



Northern Ireland
Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Inquiry into Allegations arising from a BBC NI
'Spotlight' Programme aired on 3 July 2013 of
Impropriety or Irregularity relating to NIHE-managed
contracts and Consideration of any Resulting Actions:
Northern Ireland Housing Executive

29 May 2014

NORTHERN IRELAND ASSEMBLY

Committee for Social Development

Inquiry into Allegations arising from a BBC NI 'Spotlight' Programme aired on 3 July 2013 of Impropriety or Irregularity relating to NIHE-managed contracts and
Consideration of any Resulting Actions:
Northern Ireland Housing Executive

29 May 2014

Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Jim Allister
Ms Paula Bradley
Mr Gregory Campbell
Mr Trevor Clarke
Mr Michael Copeland
Mr Fra McCann
Mr Sammy Wilson

Witnesses:

Ms Gay Ireland	Northern Ireland Housing Executive
Mr Trevor McCartney	Northern Ireland Housing Executive
Mr John McVeigh	Northern Ireland Housing Executive

The Chairperson: We have with us this morning Trevor McCartney, the director of corporate services at the Housing Executive; Ms Gay Ireland, head of the corporate assurance unit; and John McVeigh, the head of internal audit. I formally welcome you to the inquiry. I remind members that they have the relevant information in their inquiry folder.

I think that you have been asked to deal with certain matters in respect of the inquiry, so I leave it to you to make your opening remarks.

Mr Trevor McCartney (Northern Ireland Housing Executive): Thank you for inviting us. By way of a quick introduction, I am Trevor McCartney, director of corporate services, and I joined the organisation in January this year. John McVeigh is head of my internal audit, and Gay Ireland is head of corporate assurance.

With your permission, I will take you through a few aspects. On 5 May, the Committee received a briefing from the Department for Social Development (DSD) and members of the Housing Executive senior management team on actions taken to address the failings in governance within the organisation.

This briefing outlines the role of the organisation's internal audit and corporate assurance unit (CAU), with the intention of improving governance and addressing the failings relating to procurement and contract management.

I will talk briefly about the roles of internal audit and CAU in the Housing Executive's governance framework. This framework comprises systems, processes, cultures and values by which decisions are made and functions undertaken to deliver the highest standards of housing services, in accordance with the organisation's duties and responsibilities.

The roles of internal audit and CAU in the organisation's governance framework include the annual review of effectiveness of that framework, including the system of internal control; and the head of internal audit's annual assurance statement for the period, which provides an opinion on the organisation's control environment. The corporate assurance unit provides assurance on the management of key risks and, through inspection, assurance on the management of response and planned maintenance contractors.

Both units report their findings, and both heads attend the quarterly meeting of the audit risk and assurance committee, which sees a summary of each report from internal audit and CAU. Both heads of units attend a pre-audit risk and assurance committee meeting with the chair of the committee, and both also have regular, scheduled meetings with the chief executive.

Final reports are sent to DSD and the chief executive of the Housing Executive as part of the special accountability measures currently in place between DSD and the Housing Executive. Draft internal audits and CAU reports are sent to the DSD director of housing following 10 days of issue to directors. Final reports are also sent following issue to directors.

The Committee should note that the Housing Executive's audit risk and assurance committee provides an independent assurance to the board on the adequacy of the risk management framework and associated control environment. The audit risk and assurance committee is chaired by the vice-chairman of the board and is made up of three further members of the board as well as two independent members. The Northern Ireland Audit Office (NIAO) and DSD also attend quarterly meetings.

In keeping with its requirements as a non-departmental public body that operates under the guidance of 'Managing Public Money Northern Ireland', the Housing Executive is obliged to maintain an effective internal audit service. The Housing Executive internal audit department currently provides this service, operating under the 'Public Sector Internal Audit Standards'.

The main responsibilities of the department are set out in its most recent internal audit charter, which was approved at the April 2014 Housing Executive audit risk and assurance committee. They are as follows: developing a risk-based audit strategy and audit needs assessment to provide assurance to the accounting officer through systematic analysis and evaluation of the Housing Executive's internal control system; identification and evaluation of controls established by management in systems to achieve organisational objectives in the most economic and efficient manner; taking account of value for money; reporting findings and conclusions and, where appropriate, making recommendations for improvement; advising on internal control and risk implications of enhancements to existing or new systems; providing consultancy services and advice where relevant; and, where required, providing input into counter fraud and money laundering controls.

The internal audit department has carried out extensive work on contract management and the procurement of planned and response maintenance contracts. Between January 2008 and April 2014, internal audit carried out and reported on the following: 14 response maintenance-related internal audit reports; 26 planned maintenance-related internal audit reports; and six procurement-related internal audit reports.

In addition, internal audit carried out a number of more detailed, investigative assignments dealing with specific governance concerns associated with kitchen contract management and maintenance issues in 2012. All of this work has been reported to the Housing Executive senior management team and the audit risk and assurance committee, and progress in implementing recommendations arising is monitored by that committee.

On audit follow-up on areas of concern, audits receiving a limited or unacceptable classification receive a follow-up audit and visit as a priority within the next 12 months to ensure that any recommendations are completed.

I will move on to internal audit issues arising from DSD's follow-up review of governance. One recommendation relating to internal audit issues remained outstanding in November 2013. This was deemed no longer relevant. Three best practice recommendations specifically relating to the internal audit issues were noted as "partially completed" in the November 2013 report, and actions have now been taken that will ensure that they are completed by the end of the 2014-15 financial year. Internal audit also carried out a compliance exercise on behalf of DSD internal audit to ensure that the actions reported by the Housing Executive in relation to all outstanding recommendations were accurate and complete.

Internal audit recommendations from the Northern Ireland Audit Office 'Report to Those Charged with Governance 2012-13' made three specific findings on the delivery of the internal audit service in the Housing Executive. The recommendation on the rotation of internal audit staff has been implemented. The recommendation that the Housing Executive consider whether it would be beneficial to bring in independent, internal audit expertise to perform systems audits on key computer systems is being implemented. The Housing Executive has also taken steps to address the findings on the delivery of the internal audit programme. These include a strategy of substantive recruitment to fill vacant posts; additional temporary resources providing short-term cover; and the external procurement resource mentioned previously.

The corporate assurance unit was set up in 2011 to bring together all the key inspection functions within an independent unit in the Housing Executive. Its role was later expanded to include championing corporate risk management and facilitating the corporate assurance process. The unit has subsequently evolved through a series of strategic changes. As a result of these, the corporate assurance unit currently provides annual inspection programmes over key business areas. Under technical audit, qualified technical officers based in the CAU complete annual inspection programmes covering all aspects of the Housing Executive's maintenance programmes, including planned maintenance schemes; response maintenance services across all 26 districts; heating installations; cyclical servicing and response maintenance; and private sector grants, including those for boiler replacement schemes. The programmes are designed to provide assurance to senior management and the audit risk and assurance committee. Where issues of concern are highlighted, CAU offers a support package to assist local management to implement any recommendations that are made.

Under the risk management assurance framework, the assurance and improvement team completes an annual programme of inspections to provide assurance to management and the audit risk and assurance committee on key business areas, including land and property, housing benefit, waiting lists and allocations. CAU provides strategic direction on the current risk management process. It manages the corporate risk register on behalf of the board and reports quarterly to the board and audit risk and assurance committee. The corporate assurance unit also coordinates the assurance statement process, whereby directors and assistant directors sign off quarterly that they have reviewed the risks, controls and proposed actions for which they are responsible in the corporate risk register and divisional risk register.

CAU has just developed an assurance framework that identifies areas where assurance — internal or external — is being provided on the controls in place to manage the organisation's key risks. In addition, this will identify the adequacy of the assurance and/or current gaps and produce an action plan to address weaknesses or gaps.

The first key issue for CAU in DSD's review of governance in 2010 was performance measurement. In line with recommendations made in the DSD governance review that CAU make greater use of data analysis to identify potential trends and areas of concern in order to direct its inspection work, the board approved that the role of the performance measurement be transferred from landlord services to the independent CAU.

The review recommended that CAU inspection programmes cover NIHE's heating contracts. CAU recruited a Gas Safe/Oftec qualified engineer to enable the unit to provide assurance to the board and senior management on the management of the heating contracts. The inspections began in 2013-14, and a programme is in place to inspect heating maintenance and the servicing of heating appliances in our housing stock. Prior to that, the Housing Executive's housing and regeneration division carried out periodic inspections of heating installations and repairs.

Recommendations relating to CAU arose from the DSD follow-up review of governance. CAU has addressed the recommendation that the land and property inspection unit be re-established with the aim of providing management with assurance that disposals are being completed in line with procedures. House sales and the special evacuated dwellings scheme (SPED) disposals are now

integrated in the CAU audit and improvement programme. Moving forward, relevant areas in land and property will be delivered as part of future programmes.

There were CAU recommendations from the NIAO 'Report to Those Charged with Governance 2012-13'. In response to the comment about weaknesses in the management of response maintenance contracts, it was recommended that the Housing Executive ensure that CAU visits enough districts on a timely basis to provide assurance that any improvements made in contract management are recognised or, if failings continue, that action is taken promptly. In 2013-14, CAU inspected all districts in line with the agreed programme. CAU has also addressed the recommendation on steps taken to ensure best use of the unit as outlined in the NIAO audit report in 2012-13. The results of CAU inspections have shown significant improvements. The response maintenance CAU inspections have been completed based on the 12 area office structure of the NIHE. Two of the office inspections are yet to be completed to final report stage, but the 10 that have been completed all received a substantial or satisfactory assurance.

The results of the CAU inspection programme on planned maintenance schemes for 2013-14 have shown improvements, with 13 reports provided with a substantial assurance level, one report with a limited assurance and one report with an unacceptable assurance level. That indicates a substantial improvement on last year's result, which had 11 reports as substantial, 10 reports as satisfactory, 10 reports as limited and 10 reports as unacceptable.

Following a review of the provision of audit assurance and technical inspection services in the Housing Executive, proposals on a way forward were approved by the board in April 2014. Essentially, the preferred option is to merge the internal audit and CAU into a single unit while maintaining the technical audit/inspections within it. Key benefits associated with the proposal include that it fully addresses the recommendations of the internal and external governance and contract reviews since 2010; one overall assurance plan with a clear idea of resource requirements while addressing current overlap and duplication and consistency in reporting; a single point of contact on audit assurance and risk matters; and a seamless service with technical skills available to provide more comprehensive internal audit and assurance services.

In conclusion, both internal audit and CAU have played a key role in improving governance arrangements in the Housing Executive over recent years. In summary, internal audit acknowledges that some improvements have been made in the areas of maintenance, procurement and governance under examination by this Committee. That view is supported by the results of audit work carried out, particularly in the past 12 months. The head of internal audit's opinion on the system of internal control in the Housing Executive for 2013-14 has been classified as satisfactory, and, although there remain issues to resolve, it is encouraging that both senior management and the board are committed to further improving and strengthening the internal control and assurance framework where required.

The vast majority of recommendations arising from the DSD governance review in 2010 and the NIAO report issued during 2011-13 have been implemented. Contract management and procurement and both planned and response maintenance, however, will continue to be key areas for inspection and monitoring by both internal audit and CAU in the future to ensure that progress is embedded across staff and contractors.

The planned merger of internal audit and corporate assurance functions will enable our work to be delivered in an even more informed and efficient manner through active cross-functional participation between professional audit staff and expert maintenance technicians as well as with staff and suppliers. That should enable better intelligence-led governance of reporting business areas and provide strong assurance in that area going forward.

The Chairperson: Thank you, Trevor. I will ask a couple of questions before I bring in members. On the concerns that the Audit Office expressed, you talk about merging the internal audit and the corporate assurance unit. How would that engage with the new asset management division? Are you satisfied, given the concerns expressed by the Audit Office, that the merged unit would have the necessary resources? The Audit Office was not satisfied of that initially.

Mr T McCartney: I will take the resource element first. There are 39 people in the two teams, which is a significant number to do that kind of work. If you look at what happens now, you can see that we are in a place where we could be audited by CAU one week and internal audit the next week, so it is not always joined up. We are trying to refine the processes internally. In a risk-based approach, you want to pick out the big things that are causing you problems, focus on those as a matter of priority and use your resource effectively by deploying it in that way.

You asked how it will link to the asset management function. Processes are now laid out, particularly in the new contracts, which Gay can talk about. Those processes involve our looking at not just how we audit as a tertiary audit approach — the third level of audit or the final line of defence — but about how we get the organisation upfront so that it looks at the contracts and the pre-inspection work, and we understand what is happening at that point to avoid failures later. That is key to how it will work with the asset management function.

The Chairperson: So it is not an additional resource but a better use of resource: is that what you are saying?

Mr T McCartney: It is absolutely a better use of resources.

Mr Allister: Have there been audit failures?

Mr T McCartney: Yes.

Mr Allister: Have they been extensive?

Mr T McCartney: One audit from the corporate assurance unit came back with an unacceptable rating.

Mr Allister: Historically, have you been plagued with audit failures?

Mr T McCartney: I would not say that we have been plagued with audit failures. John can comment on that further. Getting through the audit programme was a struggle. However, two key things that we now have in place are, first, the resources to deliver that, including the technical resources that were not there before, and, secondly, key performance indicators (KPIs) that inform us, early doors, whether there will be an issue with audit.

Mr Allister: Explain to us the difference in personnel levels now as opposed to two or four years ago.

Mr John McVeigh (Northern Ireland Housing Executive): In the internal audit unit, the substantive resource is 15 personnel, including me. That remains the substantive personnel resource in the team. We currently have 12 substantive people in place. The three posts that are either vacant or unfilled have been temporarily resourced through agency qualified staff. So we are operating on a full complement. That, taking account of the time frame in your question, has remained the same over the past three years.

Mr Allister: There have been some quite significant failures in the past three years, have there not?

Mr McVeigh: It is a matter of record that the Housing Executive has faced significant challenges.

Mr Allister: Do those challenges include audit failures?

Mr McVeigh: In the delivery of the audit service?

Mr Allister: In failing to identify problems.

Mr McVeigh: The internal audit department is one asset of the overall system of governance and control in the Housing Executive. As Trevor identified, internal audit and assurance are, in a sense, the third level. Principally, you have the staff on the ground. Then, you have maintenance checking in the Housing Executive and operational conditions. Thirdly, you have both internal audit and corporate assurance coming in to give a belt-and-braces overall assurance. So my view is that issues have been identified in the Housing Executive by the audit and assurance function and by management. It has been a challenging process to try to get on top of those issues and to move to a resolution of the problems that have been identified.

Mr Allister: Have there been any deficiencies in the operation of the audit process or the corporate assurance unit?

Mr McVeigh: The Audit Office report has identified, periodically, delays in reports being actioned and also where there was perhaps a delay in executing the annual programme. The brief that Trevor has set before the Committee identifies some of the reasons for those delays and implementation issues. In the internal audit department, certainly in resourcing, there is a strategy in place to address some of those gaps. On the additional technical skills, we now have a call-off procurement contract, which can identify any specialist skills not present in our team. Those issues were also picked up by the DSD governance review. The time frame is that the implementation of those issues is due for completion by the end of 2015.

Mr Allister: The Audit Office talked about the delay in obtaining clearance for audit reports. Whose fault was that?

Mr McVeigh: I think that one of the issues is that, previously, there was a system in place whereby, as a chief executive would do for this Committee, chief executives went through the reports before they went anywhere else. As with any report, you will get management challenge. That happens. What we now have in place — this is the important thing — is a system in which the audit reports go directly in draft form to DSD so that it can see them. There is still an issue to directors, and they have 10 days within which to challenge the reports. What we do not put in front of any audit report is anything that could constitute some sort of interference.

Mr Allister: Was there a culture of interference from the senior management team?

Mr McVeigh: I think that it is a matter of record that individual reports drew an excessive challenge by the then senior management team in the Housing Executive.

Mr Allister: Was that with a view to toning down the reports' findings?

Mr McVeigh: Certainly, it was with a view to challenging the overall assurance opinion and perhaps some of the rationale behind the report. Yes, that would be the case.

Mr T McCartney: In the governance structure in place now, both individuals here have direct access to the vice-chairperson as chair of the audit committee. They go to a meeting where they discuss those reports and have the opportunity to raise questions to be put to the committee without even my presence there. The Northern Ireland Audit Office and DSD also attend that committee, so we have external input.

Mr Allister: So, had there not been that culture of interference, would some of the problems that befell the Housing Executive have been avoidable?

Mr McVeigh: It is possible that there would have been earlier systemic action to identify some of the problems at the time when there were initial indications of difficulty, particularly in the maintenance contracts side of our business. It is a matter of record. The Audit Office and Public Accounts Committee have looked at that issue.

Mr Allister: Was the audit role being frustrated? Was the work of the internal audit unit being frustrated?

Mr McVeigh: I would not characterise it like that. I have been head of internal audit in the Housing Executive for six years, since 2008. So I was in place for much of the time when some of the issues that the Committee is looking at took place. My experience is that there was not a systemic attempt to thwart the role — certainly not of the internal audit department that I headed up. However, on a limited number of occasions, it was my experience that there was what I would characterise as an excessive management challenge to the reports coming out of my particular unit. It is a matter of record that some of the technical inspection functions that are now centralised in the corporate assurance unit experienced an excessive management challenge to their findings, particularly in the response maintenance side of the business, and latterly in the planned maintenance side as well. That was part of the rationale — in fact, it was one of the main aspects of the rationale — for creating an independent corporate assurance unit to ensure that —

Mr Allister: Yes, but how independent is it?

Mr T McCartney: Currently?

Mr Allister: Yes.

Mr T McCartney: It is very independent. If you look at the governance structures and safety mechanisms in place, you see that, first, we have the reporting structures that I talked about, whereby draft reports go straight out without anyone internally having a chance to go through them. We have direct access for both individuals with me today to go straight to the chief executive, with whom they have regular meetings, and to the vice-chairperson, who is chair of the audit committee. The management challenge that was there — the regular chief executive's business committees to review our reports — is no longer there. That does not happen. So the unit is highly independent.

Mr Allister: Were some of those raising the challenges seeking, in my terms, to thwart some of the work? Were they at the rank of people who still have that oversight role?

Mr McVeigh: As Trevor mentioned, the challenge was from the senior management team in the Housing Executive, which is called the chief executive's business committee, or CXBC for short. How the audit pack, if you like, of reports that went to the quarterly audit committees was processed is that it was pulled together and, before it went to the audit committee, considered by the senior management team as a collective group at a special sitting of the chief executive's business committee. On a number of occasions, individual reports dealing with maintenance issues were reviewed at that meeting with the senior management team collectively in place. It is a matter of record — I believe that it was covered in the Audit Office's value-for-money report on contract management — that individual reports where challenged to the extent that it was asked that they be reconsidered before they were presented to the Audit Committee in their current format.

Mr Allister: Toned down.

Mr McVeigh: That explicit instruction would never have been given. Certainly —

Mr Allister: That was the import.

Mr McVeigh: Perhaps to rethink and reconsider some of the reports' findings.

Mr Allister: Did you do that?

Mr McVeigh: One specific report on planned maintenance was challenged quite heavily at a senior management team meeting. The logic and some of the findings behind the report needed to be checked. The manager in my team who needed to give me the answer was absent at the time, so there was no time to bring that report to its final format and present it to the audit committee. It went to the next audit committee, which happened to be three months later. To prevent that situation arising again, as Trevor explained, one of the key recommendations for improvement being put in place is that all draft reports are forwarded to the director of housing in the Department and that the audit committee is briefed on any draft reports not yet presented to the audit and risk committee and are then due for reporting. In that way, the audit and risk committee can identify what work is pending and can ensure that it is brought *[Inaudible.]*

Mr Allister: So members of the senior management team were pulling rank. Is that right?

Mr McVeigh: They were at director level, so, according to rank, structure and seniority, they were in senior positions. Nonetheless, it was my job as the head of internal audit to make sure that the accounting officer was briefed on all issues. If necessary, I had access to the audit chair.

Mr Allister: Who was the accounting officer?

Mr McVeigh: He is retired now.

Mr Allister: What was his role? What was his job title?

Mr McVeigh: He was the chief executive.

Mr Allister: He was the chief executive. So the man who heads up the senior management team is the accounting officer to whom you were reporting, and some in the senior management team were trying to thwart your work.

Mr McVeigh: It is difficult for me to characterise their thinking in exercising that challenging role. Nonetheless, I would have been asked to consider the report and to come back.

Mr Allister: In 2013-14, the corporate assurance unit had very positive ratings: 100% of those reported on for response maintenance and 86% for planned maintenance. However, just the year before, 62% of districts inspected were given limited or unacceptable ratings. Are we to believe that there was such a dramatic improvement or were you more easily satisfied in 2013-14?

Mr T McCartney: That is a fair question. When we saw those results coming through, we had no reasons why they were better. We are working with contractors differently, and we have better ways of working in landlord services, but, to be sure, I have asked John to audit the work done by the CAU to make sure that we are comfortable with that.

Mr Allister: Has that been done?

Mr T McCartney: We are doing that, and early indications are that we are happy.

The Chairperson: Before I bring Sammy in, I just want to take you back a bit, John. I appreciate your position, but you used the word "challenging". You said that there were challenges. Can we extrapolate that into, for example, audit reports that stated that — I may be using the wrong word here — there was interference in or suppression of reports to change the nature of those reports? The persons involved in that were not named in the report, but I think that you know where I am going on this.

The Committee needs to be satisfied because we are dealing with a particular reference for this phase of our inquiry. For us to have confidence in what you are saying about improvements and, as we go forward, that those improvements are being sustained, we need to have an understanding of that. You mentioned a specific meeting a while ago at which a challenge was made but not addressed. How can we have confidence when you, for example, appear to be suggesting that you were aware or concerned that there were problems with the process? Did you report them? Did you complain about that? Did you raise an issue?

I am not focusing on you personally, but you have been there for x number of years. I need to have confidence in what you are telling me about how we go forward. Did you raise these matters, which have subsequently been reported by the audit committee as serious, fundamental concerns? I am trying to work out who was doing anything about these concerns, given that someone in your position has said in evidence that you identified some of those problems. Can you elaborate on any of that? That relates to making sure that reports were changed to give a better rating than was deserved. Those are serious questions.

Mr McVeigh: Yes, indeed. We are talking about the period around 2010. To set it in context, we were dealing with the principal issue that the Housing Executive was working through: the Red Sky issue. The audit committee discussed with me the issues that were coming to its attention, mainly regarding response maintenance. I was working with the audit committee, and I was beginning to look at investigative issues at that stage. The audit committee was aware, in 2010, of some of the emerging issues as to how audit and assurance protocols were operating.

The Committee might be aware of a report that was not presented to the audit committee of the Housing Executive in 2007, which looked at land disposal issues. That report was not presented at all, even though it was compiled as a draft report. That was a year before I took up my position. Once I was able to identify what had happened to that report, and that the audit committee had not been presented with it at all, there was more unease. The report on the maintenance issue, which had been challenged, went to the audit committee three months later. The committee members had full sight of it, and the draft report as well. The audit committee was very supportive in getting an understanding of some of the challenges that the internal audit function faced at that stage. The response maintenance technical inspection unit, or RIU as it was known — the repair inspection unit — was then transferred out of the housing and regeneration division and attached to internal audit to ensure that it had independence of reporting, because it was principally looking at the issues around response maintenance, which was the Red Sky contract with us.

Once the audit committee began to realise the difficulties that it was experiencing in receiving intelligence data on technical maintenance issues, as well as internal audit reports periodically, steps were taken to make sure that reports came to the audit committee in a transparent way. An initial step was the attachment of the RIU team to the internal audit unit and, latterly, the creation of the corporate assurance unit. Other steps were taken to make sure that all draft reports were brought to the attention of the audit committee. A specific report is brought to the audit committee now, which identifies all draft work, planned work and work in progress. As well as that, draft reports, once they were issued to management and had had a 10-day clearance period, were then issued directly to the Department. That ensured that not only the Housing Executive audit committee but the Department, in its oversight role, could track not just final reports but draft reports as well.

Those were important steps. Collectively, they were designed to improve the governance, and, in my experience, they have greatly helped. The audit committee is particularly vigilant now, not just of the data that it receives but of the process of collating data and knowing what data is imminent, in terms of three months [*Interruption.*] stage and so on. It has learnt from experience. The point was made earlier that, had those steps already been in place, they would have helped it to pick up issues and take action on them earlier.

The Chairperson: OK, John, thank you.

Mr Wilson: I will go back to the point where you left off with Jim. You were talking about how, very often, audit reports were reviewed by senior management. In fact, there are examples of when they were changed. Can you give us a flavour of the kind of changes that they were asking for?

Mr McVeigh: I would not characterise that as a regular occurrence. The meeting of the senior management team, once a quarter, was obviously a regular meeting. In six years, two reports were specifically identified from the internal audit department that had been characterised as an excessive managing challenge. The first was the maintenance report, which looked at planned maintenance issues. The report was brought in, initially, with a limited assurance opinion. Questions were raised about the validity of some of the data that led to that opinion. I had gone back to check on some of the issues, but the senior manager of the team that had been working on that was off on sick absence, and I was not able to get the answers in time to get the opinion cleared for the pending committee meeting. We were able to go back in three months with additional clarification on some of the issues, and the opinion was brought to the audit committee at the next scheduled meeting.

The report that looked at land disposal issues in 2007, which was the year before I took up post, had identified problems with the control over disposals of Housing Executive land to ensure value for money. The internal audit report had identified flaws in the process and had challenged the rationale behind some land disposals. It was a draft report and had a limited assurance, I believe. I will need to check to that. However, it raised concerns. That report was not taken to the audit committee in 2007 at all. It had been compiled as a draft and was not taken. That point was raised by the Audit Office and latterly by the Department in its overall governance review of 2010, and the issue relating to that report is the recommendation that has not been closed off. The reason that we cannot close it off is that the individuals who were involved in discussions about that report have all left the organisation. We have been unable to determine the rationale, but the important point is that the controls that have now been put in place ensure transparency in the compilation of reports at draft level, as I have explained, and final report level, and the draft reports are issued to the Departments. There is a belt-and-braces approach now to ensure that there is transparency in all assurance and audit work to ensure that the audit committee has full knowledge of exactly what issues it needs to be aware of.

Mr Wilson: So, in one case, interference stopped a report being published altogether. In the other case, once the data was provided, was the status changed from limited to something different or did it remain as it was?

Mr McVeigh: It was my decision to change it from limited to satisfactory. I was confident that the correct assurance opinion at that time was a satisfactory audit opinion. That was reviewed by the Audit Office at that time. The issue was about making sure that the audit committee was aware even of a draft opinion. The audit committee is now made aware of provisional opinion in a report's status, and, if there is a subsequent change, it wants transparency around the rationale behind that change. Audit opinions can change in draft; that is not an uncommon process in the audit environment. Management has the right to ask a question or to challenge a report to ensure that there is logic behind the findings. That is very important and is a normal part of business. The key thing is that the challenge does not become almost an excessive challenge, not because the validity of the report is

not acceptable but because, in a sense, there is not a willingness to listen to what the report is saying, almost as if it is a suppression. That is something to guard against. In one limited example, it appears that there were some problems with that on the internal audit side, and there were also issues with the response maintenance and planned maintenance technical inspection reports. Those issues are a matter of record.

Mr Wilson: Jim mentioned some of the dramatic changes in the progress to date. On the planned maintenance contracts, in 2012-13, you sampled 41 districts. In 2013-14, you sampled 15 districts. It seems that you sampled the ones that did fairly well in 2013-14. Why is there such a difference? We moved from 10 unacceptable and 10 limited to one unacceptable and one limited. Were the poorly performing districts filtered out?

Mr McVeigh: I refer you to my colleague Gay. That is her side of the business.

Ms Gay Ireland (Northern Ireland Housing Executive): You are talking about response maintenance as opposed to planned.

Mr Wilson: No, the planned maintenance.

Ms Ireland: Since I took up the post in June 2011, there have been a number of staff changes and different staff have moved into the unit. During a series of strategic reviews, we replaced a large number of those staff with staff who were more qualified, and we embedded support techniques and worked with the staff on the ground. I have found that staff are keen to do the right thing, have willingness to listen and, in fact, want the best for their tenants. Around that time, the then director of design and property service instigated a whole training programme. All the staff and the project managers were trained; therefore, we were trying to do improvements with the front line staff in that they were trained. We were working with them, and I believe that that is why a difference is coming forward now and why we are starting to see the benefits.

Mr Wilson: I do not know whether there is a difference, because you looked at 15 compared with 41. We do not know if the 10 that were limited and the 10 that were unacceptable are still limited and unacceptable because it appears that they are not included in the figures.

Ms Ireland: Prior to this year, we looked at all the districts, and that was how it came out. The next year, a few were omitted, and that was a risk-based approach. It was taken to the audit committee because they were well-performing districts. This year, the districts have been amalgamated into areas. Although it looks as if we have looked only at 12, we have inspected every district as part of the 12. Some areas might have two districts and some might have four, and we have looked at them all. For the current programme, my staff have a fully comprehensive methodology, and, primarily, the key to that is looking at what has happened on the ground. We look at finance, which is whether we were overcharged, and the quality of the work carried out by the contractors. That has improved, and our staff are working much more closely with contractors. I was at meetings and, indeed, opening meetings. I attend all the exit meetings, at which we go through the issues and inform staff across the Province of the key findings and what they need to look out for. In fact, we do that for planned as well as response. I attend all exit meetings, as it gives staff the opportunity to air their concerns and allows us to share knowledge.

On the response side, we had a debriefing session about a month ago at which there were more than 200 maintenance officers, and we told them what had been happening, what we had found and what we intend to do. We have a lot of buy-in and support from staff. That is why the scores have changed. It is an amalgamation. We considered what exactly we are looking at and, from a methodology point of view, how we are scoring what we find and whether we are being robust enough in our scoring mechanisms. I believe that we are. For this year's programme, where we identified any issues or found something that was not quite right or someone who needed additional training such as agency staff, we worked with them and offered support. My team stayed and worked with them and made sure that it does not happen. We make recommendations and check that they have been implemented. That is why you are seeing the change. It is the same with the planned maintenance. Again, there have been changes. A great deal of training has been given to staff, and we have been working with them. However, we are at the tail end of one of the contracts, and there is not so much happening until the new consultancy-led agreements come on board. Nevertheless, we have our programme that goes to the audit committee, and we have been inspecting — *[Interruption.]* — appropriately sent to DSD and our audit committee.

Mr Wilson: I am trying to get my head round the process. There are trained professional maintenance officers in the district offices who go out to look at the work. The corporate assurance unit looks at the work that it has done, and internal audit looks at the report that comes from the CAU. I do not know how many people are involved in that structure.

Mr T McCartney: That is a good point. Your question is well made in the sense that there are fewer audits, but they are more precisely chosen. Where there is a satisfactory level of assurance, things are not audited so frequently; however, when you have the level of checking that we operate under, it makes it difficult for staff to get ahead of themselves and for us to work with contractors. That is one of the reasons why, through the merger of corporate services and internal audit, we are trying to streamline the process, because, at the end of this, there are tenants who need work done. While we check, check and check again, we are probably spending less time getting that work done, and that is where our focus needs to be. We still need assurance: it has to be there, but it needs to be more precise. That is what will allow us to get back to business.

Mr Wilson: That is a question that I was going to ask. You have all these different levels. You have professionals employed as maintenance officers, you have supervision through the CAU and the inspection of that through the internal audit, and yet, in just referring to the repairs inspection unit, three quarters of the districts were found to be limited or unsatisfactory in 2011-12. In 2012-13, half the districts were limited or unsatisfactory, and there have been none in 2013-14, which I hope is a genuine improvement. What is it about the Housing Executive that, even with all that supervision — stratum after stratum of supervision — you still had those measurements of unsatisfactory outcomes?

Mr T McCartney: You cannot legislate for individuals and individual behaviour. However, the important point is that we found it and, in finding it, action was taken that has resulted in significant later improvement.

Mr Wilson: This was not down to individuals; it must be systemic. As a result of the question that Jim Allister asked earlier, is it the case that, from the very top, there was a tolerance; in fact, not only a tolerance but a desire to cover it up when it was found out that districts did not have the performance that you expected? At the end, as you have said, it is the tenants and the public purse that lost out.

Mr T McCartney: I cannot comment on some of the observations that you have made, but when we look at how we do this now, and at all the improvements that we have in place, every one of them is as a result of the things that we have found so far, and we have not finished yet. We still have work to do, but the important thing is what we do from this point hence. We have a risk-based strategy in place that will eventually be more technology-driven, so you will get early warning that you cannot argue with to any great extent. A process and governance structure will be in place so that that nobody can play with reports, change them or do anything with them. They are what they are. There will still be management challenge, because opinions can vary. If you look at the audit function in any world-class business, there will be management challenge, but as for the integrity of the process, this is absolutely where it needs to be now.

Mr F McCann: I have a couple of questions, although some of this stuff has already been touched on. We understand that the gateway 5 review is completed and, although the final report is not yet available, we understand that:

"the review team considered that the contract management assurance regime appears to restrict the ability of maintenance and contractors to act within the spirit of the contract."

Can you comment on that?

Mr T McCartney: The thing in the gateway 5 review that hits you clearly is the extent to which we are over-checking and the process has now become onerous. That is not a good place for any of us to be. It makes it hard to work with contractors, whom we want to work better with; and it makes it hard for internal people to look ahead of themselves because they are constantly looking in the rear-view mirror. The recommendations are clear: we need to get better at this. That is exactly what I was saying previously.

When we have a risk-based approach, and when we are more precise about what we are doing, we have clear methodologies. We have governance structures that keep us safe and, perhaps even

more important than that, we have a culture where people want to get better at this. That is one of the things that we are trying to instil in both organisations. That is the most important thing for us.

Mr F McCann: Are you saying — I will go on to say why I believe that — that there has to be a degree of flexibility; that, first, they get the job done; and, secondly, they ensure that it is done within the broad parameters that have been laid down?

Mr T McCartney: There should be parameters. There are key performance indicators (KPIs). You need to check things, and they need to be done right because there are health and safety implications. However, people make mistakes; they are human. You have to understand that a mistake is something to be looked at from the point of view of training and development and of how you stop it happening again, not from a point of view of putting that person, individual, business or organisation on the back foot. We are trying to create a culture of a constantly learning organisation. That is important to us now. You will have heard, through our Journey to Excellence work, that that is key to our strategy. Without that, it will always be where it always was. We are making significant gains on this and we know what we need to do. The gateway 5 review is the validation of that by an external force, and that is what we are trying to drive for.

Mr F McCann: Let us jump back a number of years. Sometimes, when you look at this situation, you try to put your finger on where it all began. Have you been able to put your finger on where the rot set in? Some people say that much of it started with the introduction of the Egan contracts and the restrictions that formed part of them, even in planned maintenance. Egan was all about more for less, but it ended up in an argument between district offices and contractors over and above the additions. I remember standing in a hallway, when Red Sky was the contractor, and the tenant's hall had been dug up. The argument was not only about fixing the leak or repairing the damage but about how much they were going to get for that individual piece of work. That woman sat for six weeks because the contractor refused to do any work. That seemed to prevail certainly across west Belfast, which is where I live. I take it that that has all been removed now.

Mr T McCartney: It is well documented that the spirit of the Egan contracts was misinterpreted to some extent; there was a level of flexibility that should not have been there. The present NEC3 contracts now operate properly, but we still end up accounting for things such as compensation events. They are clearly documented. There are no swings and roundabouts in any of this. It is the case that you get what you are paid for. If you do something else, you get paid for that as well, and if you do not do it, then you do not get paid for it. It is that simple.

Mr F McCann: Did last year's announcement about the £18 million originate from your offices or from the audit office?

Mr McVeigh: My team was not involved in the quantification of the £18 million figure. The work that internal audit did was around 2011 or 2012. At that stage, we were focusing on the response maintenance issue. As I think I explained earlier, the repair inspection unit, which looks at response maintenance, was detached from line management to work for my team for a period. At that stage, the corporate assurance unit was set up and the planned maintenance inspection function, or scheme inspection unit (SIU), was also detached and placed in the corporate assurance unit. It looked at both response and planned maintenance.

Upon Gay's appointment and the assembling of her team, issues were brought to her around planned maintenance concerns and allegations over planned maintenance and administration. Gay brought that to the investigation strategy group (ISG), which is a group in the Housing Executive that considers whistle-blowing allegations and allegations of possible fraud and misconduct. So Gay had initially brought concerns to that group concerning planned maintenance.

My team was asked to examine the issues that Gay had brought to the ISG team, which we did on a pilot one-scheme basis. Based on working with Gay's team and looking at the issue ourselves, we felt that there were possible concerns over poor-quality work and overcharging on that one scheme. At that stage, the ISG team, which was a senior management team, asked for further work to be done and, eventually, that further work was done by outside-procured quantity-surveying professionals.

Once they had done a far more substantive and wider examination of a greater number of planned maintenance schemes, there was a process in the Housing Executive to quantify the potential overcharge figure. The internal team did not have the quantity-surveying skills. We are financial and

audit professionals, but we did not have that specialist knowledge, so it would have been done by other areas of the business.

That is where we, essentially, stepped out of the process. Initially, for want of a better word, we carried out due diligence on the concerns that were brought out by the corporate assurance team, but the quantification and extrapolation work that would have ended up in an "end figure" would have been done by other parts of the business.

Mr F McCann: Who stepped in to take that forward?

Mr McVeigh: To my knowledge, it was managed by the director in the design property services division. At that stage, it would have had responsibility for planned maintenance. So that division would have been responsible for collating or working on the collation of an estimated figure, if you like.

Mr F McCann: I remember that, at the time, community organisations in west Belfast, and my MP, raised a question about Red Sky.

Mr McVeigh: Yes.

Mr F McCann: At that time, the Red Sky contract was going to be suspended or withdrawn. Were you involved in that or did you advise anybody? Why was that decision taken?

Mr McVeigh: OK. I was appointed in June 2008.

Mr F McCann: Yes.

Mr McVeigh: My understanding of —

The Chairperson: I think that we are nearly moving into phase 3. This phase is around the Committee having to satisfy itself — I mean the terms of reference governing this are whether we are satisfied that the actions taken to address the well-documented failings are adequate.

Mr McVeigh: OK.

The Chairperson: That is what we are trying to disclose. I do not want to stray from that, with due respect. Were you referring to the external people involved in the Campbell Tickell report or people involved before that?

Mr McVeigh: No. The chronology was that the initial whistle-blowing allegations were brought to the ISG by Gay upon her appointment. That was the correct process. We were then asked to carry out a due diligence quality-assurance exercise on that one scheme. We brought our findings back to the ISG team at the beginning of 2012, I believe. Once the ISG considered our report into the matter and satisfied itself that there was an issue that needed to be taken forward, the quantification — if you like, the extrapolation — of the potential overcharge figure would primarily have been taken forward by the design and property services division, at that stage. It would have done that through the help of external quantity-surveying professionals.

Following that, in 2013, Campbell Tickell was procured to review the overall set of issues. It would have had access to the analysis done by the quantity-surveying professionals. It would have taken that data and, I guess, done its own work, if you like.

Mr F McCann: When the expertise in quantity surveying in the initial thing left your office and went to the design office, would that have been done as part of a tender or contract, or were people just approached and asked to come in?

Mr McVeigh: The work of my team was all internal in the Housing Executive. However, we would not have had quantity-surveying knowledge in our internal team. We would have relied on the technical professionals in Gay's team and would have worked with them on a one-scheme basis. We could have done site visits on a scheme to look at the issues, but that would have been all internal.

The wider issue in bringing in external quantity-surveying professionals, I understand, would have had to be procured through the normal process.

Mr Allister: Who were they?

Mr McVeigh: From memory, I think that the firm was called Murray Macdonald, but I would need to check.

Mr F McCann: Is that the Macdonald report?

Mr McVeigh: Murray Macdonald, yes, that is right.

The Chairperson: No other member has indicated that they want to speak. Is there anything else that you want to finish with? Members will take time to reflect on what they have heard. That is par for the course. We do that after every evidence session. Are you happy that you have made your case?

I thank you, Trevor, Gay and John, for attending and dealing with the questions as you have.