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11 September 2014

Dear Kevin

SDC Inquiry – Phase 3 evidence session – 18 September 2014

I refer to your letter dated 7 July 2014 requesting Housing Executive officials to attend a Phase 3 Inquiry session which is to be held on 18 September 2014.

Attending will be:

John McVeigh – Head of Internal Audit
Raymond Kitson – Repairs Inspection Unit

In advance of their attendance a written briefing is attached at Annex A.

Yours sincerely



SUSAN MCCARTY

BRIEFING FOR THE SOCIAL DEVELOPMENT COMMITTEE 18 SEPTEMBER 2014

John McVeigh and Raymond Kitson SDC Inquiry Phase 3

This briefing takes into account:

- 1 Investigations into the Red Sky Group (RSG) by the NIHE Repairs Inspection Unit (RIU), NIHE Internal Audit and ASM Horwath/VB Evans;
- 2 Investigations into other NIHE contractors as requested by the Minister;
- 3 Investigations into other NIHE contractors undertaken by NIHE Internal Audit and the RIU;
- 4 Meeting with the RSG to discuss the issue of overpayments; and
- 5 Decision by the NIHE Board on 13 April 2011 to terminate the Response Maintenance Contract with RSG.

This evidence has been provided by John McVeigh and Raymond Kitson.

John McVeigh is Head of Audit and Assurance which provides the Internal Audit, Technical Inspection and Risk Management functions. Raymond Kitson is the Repairs Inspection Unit Manager with responsibility to provide an independent assurance that the Response Maintenance contracts are operating effectively and that staff and contractors are in compliance with the requirements of the contract.

1. INVESTIGATIONS INTO THE RED SKY GROUP (RSG) BY THE NIHE REPAIRS INSPECTION UNIT (RIU), NIHE INTERNAL AUDIT AND ASM HORWATH/VB EVANS

RIU Investigations into Red Sky Group (South Belfast) (2005)

In the latter part of 2005, an anonymous telephone call was received by the Housing Executive alleging that there was an inappropriate relationship between South Belfast maintenance staff and the Response Maintenance Contractor (Spectrum) including the inappropriate acceptance of hospitality.

The former Director of Housing & Regeneration (DoHR) Colm McCaughley in January 2006 instructed the Repairs Inspection Unit to undertake an investigation into these allegations.

The inspection findings indicated substantial overpayments to the sum of £209k had been claimed by RSG and paid without challenge. A substantial percentage of these overpayments was relating to kitchen units. RIU identified that the kitchen units being fitted were of a standard type. However, RSG was claiming from a schedule of rates code which was substantially more expensive.

This practice was also identified in North Belfast, East Belfast and Newtownabbey 1 and 2 which generated an estimated overpayment sum of £54,500. This brought the revised overall estimated overpayment to £263,500.

In September 2006, RIU met with RSG in their offices to ascertain why these alleged overpayments occurred.

Meeting with RSG to Negotiate A Settlement Figure (March 2007)

The former Director of Housing and Regeneration (DoHR), Colm McCaughley, in March 2007, called a meeting between RSG management and NIHE in an attempt to bring closure to the investigation. Persons present during the meeting being:

- a. Former NIHE (DoHR);
- b. NIHE RIU Manager – Raymond Kitson;
- c. Red Sky Group, 2 Senior Managers; and
- d. Red Sky Group (Chairman).

RIU Investigation into RSG (2009)

In November 2008, the Northern Ireland Audit Office (NIAO) received a whistle-blowing letter, voicing concerns regarding RSG performance in the West Belfast Area.

The former DoHR (Colm McCaughley) during April 2009, requested that RIU conduct a preliminary investigation into these complaints.

The outcome of the small sample indicated that there had been inappropriate payments estimated at £10.2k.

These findings were initially documented in a draft report and presented to the former DoHR, (Colm McCaughley) and former Chief Executive (Paddy McIntyre) for consideration.

RIU included in the draft report the percentage errors identified, this was calculated using the failed jobs only. RIU was asked by the former Chief Executive (Paddy McIntyre) to recalculate this figure using the entire inspected sample.

Internal Audit Involvement with Red Sky Group Issues

Following the completion of the draft RIU report, NIHE Internal Audit was asked to review the inspection findings and provide their professional opinion on the accuracy. This followed a request for independent review of the RIU report by the NI Audit Office (NIAO).

In general, Internal Audit was content that the methodology applied by RIU appeared to be sound.

ASM Horwath/VB Evans Investigations into Red Sky Group (2009)

Following consideration of the RIU report (2009), the NIHE Audit Committee recommended that ASM Horwath should conduct an independent forensic review of RSG contracts.

Objectives were to review:

- a. Quality of workmanship;
- b. Ensure the invoices submitted by the contractor were appropriate;
- c. The inspection regime was fit for purpose;
- d. Whether the contracts were properly awarded; and
- e. Review personnel and the processes.

VB Evans identified a potential £45,000 as being overpaid. These findings were issued to RSG for a response.

On receipt of a response, RIU was asked to quality assure the RSG response. On completion of this exercise, the overpayment figure was reduced to £29,085.

RIU Investigation into Red Sky Group (Newtownabbey 1) (2010)

The Director of Finance (DoF) (Clark Bailie) requested RIU to review the RSG contract in Newtownabbey 1 in June 2010, as there was concern that RSG had been incorrectly coding work.

RIU Identified Potential Overpayments

On conclusion of the review RIU findings found that £71k was overpaid, 22.5% of the value of jobs contained in the sample. These issues were referred to RSG for comment.

RIU Investigation into Other Red Sky Group Contracts (2010)

The DoF (Clark Bailie) requested in September 2010 that RIU should widen the scope of the investigation to include all of RSG contracts.

In general the investigation into the RSG's other contracts proved similar substantial overpayments.

Based on the individual District investigation reports, RIU estimated an overpayment value of £477k across all five Districts.

2. INVESTIGATIONS INTO OTHER NIHE CONTRACTORS AS REQUESTED BY THE DSD MINISTER (OCTOBER 2011)

In October 2011, ASM Chartered Accountants were appointed by the DSD to undertake a forensic accounting review into the works carried out by 6 NIHE response maintenance contractors.

At the request of the DoHR (Gerry Flynn), RIU was asked to undertake quality assurance work on the inspection and document our findings in a 'Scott schedule' detailing VB Evans issues, the Districts comments and the contractors' comments.

RIU's observations agreed in general with the District office comments. In conclusion after reviewing 20% of the ASM inspections that almost £3.5k has been overpaid to the contractors. This is significantly less (38%) than ASM figure of £9k from the same sample.

3. INVESTIGATIONS INTO OTHER NIHE CONTRACTORS UNDERTAKEN BY NIHE INTERNAL AUDIT AND THE REPAIRS INSPECTION UNIT

The DoHR (Gerry Flynn) instructed RIU (December 2012) to conduct further inspections following the ASM report.

RIU's conclusions to these investigation proved that the contractors' quality of work and overpayments was in general of reasonable standard taking account of the RIU benchmarks.

As a result of concerns from Central Maintenance Unit, RIU conducted a preliminary investigation which identified potential overpayments to the Shankill District contract, Leeway Maintain Ltd. While the investigation was progressing a whistle-blower made a number of allegations relating to Leeway Maintain Ltd and the District Management.

On completion of the investigation into these allegations, RIU reported that a potential £243k may have been overpaid.

A number of other investigations are ongoing, so NIHE is unable to comment on the detail at this time.

During the period, 2011-2012 Internal Audit carried out a number of investigations linked to issues relating to Planned Maintenance contracts. This was covered within strand two of the SDC inquiry.

4. MEETINGS WITH RED SKY GROUP TO DISCUSS THE ISSUES OF OVERPAYMENTS

The commentary throughout the enclosed report has already made various references to meetings with RSG.

In September 2006 RIU met with RSG in their offices to ascertain why these overpayments occurred.

In March 2007 the former DoHR (Colm McCaughley) called a meeting between RSG's management and NIHE in an attempt to bring closure to the investigation.

On 4 February 2011 the former Acting Chief Executive (Stewart Cuddy) invited RSG to the Housing Executive to discuss RSG's position in regard to responding to the Newtownabbey 1 report and the ASM report. Persons present were:

- a. Former Acting Chief Executive (Stewart Cuddy);
- b. Finance Director, Clark Bailie;
- c. RIU Manager; and
- d. 3 RSG Senior Managers.

The former Acting Chief Executive, Stewart Cuddy, had expressed concern that RSG has failed to respond to either of the reports in a timely manner.

The NIHE eventually received a response from the RSG to the Newtownabbey 1 investigation in March 2010 and the ASM report in April 2010.

5. DECISION BY THE NIHE BOARD ON 13 APRIL 2011 TO TERMINATE THE RESPONSE MAINTENANCE CONTRACT WITH RSG

Neither RIU nor Internal Audit had any involvement in the eventual termination decision other than briefing the Chief Executive Business Committee on relevant RIU/Internal Audit investigation findings.