champ	Champ Car World Series LLC
IMG	International Management Group of America Pty Ltd
IRL	Indy Racing League
GCEC	Gold Coast Events Co. Pty Ltd
GCMEC	Gold Coast Motor Events Co.
MOU	Memorandum of understanding
QEC	Queensland Events Co Pty Ltd

4.2 Motorsport agreements with GCMEC



4.3 Timeline of events

Date	Event
1991-1995	Indy car championship races at Gold Coast event.
1996	Indy car championship split between Indy Racing League (IRL) and CART Inc.
1996-2003	CART World Series races at the Gold Coast event. 8 October 1999, CART signs agreement with GCMEC for attendance at race events 2001 to 2004. 2003 CART signs further agreement with GCMEC to attend 2005 to 2008 events.
2004	CART World Series was declared bankrupt. Its assets were purchased by Champ. CART sanction agreements with GCMEC assigned to Champ.
2004-2007	Champ races at the Gold Coast event.
February 2008	Champ files for bankruptcy and subsequently merges with Indy Racing League. Existing contract between GCMEC and Champ for the 2008 event no longer valid. Memorandum of understanding (MOU) was signed between IRL and GCMEC for IRL's future participation from 2008 to 2013.
April-July 2008	Sanction contract negotiations for 2008 to 2013 ongoing including a trip by the former Minister for Police, Corrective Services and Sport to the United States to meet with IRL.
July 2008	Contract for the 2008 event only signed with IRL to race at the Gold Coast as a non Championship round. Negotiations continued to secure a longer term agreement.
July-August 2008	GCMEC conduct preliminary research into alternatives in the event that IRL negotiations fail.
30 August 2008	IRL inform GCMEC that an additional sanction fee is required as well as coverage of more costs for flights and accommodation, and change in timing of the event, contrary to the MOU signed by IRL. IRL and GCMEC decide to hold over negotiations until IRL arrive on the Gold Coast in October 2008.
September-October 2008	Partnership Management Committee decides that the A1GP category is the only possible replacement for IRL to continue the event.
5 October 2008	A1GP Round 1 held in the Netherlands.
13 October 2008	GCMEC starts discussing some commercial issues with A1GP
25-26 October 2008	IRL determined to be no longer a viable category for the event.
27 October 2008	GCMEC begin negotiating sanction agreement with the A1GP category
9 November 2008	A1GP Round 2 held in China.
11 November 2008	Premier and former Minister for Police, Corrective Services and Sport jointly announce in-principle agreement reached with A1GP Australia.
20 November 2008	V8 Supercars formally approve the addition of the A1GP category to the event.
21 November 2008	Final sanction agreement with A1GP Australia signed.
22 November 2008	Former Minister for Police, Corrective Services and Sport announces participation of the A1GP category in the Gold Coast event.
23 November 2008	A1GP Round 3 held in Malaysia.
December 2008 - October 2009	Ongoing discussions between GCMEC and the A1GP group of companies regarding administration, marketing, transportation, visas, etc.
25 January 2009	A1GP Round 4 held in New Zealand.

Date	Event
8 February 2009	A1GP Round 5 scheduled for Indonesia but cancelled due to circuit not passing safety inspection.
22 February 2009	A1GP Round 6 held in South Africa
12 April 2009	A1GP Round 7 held in Portugal.
3 May 2009	A1GP Round 8 held in Great Britain.
24 May 2009	A1GP Round 9 scheduled for Mexico cancelled due to swine flu outbreak.
25 June 2009	Media release announcing A1GP Season 5, a ten race season, starting with the Gold Coast event in October 2009.
1 July 2009	GCMEC request to the A1GP group of companies to defer US\$400,000 of second instalment of sanction fee. A1GP agrees on basis that the first instalment is paid early. A1GP Australia submits invoice to GCMEC for first instalment of sanction fees to be paid.
9 July 2009	Advice to GCMEC from the Chairman, A1 Holdings Ltd that as a result of its restructure in the United Kingdom, all subsidiaries in the A1GP group of companies which were not financially viable in their own right and had no contractual obligations would be wound up or shut down. Did not include A1GP Australia. Also advised A1GP Operations Ltd had been liquidated and confirmed full funding for the next season was in place.
10 July 2009	GCMEC pays A1GP Australia first instalment of sanction fee US\$1,837,500.
23 July 2009	2009 Nikon SuperGP launch held, includes A1 Team Malaysia car air-freighted from UK specifically for the launch.
3 September 2009	Letter from the Chairman, A1 Holdings Ltd to the Minister for Child Safety and Sport assuring their attendance at the event and providing positive advice on their financial situation.
14 September 2009	A1 Holdings Ltd Chairman provides verbal briefing (via teleconference) to the Minister for Child Safety and Sport and confirms Gold Coast attendance.
21 September 2009	Season 5 of the A1GP category announced. Announcement of long term deal with IMG Sports Media who will market A1GP worldwide media rights for the next three seasons. Confirmation from the Chairman, A1 Holdings Ltd to GCMEC that aircraft booking has been made for transportation of cars into Brisbane Airport for the first leg of the 2009-10 season.
25 September 2009	A1GP category media release stating financial future is secure. The only impediment to this is the liquidation of A1GP Operations Ltd with application for administration being heard on 6 October 2009.
8 October 2009	GCMEC receives confirmation that A1GP Operations Ltd had been moved out of liquidation into administration.
9 October 2009	A1GP Australia submits invoice to GCMEC for second instalment of sanction fees to be paid. GCMEC receive letter from the Chairman, A1 Holdings Ltd: <ul style="list-style-type: none"> • outlining the A1GP category's commitment to the Gold Coast • confirming funding was secure • the cars would be leaving for Australia on 16 October 2009.
10 October 2009	Email from A1GP Chairman indicating timeframes for flight clearance to Australia is 48 hours and that A1GP was in discussions with different carriers to obtain the best deal.
12 October 2009	A1GP category press release confirming 19 teams attending Gold Coast event.
13 October 2009	China secured as an inclusion in the 2009-10 A1GP category program with the race scheduled to be held on 15 November 2009.

Date	Event
14 October 2009	The Chairman, A1 Holdings Ltd provides update that the administrator has called for £6m bond before cars would be released for racing.
15 October 2009	GCMEC provide written notice to A1GP Australia that contract will be terminated unless it receives written confirmation that at least 18 teams will compete in the Gold Coast event.
16 October 2009	Discussions commence with V8 Supercars for an alternative format in the event that the A1GP category did not participate.
16 October 2009	GCMEC request confirmation from the A1GP category that outstanding debts would be cleared to allow for the release of cars for the race.
16 October 2009	GCMEC writes to A1GP Australia to the effect that unless the race cars are cleared for direct freight to the Gold Coast by no later than midnight 16 October London time, GCMEC will terminate the agreement by written notice.
17 October 2009	A1GP category advises that it will be unable to comply with its contractual obligations to participate at the event.
17 October 2009	GCMEC writes to A1GP Australia terminating the agreement
22-25 October 2009	Alternative event based on V8 Supercars held at Gold Coast.

4.4 Financial summary of events 1996-2008

Year	Government Grant through GCEC	Profit Share to GCEC
	\$	\$
1996	8,500,000	624,668
1997	8,000,000	342,176
1998	8,000,000	83,583
1999	8,000,000	358,974
2000	8,000,000	314,381
2001	10,700,000	494,965
2002	10,950,000	1,305,483
2003	11,200,000	1,077,004
2004	10,800,000	937,298
2005	11,000,000	1,386,625
2006	11,200,000	706,485
2007	11,400,000	280,000
2008	11,600,000	#
TOTAL	129,350,000	7,911,642

NOTES

GCEC hold their share of the net profit in an interest bearing account with Queensland Treasury Corporation until the Government determines how those funds are to be used. They are then remitted via dividend to the relevant Government Department responsible for the sport portfolio.

Profit share to GCEC for 2008 not yet distributed.

5 | Auditor-General reports

5.1 Tabled in 2010

Report No.	Subject	Date tabled in Legislative Assembly
1	Audit of A1 Grand Prix Agreements A Financial and Compliance Audit	February 2010

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