

Witness Name: Karen Bailey

Statement No.: 2

Exhibits: KB/01 - KB/06b

Dated: 2 December 2024

UK COVID-19 INQUIRY

WITNESS STATEMENT OF

Mrs Karen Bailey, Chief Executive, Business Services Organisation

General

- 001 My name is Karen Bailey and I am providing this statement to the Covid-19 Inquiry in my capacity as Chief Executive of the Business Services Organisation. I will say as follows. I came into the post of Chief Executive in June 2020, initially on a temporary basis, then was subsequently appointed on a permanent basis. My statement covers the period from 1 March 2020 up to the 28 June 2022, although in order to provide context on some points I will refer to activities prior to 1 March 2020.
- 002 The Business Services Organisation (BSO) is a shared service provider to Northern Ireland's Health and Social Care (HSC) bodies and was established as an arm's-length body of the Department of Health (DoH), under the Health and Social Care Reform Act (NI) 2009. This new organisation, BSO, incorporated a number of previously established shared services functions (originally provided by the Central Services Agency which was dissolved by the HSC Reform Act) and included the new shared services functions, specifically relating to payroll, finance and recruitment, which were to be established by the BSO by transfer of these functions from the other individual HSC bodies to central management and delivery by BSO. Within BSO we refer to these shared service functions as "business units" and each business unit forms part of an individual Directorate. As an arm's-length body of the Department of Health (Sponsor Department) the

Minister of Health is accountable to the Northern Ireland Assembly for the activities and performance of the BSO. As Departmental Accounting Officer for the Department of Health, the Permanent Secretary is accountable to the NI Assembly for any "grant in aid" provided to BSO and designates the Chief Executive of BSO as the BSO's Accounting Officer. Within the Department of Health, a Sponsor Branch is identified for BSO and is the primary source of advice to the Minister on the discharge of his responsibilities in respect of BSO. The Chairman of the BSO Board is accountable and responsible to the Minister of Health. I am the designated Accounting Officer for BSO.

- 003 Counter Fraud and Probity Service is part of the Business Services Organisation's Operations Directorate, reporting through a Head of Service to the Executive Director of Operations who in turn reports to the Chief Executive and to the BSO Board.
- 004 The provision of these shared services is to all HSC bodies, Northern Ireland Fire and Rescue Service (for select shared services only) and Department of Health (for select shared services only) and these services are subject to annually agreed Service Level Agreements (SLA) which set out the types and extent of services to be provided along with annually agreed business volumes. Fees are charged monthly for services and these fees are negotiated annually and are subject to efficiency targets each year. Service level agreements are typically "block contracts" which do not permit for variation in charges where activity volumes are above or below the agreed annual volume. The Business Service Organisation (BSO) recovers the cost of service delivery with no "profit" element and any surplus generated by business units through vacancies or additional efficiencies is either used by BSO to address cost pressures or returned to HSC bodies in-year if appropriate. BSO has a target to remain within tight financial constraints which require an annual budgetary break-even.
- 005 I would state that Counter Fraud and Probity Service has only two Service Level Agreements and Partnership Agreements with other clients and funding is received to this business unit from the Department of Health.
- 006 The Department of Health NI established the Business Service Organisation's (BSO) Counter Fraud Unit in 2000 within the Central Services Agency which is now known as the Business Services Organisation. The Counter Fraud Unit provided a counter fraud service at that time solely in respect of potentially fraudulent activity in the primary care sector and exemption fraud in relation to patient charges. I am advised that the Unit was set up following concerns raised at a Public Accounts Committee in December 1998 regarding exemption fraud.

- 007 The current role and remit of Business Services Organisation Counter Fraud and Probity Service is to investigate all allegations of potentially fraudulent activity both within and against all HSC bodies including the Department of Health. The Probity Service was set up in 2010 and this service provides assurance regarding HSC spend in the primary care sector only.
- 008 On foot of Department of Health Directions which came into operation on 30 June 2006, Central Services Agency (pre-cursor organisation to BSO) was directed to exercise the functions to provide advice and guidance to the Department of Health and HSC bodies on all matters concerning fraud and corruption in the Health Service and to take all appropriate action to investigate fraud and corruption and cooperate with the police and other law enforcement agencies as required.
- 009 Donna Scott is the Assistant Director responsible for the Counter Fraud and Probity Service, and held the post during the relevant period. During the pandemic the Probity Service was stood down in relation to undertaking new work as it was unable to deliver a range of probity verification, assurance and financial recovery work in relation to Primary Care expenditure, due to pandemic sanctions. CFPS is part of the Directorate of Operations which at that time comprised Procurement and Logistics Service, Family Practitioner Services, Pension Service and Small Business Research Initiative. The Directorate of Operations was managed at that time by Peter Wilson as Interim Director of Operations who had previously been the Assistant Director of Business Services Organisation's Procurement and Logistics Service.
- 010 The organisational structure during the period 1 January 2020 and 28 June 2022 is set out in the attached organisational charts at Exhibits KB/01a [INQ000498550], KB/01b [INQ000498551] and KB/01c [INQ000498552].
- 011 The leadership and team structure during this period are set out in the attached Counter Fraud and Probity Services organisational charts at Exhibit KB/02 [INQ000498553].
- 012 For its service provision and operational performance, BSO Counter Fraud and Probity is accountable through the BSO Board to the Minister of Health as well as a Counter Fraud and Probity Oversight Board, chaired by SPPG Director of Primary Care.
- 013 All HSC organisations have a responsibility to conduct fraud risk assessments and have adequate and effective processes in place within their respective organisations to manage fraud risk. Counter Fraud and Probity Services (CFPS) is available to provide advice and guidance to organisations regarding risk assessments and engages with Fraud Liaison Officers attached to all HSC organisations regarding risks identified in ongoing work. CFPS is available to provide advice

and guidance regarding the mitigation of any risks identified by HSC Organisations. CFPS also advises HSC organisations and makes recommendations regarding the mitigation of risks identified in respect of work undertaken by CFPS.

- 014 Counter Fraud and Probity Services (CFPS) is the sole provider of a comprehensive counter fraud service to the Department of Health, all HSC organisations and the Northern Ireland Fire and Rescue Service. This service includes prevention, detection and investigation of fraud, corruption and other financial irregularities in or against Health and Social Care Northern Ireland.

The CFPS role is to investigate fraud against Health and Social Care organisations, and is authorised in law to employ a wide range of investigative tools and techniques in order to obtain the necessary evidence to progress each case. HSC organisations have a responsibility to report cases of suspected fraud to CFPS and we work in partnership with our clients, gathering evidence which will help the organisations to determine which appropriate sanctions should be applied in each case; disciplinary, criminal, civil or combination of all three. CFPS also makes recommendations and advises on counter fraud measures that can be introduced to address system and/or contract weaknesses.

- 015 Where evidence of fraud-related offences is found, CFPS advises the client on the integrity and standard of evidence required and the likelihood of successfully pursuing a criminal prosecution. CFPS also actively engages with the Police Service of Northern Ireland (PSNI) and Public Prosecution Service, gathering, analysing and presenting evidence for Court and providing witness testimony in Court as required. The Departmental Circulars HSC(F) 54-2015 (Exhibit KB/03a [INQ000498554]) and HSC(F) 37-2017 (Exhibit KB/03b [INQ000498555]) attached set out the mandatory requirements on all HSC organisations to report all allegations of suspected or actual fraud. The allegations are reported to the Counter Fraud and Probity Services on the REFRAIN case management system by HSC organisations. CFPS has an obligation to notify the Department of Health NI, the Northern Ireland Audit Office and the Department of Finance NI of all allegations reported. Before an investigation can be commissioned, terms of reference must be agreed by the Client organisation - Exhibit KB/03c [INQ000498556].

- 016 Counter Fraud and Probity Service records are maintained on the CFPS case management system, 'REFRAIN' regarding all allegations of potentially fraudulent activity reported and/or referred for investigation by HSC organisations. REFRAIN can be accessed by HSC organisations for reporting/referral purposes. Records are maintained in respect of the work undertaken by the Probity Service for the appropriate periods.

- 017 In respect of procurement policy matters these are overseen by the Northern Ireland Procurement Board (NIPB) which was established by the Northern Ireland Procurement Policy and chaired by the NI Executive's Minister of Finance. This body is responsible for procurement policy in Northern Ireland (procurement is a matter devolved to the NI Assembly) and matters of policy were disseminated prior to the pandemic as "Procurement Guidance Notes" (PGNs) and since January 2021 as "Procurement Policy Notes" (PPNs).
- 018 Under the NI Public Procurement Policy, prior to the pandemic the NIPB was made up of the Permanent Secretaries of each NI Department, non-executive representatives drawn from interested stakeholders and representatives from Construction and Procurement Delivery (CPD). During this time the Department of Health and its arm's-length bodies were represented on the NIPB by the Permanent Secretary for Health. However, in January 2021 following the appointment of a new Minister for Finance, the membership of the NIPB was changed with the replacement of Permanent Secretaries by senior procurement practitioners drawn from the main spending departments within the NI Executive. BSO Procurement and Logistics represented the health sector initially through the Interim Director of Operations (Peter Wilson) and upon his retirement the Assistant Director Procurement (Linda O'Hare). The non-executive stakeholders were also reviewed and a wider set of representatives covering construction, manufacturing, small business, social enterprise and trade unions joined the NIPB.

HSC's role procurement of key healthcare equipment and supplies during the

Pandemic

- 019 As I previously mentioned (paragraph 14), HSC organisations have a responsibility to report cases of suspected fraud to CFPS and we work in partnership with our clients, gathering evidence which will help the organisations to determine the appropriate sanctions which should be applied in each case; disciplinary, criminal, civil or combination of all three. During the relevant period Counter Fraud and Probity Services did not undertake any investigations or reviews in respect of procurement carried out by HSC Trusts or hospitals during the pandemic as no reports or referrals were made to CFPS.
- 020 There were no investigations or reviews in respect of procurement carried out by HSC Trusts or hospitals by Counter Fraud and Probity Services (CFPS). I would also mention that in 2021 the Northern Ireland Audit Office carried out a review of the supply of PPE during the pandemic and published their findings and recommendations in a report entitled "The Covid-19 pandemic: Supply and procurement of Personal Protective Equipment to local healthcare providers". I have provided this report as Exhibit KB/04 [INQ000281185]. I would also advise the Inquiry that there has been

only one contractual issue in respect of possible fraudulent activity in the supply of PPE, healthcare equipment and Covid related items with a company called "Wanrunde" where BSO suffered financial loss and this resulted in referral to the Police Service of Northern Ireland. I do not believe that the PSNI proceeded with an investigation as I understand they considered this to be a breach of contract and therefore a civil matter.

- 021 During the pandemic, HSC Counter Fraud and Probity Service issued Alerts, Newsletters and launched a revised e-learning training course which was applicable to all HSC staff. Within the relevant period the Interim Director of Operations held weekly informal meetings with all Heads of Service within the Directorate of Operations where current issues and issues of concern could be raised and discussed. As I mentioned earlier in my statement (Paragraph 014), where evidence of fraud-related offences is found, CFPS advise the client on the integrity and standard of evidence required and the likelihood of successfully pursuing a criminal prosecution.
- 022 BSO PaLS also worked with DHSC to support the Northern Ireland National Supply Disruption Response service designed to support health care organisations when supply disruption occurred by enabling escalation of problems to a national team and if necessary access interim arrangements which had been advised upon by centrally co-ordinated clinical expert teams.
- 023 Counter Fraud and Probity Services did not draft any specific documentation regarding procurement but provided links to the Northern Ireland Audit Office Procurement Fraud Risk Guide which had been disseminated by the Department of Health.
- 024 General documentation as disseminated by Counter Fraud and Probity Services and referred to previously (Paragraph 021) is attached at the following exhibits - KB/05a [INQ000498558], KB/05b [INQ000498559], KB/05c [INQ000498560], KB/05d [INQ000498561], KB/05e [INQ000498562], KB/05f [INQ000498563], KB/05g [INQ000498564], KB/05h [INQ000494731], KB/05i [INQ000498566], KB/05j [INQ000498567], KB/05k [INQ000498568], KB/05l [INQ000498569], KB/05m [INQ000498570], and KB/05n [INQ000498571].
- 025 HSC organisations have a responsibility to report cases of suspected fraud to CFPS and we work in partnership with our clients, gathering evidence which will help the organisations to determine which appropriate sanctions should be applied in each case; disciplinary, criminal, civil or combination of all three. I am able to affirm that Counter Fraud and Probity Services was not commissioned or asked to provide scrutiny of contracts issued for PPE or key healthcare equipment and supplies by HSC Trusts and hospitals during the pandemic.

- 026 Counter Fraud and Probity Services provides a fraud proofing service and where evidence of fraud-related offences is found, and advises the HSC organisation and client on the integrity and standard of evidence required and the likelihood of successfully pursuing a criminal prosecution. The majority of products held in the PIPP stockpile are procured nationally and deployed to BSO PaLS which acts on behalf of Department of Health in storing and deploying the stockpile.
- 027 BSO PaLS and Department of Health maintained the Pandemic Influenza Preparedness Programme (PIPP) stocks with products/brands currently in use within HSC. Applying the procurement arrangements established by BSO PaLS on behalf of HSC enabled those stocks to be rotated through BSO PaLS warehouses and maintain PIPP stock levels.
- 028 By and large these take the form of contracts with indicative volumes and are let and managed by BSO PaLS category management teams, known locally as sourcing teams. Product selection is undertaken by suitably skilled staff (clinical staff in the case of clinical products) based on a well-established process which complies with the Public Contracts Regulations 2015 and involves scoring of both qualitative and financial aspect of offers, with the latter scored by BSO Counter Fraud and Probity staff using a pre-published formula. The system used is known as a “two envelope” system which prevents corruption of qualitative scores by separating the evaluation of these two aspects of the bidding process.
- 029 When it comes to healthcare equipment this operates slightly differently in that there is a greater reliance on framework agreements let either by other healthcare procurement organisations such as NHS Supply Chain, or on framework agreements let directly by BSO Procurement and Logistics Service on behalf of HSC organisations. In all instances the frameworks are let in compliance with the Public Contracts Regulations 2015. When the equipment is required this is called off the framework in accordance with the rules of the framework and in compliance with the regulations. To reduce prevalence of fraud, The Northern Ireland Audit Office issued a Covid-19 Fraud Risks Guide in August 2020 (Exhibit KB/05h [INQ000494731]) and a Procurement Fraud guide in November 2020 (Exhibit KB/05g [INQ000498564]).
- 030 Counter Fraud and Probity Services did not receive any reports of potentially fraudulent activity or referrals for investigation relating to procurement during this period and therefore did not refer any individual contractors or would-be contractors offering personal protective equipment (PPE) and key healthcare equipment and supplies to law enforcement, investigation or prosecution authorities. Although as mentioned in Paragraph 020, there was a contractual issue in respect of possible fraudulent activity in the supply of PPE, healthcare equipment and Covid related items

with a company called “Wanrunde” where BSO suffered financial loss and this resulted in referral to the Police Service of Northern Ireland.

- 031 Whilst Counter Fraud and Probity Services did not receive any reports of potentially fraudulent activity or referrals for investigation relating to procurement during the relevant period, other than the Wanrunde case, it would be remiss not to mention a telephone call that CFPS received on 10 May 2023 in relation to a batch of gloves delivered to BSO between the 21 July 2020 and 18 August 2020. There is no evidence as to how many boxes of PPE gloves are missing, where they may have been taken from, when they were taken or how they were taken. There are no suspects and no witnesses have been identified by CFPS in relation to any alleged theft or fraud. The CFPS conclusion (see Exhibit KB/06a [INQ000498572]) is opportunistic fraud and it has been unable to establish any evidence to provide a reasonable prospect of conviction against any person in a criminal Court.
- 032 Counter Fraud and Probity Services (CFPS) provides a range of specialist services to Health and Social Care (HSC) bodies, including preventing and detecting fraud both inside the HSC and beyond, coordinating awareness campaigns and leading investigations. Whereas Probity Services delivers a range of technical verification and assurance activities to the Strategic Planning and Performance Group (SPPG) in relation to Family Practitioner Services (FPS) expenditure each year. As earlier mentioned Counter Fraud and Probity Services (CFPS) did not receive any reports of potentially fraudulent activity or referrals for investigation relating to procurement during the relevant period. Therefore, there was no CFPS involvement in seeking to recoup funds from contracts for PPE awarded during the pandemic.
- 033 Other than the perceived opportunistic theft of PPE gloves (see Exhibits KB/06a [INQ000498572] and KB/06b [INQ000498573]), Counter Fraud and Probity Services did not receive any reports of potentially fraudulent activity or referrals for investigation relating to procurement during the relevant period. Therefore, there was no quantifiable cost to HSCNI due to no reports/referrals being made by any HSC organisation during the relevant period in relation to procurement fraud, other than the misappropriated PPE gloves, following a phone call on 10 May 2023.
- 034 Counter Fraud and Probity Services did not receive any reports of potentially fraudulent activity or referrals for investigation of PPE-related fraud so there are no issues to consider or investigate. However, the Inquiry may wish to know that The Northern Ireland Audit Office, in relation to reducing prevalence of fraud, did issue a Covid-19 Fraud Risks Guide in August 2020 and a Procurement Fraud guide in November 2020 (Exhibit KB/05g [INQ000498564]).

Ongoing reviews, investigations and advice

- 035 Counter Fraud and Probity Services did not and is not conducting any review relating to the procurement of key healthcare equipment such as PPE, ventilators, LFTs and PCRs during the pandemic.
- 036 I refer the Inquiry to the matters set out in Paragraph 031, whereby Counter Fraud and Probity Services received a referral for investigation in June 2023 relating to the misappropriation of PPE gloves procured and distributed by the Business Service Organisation's PaLS during the pandemic. The investigation report detailing findings and recommendations by BSO Counter Fraud and Probity Services is attached as Exhibits KB/06a [INQ000498572] and KB/06b [INQ000498573], referred to at Paragraph 040 below.
- 037 Due to the nature of Counter Fraud and Probity Services with no activities or reviews ongoing relating to the procurement of key healthcare equipment during the relevant period, there were no investigations other than the case referred and described at Paragraph 031 and the findings and recommendations are set out in the report at Exhibits KB/06a [INQ000498572] and KB/06b [INQ000498573]. In summary, following a telephone call on 10 May 2023 a batch of gloves delivered to BSO between 21 July 2020 and 18 August 2020 are suspected of being misappropriated through opportunistic fraud and sold on to external parties. CFPS has been unable to establish any evidence to provide a reasonable prospect of conviction against any person in a criminal Court.
- 038 No concerns were raised regarding the procurement and distribution of key healthcare equipment and supplies during the Covid-19 other than the misappropriation of PPE gloves procured and distributed by the Business Service Organisation's PaLS during the relevant period, as referred to in Paragraph 036.

Lessons Learned

- 039 BSO Counter Fraud and Probity Services set up in September 2022 a Regional Lessons Learned Group to consider general HSC fraud risks.
- 040 Counter Fraud and Probity Services has not conducted any formal internal review or lessons learned exercise relating to any of the issues in the Outline of Scope as no relevant matters were reported or referred to the Counter Fraud and Probity Service. However, in relation to the PPE misappropriated gloves - see Exhibits KB/06a [INQ000498572] and KB/06b [INQ000498573] - the Investigating Officer recommended that BSO should consider implementing a process where

delivery drivers receive a signed receipt for goods delivered to each customer which can then be returned and retained.

- 041 Counter Fraud and Probitry Services intends to consider changes in procurement rules and procurement and distribution risks generally at a future meeting of this group and specifically consider potential risks in an emergency/pandemic situation.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

Personal Data

Signed: _____

02 December 2024

Dated: _____