



Northern Ireland Audit Office

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 735 - 26 June 2003

Investigation of Suspected Fraud in the Water Service



Northern Ireland Audit Office

Report by the Comptroller and Auditor General
for Northern Ireland

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J M Dowdall
Comptroller and Auditor General

Northern Ireland Audit Office
25 June 2003

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For further information about the Northern Ireland Audit Office please contact:

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU
Tel: 028 9025 1000
email: info@niauditoffice.gov.uk
website: www.niauditoffice.gov.uk

List of Abbreviations

HPTO	Higher Professional Technical Officer
NIAO	Northern Ireland Audit Office
NICS	Northern Ireland Civil Service
PPTO	Principal Professional Technical Officer
PTO	Professional Technical Officer
SPTO	Senior Professional Technical Officer
SOR	Schedule of Rates

Table of Contents

	Page	Paragraph
Introduction	6	1
Case 1: Alleged Fraud in a Divisional Office	7	4
The Allegations of Fraud	9	5
The Water Service's Initial Investigation in Response to the Allegations	10	6
The Next Stage of the Water Service Investigation	11	9
Appeal to the Office of the Civil Service Commissioners	14	15
Internal Audit's Investigation	14	19
Report of the Technical Expert	16	24
Consultant A	19	31
Internal Review of Consultant A's Conclusions	22	37
Disciplinary Action	22	39
Notification of Findings to Complainant	23	44
Consultants B	24	46
Action by Water Service	25	49
NIAO Request for Information	28	53
Action Taken to Recover Overpayments	29	55
Case 2: Alleged Contract Impropriety in a Divisional Office - Complaint Alleging Impropriety	31	62
Standard of Workmanship Audits	33	67
Second Complaint	34	69
December 2001 Trial Holes	34	73
Conclusion	37	77
Appendix 1: Consultant A's Terms of Reference	41	
Appendix 2: Allegation - The Contractor was being used for sewer maintenance instead of a more appropriate contractor.	43	
Appendix 3: Allegation - A scheme to lay 275 metres of sewer had cost £145,000 when it should have cost £20,000.	45	
Appendix 4: Allegation - A payment was made in March 1996 for sewer laying work which had not been done.	46	
Appendix 5: Allegation - Some developers were not required to pay the full extra cost of pipe extension schemes which had exceeded the agreed cost.	47	
Appendix 6: Watermain Extension	48	
Appendix 7: Guidance Issued by the Department	49	
Appendix 8: Schedule of Rates Contracts	51	
List of NIAO Reports	52	

Investigation of Suspected Fraud in the Water Service

Introduction

1. The Water Service Agency of the Department for Regional Development is responsible for the provision, operation and maintenance of water and sewerage systems in Northern Ireland. It is organised into four Divisions structured on a geographical basis - Northern, Southern, Eastern and Western. Within this structure it operates six Directorates - namely Customer Services, Operations, Development, Technical, Corporate Services and Finance - and has a head office in Belfast with main offices in Ballymena, Belfast, Craigavon and Londonderry and nineteen other local offices. The Agency, through its Operations and Development Directorates, engages contractors under competitive tendering arrangements to undertake a range of maintenance and capital work.
2. It is important that contracts are managed in a way which minimises the risk of fraud or impropriety and ensures value for money. Departments are expected to be alert to these risks, to have formalised procedures which both deter attempted fraud and assist detection, and to respond vigorously to any evidence of impropriety.
3. This report examines two separate cases, one where there was an allegation of fraud and impropriety and one where there were allegations of impropriety. Details of the alleged fraud and impropriety case are set out in paragraphs 4 to 61 below and details of the impropriety case are set out in paragraphs 62 to 76.

Case 1 : Alleged Fraud in a Divisional Office

4. This section of the report examines the handling of a suspected fraud in one of the Division's offices, which occurred between 1995 and 1997 and which was first reported to the Northern Ireland Audit Office (NIAO) in 1997. Water Service told us that during 2001 - 2002 the value of contract work in the Water Service was £94.5 million, and the Office where the fraud and impropriety was alleged, accounted for £27,000. Investigations indicated that a contractor (referred to as the Contractor) was overpaid by almost £100,000. Proceedings have been complex and protracted and the timescale is set out in Figure 1. In December 2000 disciplinary proceedings involving a number of staff were concluded and in May 2002, almost five years after the original allegations, Water Service forwarded a detailed breakdown of the overpayments to the Contractor with a view to securing recovery.

Figure 1 : Timetable of Events

Date	Key Events
October 1997	Allegation by Complainant of fraudulent activity in the Water Service.
October 1997	Preliminary investigation report issued to Divisional Water Manager concluding that there were indicators of fraud and a loss to public funds.
November 1997	Divisional Water Manager issued interim report finding no evidence of fraud. Investigation continues, staff interviewed by Principal Professional Technical Officer (1) ¹ .
January 1998	Divisional Water Manager issued final report concluding that while evidence did not prove that fraud did not take place, there was no evidence to prove that it did.
April 1998	Complainant appealed Water Service decision to Office of Civil Service Commissioners.
December 1998	Civil Service Commissioners asked the Department to undertake a fresh independent investigation. This investigation was begun by Internal Audit.

1 PPTO(1) denotes a specific person within the Principal Professional Technical Officer grade.

INVESTIGATION OF SUSPECTED FRAUD IN THE WATER SERVICE

Date	Key Events
May 1999	Internal Audit issued its report and found that Water Service's investigation did not reflect a sufficient nor adequate examination of the allegations. It also identified queries that needed to be resolved by persons with the appropriate technical expertise. The Department appointed a Technical Expert from Scottish Water Authority to address the issues raised by Internal Audit.
August 1999	The Technical Expert issued a report stating that further action was required to ensure that the Complainant's allegations were fully addressed.
September 1999	The Department appointed Consultant A to undertake a further examination and to make recommendations on disciplinary charges. Consultant A's Terms of Reference are set out at Appendix 1.
January 2000	Consultant A issued his report. He found that there was substance to four of the five allegations made by the Complainant.
February 2000	Water Service commissioned an internal review to validate Consultant A's findings.
February 2000	Water Service commissioned Consultant A to investigate the management of a capital works scheme where irregularities had been found.
March 2000	Consultant A issued his report. He found suspected fraudulent activity as a result of an irregular payment having been made for work that had not been done.
April 2000	An internal review listed additional information that was required to enable an accurate assessment to be made of the level of overpayment made to the Contractor.
May 2000	The Department suspended three Professional Technical Officers on full pay.
July and September 2000	The Department held disciplinary hearings.
December 2000	Three Professional Technical Officers were disciplined and re-instated.
January 2001	Department advised Civil Service Commissioners that it had completed its investigation.
November 2001	Water Service engaged a firm of technical consultants, Consultants B, to determine the level of overpayment in respect of schemes examined by Consultant A.

Date	Key Events
March 2002	Water Service advised the Contractor that a preliminary investigation had identified a number of overpayments.
May 2002	Consultants B issued report and estimated overpayments at £99, 294.35.
May 2002	Contractor advised of final estimate of total overpayments and that Water Service will withhold this sum from payments due on other contracts.
December 2002	Monies withheld paid over to the Contractor on foot of legal advice.
March 2003	Writ of summons issued for £99,294.35 plus interest.

The Allegations of Fraud

5. In October 1997 a member of staff, referred to as the Complainant in this report, met with two senior officials, one of whom was a Director, and made allegations of fraud against his line manager. At that meeting he alleged:

- the Contractor was being used for sewer maintenance instead of a more appropriate contractor;
- a scheme to lay 275 metres of sewer had cost £145,000 when it should have cost £20,000. (The Complainant pointed out that the Infrastructure Section within the office that had placed the contract was not allowed to carry out schemes in excess of £30,000);
- a payment of £4,986.52 was made in March 1996 for sewer laying work which had not been done;
- some developers were not required to pay the full extra cost of pipe extension schemes which had exceeded the agreed cost; and
- a housing site was serviced with a sewer and a watermain over and above the Water Service's responsibility in the matter.

In December 1997 the Complainant provided further evidence in support of his allegations and made a further allegation where the Contractor seemed to have received favourable treatment.

The Water Service's Initial Investigation in Response to the Allegations

6. The Agency responded to the Complainant's allegations by having a Principal Officer experienced in procurement matters conduct a preliminary investigation. He analysed payments made to the Contractor for the period April 1995 to October 1997 and in his report of mid-October 1997 he concluded that there were sufficient indicators of fraud and loss of public funds to warrant consultation with the police. He noted that the Contractor had been paid £2.2m by Water Service since 1995, of which £0.6m related to the office which was the subject of the allegations.
7. Water Service told NIAO that the Divisional Water Manager² responsible for the office which was the subject of the allegations, held a meeting on 5 November 1997 with two members of the police, the Deputy Divisional Water Manager, a Principal Professional Technical Officer (PPTO(1)) and a Senior Principal Technical Officer (SPTO). At the meeting the five schemes in question were discussed in detail. It was agreed that, although control of contracts was poor and records were not properly kept, there was no evidence of fraud at this stage of the investigation. It was also agreed that Water Service should continue with the investigation and the police would only be involved if evidence of fraud was uncovered during further investigation.
8. The Divisional Water Manager issued an interim report to Water Service's senior management in November 1997. In it he expressed his considerable concern about the management of contracts by the office which were the subject of the allegations, including the control of costs, auditability of contracts and

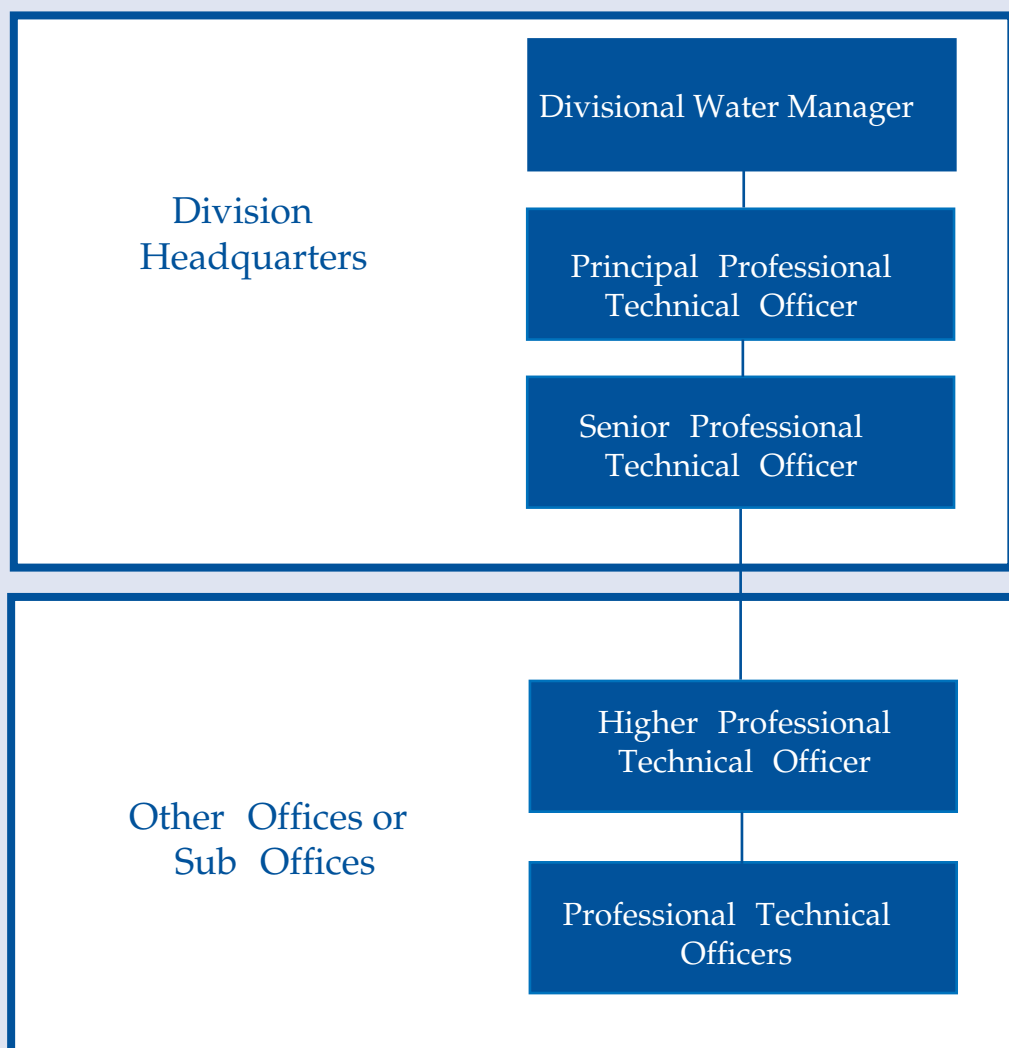
2 The Divisional Water Manager retired in May 1999.

particularly, the possible prepayment for work not completed. He found no evidence of fraud. He recommended that technical staff from Divisional headquarters should interview the relevant office staff and pointed out that it was essential that any interviews should be carried out by two people in case of disciplinary proceedings.

The Next Stage of the Water Service Investigation

9. The PPTO(1) and the SPTO, based at Divisional headquarters, were asked to contribute to the continuation of the investigation. These officers had management responsibilities for the office which was the subject of the allegations and had a working knowledge of the nature of the work and the contracts involved. They were also line managers for the Complainant. A diagram showing a typical management relationship between a Divisional headquarters and its offices or sub offices is shown in Figure 2 below. Water Service told NIAO that the SPTO had only just been appointed to his post at the time the allegations were made and was therefore considered by the Divisional Water Manager to bring independence to the investigation.

Figure 2 : Management Relationships between the Divisional Headquarters and its Offices or Sub-Offices.



10. Initially the two officers worked together on the investigation. The SPTO reviewed the files relating to issues raised in the allegations which questioned:

- the exceptionally high costs in three of the schemes. In one case he noted that the cost was almost six times the expected rate;
- general issues, such as the low level of measured work in some of the schemes and the depth of trenches;
- the rates used to make payments to the Contractor ; and
- payments for work on a time basis which was drawn from other contracts.

11. These findings were discussed between the PPTO(1) and the SPTO, and both attended an investigative meeting with Divisional staff. Further meetings were required and the PPTO(1) attended these on his own due to the unavailability of the SPTO. However, using the information gleaned from the discussions the PPTO(1) recorded his observations and findings in a report which was submitted to the Divisional Water Manager on 6 January 1998. NIAO asked the Agency why the SPTO had not completed the investigation and Water Service told us he was not available because of annual leave.
12. In his report the PPTO(1) found:
 - no evidence of impropriety and considered that the explanations that he had received were reasonable; and
 - that there was an unsatisfactory record and explanation on file of actions taken.
13. The Divisional Water Manager considered the PPTO(1)'s report and issued his final report at the end of January 1998. He concluded that the problem was mostly a lack of written documentation and considered that a personality clash had prompted the Complainant to jump to unjustified or at least unsubstantiated conclusions.
14. He also concluded that, "while the evidence does not prove that fraud did not take place, there was no evidence to prove that it did. The results of the interviews lead me [the Divisional Water Manager] to believe that there was no fraud but rather an over enthusiasm to get work done quickly and most expediently with little documentation to justify decisions." He was convinced that decisions had been taken in the best interests of providing a good service.

Appeal to the Office of the Civil Service Commissioners

15. The Complainant did not accept the findings of the investigation and lodged an appeal in April 1998 with the Office of the Civil Service Commissioners for Northern Ireland under the Northern Ireland Civil Service Code of Ethics.
16. The grounds for complaint were that there had been a breach of the NICS Code of Ethics in relation to alleged fraudulent activity in the procurement and management of services. More specifically, defrauding legally entitled contractors out of work and redistributing the work to a favoured contractor leading to the gross mismanagement of public money.
17. The Civil Service Commissioners examined the papers relating to Water Service's investigation and concluded that:
 - the allegations should have been investigated by individuals independent of Water Service management and operations; and
 - the records provided of the investigation did not reflect a sufficient nor adequate examination of the matters which were the subject of the allegations made.
18. In December 1998 the Civil Service Commissioners asked the then Department of the Environment (now the Department for Regional Development) to arrange for a fresh independent investigation into the allegations. The Department's Internal Audit Unit was asked to undertake a new investigation into the allegations.

Internal Audit's Investigation

19. Internal Audit reported in May 1999. It had reviewed the investigations of the Principal Officer experienced in procurement matters and the work of the SPTO up to the point that he left the investigation. Up to that point, Internal Audit was satisfied with the conclusions reached (see paragraphs 6 and 10), as there was

evidence to support their separate findings. However, Internal Audit shared the views of the Civil Service Commissioners that from then onwards the records provided of the investigation, which informed the Divisional Water Manager's report in January 1998, did not reflect a sufficient nor adequate examination of the matters which were the subject of the allegations made.

20. Internal Audit was concerned that staff had been interviewed by only one officer (PPTO(1)) and the only record of these interviews was in the form of handwritten notes. It noted that the handwritten notes were not signed and did not make clear where the information came from, or whether it formed part of the interviews. There was also a lack of supporting independent documentation to endorse the judgements made in the PPTO(1)'s report. Internal Audit also noted that another member of staff, who could corroborate some of the Complainant's allegations, had not been interviewed and there was no evidence that subsequent information supplied by the Complainant had been investigated.
21. During the course of its examination Internal Audit drew up a list of queries that needed to be answered. It recognised that many of these queries, as well as a number of the conclusions arrived at in the PPTO(1)'s report, were of a technical nature and that it did not have the necessary skills to challenge professional judgements on technical aspects. The Chief Executive of the Water Service agreed that an independent person with appropriate skills should be engaged to deal with the technical aspects of the investigation.
22. Internal Audit also conducted a systems-based audit in the office which was the subject of the allegations. It found that documentation relating to schemes between April 1995 and December 1997 was generally very poor with often nothing more than the payment certificate as evidence of a scheme. It noted that the Contractor held contracts within that office from 1991. Internal Audit drew up a list of recommendations for improving the situation.

23. Internal Audit recommended, and the Chief Executive agreed, that the main issues should be progressed under the disciplinary code and be taken forward by the Department's Director of Personnel.

Report of the Technical Expert

24. The Department commissioned the Operations Planning Director from Scottish Water Authority, who was a technical expert, to address the queries raised by Internal Audit. In his report of early August 1999, the Technical Expert noted, from his review of the documentation, that the original investigation conducted by the Water Service was not sufficiently detailed nor sufficiently thorough to provide substantiation of the conclusions reached by the management of the Water Service (see paragraphs 12, 13 and 14). The Technical Expert decided, in addition to addressing the queries raised by Internal Audit, to take a view on the technical issues, to try and establish if there was any substance to the original allegations.
25. The Technical Expert noted that three staff in the office who were the subject of the allegations, a Higher Professional Technical Officer (HPTO) and two PTOs, were close colleagues of the PPTO(1) and in these circumstances it may have been inappropriate to allocate this investigation to him, particularly as the allegations were of a serious nature. Water Service dispute the Technical Expert's opinion that staff in the office were close colleagues of the PPTO(1) but accept that it was inappropriate to have an officer with line management responsibilities for the office in question involved in the investigation. However, Water Service also stated that the PPTO(1) was not appointed to lead the investigation and his role, in conjunction with others, was of a contributory nature only. The investigation was led by the Divisional Water Manager who reported to three senior managers at Water Service Headquarters. However, NIAO noted that his 'contributory' role involved the key responsibility for interviewing the staff involved (see paragraph 20).

26. The Technical Expert concluded that:

- the allegations of fraud had not, to date, been substantiated by any clear evidence of fraud;
- the investigations undertaken by the Water Service did not reach a satisfactory conclusion. The “lack of contractual documentation” and “no explanation for decisions taken or justification for payments made” amount to a very serious failure to follow normal practice for management of operational contracts;
- the PPTO(1) failed to follow specific advice when he conducted part of his investigation without a witness present;
- the lack of information on contract management in the office which was the subject of the investigation was extremely serious and did not allow clear responses to the technical and financial queries raised by Internal Audit;
- virtually no site records were available for any of the contracts with the Contractor, administered by the HPTO and the two PTOs against whom the allegations were made. The Technical Expert noted that he would have expected to find daily records of labour, plant and equipment, approved dayworks sheets and measurement of work undertaken;
- there was no evidence of any challenge to the submitted measurements and dayworks of any of the work undertaken by the Contractor;
- the method of investigation adopted by the Water Service was not conducive to identifying if there was fraudulent activity; and
- the very unsatisfactory administration of the contracts should have been taken as a serious indication of the possibility of fraud.

27. The Technical Expert noted that further action was required to ensure that:
- the Complainant's allegations were fully addressed;
 - contract administration is sufficiently robust so that work is properly allocated to contractors; and
 - value for money is achieved in certification of payments to contractors.
28. He also recommended that disciplinary procedures should be instigated to examine:
- the specific role of the two PTOs in the allocation of work to the Contractor;
 - the performance of the two PTOs in the maintenance of site records and contract measurements associated with the Contractor's contracts;
 - the basis on which the two PTOs confirmed the accuracy of measurement claims and certified payments to the Contractor; and
 - the role and professional conduct of the PPTO(1) in his investigation of the allegations of fraud.
29. The Technical Expert omitted the HPTO from his recommendations since he had retired and was no longer employed by the Water Service.
30. The Department responded to the Technical Expert's report by commissioning a consultant in September 1999, referred to as Consultant A in this report, to:
- examine the role, performance and professional conduct of those staff for those matters alluded to in the Complainant's allegations;

- examine Water Service's handling of the allegations;
- determine whether disciplinary action was warranted for any failure by staff to properly discharge their duty; and
- identify those officers against whom disciplinary action should be taken and make recommendations as to the specific charges to be put to them.

Consultant A was a retired Grade 5 Officer with extensive experience in the Department of Finance and Personnel and was selected because of his knowledge and experience of disciplinary procedures. His detailed Terms of Reference are set out at Appendix 1.

Consultant A

31. Consultant A produced two reports. In his first report dated January 2000, he assessed the validity of the allegations made by the Complainant. Then in February 2000 the Water Service commissioned him to conduct an investigation into the management of another capital works scheme involving the same Contractor, where an irregular payment had been found. He reported in March 2000 and the results of both investigations are summarised in Figure 3 below.

Figure 3 : Analysis of Consultant A's Reports

Minor Works Contracts	Was there Substance to the Allegation	Estimated: Overpayment (OP) Advance Payment (AP) Money Wasted (W)	Persons Deemed Responsible
Consultant A's January 2000 Report			
1. The Contractor was being used for sewer maintenance instead of the more appropriate contractor. (See Appendix 2)	Yes	£11,611.64 (W) £4,360.00(OP)	HPTO PTO A PTO B PTO C
2. A scheme to lay 275 metres of sewer had cost £145,000 when it should have cost. £20,000. (See Appendix 3)	Yes	£64,771.50(OP)	PPTO HPTO(as above) PTO A The Contractor and his Agent
3. A payment was made in March 1996 for sewer laying work which had not been done (see Appendix 4)	Yes*	£4,986.52(AP) £2,209.08 (OP)	PTO D The Contractor and his Agent
4. Some developers were not required to pay the full extra cost of pipe extension schemes which had exceeded the agreed cost. (See Appendix 5)	Yes	£22,299.97 (OP)	PTO A The Contractor
5. A housing site was to be serviced with a sewer and a watermain, over and above the Water Service's responsibility in the matter.	No	Not applicable	Not applicable
Consultant A's March 2000 Report			
6. Watermain Extension (see Appendix 6)	Yes	£19,837.03(AP) £4,435.24(OP)	SPTO HPTO(as above) PTO D PTO E
TOTALS		£98,075.79(OP) £24,823.55(AP) £11,611.64(W)	

* A qualified "Yes" which needed to be ratified by other supporting documentation.

32. Water Service pointed out to NIAO that, as Consultant A was not technically qualified, his estimates of overpayments, advance payments and money wasted were produced only in relation to dealing with the personnel aspects to the case.
33. Consultant A concluded in his January 2000 report that:
- the allegations made by the Complainant were substantially valid; and
 - there had been systematic favourable treatment of the Contractor from as far back as 1995 and considerable overpayments may be recoverable.
34. He also commented on the contribution to the investigative work undertaken by the PPTO(1). He stated that, given his background and experience, he failed to thoroughly investigate the Complainant's allegations and failed to evaluate the consequences - financial and contractual - of what had happened. He concluded that "the internal Water Service investigation was far from thorough and deliberately so."
35. Water Service told NIAO that it strongly disputes Consultant A's conclusions. While it accepts that the investigation should have been conducted on a more formal basis, it does not accept that this failure should be associated with the role of the PPTO(1). Water Service stated that the report produced by the PPTO(1) was an attempt by him to set down his views and understanding of the matter in order to aid more senior officers decide what further action should be taken.
36. In his second report in March 2000 dealing with the capital works scheme, Consultant A concluded that:
- on the face of it, fraud was perpetrated on the basis that the Contractor made a claim for £16,088.53 in respect of work which had not been done; and

- the Contractor was also paid £3,748.50 for a portion of work some 17 months before it was due.

However, the Department has pointed out that fraud has not been established in this case.

Internal Review of Consultant A's conclusions

37. The Water Service considered Consultant A's report and in February 2000 asked one of its own technical staff to validate the findings. A report on the validation exercise was submitted in early April 2000. During the validation exercise Water Service technical staff met with the Consultant, discussed his report and was provided with the supporting evidence.
38. The internal validation exercise investigated each of the four allegations that the consultant considered were valid (see Figure 3, numbers 1 to 4). The report examined and questioned the veracity of the assumptions contained in the consultant's statements from a technical perspective. For each allegation, the report set out a detailed list of additional information that was required to enable an accurate assessment to be made of the level of overpayment, if any, to the Contractor.

Disciplinary Action

39. In his January 2000 report, Consultant A identified seven officers against whom disciplinary action should be taken. In his March 2000 report, which examined possible irregularities in the management of a capital works scheme, the consultant identified four officers against whom disciplinary charges should be laid. Two of these officers were also named in the January 2000 report.

40. Disciplinary charges could not be laid against three out of the total of nine named officers as they had retired from the Water Service. In May 2000 the Department suspended three Professional Technical Officers on full pay, pending the outcome of disciplinary hearings. No action was taken against the other three officers identified in Consultant A's report. The disciplinary hearings were held in July and September 2000 and the three suspended PTOs were disciplined and reinstated in December 2000. The disciplinary action consisted of each officer receiving a formal written reprimand and two of the officers additionally receiving a reduction of pay for twelve months.
41. The Department's guidance on the handling of fraud or suspected fraud is set out at Appendix 7.
42. Water Service told NIAO that each of the three disciplined officers have been transferred from their office, which was the subject of the allegations.
43. NIAO also noted that the PPTO(1), who was identified as the senior official responsible for the certification of some of the overpayments at the sewer laying scheme which was the subject of the original complaint (see Figure 4, number 2), was the same officer who conducted the investigation into the allegations made by the Complainant (paragraphs 9 to 14).

Notification of Findings to Complainant

44. In January 2001 the Department advised the Civil Service Commissioners that it had completed its investigations and provided them with details of its findings. It told the Commissioners that while it did not find specific evidence of fraudulent activity, it had identified several general areas of concern and a number of particular offences committed by Water Service staff. It stated that Water Service had taken disciplinary action against three officers and was taking urgent steps to remedy the inadequacies and shortcomings.

45. The Civil Service Commissioners notified the Complainant that it had upheld the allegations made by him. They also noted that they were impressed by the tenacity and determination of the Complainant to see the appeal through to its conclusion.

Consultants B

46. In November 2001 Water Service engaged a firm of technical consultants as independent assessors, referred to as Consultants B in this report, to advise the Water Service and to estimate the level of overpayment in respect of those schemes examined by Consultant A.
47. Consultants B issued a report in May 2002. They found that, on the basis of the available documentation and the previous detailed investigations undertaken by Consultant A, together with their own findings, there were grounds to pursue recovery of monies due to the Water Service as a consequence of contractual improprieties in the application of amounts certified to the Contractor. Consultants B's findings are summarised in Figure 4 below.

Figure 4 : Analysis of Consultants B's Report

Minor Works Scheme	Estimated: Overpayment (OP) Advance Payment (AP)
1. The Contractor was being used for sewer maintenance instead of the more appropriate contractor.	£4,360.00 (OP)
2. A scheme to lay 275 metres of sewer had cost £145,000 when it should have cost £20,000.	£66,780.00(OP)
3. A payment was made in March 1996 for sewer laying work which had not been done.	£4,986.52(AP) £2,209.08(OP)
4. Some developers were not required to pay the full extra cost of pipe extension schemes which had exceeded the agreed cost.	£21,228.25(OP)
5. Watermain Extension	£19,837.03(AP) £4,717.02(OP)
TOTAL ESTIMATED OVERPAYMENTS	£99,294.35
TOTAL ESTIMATED ADVANCE PAYMENTS	£24,823.55

48. Consultants B indicated that Water Service had a legal remedy for the recovery of overpayments and noted that under the Limitations Act 1980, claims for breach of contract must be made within six years of the date on which the breach occurred. Consultants B also noted that Water Service may still be within the period and advised Water Service to act immediately to pursue recovery.

Action by Water Service

49. The various investigations, internal and external identified a number of areas of concern:
- a serious lack of documentation in the office (which was the subject of the allegations) such as:
 - records of contractor's progress on schemes;
 - contractors' work record sheets;
 - records of unforeseen difficulties encountered on schemes;
 - photographs of any unforeseen difficulties;
 - records of additional work carried out on schemes;
 - copies of paid invoices for materials and equipment;
 - final measurement sheets submitted by contractors;
 - assessments of how final payments were calculated;
 - explanations for deviations from contract rates;
 - explanations of authority to set aside contract rates; and
 - explanations to justify action taken.
 - submission of false claims by a contractor leading to payments being made for work not done;
 - allocating costs incurred on one scheme to another scheme;
 - a lack of line management challenge to decisions taken;
 - a failure to apply proper discounts to invoices leading to overpayments;
 - the improper allocation of work;
 - a lack of challenge to a high incidence of day rates;

- a failure to follow proper contractual procedures; and
- staff training deficiencies

50. Water Service responded to these concerns. In December 2001 Water Service detailed to NIAO the actions it had taken following Consultant A's reports, summarised as follows:

- three officers disciplined;
- Consultants B appointed to determine the extent of overpayments to the Contractor;
- Revised Minor Works Procedures issued to staff.

These procedures are mandatory for projects contained within the minor works programme. The purpose of these procedures is to ensure that the roles and responsibilities of various stakeholders are fulfilled. They also set out the rules for the chronological filing of documentation so that an appropriate audit trail is created. The Schedule of Rates contracts for 'laying of watermains' and 'laying of sewers' (SOR1 and SOR2) which were the main subject of this report were allowed to expire on 31 March 2000. Any works formerly required under these contracts were carried out under Development Directorate contracts from 1 April 2000. The minor works procedures therefore apply;

- Reviewed its Financial Control Systems.

This review raised a number of issues and programmes of work were developed to address these areas. The Water Service Board agreed that these programmes would be taken forward by the Audit and Budgetary Committees³ and that an Internal Controls Committee be established to advise the Chief Executive and the Board on the adequacy of audit arrangements and on the implications of assurances provided in respect of risk and control

³ The Audit Committee meets twice a year under the chairmanship of the Chief Executive to monitor and advise on accountability of Water Service expenditure and services. The Budgetary Committee meets monthly under the chairmanship of the Director of Finance to monitor budgets against expenditure; performance and funding issues that may arise throughout the year.

in the Agency. The Committee will carry out this work through reviewing:

- the mechanisms for the assessment and management of risk;
- the planned activity of internal and external audit;
- the results of internal and external audit activity;
- the adequacy of management response to issues identified by audit activity;
- assurances relating to the corporate governance requirements for the organisation; and
- the progress and outcome of fraud investigations.

In addition the committee will act as a focal point for the preparation and review of procedures relating to internal control systems;

- Purchase / Payment Procedures.

An important output of the Internal Controls Committee is the revision of procedures for the purchase / payment process for goods and services and the clarification of roles and responsibilities. Similar procedures will shortly be produced for services; and

- Issue of Revised Procedures for the Investigation of Allegations of Fraud. The revised procedures incorporate a detailed fraud response plan and comprehensive guidance notes designed to assist investigating officers when conducting fraud investigations.

51. In addition NIAO noted that in February 2000, Water Service carried out a special exercise on year-end payments to seek assurance on the scale of the alleged irregularities. The exercise identified a number of year-end payments for further investigation. Each payment was investigated and satisfactorily resolved. Water Service then expanded the exercise to:

- include the Development Directorate, which had the largest capital budget and supervised the largest number of major and minor works contracts;
 - provide a summary of all such payments on contracts to the Contractor and to include a review of all Schedule of Rates contracts handled by the office which was the subject of the allegations; and
 - concentrate on March payments from 1996 to 1999.
52. When appropriate payments were identified, Divisions were asked to provide the supporting information and documentation and these were then reviewed by a team of Water Service staff with the necessary financial and technical expertise. The exercise found no evidence of advanced payments or overcharging.

NIAO Request for Information

53. NIAO had been notified by Water Service of the suspected fraud in 1997. In February 2000 NIAO asked for an update on the allegations of fraud. In its reply Water Service stated that Consultant A's report into the Complainant's allegations of fraudulent activity was almost complete and its recommendations would be implemented shortly. In March 2000 NIAO asked for a copy of Consultant A's report. The report was not made available and NIAO was told that the assumptions contained in the draft report were being validated. In August 2000 NIAO again asked for the report but again Water Service declined to provide a copy on the grounds that there were issues that required clarification and it did not propose to forward the report until these issues were resolved and final actions determined. NIAO received a copy of Consultant A's report in December 2001.

54. Water Service told us that the detailed work, which was ongoing following the issue of Consultant A's report, led it to conclude that it would have been inappropriate to issue the report to NIAO at the times noted. Water Service added that it always made it clear that it would issue the report, but only when this work was complete and that it wished to have a more accurate assessment of the value of any overpayment before approaching the Contractor. Water Service has now told us that, on reflection, it should have made the report available earlier, subject to appropriate caveats.

Action Taken to Recover Overpayments

55. In March 2002, almost five years after the original allegations of overpayment, Water Service advised the Contractor that a preliminary investigation had identified a number of potential overpayments. Water Service informed the Contractor that it hoped to complete its examination within a few weeks and at that stage provide the Contractor with a detailed analysis of any potential overpayments.
56. Water Service also informed the Contractor that it had placed a temporary stop on a payment to the company and would place a 'stop' on any further payments that may become due over the next few weeks.
57. Following completion of Consultants B's report, Water Service forwarded a detailed breakdown of the overpayments totalling £99,294.35 and advance payments of £24,823.55 to the Contractor in May 2002. The Contractor was invited to give a specific response on each of the overpayments identified.
58. NIAO asked Water Service for the current position on the recovery of incorrect payments made to the Contractor. Water Service told us that the Contractor, through his solicitor, has denied that there are any grounds for overpayment and alleges that all rates had been agreed with Water Service engineering staff. Water Service appointed an Investigating Officer in May 2002 with the following terms of reference:

- to represent Water Service in negotiations aimed at recovering amounts previously overpaid to the Contractor as identified in the report from Consultants B;
 - to conduct interviews with persons who were Water Service employees at the time of the overpayments in order to help ascertain the factual circumstances relating to the payments in question; and
 - to prepare a report outlining the actions taken in relation to the investigation; summarising the proceedings of meetings and interviews undertaken in relation to the investigation; and detailing the outcome of the investigation.
59. In September 2002, Water Service wrote to the Contractor's solicitor stating that it remains the Department's view that irregularities took place in the administration of the contracts and that these resulted in the overpayments previously identified. The letter suggested that a meeting be held with the Contractor on a 'without prejudice' basis. Water Service withheld sums due to the Contractor in respect of work carried out on more recent contracts. However, following legal advice these monies were released to the Contractor. In March 2003 Water Service told NIAO that the Investigating Officer completed the interviews with former employees in December 2002 and it issued a writ of summons against the Contractor for £99,294.35.
60. Water Service continues to use the Contractor. It told us that the Contractor has one contract with Water Service as a prime contractor and carries out some sub-contracting work on another contract. NIAO asked Water Service whether it had at any stage carried out a thorough investigation of their contractors in other offices. Water Service told NIAO that in addition to the actions outlined in paragraphs 50 to 52 it:
- appointed consultants, in July 2000, to undertake a review of the quality of work on Schedule of Rates contracts in Northern, Southern and Western Divisions; and

- undertook a trial hole audit in Western Division in December 2001.

In addition, Water Service told us that there have been a number of Internal Audit exercises conducted on Development contracts since 1998 and none of these has revealed evidence of significant weaknesses or irregularities and that conclusions have generally been of a positive nature.

61. NIAO asked Water Service, in the light of the various reports which it or the Department commissioned, whether the police were further consulted about the possibility of fraudulent acts. Water Service told NIAO that the police were not further consulted about the possibility of fraudulent acts as no evidence of fraud emerged from any of the investigations carried out. Water Service also told us that, on reflection, the police might usefully have been re-engaged once Consultant A's report had been received.

Case 2 : Alleged Contract Impropriety in a Divisional Office

Complaint Alleging Impropriety

62. During 1998 the Development Directorate of Water Service received a number of complaints from one aggrieved contractor relating to Schedule of Rates⁴ contracts (see Appendix 8). The complainant initially queried, in writing, the types of pipes being used on projects but eventually made a number of verbal allegations as follows:
- contracts were not being administered properly and cited changes in the pipe specification as a source of grievance;
 - following post-tender discussions between himself and a member of Water Service staff on Schedule of Rates Contract 14, which was in operation between 1995 and 1998, he was told that the

⁴ A Schedule of Rates Contract is a contract where Water Service specify a financial value against each item in the contract and contractors compete against each other for the contract by offering discounts or quoting premiums against the specified financial values.

discounts in his tender documents were too high. When he submitted a later tender with less generous discount rates he was behind other contractors who had offered higher discount rates. These other contractors could therefore expect to receive more work from Water Service;

- other contractors were contacted prior to the submission of tenders in 1995 for Contract 14 and given 'price expectations';
- contractors who had submitted large discounts and were being allocated most of the work were not complying fully with the terms and specifications of the contract; and
- Water Service had provided a contractor, on a specific contract, with free issue of pipes while at the same time paying the contractor for the supply of pipes.

The Principal Professional Technical Officer (PPTO) in Development Directorate, responsible for management of staff supervising the contracts, investigated the allegations made by the complainant.

63. In the first allegation concerning the administration of contracts and where changes in pipe specifications were cited, the PPTO found that Water Service had changed the pipe specification from that set out in the Schedule of Rates document. Water Service subsequently amended the Schedule of Rates document to include rates for all new classes of pipe being laid.
64. With regard to the next three allegations (second to fourth bullet point) the PPTO found no evidence to support the allegations and was satisfied with the explanations provided for the various issues raised.
65. With respect to the remaining allegation concerning the free issue of pipes the PPTO informed the Divisional Water Manager, responsible for the supervision of the store of the allegation, who arranged for trial holes to be excavated. These

confirmed that the replacement watermain which the contractor had laid was of a type only available in Northern Ireland through the Water Service stores. However, in this case, the contractor had been paid for both supplying and laying the pipes.

66. Water Service told NIAO that the findings relating to the allegation concerning the issue of free pipes were passed to the police for investigation and two officers, with responsibility for the store involved, were suspended from duty while the investigation took place. Both employees were reinstated when the police found insufficient evidence to proceed with their investigation.

Standard of Workmanship Audits

67. Prompted by doubts about the quality of workmanship being provided by the contractors working on the Schedule of Rates type schemes, Water Service initiated an independent check on standards of workmanship. In 1999 Water Service appointed independent consultants to excavate trial holes on a number of sites in Northern, Southern and Western Divisions. The consultants provided their reports in July 2000. This form of contract was not used in Eastern Division and thus the audit was not undertaken there.
68. In all three Divisions the audit findings were reported as generally satisfactory with only minor deviations from specifications. In total, 65 trial holes were excavated on 16 schemes involving 12 different contractors and instances of non-compliance to specifications were noted. The financial implications of non-compliance were so insignificant that Water Service decided that no action was deemed necessary.

Second Complaint

69. In August 2001, Water Service received a complaint about the administration of contracts when the complainant was not awarded work under a new Term Contract.
70. The main thrust of the complaint was that very competitively priced contractors (who had offered more competitive rates than other contractors and by implication were working to much tighter profit margins) were able to avoid compliance with the specification while being paid for full compliance. At this stage the complainant's allegation related more to payments being made for elements of work not being done rather than the earlier allegation of poor standards of workmanship.
71. This latest complaint prompted further investigations and the same PPTO responsible for administration of the contracts re-examined the trial-hole findings of the Workmanship Audit of July 2000 in the Division where the allegations were made by the complainant. He compared the findings of the audit with subsequent payments made to contractors and was unable to find any evidence to support payments to four contractors for stone backfill. The amount involved was calculated to be £10, 500.
72. Water Service received assurances from its Principal Professional Technical Officers responsible for work in other Divisions that payments for the work generally accorded with the findings from the trial holes.

December 2001 Trial Holes

73. In the light of the above findings of possible unsubstantiated payments to contractors (see paragraph 71), Water Service decided to undertake a new trial hole audit in all Divisions covering all types of minor works contracts. The audit

started with an examination of nine schemes in one Division involving seven different contractors. The main findings of the nine schemes were summarised as follows:

- four were reported as generally satisfactory and contractor payments were in line with trial hole findings. Of these four schemes, one had a 63mm water pipe laid below the 90mm watermain. Water Service indicated that the full significance of this unusual arrangement needed to be investigated further;
- non-compliances in a further two of the schemes. were considered minor and payments made to the contractor were deemed satisfactory;
- in one of the remaining schemes involving 80 metres of verge work, trial holes revealed no stone backfill when stone backfill was specified. At first it was thought that stone backfill had been paid for but further investigation with supervision staff has revealed that stone backfill had not been paid for;
- in another one of the remaining schemes, all four trial holes showed a British Telecom cable laid in the same trench as the watermain with insufficient space being provided between the services and in one situation the cable has been laid directly above the watermain; and
- in the final scheme a number of concerns were identified:
 - excavated material was identified as backfill in all five trial holes when stone backfill should have been used at four of these locations;
 - watermain was not laid with the specified nominal cover of 900mm in any of the trial holes;
 - recorded bedding depths below the watermain were less than the specified minimum of 100mm in all trial holes;

- tracer tape was missing in two of the trial holes;
- the width of the trench was generally less than the minimum specified;
- the contractor claimed extras for additional stone for filling extremely large holes and stoning a farmer's yard;
- the contractor claimed extras for the excavation of rock but none of the trial holes showed the presence of rock;
- the contractor appears to have also been overpaid for a number of other small items of work on the scheme;
- the Clerk of Works agreed a final statement of the site conditions, prepared by the contractor, despite having no records to substantiate the many extras, quantities and items of work contained in the statement;
- the contractor submitted his measurement for payment seemingly taking a fairly generous interpretation of the agreed document;
- the Higher Professional Technical Officer, whose responsibility it was to process the contractor's payment, agreed the payment without thoroughly checking the basis for the measurement even though many extras were involved; and
- certificates for payment were signed by a Senior Professional Technical Officer without query.

74. The results of the trial hole audits in two of the remaining Divisions were reported as generally satisfactory. The results of the fourth Division are not yet available.

75. In March 2002 Water Service sought Internal Audit advice on the issues that had come to light following its investigations arising from the allegations made by the complainant. Internal Audit considered that there might be some basis for the complaints in relation to the tendering process and awarding of contracts. It noted one instance, following post-tender discussions between a member of Water Service staff and the contractor, where the complainant alleged that he was told that the prices in his original bid 'were too low'. In that case it was alleged that some of the contractors were given information about 'pricing expectations' prior to the submission of bids. When the complainant submitted a later tender with higher rates, he was again excluded in favour of lower priced contractors - the implication being that the complainant lost out to other 'favoured' contractors. Internal Audit was advised that a line management investigation at the time considered that the Senior Professional Technical Officer acted with the "best of intent".
76. In May 2002 Water Service appointed a consultant, who retired in November 1998 from the post of Technical Director of Water Service, to carry out a review of scheme files and speak to all parties involved in the contracts. From October 1985 to August 1995 the consultant held the post of Director of Development in Water Service in which his responsibilities would have included the office which was the subject of the allegation. Following discussions involving Internal Audit and the Departmental Solicitor's Branch his appointment was considered to be appropriate due to previous knowledge of the Water Service business and systems. The consultant has completed his report and this is being considered by Water Service.

Conclusion

77. It is important to note that fraud has not been proven as a result of the investigations in these cases. However, as a case study in fraud investigation and deterrence the first case in this report raises a number of concerns. It is clear that

the main lesson to learn is that in response to a serious allegation of fraud the senior management of the Water Service should have initiated, at the outset, an independent and properly resourced investigation which could have dealt with the matter authoritatively. The failure to do this has undoubtedly constrained the extent of disciplinary action and hindered the timely recovery of public funds. In addition NIAO is concerned that:

- despite the need for the eight reports covering different aspects of the internal and external investigations the case is still not resolved as legal action is being taken to recover the amounts due;
- the handling of this case does not send the right signal to staff about the rigour with which the Department will pursue and punish fraud and impropriety; and
- the handling of this case does not send the right signal to contractors about the vigour with which it will react to suspected fraud or overcharging.

Water Service told NIAO that it does not accept that it has failed to send the right signal to staff and contractors. It emphasised the disciplinary action that it had taken against staff and the efforts it is currently making to recover overpayments from the Contractor.

78. Water Service told us that, in light of Case 1 in particular, the Department is at present producing guidance (roles and responsibilities) for staff who may be required to handle suspected fraud cases. This will cover appropriate action to be taken from the point when fraud is suspected by a local manager, through the various stages of the disciplinary process. It will highlight the need to appoint a case manager and to adopt a 'joined-up' approach from the outset involving consultation with all interested parties (managers, Solicitor's Branch, Audit, Personnel). The guidance will cover key issues that must be addressed by managers and personnel officers under existing procedures such as protecting evidence, an individual's rights, duty of care aspects, when to suspend, when to

involve the police, important points to bear in mind in carrying out a preliminary investigation, etc.

79. In a case such as this, where fraud or impropriety only come to light because of a whistleblower and not because of any checks or controls on the part of the Agency, it is NIAO's view that a thorough review should be undertaken to check the full extent of such practices across the whole area of expenditure concerned.
80. Water Service accepts that while more could have been done to establish the independence of the initial investigation it does not accept that it was carried out with insufficient vigour. Water Service also referred to the Internal Audit work and its specific investigations to determine the extent of the problem. These exercises have not revealed any systemic weaknesses or evidence of additional irregularities. Water Service also questioned whether a more comprehensive exercise could be justified in terms of the resources that it would require.
81. In the second case NIAO have some concerns about the manner in which the investigation was handled. In our view and notwithstanding the input to Water Service from Internal Audit and the Departmental Solicitor's Branch, investigations need to be handled by suitably qualified and experienced personnel who are completely outside the management area that is the subject of the allegation. NIAO notes that Water Service's first investigations found that, apart from one exception, there was no substance to the allegations and that the quality of workmanship was generally satisfactory. However, when the complainant made a further allegation some three years after his initial allegations, further investigations were launched. One of these investigations, which was a review of the work undertaken in a previous investigation, uncovered examples of working practices which seems to indicate that the complainant's allegations did have some foundation.

82. We note that Water Service has engaged a consultant to:

- examine the papers regarding the investigations to date;
- make further enquiries; and
- recommend further action.

His report has not yet been made available to NIAO.

Appendix 1

Consultant A's Terms of Reference

1. To examine the role, performance and professional conduct of each of those staff identified as being responsible for those matters, in the Office of the Department of the Environment (NI)'s Water Service, which were the subject of the appeal to the Civil Service Commissioners for Northern Ireland first referred to the Department on 22 April 1998.
2. To examine the handling of Water Service's internal investigations of fraudulent activity, as set out in the appeal to the Civil Service Commissioners, the findings of which were submitted to Water Service's senior management on 6 January 1998.
3. To determine whether any failure to follow specified procedures or to maintain proper records in relation to the award, management and/or administration of operational contracts and/or the conduct of the above-mentioned investigation warrant disciplinary action by the Department (and/or referral for action by any other body) against any of the officers concerned.
4. To identify those officers, if any, against whom disciplinary action should be taken by the Department and to make recommendations as to the specific disciplinary charges which should be put to them.

In carrying out this investigation, the Investigating Officer should have regard to the appeal to the Civil Service Commissioners referred to the Department on 22 April 1998, the Report produced by the Department's Internal Audit Branch in May 1999 and the findings of the independent technical investigation completed in July 1999 by the Technical Expert [from Scottish Water Authority]. The

Investigating Officer will also be given access to all relevant documentation, including papers held by Water Service, may seek technical expertise as required and may consult with any personnel whom he considers may be able to assist with the investigation.

On completion of the investigation, the Investigating Officer shall provide the Department's Director of Personnel with a report and executive summary setting out his findings and recommendations as to any specific disciplinary charges which, in his view, the Department should now take.

Appendix 2

Allegation: The Contractor was being used for sewer maintenance instead of a more appropriate contractor

1. The Complainant alleged that the Contractor was being used instead of the more suitable contractor for sewer maintenance, with particular reference to the location of manholes and their raising and/or repair. He also alleged that it was much cheaper for the other contractor to undertake the work instead of the Contractor. In support of his allegations, the Complainant wrote to Water Service senior management in December 1997 demonstrating that the other contractor was much cheaper than the Contractor.
2. The Contractor was awarded the contract for minor civil engineering works on the basis of offering a discount of 21.65 per cent on the Water Service rates. The other contractor was awarded the contract for the reconditioning and maintenance of sewer and water mains on the basis of 'labour and materials'. No discounts were involved.
3. Consultant A examined the allegation and found:
 - the work was appropriate to the contract awarded to the other contractor, as alleged by the Complainant;
 - in allocating the work to the Contractor there was a wilful waste of £11,611.64 of public funds;
 - the evidence supports the Complainant's contention that engineers were frequently pressed by their HPTO line manager to find work for the Contractor;
 - a lack of challenge to the Contractor's invoices resulted in a £4,360 overpayment; and

- Water Service's internal investigation failed to thoroughly investigate the Complainant's allegation.
4. Consultants B examined the allegation and concurred with Consultant A's findings that there had been an overpayment of £4,360 (see Figure 4).

Appendix 3

Allegation: A scheme to lay 275 metres of sewer had cost £145,000 when it should have cost £20,000

1. This scheme involved the laying of a sewer and the total resurfacing of the road in 1996. The contract was awarded to the Contractor on the basis that he outbid other tenderers by offering a discount of 41.2 per cent on the rates specified by Water Service. The Complainant alleged that the scheme had cost £145,000 when it should have cost £20,000.
2. Consultant A examined the allegation and found:
 - a failure by Water Service to apply the 41.2 per cent discount was the main reason for an overpayment of £52,771.50 to the Contractor for the sewer laying part of the contract;
 - a failure by Water Service to apply the correct contract payment rate to the resurfacing of the road;
 - a failure by Water Service to apply the discount of 41.2 per cent to the road resurfacing element of the contract. Consultant A estimated the overpayment at £12,000;
 - the payment to the Contractor was deliberately inflated;
 - Water Service's internal investigation was far from thorough; and
 - the Complainant's allegation was fully vindicated.
3. Consultants B calculated a failure by Water Service to apply the 41.2 per cent discount was the main reason for an overpayment of £52, 771.50 to the Contractor for the sewer laying part of the contract (see Figure 4). Consultants B also calculated that the overpayment on the roads element of the contract at £14,008.50.

Appendix 4

Allegation: A payment was made in March 1996 for sewer laying work which had not been done

1. The Complainant alleged that a payment of £4,986.52 in March 1996 related to sewer laying work which had not been done. The Complainant had photographs of the work being done in 1997.
2. Consultant A noted that Water Service's internal investigators had interviewed the HPTO and PTO D who were responsible for the work. During the interview PTO D explained that the expenditure in March 1996 was properly attributable to foul sewer work somewhere else but it had been decided for expediency, given the proximity of the financial year end, to tag the expenditure for that work on to the sewer laying work under investigation as it had spare capacity.
3. Consultant A did not have an opportunity to examine the foul sewer files but noted that other evidence supported the allegations of the Complainant. Subject to information on the foul sewer files rebutting the PTO's version of the facts, the consultant found:
 - the Complainant's allegation was valid;
 - the Contractor was guilty of submitting a false claim;
 - the Contractor was guilty of submitting an inflated claim; and
 - these actions caused an overpayment of £2,209.08.
4. Consultants B concurred with these findings (see Figure 4).

Appendix 5

Allegation: Some developers were not required to pay the full extra cost of pipe extension schemes which had exceeded the agreed cost

1. The Complainant's allegation was based on his observation that the costs to the Water Service of a 189 metre sewer extension scheme exceeded the agreed costs.
2. Consultant A examined the allegation and found:
 - the Contractor was able to overcharge by taking advantage of slack internal scrutiny;
 - payment rates for tunnelling were inflated by £268.61 per metre;
 - exorbitant rates were charged for stone;
 - minimum overpayment was £22,299.97 and maximum overpayment was £27,521.73; and
 - Water Service's internal investigation failed to address the inflated costs even though they were drawn to its attention.
3. Consultants B calculated the overpayment at £21,228.25.

Watermain Extension

1. This scheme involved the laying of 1190 metres of watermain pipe by the Contractor in August/September 1996. The Contractor had secured the contract by offering a discount of 42.2 per cent on Water Service rates.
2. Consultant A found:
 - a payment of £16,088.53 was made in March 1996, some five months before the work started. Consultants B concurred with this finding (see Figure 4);
 - final reinstatement of the road was paid for before it was completed. This resulted in a payment of £3,748.50 to the Contractor before the work was done. Consultants B concurred with this finding (see Figure 4);
 - a discount rate of 38.13 per cent was applied to Water Service rates;
 - the Contractor's measurement sheets included more lucrative rates than those available under his contract for this work;
 - Water Service overpaid the Contractor by £4,435.24. Consultants B considered that the overpayment was £4,717.02 (see Figure 4);
 - on the face of it, a fraud was perpetrated on the basis that the Contractor claimed for work which had not been done; and
 - file documentation was virtually non-existent.

Appendix 7

Guidance Issued by the Department

1. The Department issued the Agency with guidance on the handling of fraud or suspected fraud in February 1995. It defines fraud as 'any deception which harms the Department's interests'. The guidance places the responsibility for the prevention of fraud with line management and reminds them of the importance of ensuring that effective control systems are employed and checked regularly to establish that they are being properly applied. The guidance also notes that the opportunities for fraud may be greater at sub-offices where control and management involvement can be rather less immediate.
2. The guidance makes it clear that on notification of a possible fraud an initial verbal report should be followed up within 48 hours by a written report which should cover:
 - the amount/value, if established;
 - the position regarding recovery;
 - the period over which the irregularity occurred, if known;
 - the date of discovery;
 - the type of irregularity and what led to it;
 - whether the person responsible has been identified;
 - whether any collusion with others is suspected; and
 - any other information or observations which might be useful.

3. The guidance also states that where fraud occurs the Agency must carry out a vigorous and prompt investigation. It should take the appropriate legal and/or disciplinary action in all cases where that would be justified; and it should make any necessary changes to systems and procedures to ensure that similar frauds will not happen again. Investigations should consider as a matter of course whether there has been a failure of supervision; and appropriate disciplinary action should be taken where supervisory failures have occurred.

Appendix 8

Schedule of Rates Contracts

1. Water Service informed us that for many years it has used Schedule of Rates Contracts to undertake the laying of watermain. Under this type of contract, contractors offered a single discount or quoted premiums against the Schedule of Rates for various items of work. We were told that contracts were generally awarded to the contractors offering the higher discounts and the number of contractors appointed depended on the anticipated amount of work to be completed. Furthermore, the greater the discount offered by a contractor relative to other successful contractors, the greater the amount of contract work that could be awarded to that contractor. Water Service added that with this type of tender document it became easy for contractors to know previous year's discounts and the appropriate higher discounts to submit in order to win work in the following year. Thus, in Water Service's view, discount rates got increasingly higher and in this very competitive environment it became more likely that contractors could try to "cut corners" in relation to compliance with the specification.

List of NIAO Reports

Title	NIA No.	Date Published
2002		
Northern Ireland tourist Board Accounts2000/01 } Travelling People: Monagh Wood Scheme }	NIA45/01	26 February 2002
Indicators of Educational Performance and Provision	NIA48/01	21 February 2002
NIHE Housing the Homeless	NIA55/01	21 March 2002
Repayment of Community Regeneration Loans	NIA59/01	28 March 2002
Investing in Partnership - Government Grants to Voluntary Bodies	NIA78/01	16 May 2002
Northern Ireland Tourist Board: Grant to the Malone Lodge Hotel	NIA83/01	20 May 2002
LEDU: The Export Start Scheme	NIA105/01	2 July 2002
Compensation Payments for Clinical Negligence	NIA112/01	5 July 2002
Re-Roofing of the Agriculture and Food Science Centre at Newforge	NIA24/02	17 October 2002
The Management of Substitution Cover for Teachers	NIA53/02	12 December 2002
2003		
The Sheep Annual Premium Scheme	NIA 75/02	6 February 2003
The PFI Contract for the Education and Library Board's New Computerised Accounting System	NIA99/02	20 March 2003
Areas of Special Scientific Interest	NIA103/02	27 March 2003
Financial Audtiing and Reporting: 2001/02	NIA 107/02	2 April 2003
The Use of Operating Theatres in the Northern Health and Personal Social Services	NIA111/02	10 April 2003

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