

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 – Phase 2
Volume One**

**Together with the Minutes of Proceedings of the Committee Relating to the Report,
Minutes of Evidence, Written Submissions and Correspondence from the
Department for Social Development**

Ordered by the Committee for Social Development to be printed 26 February 2015

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THE REPORT REMAINS EMBARGOED UNTIL 13 MARCH 2015

Powers and Membership

The Committee for Social Development is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, section 29 of the Northern Ireland Act 1998 and under Standing Order 48.

The Committee has power to:

- consider and advise on Departmental budgets and annual plans in the context of the overall budget allocation;
- consider relevant secondary legislation and take the Committee stage of primary legislation;
- call for persons and papers;
- initiate inquiries and make reports; and
- consider and advise on any matters brought to the Committee by the Minister for Social Development.

The Committee has 11 members including a Chairperson and Deputy Chairperson and a quorum of 5.

The membership of the Committee since 23 May 2011 has been as follows:

- Mr Alex Maskey (Chairperson)
- Mr Mickey Brady (Deputy Chairperson)
- Mr Jim Allister ⁷
- Ms Paula Bradley ¹
- Mr Gregory Campbell ³
- Mr Maurice Devenney ^{8,12,13}
- Mr Roy Beggs ¹⁴
- Mr Stewart Dickson ¹¹
- Ms Dolores Kelly ¹⁰
- Mr Fra McCann
- Mr Sammy Wilson ^{2,4,5,6,9}

- 1 With effect from 20 February 2012 Ms Paula Bradley replaced Mr Gregory Campbell
- 2 With effect from 26 March 2012 Mr Alastair Ross replaced Mr Sammy Douglas
- 3 With effect from 01 October 2012 Mr Gregory Campbell replaced Mr Alex Easton
- 4 With effect from 01 October 2012 Mr Sammy Douglas replaced Mr Alastair Ross
- 5 With effect from 11 February 2013 Mr Sydney Anderson replaced Mr Sammy Douglas
- 6 With effect from 07 May 2013 Mr Sammy Douglas replaced Mr Sydney Anderson
- 7 With effect from 09 September 2013 Mr Jim Allister replaced Mr David McClarty
- 8 With effect from 16 September 2013 Mr Trevor Clarke replaced Ms Pam Brown
- 9 With effect from 16 September 2013 Mr Sammy Wilson replaced Mr Sammy Douglas
- 10 With effect from 30 September 2013 Mrs Dolores Kelly replaced Mr Mark H Durkan
- 11 With effect from 01 October 2013 Mr Stewart Dickson replaced Mrs Judith Cochrane
- 12 With effect from 06 October 2014 Mr Sammy Douglas replaced Mr Trevor Clarke
- 13 With effect from 17 November 2014 Mr Maurice Devenney replaced Mr Sammy Douglas
- 14 With effect from 09 February 2015 Mr Roy Beggs replaced Mr Michael Copeland

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List of Abbreviations used in the Report

| | |
|--------------------|---|
| (The) Committee | Committee for Social Development |
| BBC NI | British Broadcasting Corporation Northern Ireland |
| C&AG | Comptroller and Auditor General |
| DFP | Department of Finance and Personnel |
| DLO | Direct Labour Organisation |
| DSD/The Department | Department for Social Development |
| NIAO | Northern Ireland Audit Office |
| NIHE | Northern Ireland Housing Executive |
| PAC | Public Accounts Committee |
| PSNI | Police Service Northern Ireland |
| RIU | Repairs Inspection Unit |
| SRO | Senior Responsible Officer |
| TUPE | Transfer of Undertakings (Protection of Employment) Regulations |

Executive Summary

1. The Committee noted the findings of previous reports into the failings of the Northern Ireland Housing Executive (NIHE). The Committee did not set out to re-examine these issues but rather to consider the actions taken by the Department and the NIHE to address well documented failings in procurement and contract management and related governance issues.
2. The Committee took evidence from senior DSD and NIHE officials as well as the Comptroller and Auditor General (C&AG).
3. All of the witnesses to this phase of the Inquiry acknowledged that the failings of the NIHE in respect of governance, contract management and procurement had been extensive.
4. The Committee agreed that a significant factor contributing to this was an apparent 'light touch' approach by the Department in respect of its oversight role, at least until 2010.
5. However, from 2010 on, it is clear to the Committee that Ministers initiated a series of investigations and reviews to establish the range and depth of issues relating to governance, procurement and contractual management and to make recommendations to address these.
6. The Committee was provided with evidence that shows that almost all the recommendations made in key reports in respect of these issues have been implemented and the Committee welcomes this progress.
7. The Committee noted, however, that the implementation of these recommendations has taken a number of years. The Committee agreed that recommendations stemming from reports relating to the NIHE should be expedited in line with a defined timeline for each recommendation.
8. Of key concern to the Committee was the action taken by the NIHE board in relation to the role of, and procedures pertaining to, the NIHE audit committee. In particular the Committee was eager to hear about the arrangements which addressed the issue of management challenge to audit reports which had been identified in the Public Accounts Committee (PAC) report. The Committee was reassured that the revised arrangements, including the provision of draft audit reports to the Audit and Risk Assurance Committee, can provide confidence in the openness and transparency in the NIHE's procedures.
9. Overall the Committee agreed that good progress had been made in relation to the range of issues relating to procurement, governance and contractual management. However, the Committee also agreed that there was significant work still to be done if public confidence in these three key areas is to be achieved and sustained.

Recommendations

10. The Committee recommends that an urgent review is conducted into the current Transfer of Undertakings (Protection of Employment) Regulations (TUPE) arrangements and the long term sustainability of the Direct Labour Organisation (DLO). The Committee recommends that any future audit of the NIHE maintenance contracts should include a value-for-money exercise by the Northern Ireland Audit Office (NIAO) into the expanded DLO.
11. The Committee was of the opinion that building in an assessment of the viability of the bids submitted by tenders was a key element in the decision to award a contract and noted that value for money did not always equate with the lowest cost. The Committee recommends that the NIHE considers best practice in relation to future procurement exercises practices to ensure proposed tenders are viable.
12. The Committee believes that the changes made in amalgamating the audit and risk committees, and the associated changes in procedures relating to reporting audit findings represent significant improvement in the governance structures. The Committee recommends that the Department and the board of the NIHE regularly review the operation of this committee and the new procedures. In particular the Department should ensure that the required expertise continues to be provided to the committee and any necessary training is provided to committee members to underpin its key role.
13. The Committee recommends that these arrangements should form part of the NIAO annual audit of the NIHE.
14. The Committee believes that the NIHE management should take steps to actively promote the whistle-blowing policy across the organisation, including its contractors, to encourage staff to come forward with issues of concern particularly in respect of contractual, governance or procurement issues.
15. The Committee understands that the NIHE is currently engaged in developing a succession planning strategy. The Committee notes the recent cut in the NIHE budget which will result in significant numbers of staff leaving via a voluntary exit scheme. The Committee therefore recommends that the NIHE develop a strategy for succession planning as a matter of urgency to ensure that NIHE staff have the appropriate range and level of skills and experience to enable the organisation to carry out its functions into the future.
16. In consideration of their responsibility for maintaining good governance and accountability the Committee believes that the NIHE board should review its guidance provided to board members and senior officials who leave the NIHE and join another organisation which has a contract to provide services to the NIHE.
17. All witnesses noted that there was still significant work to be done if public confidence in the governance arrangements is to be achieved and the Committee noted that the NIHE's current Journey to Excellence programme aims to build, at least in part, on the recommendations of previous reports. The Committee believes it is imperative that the NIHE develops a clear implementation plan for any recommendations stemming from future reports and that these are progressed expeditiously otherwise this will undermine confidence in the NIHE's ability to make progress in a timely fashion.

Introduction

18. Following the broadcast of a BBC NI Spotlight programme in July 2013 the Committee initiated an Inquiry into the allegations made in the programme.
19. The Committee agreed terms of reference for its inquiry on 3 October 2013. The Terms of Reference contain three distinct strands:
20. (i) *Decision making relating to the award, modification and cancellation of NIHE maintenance contracts to establish any impropriety or irregularity and, in particular, whether the actions of Ministers were appropriate;*
- (ii) *Allegations that the Committee was misled by the Minister for Social Development over his decision to seek a review of the specification for the supply and fitting of double-glazing;*
- (iii) *The adequacy of actions proposed by the Minister, the Department for Social Development (DSD) and the NIHE to address previous, well documented failings in relation to procurement and contract management;*

And

Should the Committee identify any evidence of fraud or corruption in relation to the operation of NIHE maintenance contracts and/or any actions indicating possible breaches of relevant codes of conduct, these will be reported directly to the appropriate authorities.

21. At its meeting of 3 October 2013, the Committee agreed that it would approach the Inquiry in phases and decided to initiate phase one of the Inquiry by investigating Strand (ii) of the Terms of Reference. The Committee published its report on phase 1 of its inquiry on 3 July 2014.
22. At its meeting of 14 November 2013, the Committee considered and agreed an approach to the Inquiry that reflected the principles of procedural fairness. This was subsequently revised and the revised version is included in appendix 7.
23. Phase 2 of the Inquiry relates to:
- The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.*
24. In addressing the issues in this strand of the terms of reference the Committee considered a number of reports that were produced in response to concerns about contract management, procurement and governance issues in the NIHE. The key reports can be found in appendix 6.
25. It was not the intention to re-investigate these issues or question the conclusions of these reports. Rather the aim of the Committee's Inquiry was to consider the actions taken by the Department and the NIHE to address well documented failings in procurement and contract management and related governance issues. In particular the Committee considered the extent to which the recommendations made in these reports had been implemented.
26. The Committee received written briefings and held five evidence sessions as part of its consideration of these issues.
27. The minutes of evidence from these sessions are at Appendix 2

Consideration of Evidence

Context

28. The Committee considered the well-documented failings identified in previously published reports. A synopsis of these failings relating to governance, procurement and contractual matters is outlined below. The Committee would emphasise that these are not new findings but are presented to provide context to the Committee's deliberations.

Contract Management

29. Contracts were inappropriate, out of date and not fit for purpose and opportunities to strengthen them were missed as far back as 2007;
30. Recommendations from the C&AG aimed at addressing shortcomings in contract performance were ignored;
31. Management placed too much emphasis on a partnership approach and not enough on scrutinising the work done by contractors;
32. Senior management failed to equip staff with the right skills and knowledge to effectively manage response maintenance contracts;
33. As a result, with a few notable exceptions, many District Maintenance teams were not delivering the required standard of service and were failing to challenge the poor performance of contractors;
34. There were also serious flaws in how jobs were selected for inspection; how inspections were carried out; the timeliness of these inspections and how the results were recorded and reported;
35. There were widespread and systematic weaknesses in the setting and use of Key Performance Indicators to evaluate contractor performance;
36. It is very likely that performance data was being manipulated;
37. Reports produced by the Repairs Inspection Unit (RIU) and Internal Audit Branch identifying poor quality work were not properly considered or acted on;
38. Reports were actively withheld from, or not fully reported to, the Board or the Audit Committee;
39. Although the Housing Executive terminated its contracts with Red Sky in July 2011, it had numerous opportunities to terminate prior to this but failed to do so;
40. It also failed to issue a strong rebuttal to Red Sky in response to the company's clear attempt to have a Housing Executive employee moved from their post;
41. In 2000 and 2005, there were allegations of NIHE maintenance officers accepting excessive hospitality from the company;
42. Despite a clear warning from the PSNI in 2006 about the inadequacies and weaknesses of its systems the Housing Executive did nothing, this undermined its ability to effectively manage its contracts and guard against and tackle fraud;
43. In 2005 NIHE found that £264,000 had been overpaid to Red Sky. However, following investigations, NIHE decided not to penalise the contractor as responsibility for some of the

overpayment lay with NIHE staff. Following negotiations, NIHE recovered £20,000 from the company; and

44. There was a very real concern that the weaknesses and failings identified in response maintenance were systematic and extended into other areas of Housing Executive activity, such as planned maintenance, kitchen replacement, heating schemes and land deals.

Corporate Governance and Accountability

45. The Department was not alert to the problems in the Housing Executive, which were evident over many years;
46. Governance and Accountability structures that were in place were not working in practice;
47. The Department and the Board relied on assurances from Housing Executive management about the operation of these structures without appropriate challenge or work to validate the substance of those assurances;
48. Information provided by senior management within the Housing Executive to the Board on important issues was inadequate;
49. In some instances key information that should have gone to the Board was deliberately held back by senior management or was presented in a superficial way that glossed over problems;
50. Fundamental financial management information for proper and effective oversight was not readily available and it would appear that its unavailability went unchallenged by the Board;
51. The PAC was concerned about the involvement of a former non-Executive member of the Housing Executive's Audit Committee — who resigned from the Audit Committee prior to its March 2007 meeting and became Chairman of the Red Sky Group in April 2007. He subsequently represented Red Sky in negotiations with the NIHE to recover sums which had been paid to the company as a result of it overcharging for work. PAC noted that his involvement was totally unethical and could and should have been avoided. It also highlighted a fundamental breakdown of governance and proper accountability in that his involvement was not discussed by senior management at any stage with the Audit Committee, Board or the Department;
52. It is evident that the Department took some assurance from the status of the Housing Executive as a Centre of Procurement Expertise and the fact that it had gone through the accreditation process. However, PAC raised serious concerns about the accreditation process for Centres of Procurement Expertise on a number of occasions. The PAC stated in their report that this is yet another example which calls into question the credibility of that process and highlights the need for it to be overhauled. The Department of Finance and Personnel (DFP) told the Committee that, following the Committee's previous concerns, it is carrying out a review of the accreditation process which was due to be completed in 2014; and
53. In 2010-11, of 22 on-going investigations of suspected fraud in NIHE, only 2 had been formally notified to the C&AG. Management wrongfully attempted to trace a whistle blower instead of addressing criticisms. In October 2011, the Department had to do a full reconciliation of all investigations and whistle-blowing cases that the Housing Executive had dealt with in the past or had ongoing and ensure that the C&AG had been notified of them. The C&AG now has a full record and is being updated regularly.

Key actions taken by Department

54. The Committee considered written and oral evidence relating to the action taken by the Department and the NIHE in relation to the findings and recommendations of key reports. The key points of evidence are outlined below.
55. Minister Attwood initiated a review of governance in 2010 following growing concerns about governance and contract management regimes. The Department has indicated that this led to a series of measures to address governance and contract management failings including the establishment of an oversight panel which reported to the audit review team and a gateway review published in January 2011. The Department notes that the NIAO report is very much based on the work that it commissioned.
56. A cross-departmental oversight group with independent members was established to ensure that the review's recommendations were appropriately implemented.
57. The Committee notes that the Permanent Secretary began holding accountability meetings with the NIHE Chief Executive on a monthly basis beginning in August 2012.
58. The Committee notes that this was in line with the Department's responsibility as the sponsor department to determine and agree in accordance with the accountability cycle a formal programme of Accountability Meetings with the NIHE; and ensure that such meetings are formal and well-structured covering the key issues.
59. The Committee notes that the Permanent Secretary also wrote to the Chief Executive six times between January 2012 and the end of May 2012 on contractual or governance matters. The Permanent Secretary also met separately with the Chief Executive and the Chairperson of the NIHE to discuss his concerns on these matters.
60. However, it is not clear what the impact of these letters and meetings had on ensuring progress was made on the implementation of the recommendations from the Review of Governance or the Gateway (Health Check) Review given, as noted above, recommendations were still being implemented in late 2014.
61. The Minister also held review meetings with the Chairperson and Chief Executive of the NIHE in February/May 2011.
62. Following the election of May 2011, Minister McCausland initiated a forensic investigation of response maintenance contracts in July 2011 and the findings and evidence were published in June 2013. These highlighted shortcomings in relation to the management of response maintenance contracts.
63. The Permanent Secretary also increased regularity of accountability meetings from twice yearly to quarterly (and subsequently to monthly).
64. In July 2012 the Minister introduced special accountability measures that took account of the Department's internal audit review recommendations.
65. A further governance review was instigated in September 2013 to consider the progress being made on implementation of the 2010 review, the special accountability measures and the ASM Howarth report.

Key actions taken by the NIHE board

Clarity of issues at board level

66. The board of the NIHE has reviewed its role in respect of the scheme of delegation from the board to managers. The Committee heard from the current Chairperson that they have done this so the board can see the 'bigger picture'. Both the Chairperson of the board and the

C&AG referred to the unmanageable amounts of information provided in the board's meeting papers which tended to obscure rather than inform members of the board with key issues not being identified. This has been rectified to ensure that the board has a clearer strategic overview of the operation of the NIHE.

67. The board has simplified the structures in the organisation and also reorganised the agendas of board meetings. Through a series of regular away days, the board spends more time working together and engages with external experts to better inform its own way of working.
68. The board also reviews its own effectiveness, checking that what it is doing is working and that it has achieved its goals.
69. There is an acknowledgement that they are still dealing with legacy issues and that there is much more to do.

Establishment of the Audit and Risk Committee

70. In his evidence, the C&AG highlighted what had been key concerns of the Public Accounts Committee in late 2012 and which, in his opinion, went to the heart of governance issues in the NIHE. These included the quality and reliability of information going up to the NIHE board and Audit Committee.
71. The Committee heard evidence that internal audit reports would initially be considered by the chief executive business committee, which in effect comprised the senior management team. It was noted that on a number of occasions, reports relating to maintenance contracts were challenged to the extent that they were asked to be reconsidered before they went to the audit committee. As a result the C&AG noted in his evidence that the independence of the internal audit unit and the corporate assurance unit of the NIHE had been a concern at the time.
72. The Committee noted that until the beginning of the 2013-14 financial year there were two committees – the Audit Committee and the Risk and Performance Committee. These committees worked separately and this offered the potential for assumptions to be made about the other's work programme and therefore for issues to be overlooked.
73. The board brought the Audit Committee and the Risk and Performance committee together into a unified committee – Audit and Risk Assurance Committee. They also reviewed the terms of reference for this committee – taking advice from three sources of expert best-practice guidance: NIAO guidance, DFP guidance and HM Treasury guidance. The recommendations made by this group were accepted by the board on 29 October 2013. As noted, the 'new' committee has been in operation since the 2013/14 financial year.
74. The Committee also heard that the board conducted a review of the committee to establish whether it had the necessary expertise to fulfil its remit. This resulted in new members with significant expertise being recruited. The board believes that this has resulted in a strengthening of the committee's competence in governance and risk and that the NIHE Audit and Risk Committee is fit for purpose.
75. The Committee noted that the head of audit and the head of the corporate assurance unit now have direct access to the Chief Executive with whom they have regular meetings; and also to the Vice Chairperson of the board (who is also the Chairperson of the Audit and Risk Assurance Committee).
76. As well as receiving reports directly, the Audit and Risk Assurance Committee also receives a specific report which identifies all draft work, planned work and work in progress. In this way the Audit and Risk Assurance Committee is made aware of pending issues that it can take action on earlier if necessary. The Department also receives draft internal audit reports and reports from the corporate assurance unit.
77. In order to deal with concerns relating to the possible alteration of reports by management before they reach the board, a new set of procedures for the submission of reports was

agreed by the board on 29 January 2014. The audit and corporate assurance units have also been amalgamated.

78. The Committee heard that while the board is content with the new procedures it is the application and implementation of these that is important. To assist with this the Chairperson of the Audit and Risk Assurance Committee meets with the head of internal audit and the head of corporate assurance to ensure that progress is being made. The Audit and Risk Assurance Committee also appears to be more proactive – asking for reports to be brought forward if it deems if necessary. The aim is therefore to produce ‘timely’ reports rather than retrospective reports.

Whistle-blowing arrangements in NIHE

79. This Committee raised concerns about the support provided to whistle-blowers in the NIHE given that it appeared that whistle-blowers had not previously been treated with the importance they deserved.
80. The Committee noted that the Vice Chairperson stated that he was not going to encourage whistle-blowing but he was going to take it seriously. However, he also indicated that he placed emphasis on the need to put in place robust procedures that are proactive rather than rely on whistle-blowing, which by definition required a reactive response by the NIHE.
81. The Vice Chairperson of the board also noted that as Chairperson of the Audit and Risk Assurance Committee he had placed any reports on additional whistle-blowing or other forms of extraordinary reporting as a standing item on the committee’s agenda.

Contract Management and Procurement

82. Discussions on procurement focussed on maintenance contracts. The Committee heard that the structure and management of the response maintenance contracts have been radically overhauled.
83. The delivery of planned maintenance has also been reviewed. The contracts for example have updated key performance indicators and contract management arrangements, such as the application of low-performance damages, to ensure contractors respond positively to issues identified through assurance arrangements or from issues coming from customers. Dedicated contract managers have also been appointed and design responsibility has moved from contractor to consultant.
84. To address low performance i.e. performance deemed less than satisfactory, a response maintenance intervention was established in 2012.
85. A new statistical inspection regime has also been established to help identify the real issues.
86. The Committee raised concerns about the bidding process for maintenance contracts with contractors previously bidding well below (as much as 30% below) the actual cost price. Members noted that the result of accepting such bids was that this could lead to contractors producing low quality work and ultimately to conflict with tenants and the NIHE. Members noted that a number of NIHE contractors had gone into administration and bidding below cost price may have been a contributory factor to this.
87. The Chairperson of the NIHE noted that contracts have already been let but that there was work to be done to ensure that future procurement processes address this issue as well as to ensure there is a less bureaucratic and simpler way to deal with contractors to ensure that tenants receive an appropriate and timely maintenance service.
88. The Committee is aware that this has greatly increased the number of people working in the Direct Labour Force (DLO) of NIHE as a result of the current TUPE arrangements. Correspondence with the Department indicates that in 2012/13 the DLO workforce numbered around 180 and the salary bill was £4.4m. During 2013/14, as a result of the

transfer of work previously undertaken by the former contractors in administration, the workforce increased to 436 by year end. The salary bill also increased to £11.1m.

89. The Committee recognises that TUPE arrangements are key for providing continued maintenance service where a contractor goes out of business. The Committee recognises the importance of the DLO to provide a full response maintenance service to its tenants despite contractors going out of business but it is also clear that this has significant cost implications for the NIHE and this must be reviewed. The Committee therefore welcomes the establishment of a DLO Progress and Development Committee which scrutinises and oversees the in-house resource, particularly in respect of the effectiveness and efficiency of management, performance, governance, and compliance control in the DLO.
90. The Chairperson of the Audit and Risk Assurance Committee noted that until August 2013, procurement risks did not figure on the corporate risk register. He then instituted an investigation into some of the issues surrounding the procurement process and the way that procurement was used by the Housing Executive corporately.
91. He stated that this has led to better processes which capture inadequacies in the implementation of contractual processes, especially the procurement part.

Culture of the organisation

92. The Committee heard that there is now a focus on promoting a new culture of integrity, openness and honesty. This is being taken forward in the Journey to Excellence programme.

Planned Maintenance

93. The Committee was particularly interested to hear about the new arrangements for planned maintenance given the controversy regarding estimated overpayments of some £18m to four contractors under previous planned maintenance contracts. Ultimately, there was a settlement which saw the NIHE estimating that it paid £12m in payments which it could not properly substantiate and £10m of work carried out by the contractors which was not properly verified or costed at the time. Therefore, this left some £2m which was written off by the NIHE. As part of the settlement three of the four contractors agreed to pay the NIHE £670K. It was also determined that the fourth contractor had actually been underpaid by £470k.
94. This arose as a result of the misinterpretation of how a partnership approach to contract management should have been applied. The C&AG noted that this was essentially a light-touch regime that operated on trust and had proper arrangements been in place, including re-measurement of work, then the issue of overpayments and underpayments would not have emerged in the first place.
95. The Committee noted that the delivery model for planned maintenance had been reviewed. Under the new model, design responsibility has moved from contractor to consultant to give the NIHE an added layer of assurance and, at a local level, management arrangements have been strengthened. Dedicated contract managers have also been appointed.
96. The Committee noted that key performance indicators have been updated in respect of the new contracts and that contract management arrangements allow for contractors to be held properly to account where issues arise either from customers or from internal assurance arrangements. The Committee was advised that this also includes low performance damages.

Training and Succession Planning

97. The Committee noted that training for NIHE staff has been given greater emphasis. The Committee believes that it is extremely important that staff have the appropriate level and range of skills to carry out their duties and that this applies equally to staff at the top of the organisation as it does to those at lower grades. The Committee noted that the C&AG believed that improved training for its staff was one of the most important initiatives that the NIHE has taken to address deficiencies in its governance and management regime.

98. The Committee heard that the NIHE was conducting a skills audit to consider what skills staff currently have and what skills will be required into the future, particularly in the context of potential social housing reform.
99. The acting Chief Executive also referred to succession planning as being a critical issue for the organisation. The Committee believes that given the reduction in the NIHE budget as a result of DSD's spending and savings proposals for 2015/16 there is potential to lose experienced and skilled staff via a voluntary exit scheme and that this needs to be addressed as a matter of urgency.

Progress on implementation of recommendations made in key reports

November 2013 Gateway Review

100. One of the key documents considered by the Committee was the DSD governance review of 2010. The Committee heard that a November 2013 DSD review of the implementation of the 75 recommendations made in this report noted that two thirds had been fully implemented. 3 of 4 critical control recommendations were partially complete and were due to be fully completed by summer 2014.
101. The Committee has subsequently been advised by the Department that all of the outstanding 'critical' control recommendations and Ministerial work plan actions have been implemented in full.
102. During the evidence phase of the Inquiry the Committee heard that of 21 *good practice* recommendations outstanding, 10 have subsequently been implemented and 10 partially implemented, with 1 outstanding. However, the Committee has now been advised that 9 of the outstanding good practice recommendations have now been fully implemented. Therefore there are 2 outstanding good practice recommendations (37 and 54).
103. These relate to the Undeveloped Land Schedule (37) and Final Reconciliation reports relating to revenue replacement schemes (54). In the case of recommendation 37 only 2 sites remain to have an economic appraisal and these should be completed in early 2015. The final reconciliation referred to related to agreement with contractors on the closure of the January 2008 to July 2012 Egan Planned Maintenance Contracts. This was agreed and it is anticipated that these contracts will be closed by the end of the financial year.

Gateway 5 review of new response maintenance contracts

104. The Committee noted the progress made on response maintenance contracts since 2010 but the Committee also noted that the latest Gateway Review (Gateway 5) which considered response maintenance contracts gave an amber/red assessment in respect of delivery confidence.
105. The report indicates that there are a number of issues referred to in previous reports that remain outstanding. These include those relating to contractor administration, contractor sustainability, contract administration costs, performance and supplier management, and TUPE.
106. Of the 8 recommendations 3 were defined as 'critical i.e. 'do now'. A further 4 were classified as essential ('do by') and one was 'recommended'.
107. All 8 recommendations were accepted by the NIHE and action plans are being developed to implement these.
108. The Committee has been advised that the NIHE developed an action plan in May 2014 to implement the recommendations for the Gateway 5 review.

109. At December 9th 2014:
- 3 'critical' are now complete.
 - 2 of the 4 'essential' are now complete with two ongoing.
 - 1 'recommended' is ongoing.

Table 1 - Summary of the implementation status of recommendations

| Recommendation | Criteria | Status |
|---|-------------|----------|
| (1) The Senior Responsible Officer (SRO) should undertake a contract resource review to clearly define what roles, skills, and training needs are required, and specifically give consideration to reducing dependency on agency staff. | Essential | Ongoing |
| (2) The SRO should ensure the production of a (preferably online) Contract Management (operational) Guide on how the contracts should be managed. | Essential | Complete |
| (3) The SRO should establish a properly constituted Contractors Forum to ensure decision makers from both sides have the ability to air concerns and consider changes that will assist in the overall objective of improving maintenance services to tenants. | Critical | Complete |
| (4) The SRO should review the flow of data within the project and assess how effectively it is processed, and its value in delivering concise information and reports appropriate to its audience, concluding in a single dashboard for SRO and Board scrutiny. | Essential | Ongoing |
| (5) The SRO should ensure that an updated Benefits Realisation Plan (with SMART objectives) is produced, agreed, and monitored regularly. | Critical | Complete |
| (6) The SRO should review and consider reducing the number of KPIs, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties. | Critical | Complete |
| 7 The SRO should confirm the formal acceptance of the PPE Report issued January 2014 and ensure governance is in place to oversee its implementation. | Essential | Complete |
| (8) The SRO should produce a Vision and Strategy for the management and maintenance of the assets prior to the commencement of the next procurement exercise. | Recommended | Ongoing |

110. It is anticipated that those outstanding will be completed by April 2015 and an NIHE assurance review will be conducted at that date.

Benchmarking of all NIHE services

111. A benchmarking report covering all of the NIHE core activities was submitted to the Chief Executive's Business Committee in June 2014.
112. The findings of this report will inform the NIHE's Journey to Excellence Programme. As part of this programme all services will be subject to review over the coming year, with new measures being developed to reflect best how the business is going forward.

Achieving balance in assurance regime

113. A key point, and one acknowledged by the acting Chief Executive of NIHE in her evidence, is that the overall assurance regime has been identified as restricting the ability of maintenance officers to act within the spirit of the contract. The Committee has noted that if this is not addressed then NIHE tenants may not be provided with necessary maintenance to their properties in a timely fashion. A better balance therefore needs to be struck between the assurance regime and service delivery.
114. The Committee noted and welcomed the merger of the internal audit and corporate assurance units which now operate through a single Audit and Assurance Department. A key focus of the assurance function following this merger will be to review the methodologies for the inspection of its planned, response and heating contracts. The aim will be to ensure that these are sufficiently robust but risk-based, proportionate and in line with contracts.
115. It is anticipated that this review will produce a new structure that will deliver a better balance in the assurance regime.
116. The Committee acknowledges the efforts made to achieve this balance but is concerned that progress may be slow and that this may impact on the quality of maintenance provided or indeed in the ability of the NIHE to spend its maintenance budget within the financial year.
117. The C&AG stated that he had qualified his audit opinion on both response maintenance and planned maintenance every year since 2010-11. However the Committee is encouraged that although he again qualified his audit opinion in 2013/14 on both of these programmes he stated that considerable improvement had been made – though mainly in response maintenance. He indicated that he would like to see improvement continue for another year before he would consider lifting the qualification on response maintenance.

Monitoring and testing of new processes

118. The Committee expressed concern that having new processes in place do not in themselves produce better results; the implementation of the processes must also be appropriate and continual monitoring of this implementation is therefore important.
119. The Committee notes that stress testing is being carried out for each of the key maintenance contracts. The revised inspection and audit processes and methodologies have been aligned with the contract and contract management arrangements.
120. The review of the audit and inspection process will be reported to the Audit Risk and Assurance Committee to ensure effective independent oversight.
121. The Committee was also informed that Audit and Assurance will be testing on consultant-led planned maintenance contracts in the first quarter of 2015.

Conclusions

122. In considering the findings of previous reports the Committee reviewed whether the recommendations made in the reports had been implemented and whether the implementation of these recommendations had resulted in improvements in contract management, procurement and governance.
123. It is clear that there had been a 'hands off' approach in respect of departmental oversight, at least until 2010, at which time the Department embarked upon a series of investigations to establish the extent of governance and contractual management issues and to implement recommendations stemming from these reports.
124. All of the witnesses acknowledged that the failings of the NIHE in respect of governance, contract management and procurement had been extensive.
125. The Committee acknowledges that there has been good progress since the Review of Governance by the NIHE board and the Department to address these failings albeit from a low benchmark. In this regard the Committee acknowledges the work of previous Ministers to address the shortcomings of governance within the NIHE and their contractual management function.
126. This has been a step-wise, measured approach to improving procedures and their implementation.
127. However, the Committee notes that recommendations made in reports initiated several years ago are still being worked on. For example, in relation to the Review of Governance in the Housing Executive commissioned by Minister Attwood in 2010, the outstanding recommendations were only implemented in the latter half of 2014. This is despite the establishment of an Oversight Implementation Group, chaired by the Permanent Secretary and which included senior DSD housing officials, which was tasked with, among other things, providing monthly examination of the implementation of the recommendations.
128. However, this group last met on 16 November 2011 at which point it was decided that the monitoring of the implementation of the outstanding recommendations would take place through quarterly accountability meetings.
129. The Committee believes that the implementation of recommendations stemming from future reports into these issues must be expedited in-line with an agreed timeframe.
130. The Committee welcomes the revised arrangements in respect of the NIHE's Audit and Risk Assurance Committee and believes these are key to ensuring confidence in the independence of audit and corporate assurance reports. The Committee is content that inappropriate management challenge has been removed and the current arrangements offer more transparency.
131. The Committee recognise that the current management and board of the NIHE are working to re-establish public confidence in the organisation. However, it is evident that it will take some time before evidence can be produced to establish whether confidence in the revised systems and structures is warranted.
132. The Committee also notes the potential impact these reports may have had on NIHE staff morale and it therefore welcomes the Journey to Excellence programme which it hopes will re-establish a sense of staff pride in the NIHE as well as public confidence in the organisation.
133. The Committee will continue to monitor the NIHE's progress in relation to its core activities. In particular the Committee will focus on the findings of the annual reports of the NIAO in respect of the delivery and governance of the NIHE's routine and planned maintenance contracts.



Northern Ireland
Assembly

Appendix 1

Minutes of Proceedings

Thursday 8 May 2014

Room 29, Parliament Buildings

Present: Mr Alex Maskey MLA (Chairperson)
Mr Mickey Brady MLA (Deputy Chairperson)
Ms Paula Bradley MLA
Mr Gregory Campbell MLA
Mr Stewart Dickson MLA
Mr Fra McCann MLA

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Ms Claire McCanny (Assistant Assembly Clerk)
Mr Stephen Todd (Assistant Assembly Clerk)
Mr Stewart Kennedy (Clerical Supervisor)
Miss Allison Ferguson (Clerical Officer)

Apologies: Mr Jim Allister MLA
Mr Michael Copeland MLA
Mr Sammy Wilson MLA

10:03am The meeting opened to the public.

1. Committee 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 – Evidence Session with Department for Social Development

10:12am The following officials joined the meeting:

- Will Haire, Permanent Secretary, DSD
- Jim Wilkinson, Director of Housing, DSD

The officials briefed the Committee on issues relating to Phase 2 of the Committee’s Inquiry, ‘The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous well documented failings in relation to procurement and contract management’.

10:18am Stewart Dickson MLA joined the meeting.

The officials answered questions from members of the Committee.

10:53am Stewart Dickson MLA left the meeting.

10:58am The officials left the meeting.

This session was recorded by Hansard.

2. Committee 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 – Evidence Session with Northern Ireland Housing

10:59am The following officials joined the meeting:

- Mags Lightbody, Interim Chief Executive, NIHE
- Siobhan McCauley, Director of Regional Services, NIHE
- Gerry Flynn, Director of Housing & Regeneration, NIHE

The officials briefed the Committee on issues relating to Phase 2 of the Committee's Inquiry, 'The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous well documented failings in relation to procurement and contract management'.

11:07am Stewart Dickson MLA joined the meeting.

The officials answered questions from members of the Committee.

12:02pm The officials left the meeting.

This session was recorded by Hansard.

[EXTRACT]

Thursday 29 May 2014

Room 29, Parliament Buildings

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

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Mr Stephen Orme (Assistant Assembly Clerk)
Mr Stephen Todd (Assistant Assembly Clerk)
Mr Stewart Kennedy (Clerical Supervisor)

Apologies: Mrs Dolores Kelly MLA

10:06am The meeting began in closed session.

10:53am The Chairperson declared the meeting open to the public.

1. Committee 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 – Evidence Session with NIHE Officials

11:00am The following officials joined the meeting:

- Mr Trevor McCartney, Director of Corporate Services, NIHE
- Ms Gay Ireland, Head of Corporate Assurance Unit, NIHE
- Mr John McVeigh, Head of Internal Audit, NIHE

The officials gave evidence in respect of Phase 2 of the Committee’s Inquiry and took questions from the members.

11:01am Trevor Clarke MLA joined the meeting.

11:11am Michael Copeland MLA joined the meeting.

11:36am The Chairperson left the meeting and the Deputy Chairperson took the Chair.

11:37am Gregory Campbell MLA left the meeting.

11:42am The Chairperson joined the meeting and took the Chair.

12:01pm The officials left the meeting.

This session was recorded by Hansard.

[EXTRACT]

Thursday 5 June 2014

Room 29, Parliament Buildings

Present: Mr Alex Maskey MLA (Chairperson)
Mr Mickey Brady MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Gregory Campbell MLA
Mr Trevor Clarke MLA
Mr Michael Copeland MLA
Mr Stewart Dickson MLA
Mr Fra McCann MLA
Mr Sammy Wilson MLA

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Ms Claire McCanny (Assistant Assembly Clerk)
Mr Stephen Todd (Assistant Assembly Clerk)
Mr Stewart Kennedy (Clerical Supervisor)

Apologies: Ms Paula Bradley MLA

10.05am The Chairperson declared the meeting open to the public.

1. Committee 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 – Evidence Session with NIHE Officials.

1:35pm The following officials joined the meeting:

- Mr Donald Hoodless, Chair of the Northern Ireland Housing Executive
- Professor Peter Roberts, Chair of the Northern Ireland Housing Executive Audit Committee

2:15pm Michael Copeland MLA left the meeting.

The officials gave evidence in respect of Phase 2 of the Committee’s Inquiry and took questions from members.

Agreed: The Committee agreed to seek the cost of the NIHE’s Direct Labour Organisation as a result of contractors going into administration and the TUPE arrangements being implemented.

2:34pm The officials left the meeting.

This session was recorded by Hansard.

[EXTRACT]

Thursday 11 September 2014

Room 29, Parliament Buildings

Present: Mr Alex Maskey MLA (Chairperson)
Mr Mickey Brady MLA (Deputy Chairperson)
Mr Jim Allister MLA
Ms Paula Bradley MLA
Mr Trevor Clarke MLA
Mr Stewart Dickson MLA
Mr Fra McCann MLA

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Ms Claire McCanny (Assistant Assembly Clerk)
Mr Stephen Todd (Assistant Assembly Clerk)
Mr Stewart Kennedy (Clerical Supervisor)

Apologies: Mr Gregory Campbell MLA
Mr Michael Copeland MLA
Mr Sammy Wilson MLA

10.00am The Chairperson declared the meeting open to the public.

1. Committee 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 – Phase 2 – evidence session with the Northern Ireland Audit Office

The following officials joined the meeting at 10.08am:

- Mr Kieran Donnelly, Comptroller and Auditor General, NIAO
- Mr Tomas Wilkinson, Director, NIAO
- Mr Brandon McMaster, Director, NIAO
- Ms Anu Kane, Audit Manager, NIAO

The officials briefed the Committee on issues relating to the adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management – Phase 2 of the Committee's Inquiry.

Following this briefing, the NIAO officials took questions from the Committee on Phase 2 of the Inquiry.

11.18am The officials left the meeting.

[EXTRACT]

Thursday 12 February 2015

Room 29, Parliament Buildings

Present: Mr Alex Maskey MLA (Chairperson)
Mr Mickey Brady MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Roy Beggs MLA
Ms Paula Bradley MLA
Mr Maurice Devenney MLA
Mr Stewart Dickson MLA
Mrs Dolores Kelly MLA
Mr Fra McCann MLA
Mr Sammy Wilson MLA

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Mrs Ashleigh Mitford (Assistant Assembly Clerk)
Mr Stewart Kennedy (Assistant Assembly Clerk)
Mr Richard Reid (Clerical Officer)

Apologies: Mr Gregory Campbell MLA

10.02am The Chairperson declared the meeting open.

10.02am The meeting moved into closed session.

10.03am Paula Bradley MLA joined the meeting.

10.04am Roy Beggs MLA joined the meeting.

10.08am Maurice Devenney MLA joined the meeting.

2. 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 – Phase 2 Report

The Committee considered the draft report on Phase 2 of its Inquiry.

Agreed: The Committee agreed the Table of Contents of the Report

Agreed: The Committee agreed that the following appendices stand as part of the Report:

Appendix 1 - Minutes of Proceedings

Appendix 2 - Minutes of Evidence

Appendix 3 - Written Evidence

Appendix 4 - Correspondence from the Department of Social Development

Appendix 5 - List of Witnesses

Appendix 6 - Supplementary Evidence

Appendix 7 - Procedural Fairness

Agreed: The Committee agreed the Recommendations of its Report

Agreed: The Committee agreed the Introduction of its Report

Agreed: The Committee agreed the Consideration of Evidence of its Report as amended

Agreed: The Committee agreed the Conclusions of its Report as amended

Agreed: The Committee agreed the Executive Summary of its Report

Agreed: The Committee agreed that the Report be the 10th Report of the Committee for Social Development

Agreed: The Committee agreed to send an extract of the Report to an individual for comment in advance of ordering it to print.

11.01am The Chairperson declared the meeting open to the public.

13.21pm The Chairperson adjourned the meeting.

Alex Maskey

Chairperson, Committee for Social Development,

19 February 2015

[EXTRACT]

Thursday 26 February 2015

Room 29, Parliament Buildings

Present: Mr Alex Maskey MLA (Chairperson)
Mr Mickey Brady MLA (Deputy Chairperson)
Mr Jim Allister MLA
Mr Roy Beggs MLA
Ms Paula Bradley MLA
Mr Gregory Campbell MLA
Mr Maurice Devenney MLA
Mr Stewart Dickson MLA
Mrs Dolores Kelly MLA
Mr Sammy Wilson MLA

In Attendance: Dr Kevin Pelan (Assembly Clerk)
Mrs Ashleigh Mitford (Assistant Assembly Clerk)
Mr Stewart Kennedy (Assistant Assembly Clerk)
Mr Richard Reid (Clerical Officer)

Apologies: Mr Fra McCann MLA

2. 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 – Phase 2 Report

Agreed: The Committee agreed draft minutes of proceedings to be included in the appendices of the Report

Agreed: The Committee agreed that its Report be embargoed until 13 March 2015

Agreed: The Committee agreed that the Report be printed.

Agreed: The Committee agreed to issue a Press Release on its Report on Phase 2 of its Inquiry.

Alex Maskey

Chairperson, Committee for Social Development,

[EXTRACT]



Northern Ireland
Assembly

Appendix 2

Minutes of Evidence

8 May 2014

Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
 Mr Mickey Brady (Deputy Chairperson)
 Ms Paula Bradley
 Mr Gregory Campbell
 Mr Stewart Dickson
 Mr Fra McCann

Witnesses:

Mr Will Haire } *Department for*
 Mr Jim Wilkinson } *Social Development*

1. **The Chairperson:** Officials from the Department are here to give evidence as part of phase two of the Committee's inquiry. I formally welcome to the Committee inquiry this morning Will Haire, who is permanent secretary in the Department, and Jim Wilkinson, who is director of housing. You understand the terms of the inquiry for phase two. The terms of reference for phase two are the adequacy of actions proposed by the Minister, DSD and the Northern Ireland Housing Executive to address previous well-documented failings in relation to procurement and contract management. Those are the specific criteria that we are relating to.
2. Members have received an extensive body of documentation, and I thank the officials for providing that for us. They will guide us through any elements that we are unsure of or will draw our attention quickly to anything that we are struggling with, given the volume of material. So, without any further ado, I invite you to take us through the briefing that you want to present to the Committee this morning.
3. **Mr Will Haire (Department for Social Development):** Thank you, Chairman. Where phase two is concerned, I would like to briefly outline to you what steps the Department has taken since 2010 to address the previous well-documented failings on procurement and contract management.
4. From the spring of 2010, we were picking up a growing number of concerns about Housing Executive governance and contract management regimes. In October 2010, the then Minister, Alex Attwood, commissioned a review of governance in the Housing Executive. That followed a series of internal and external investigations into the Housing Executive that raised concerns that its governance systems were not sufficiently robust. So, I, as permanent secretary, asked my senior internal auditor to lead a team to examine and report on the governance structures and the control and skills of the organisation. In addition, external specialist assistance was secured through the Central Procurement Directorate (CPD) in the Department of Finance and Personnel for a gateway review on the procedures for letting and managing the Egan contracts. I set up an oversight panel with independent membership, which reported to the audit review team on an ongoing basis to oversee that governance review. That work was completed in December, and it and the gateway review were published in January 2011. That was a very fundamental review, and a lot the work in the Northern Ireland Audit Office's (NIAO) report is very much based on the work that we commissioned and dealt with in that process.
5. A number of oversight arrangements were then put in place to ensure that that review's recommendations were appropriately implemented. Once more, I had an oversight and implementation group that I chaired. That was a cross-departmental group that also had independent membership. It met regularly with the Housing Executive, and the acting chief executive at that time attended the meetings and reported to me on that. I also held meetings with the chairman, vice-chairman and chief executive in April 2011 to discuss some of the key strategic issues,

- which included the gateway review. My Minister, Alex Attwood, also had review meetings with the chair and chief executive in February 2011 and May 2011.
6. We had the election in May 2011, and, after being briefed when he came into government, Minister McCausland also expressed his concerns about contract management and the issues that led to the termination of the Red Sky contracts in July 2011. In the light of his continuing concerns, he asked for a forensic investigation of a sample of Housing Executive maintenance contracts to provide him with assurance on other contracts, the quality of service to tenants and the proper use of public funds. The subsequent findings and the evidence in the ASM report were published in June 2013. They demonstrated that there were considerable issues and shortcomings in the management of response maintenance contracts.
7. So, we had that process, and we were going ahead to get the contract issues addressed. I, however, still harboured concerns about the effective implementation of the recommendations of my 2010 governance review of management contracts. I was concerned that the Housing Executive was not making full use of its internal assurance regimes to improve contract management, so I wrote to the chief executive and the chairman between January and May 2012 about contract management arrangements and expressed my serious concerns about the implementation of the recommendations. I increased my accountability meetings from twice-yearly to quarterly and advised that the meetings would be with the accounting officers and would involve me and the chief executive of the Housing Executive, not the chairman. I also instructed my senior internal auditor to conduct an independent review of the actions that the Housing Executive had taken to implement those recommendations. That was completed in July 2012, and my review team's opinion was that
- there had not been sufficient pressure in 2011 to resolve some of the issues in the draft reports from the repairs inspection unit and that, in spending so much time debating the methodology that was used in producing the reports, the Housing Executive had not focused on the significant findings of the reports. That was a key focus.
8. In July 2012, the Minister introduced special accountability measures that took account of our internal audit review's recommendations. That was done to enhance significantly the oversight arrangements between the Department and the Housing Executive. We increased the accountability meetings from quarterly to monthly, and, for those who were at those meetings, the issues relating to management contracts were, and still are, regularly taken as agenda items. I get progress reports on the work that is being done, and I look at the priority 1 recommendations from the Audit Office's reports for those who are charged with governance.
9. In September 2013, I instigated a further governance review to check where we had got to on the recommendations of the 2010 review, the special accountability measures and the ASM recommendations. We also looked at the lessons that the Housing Executive learned in the management of response maintenance and the extent to which that had been pushed into its consideration of planned maintenance. That report concluded that there was still a considerable amount of work ahead for the Housing Executive if it is to see through the necessary structural and cultural changes to ensure that the lessons that were learned from response maintenance were applied.
10. Good progress has been made in implementing the actions of the 2012 work programme. However, work remains to be completed. That report was forwarded to the present chair of the Housing Executive, and he came back in March 2014 with a report on where the Housing Executive see that work being done and with a commitment to see it completed.

11. As a result of these pressures, I have ramped up governance to make sure that I have oversight of the issues. I think that progress is being made in the Housing Executive, and you will hear how far we have got on some of those issues going forward. I am taking stock and looking at the right and appropriate level. Independently, I have an inspection team that looks at the delivery of landlord services in the housing associations. I have recruited staff, and I will have a similar service provided to the Housing Executive. That will be a professional team that will look at landlord services. I also want to make sure that I adjust the accountability regime to make sure that it is not overly bureaucratic and that it gets the right focus at this time. I see significant progress from the board and the senior management of the Housing Executive. They are addressing those issues. I think that we have a journey to go, but I see positive signs of movement on those issues. I am really keen to work with the team in the appropriate way to make progress.
12. **The Chairperson:** Thank you very much for that, Will. I have a couple of very simple questions to ask at the outset. You referred to the 2010 review, and it was said then that the arrangements between the Department and the Housing Executive structures were in place but that they were not used as effectively as they might have been. Additional measures were then put in. How can we have an assurance that there is a substantive improvement and that those structures and the additional structures will work?
13. **Mr Haire:** The key element of the 2010 review was the emphasis on the point that the information flow in the Housing Executive from the front line, as it were, up to its audit committees and the board was not effective. The board was not being sighted of some key issues in the process. I think that there has been a significant shift in how the Housing Executive organises its work and its governance processes. It has gone through its delegations, processes and structures very thoroughly. Its board has looked at its work and has had effectiveness reviews. Its audit committee has moved on significantly in its structure and organisation, which I think is key. I have an observer on that committee, and I get a sense that there has been significant movement. So, I have had those levels of assurance about that. I have also had internal reviews. I had my own oversight arrangements in 2011-12 through my internal audit, and, as I just described, I have ramped up accountability regimes to make sure that I get the information flows. I will rightly adjust that when I get to the right level in that process.
14. As I said, my senior auditor goes in and checks against those issues. So, I have tested where those processes have taken place, and he is telling me that, although not every recommendation has been fully completed, there has been significant progress in that area. Therefore, I think that we are seeing significant change in the processes. However, what comes across in all this, which was recognised in the 2010 report, is that a lot comes down to culture and organisation. I now see an organisation that I think is very much addressing that issue of culture and organisation. Its journey to excellence work, which the acting chief executive is leading at present, is very much about trying to work to improve the entire process, and that will lead to more effective governance.
15. I think that those are the main issues. Jim, do you want to say something?
16. **Mr Jim Wilkinson (Department for Social Development):** The sponsor division has a key role to play. One of the findings of the 2010 review was that you need to make sure that you do not just rely on assurance statements that come forward but that you probe and test those assurance arrangements. The processes and procedures that Will set out through the monthly monitoring and the monthly meetings are about testing assurances and probing progress.

17. In addition, at a very technical level, our management statement and financial memorandum has been reviewed to take best practice on course. We regularly monitor audit committee reports, and we also receive the repairs inspection unit reports, the assurance reports and the internal reports. That means that we are able to monitor and test the progress that is being made and see that issues are being addressed. So, I see our sponsorship role over the past number of years as being very much a proactive one in which we have engaged heavily with the executive as we have moved forward. I am very keen to take forward the process of looking into the inspection of landlords not just to test and probe it but to test the level of assurances and get some in-depth expertise on the landlord element.
18. **The Chairperson:** Before we move on to members' questions, I will ask about the Public Accounts Committee's report in March 2013. There were to be investigations into planned maintenance contract management and so on, but there was a concern that there may need to be further investigations into other items of business. Have any of those other investigations been carried out, and, if so, have they thrown anything up?
19. **Mr Haire:** The other issues that are reported on regularly include heating and land and garden maintenance and so on. The internal audit team in the Housing Executive are dealing with those. There is now a focused structure of organisation, so we are looking at and get the reports that are coming out, and work on heating is planned.
20. **The Chairperson:** Is procurement included?
21. **Mr Wilkinson:** Yes. The first issue with the reports was that we want to ensure that there was a clear line of sight in the Department on whistle-blowing and fraud and so on so that we can make sure that all issues are investigated. We have systems in place, and regular checks are done on that.
22. In addition, and this was part of the audit report, we wanted to ensure that the audit committee adopted a proactive, planned approach that had a particular focus on areas that might be deemed to be risk based. This year, the audit team from the Housing Executive has been explicitly looking at a series of higher areas, such as planned maintenance, lifts, grounds etc, and we monitor progress on those reports.
23. **Mr F McCann:** I have a couple of questions to ask. I have always tried to get my head around what the connection is and where the control is. Obviously, the overall control of housing lies with the Minister, but there must be some connection between the Department and the Housing Executive on the overall running of the system. The Housing Executive is probably seen as an arm's-length body (ALB) with its own board, but because it is a public body, there has to be political control. Could you give us a wee run down of where that is?
24. **Mr Haire:** We set out the formal structure in the first section of our memorandum. It is quite an elaborate structure, but, in broad terms, the overall policy direction issues obviously lie with the Minister, as do priorities and issues with the budget, which obviously receives affirmation at the Assembly. This year, for example, the Minister will formally write to the chair to outline his understanding of his priorities, and he will tell him that, in putting his operational plans together, he must understand the need to reflect Programme for Government targets and the various systems that the Assembly has put in place. So, at a high level, the Minister sets those issues out. It is for the Housing Executive board, working with its senior management, to set out its business and operating plans and to explain how it is going to expend the money.
25. In certain areas, such as Supporting People, the amount of money that we are able to spend depends on what the Assembly can give to the social housing development programme, which the Housing Executive operates on our

- behalf. Very clear targets and issues are set out in that business plan, and it will set out its plans in that process. It is then for the Housing Executive to set up and run that programme.
26. Performance meetings take place between the Minister and the chairman, and the deputy chairman will also come to those. There are two such formal meetings each year. I also have accountability meetings with the accounting officer at all times to make sure that all issues are being dealt with and addressed, that the budget is being used, that we are alert to any issues that are coming up, and that the organisation is dealing effectively with issues such as those that we described. Those meetings take place regularly. At the same time, Jim and his team in the housing division will have a range of meetings at an official level on issues at different programme levels. Likewise, they will report back to me if there are issues of concern to them that need to be escalated. I will then bring those up with the chief executive, if appropriate. Generally, the team resolves the issues well.
27. So, that is the governance regime, which, as I said, is set out in the memorandum. It is a classic governance regime for a non-departmental public body (NDPB), and it tries to differentiate between what is clearly the governance role of the Department/Minister and the key responsibility of the board and staff of the Housing Executive in day-to-day operations. We are trying, obviously, not to confuse the issues so that people are clear in their respective roles.
28. **The Chairperson:** I remind people that the memorandum that Will is referring to is in the papers.
29. **Mr F McCann:** I understand that, Chair.
30. **Mr Haire:** I hope that that gives you an overview of what is a complex strategy.
31. **Mr F McCann:** Obviously, over the past number of years, serious questions have been raised about management and governance in the Housing Executive. I have no doubt that people have put their
- minds together to try to get the balance right.
32. Taking it from 2010, because there were obviously problems before that, the Department not only did not act on the problems going back but did not detect them. That shows that there was not only a problem in the Housing Executive but that there was a problem in the Department itself, because it could have moved on this, at whatever level, much sooner. Do you not think that there should have been a review of how the Department handled this whole thing?
33. **Mr Haire:** I discussed that with the Public Accounts Committee. I arrived in 2010, so I cannot speak about the process in that way. Our governance review of 2010 showed in broad terms that issues at the operational level of the Housing Executive on various contracts were not filtering up through the senior structures and reaching the board. We were getting assurances from the senior staff in the Housing Executive about certain material that they were using to base things on, and they said that the flow of information in the organisation was not right.
34. As I said to the Public Accounts Committee, I have learned from that. You come back to the issue and ask, “Why was that not known?” Interestingly enough, if you look from 2005 onwards, you see that there are NIAO reports on good examples of NDPB governance. The Housing Executive was very much seen at that time as an example of good structures and governance.
35. I learned from the process that, as a Department, you have to test drill into the systems every now and then to make sure that the information that is flowing from the organisation is correct. You have to go yourself and test that process. That was not happening before, but I cannot explain why. That is the lesson that I learned in that process, so that is what we do every now and then. It is not my job to do the work that Mags and her team very ably do. However, my job involves testing on your behalf every now and then to make sure that we are

- getting the information so that we can be assured that the flow is correct.
36. **Mr F McCann:** Was that done in 2010?
37. **Mr Haire:** The 2010 review was the occasion when we did that for the first time and saw the weaknesses.
38. **Mr F McCann:** Was action taken right away?
39. **Mr Haire:** Absolutely. A significant number of recommendations came out of that process; there were 16 critical ones and 75 good practice ones. The implementation of two thirds of those has been completed. There are good reasons why action on some has not been completed, but they have been moved on. So, there has been a significant shift across that process. This process is a journey. A lot of it is about getting openness and the right quality of culture in the organisation. Some of that work is still to be completed, but I think that good progress has been made.
40. **Mr F McCann:** I accept that you came on to the Social Development scene in 2010. However, when you were looking at governance in the Housing Executive, were you also looking at the governance in the Department before 2010 to find out where there might have been difficulties or problems in how the whole thing was monitored?
41. **Mr Haire:** As I said before, I think that there were issues there. I have increased the formality and structure in the Department, and therefore the record keeping. We have improved that process, and my impression is that some previous processes were slightly more informal than they should have been. That is why I formalised the process in that way. The significant issue was that the information coming out of the Housing Executive was the major problem.
42. **Mr F McCann:** You mentioned Red Sky and the problems that arose there. I know that residents and residents associations in my constituency made multiple complaints about the work that
- was going on. At one stage, the now MP for the area made representations to the then Minister, who may have been Alex Attwood or maybe Margaret Ritchie — it was an SDLP Minister. He raised serious concerns about the problems and asked for action to be taken, even to the extent that I believe that the Housing Executive was taking a court case against Red Sky that was stopped dead in its tracks. Many people ask why that happened. Was that decision purely taken by the Housing Executive at that time, or was there departmental involvement in advising that the case should be dropped?
43. **Mr Wilkinson:** The PAC report deals quite extensively with that. It articulates, in particular, the reason why the Housing Executive took the decision not to proceed.
44. **Mr F McCann:** Yes, and that may be well and good, and you could probably go to many PAC issues on this. I am asking you this question: to your knowledge, was it a Housing Executive decision or a departmental decision to advise not to proceed?
45. **Mr Haire:** If I am right, that was back in 2008 or something, so it was before my time. Therefore, I am trying to remember the records of the period. My impression was that it was a Housing Executive decision, but I would say that there is a record that will show that. I think that the issue may have been explored at the time.
46. The key point is that, by the time that I arrived in 2010, investigations were already taking place into Red Sky. I must admit that we at the Department were very strong in making sure that that work, which the Audit Office had brought to us via a whistle-blower, was fully investigated. That led to a number of investigations and consequently to the Housing Executive board's decision to terminate the Red Sky contract.
47. **Mr F McCann:** To move the issue way forward, what is the position now with contracts?
48. **Mr Haire:** Mags and her team are probably best placed to answer that. Now, obviously, response maintenance

- is well in place and delivering at this time, so that issue is being looked at. We are seeing significant progress in the quality of that issue. Tight, newly structured contracts have thrown up some challenges, and there is always the question of getting the right balance. There is a gateway 5 review on that, which I think the Housing Executive has just about completed. I have not had final reports on that issue, but the Housing Executive will tell us where that is.
49. Where planned maintenance is concerned, I believe that the contracts are being let at the moment. However, once again, Mags will be able to give you more detail on that.
50. **Mr Campbell:** I have just a couple of questions. It seems to me that quite a bit of work is being done in reviewing progress, and it is very important that that happens. However, looking at the departmental position now vis-à-vis the overall review of the Housing Executive as a body, can you tell us what work has been done to correct whatever mistakes were made in the past? Is it leading to the point where you get a much-improved organisation? Apart from correcting past mistakes in a short time, will you get to the point where a decision is taken about the overall body itself? Is a lot of that work transferable? What emphasis is being placed on the elephant in the room, if you like?
51. **Mr Wilkinson:** We briefed the Committee recently on the social housing reform programme, which looks at all the structures. The work is being taken forward on the basis of possible change, no change or massive change, but we are looking very closely at all regimes. So, however this pans out, there will be an important governance regime between the Department and its NDPB, whatever its functions may be.
52. Similarly, we briefed the Committee that we are looking very critically at governance and inspection. We referred to that as the governance and inspection of housing associations. As well as what I described, we are very keen on ensuring that the key elements of what we look at when we are inspecting a housing association as a social landlord will be taken forward to the agenda on which we are working with the Housing Executive to look at its landlord function. Any good practice will not be lost, and anything that emerges as better practice, as with our explanation of the social housing reform programme, will either be brought in now or implemented in future.
53. **Mr Campbell:** OK. Will, you talked about Red Sky, and Fra McCann also mentioned it. I was not quite sure of the timeline that you indicated, but you said that the Minister at that stage said that the matter might need to be looked at in a wider context. When was that?
54. **Mr Haire:** That was in 2011. It was about checking the quality of work in other related contracts by other contractors, and ASM undertook that work. So, it was taken forward in 2011.
55. **Mr Wilkinson:** It was commissioned in October 2011, but the Minister indicated his intention in July 2011.
56. **Mr Campbell:** What intention did the Minister indicate?
57. **Mr Wilkinson:** In July 2011, the Minister indicated that he wanted an investigation, similar to that relating to Red Sky, to be carried out into other contractors to assure himself that the issues that were relevant in that contract were not appearing in other contracts.
58. **Mr Campbell:** So, between July and October, when the Minister took that decision, how widespread would the knowledge have been in the senior levels of the Department and the Housing Executive that that was, if you like, the departmental direction?
59. **Mr Wilkinson:** The Housing Executive senior management team and the chair would have been advised that that was going to take place. This is something that we have always stressed, as have the Audit Office and the PAC, but in addition, the Housing Executive operated a very extensive internal

- inspection regime at that time across all contracts. One of the issues was that that inspection process was showing up concerns across a whole raft of contracts and areas.
60. It was very important that — this was one of the issues that was raised — by the time that it got to May 2012, while the ASM report was ongoing, there were concerns that those reports, which were Housing Executive reports from its own internal inspection teams, were not being cleared as quickly as possible and were not being given due attention. It is not as though all the work was in one basket; there was a basket of work that was ASM-commissioned, the PAC was carrying out its own ongoing investigations, and, at the same time, the Housing Executive's internal inspection regime was producing its reports, which looked at all the areas.
61. **Mr Campbell:** Yes, but I just want to be absolutely clear about what you are saying. Between July and October 2011, I presume that, at senior Housing Executive level, it would have to be the case that it was aware of the Minister's decision to widen that type of investigation beyond Red Sky.
62. **Mr Haire:** Yes.
63. **Mr Campbell:** So, would it be accurate to say that, at a senior level in DSD and the Housing Executive, there was knowledge that that was the case?
64. **Mr Wilkinson:** Yes.
65. **Mr Campbell:** Was that before the BBC 'Spotlight' programme began its investigations into Red Sky?
66. **Mr Wilkinson:** I am not sure when it began its investigations.
67. **Mr Campbell:** They, I think, at an earlier point, indicated that they were at the programme for six months. The programme was broadcast in the summer of 2013, so, by a process of elimination, you could probably work out that they began their investigations in November or December 2012, which was more than a year after — it appears from what you are saying — senior people in the Department and the Housing Executive were aware of the Minister's decision to replicate the Red Sky type of check with other contractors.
68. **The Chairperson:** I am being advised that, in November 2012, the BBC started writing to the Minister.
69. **Mr Campbell:** Yes. That is more than a year after senior people in the Department and the Housing Executive knew that it was not confined to Red Sky.
70. **Mr Brady:** Thanks for the presentation. Taking into account the information you have given us on the steps taken to address the weaknesses in the planned maintenance contracts, do you expect the Auditor General's report to reflect that? They have given qualified opinions in the last two years. The second question is around what now appears to be the mythical £18 million. Do we know where that stands at the moment? Are you in a position to give us any information on that?
71. **Mr Haire:** On the first part, clearly the Auditor General's concern is to work out planned maintenance but also any questions of overpayments and other issues. Clearly, the question is about the time to reconcile accounts in that process. I understand that the work is coming to a conclusion of that negotiation. The Auditor General will want to be satisfied about the financial outcome of that. Whether that is achieved this year and he is satisfied with the system this year depends. Work is being done by the Housing Executive. It will have to work with the Auditor General and the NIAO to see whether he is happy enough that it has been able to sort all issues out and account for all its money in that process. We are still awaiting final documentation from the Housing Executive. We have to do formal clearance of any settlements. The Department of Finance and Personnel, rightly, has to do that process. We are still awaiting the final documentation. On that issue, obviously we are still waiting. We have not received the

- formal documentation from the Housing Executive on the conclusion of that issue.
72. **Mr Brady:** Are you hopeful that that will happen soon? We have been told over the past few months that the conclusion will be reached next week or the week after.
73. **Mr Haire:** Like you, we have been monitoring that.
74. **Mr Brady:** Is there any particular reason for the delay?
75. **Mr Haire:** I think it would be best to ask Housing Executive colleagues who have been dealing with that issue. They are best placed to explain it to you.
76. **The Chairperson:** Obviously, we are getting reports from you again this morning, and I appreciate you giving a very substantial memorandum, which will take us a bit of time to absorb. A lot of work has been done, and there is a lot of work being done. You are giving us a fairly clean bill of health, so to speak, with a lot of work to be done yet. Again, I want to make that point. Even as late as 2014, you are saying that there is still a lot of work to be done. I appreciate that we cannot go into any more detail on the issue of the £18 million, but, in my mind, it looms large as a major fly in the ointment. On one hand, we are being told that a lot of progress is being made, but that is still sticking out as an unresolved matter. Until we get the result of that and the conclusions from that, it is hard to make a judgement. It is there to be dealt with.
77. **Mr Haire:** Absolutely. It is a massive issue for you and us. We have to work through what we all learned in that process. Obviously, it was an issue that the Audit Office has been focusing on, because the £18 million is, rightly, a major concern. This is public money, so it is important to make sure that it is correctly accounted for.
78. **Mr Dickson:** Thank you, Mr Haire, for your presence this morning and for bringing us up to date, in a sense, about where the Department is in its relationship with the Housing Executive. Given the history of where we are, and
- how we have got to where we are today, how can we, the public and the tenants of the Housing Executive be assured that the information that you are receiving is now accurate, correct and timely?
79. **Mr Haire:** The key element, as I say, is that we have been putting regular reports into the system. I put two major reviews into the organisation, which have test-drilled down. The one that was done last year comes back and gives us a picture. While progress is still to be made, it shows that significant progress has been made. My staff are much more confident in the material here.
80. The other issue is, of course, the Audit Office itself. It is a clear and major focus on the part of the Audit Office, which is the external auditor for us all, including the Assembly. It, likewise, is going into this process as well. So, that is another form of internal inspection.
81. I take confidence from the board and the senior management of the Housing Executive, which very much recognise the issue. They have very openly said that these are issues that they are dealing with and have clearly set out how they are dealing with them. The openness and direction that I sense from the team is something that I think should give tenants and the public a sense that there is a clear will and focus to try to deal with issues in that process. You will obviously have the opportunity to enquire further about those issues.
82. So, I think that those are the issues. However, I do not doubt that, for all of us, the last year has been a tough period in housing. We all recognise that issue, and we have to work through those very difficult issues. In essence, we have had some governance problems. When we went in in 2010, there were major errors in response maintenance. Basically, we had the wrong type of contracts, and the administration and skilling of that was not right. That has taken us and the Housing Executive time to get right. The same issues were in planned maintenance as well. These are very big

- expenditures, and you have to get staff trained. A lot of work has been done on staff training and a lot of time has been spent on getting the right contracts in place. Those are tough contracts to negotiate. To get those processes in place is a major operation, and it has taken time. Clearly, it is difficult to explain to people why it takes 18 months to put in a new contract and embed it. So, the Department and the Housing Executive have a lot of work to do to make sure that people have a sense of equality in contracts. You will have an opportunity to talk to senior management. I see very clearly a team that is committed to that issue and doing that work.
83. **Mr Dickson:** That is helpful and reassuring. Thank you.
84. **Mr F McCann:** A lot of this hinges on the Egan contracts also. It may be accepted that the Egan contracts were not the right concept of contracts to be introduced. I remember, going back to the time when they were being introduced, the argument was that, when you bring in a system that asks for more for less in monetary value, you are always storing up problems. There was always going to be a system whereby people would come in low and then argue over additions to it. Do you think that that is where the problem lay? The PricewaterhouseCoopers report and some of the other reports state that the level of training that went on at the time led to some of the serious problems.
85. **Mr Haire:** I readily admit that I am not an expert in managing response maintenance. We have people, such as Gerry Flynn, who would be much better placed to give you an answer on that. A number of reports — it is inherent in the ASM one and, I think, Campbell Tickell made the point — state that, in a sense, there were good aspects of the Egan concept; we were trying to get away from long-term, past adversarial contract issues and get a process that was slightly more of a partnership. The partnering process was strongly accepted in the Housing Executive, but there was not an effective balance in
- the process. It went too far in that way. They had to get a different balance in the process. They have now got better indicators and contracts that can be better negotiated in the process. However, a lot of it is about, as you say, the skills of the staff.
86. I have heard some argue that the Housing Executive, when it put in the Egan contracts, maybe gave up too many of its technical staff and so did not have enough people with a technical ability to negotiate issues in the process. I understand that it is now using consultants and other processes to make sure it has that technical skill on its side.
87. Gerry will probably give you a much better sense of those issues but, overall, those contracts produced quite significant savings for the public purse. There is a broader picture, but getting these sorts of contracts right and building the commercial expertise in the public sector to do them well is a big lesson. If you read across any literature in government — Dublin, London, us all — you see that it is a difficult public sector issue, and we have to get our skill base right.
88. **Mr F McCann:** You keep referring the £18 million back to the Housing Executive. The chair of the Housing Executive, as the Minister said, provided him with the information on the overcharging, as he said, of £18 million. As Mickey said, we keep getting told that we are almost there, but it seems to be never-ending. Would the Department accept that the figure is nowhere near £18 million and that —
89. **The Chairperson:** We really cannot go into that because we do not have the —
90. **Mr F McCann:** It has been raised a number of times here, Chair.
91. **The Chairperson:** Yes, but you are asking for a specific answer, and we do not have the formal conclusion of the investigation. The key thing for me is that we expected this matter to be resolved much sooner. We cannot satisfy ourselves that the matter is

resolved until we get something like that dealt with, out of the way and work out what happened or where it went wrong, if it went wrong. I take your point and share your frustration, but, at this time, we do not have confirmation that the matter is agreed and finally resolved, so we cannot ask the official that.

92. **Mr F McCann:** I bow to your judgement.
93. **The Chairperson:** OK. Thanks, Fra. No other members want to ask anything. Will, if you or Jim have nothing to add, it leaves me to thank you. Thank you for the memorandum. These matters are clearly ongoing, so you will appreciate that, given the volume of work, we still have to take time to absorb all this. We will take further evidence next month, not least from the Housing Executive. We may want to come back to you to get further advice, support or explanations. Is that fair enough?
94. **Mr Haire:** Of course. Thank you very much indeed.
95. **The Chairperson:** Thank you.

8 May 2014

Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
 Mr Mickey Brady (Deputy Chairperson)
 Ms Paula Bradley
 Mr Gregory Campbell
 Mr Stewart Dickson
 Mr Fra McCann

Witnesses:

| | | |
|---------------------|---|---|
| Mr Gerry Flynn | } | <i>Northern Ireland Housing Executive</i> |
| Ms Mags Lightbody | | |
| Ms Siobhan McCauley | | |

96. **The Chairperson:** I formally welcome Mags Lightbody, interim chief executive of the Housing Executive, to the Committee for the first time. Siobhan McCauley is director of regional services, and Gerry Flynn is director of housing and regeneration. I formally welcome the three of you here this morning. I suppose you sat in on the last session, so you have a flavour of where people are. At the end of the day, we have terms of reference that guide this phase of our inquiry, which is to satisfy ourselves of the adequacy of actions proposed by the Minister, DSD and the Housing Executive to address previous well-documented failings in relation to procurement and contract management. This is best summarised as ongoing work. However, the Committee inquiry has to satisfy itself whether the measures taken to address the previously identified failings were adequate and appropriate, and whether they are in hand, working and effective. We are being told by the Department that there has been significant progress but a lot of work is still to be done. Without further ado, I invite you to present your view on this to the Committee.
97. **Ms Mags Lightbody (Northern Ireland Housing Executive):** Thank you, Chairman, for the invite this morning to update you on the issues outlined.

You will have received a briefing, and I will use that by way of presentation to you to go into a bit more detail on some of those issues. This is my first time along to the Social Development Committee, and I hope to be back next week to share in a bit more detail our Journey to Excellence work, which my colleague touched on. I joined the Housing Executive as director of transformation in November of last year, and, as of 1 April, I am acting chief executive. You may know my colleagues: Gerry Flynn, director of landlord services and previously director of housing and regeneration; and Siobhan McCauley, director of regional services and former director of design and property.

98. As the Committee will be aware, over recent years, the overarching priority of the Housing Executive's board and senior management team has been to implement a host of measures to address the well-documented failings and legacy issues that have prevailed since 2010 around contract management and procurement. You will know that, as my colleague outlined and as the memorandum from DSD goes into some detail on, an array of internal and external reviews have been carried out around governance and contract procurement, dating from 2013 through to last year. We also receive an annual report from the Comptroller and Auditor General and those charged with governance. I will touch on that in a bit of detail today. We have accepted the recommendations from each of those investigations, audits, reviews etc, and, as a senior team, we spent time working through our board and governance arrangements to develop improvement plans that really went into the detail of those and made sure that they were embedded in the organisation by way of learning. From our perspective, as was covered by the Social Development Committee before, running through those reports, we can

- summarise the failings around and about the culture of the organisation, our ability to manage the types of contracts that we were involved in, the structures and their suitability to deliver and manage appropriately and with skills and knowledge about governance and contracts.
99. Since taking up post on 1 April, I have been out and about with staff across our organisation, getting a handle on where our staff are to help to move the organisation forward. I have done that in the job that I was first recruited for and now in my job in leading the organisation. Over that short time, I have probably met about 2,500 of our 3,500 staff. I am really trying to get clear with our staff, who are the key resource of the organisation, where the Housing Executive needs to be. I think that, as members in the room will share, staff on the ground are still absolutely committed to doing the right thing for our tenants and what the Housing Executive has been known with pride for. I acknowledge solidly the serious issues that have affected the organisation, but I wanted to share with the Social Development Committee a real press from the masses to get back to delivering for you and for Northern Ireland.
100. As you heard from my colleague, we are not out of the woods yet, and there is still an awful lot to do to get the organisation back on top on every front. Good progress has been made, and we are seeing encouraging signs in how we are managing planned and response maintenance contracts. You will see some of the positive outcomes from the briefing that we provided and some of the updates from my DSD colleagues. As a senior management team and also the boards, we have confidence now that each contract has a number of clear controls in place. We are working through a process through our corporate assurance unit and our internal audit to make sure that we are checking that all those signs of improvement are real and meaningful and that we are learning the lessons from what we are seeing there.
- As I said, there is still lots to do, and I will conclude on that point, Chair.
101. The Committee will know from questions this morning that we are finalising a resolution to a dispute on the planned maintenance side, so, today, we have an agreed position with the contractors. We are now formalising to seek consent from DSD and then through to DFP to get full approvals to enact that agreement. I would like, before I leave today, to have some discussions with your Clerk about when, at the earliest juncture after we gain full approval, we could come to talk to SDC in some detail on that.
102. It will take some time for the organisation to get to the right place. The ambition — I will go into that in more detail next week — is to get back to excellence at the Housing Executive. That is excellence prepared for reforms, if that is the will of the Assembly at any point, or excellence just for the organisation as it sits today. We are working through a host of changes that I will share in more detail with you next week to really get the culture, the organisation and the structures fit for the business that we are charged with doing.
103. Members will be aware that, following the governance review back in 2010, we put in place some robust governance arrangements that bring together legislative requirements around our business, governance principles and processes that all public bodies are expected to have in place. In 2013, there was a review of our delivery on those issues. You will see from our note that the governance structures include standing orders, an annual review of the framework, the provision of assurance statements, and regular reports on performance to our board and through to our audit committee. Importantly, the board and our senior management now have a system of assurance across all our business. However, we are not resting on our laurels. That is live today, and it is actively reviewed as we progress.

104. Will and Jim covered the reporting arrangements between DSD and the Housing Executive. Naturally, through that period, they had to be intensified until everyone was satisfied that the organisation was moving to address, in a consistent and long-lasting fashion, how we do our business. At the request of our current board, reporting arrangements were overhauled. Again, that is going to be a continuous process for us. Performance around response, planned maintenance, heating and grounds maintenance are now reported to the board every second month. Our audit and risk assurance committee also considered the detailed findings from the work of our internal audit and corporate assurance teams. As my colleague touched on, a representative of DSD attends those audit meetings. There is also representation from the Northern Ireland Audit Office.
105. Assurance arrangements have been strengthened in the corporate assurance unit. It now reports directly to the audit and risk committee. I meet the head of internal audit to provide a direct reporting route to me monthly on any key issues or concerns. DSD's governance review of 2010 put forward 75 recommendations that we should put in place to improve governance arrangements. That included critical recommendations and a host of best-practice recommendations. The senior management team at that time established an oversight board as an appointed full-time resource to oversee the working through of those recommendations. Some work will be ongoing to ensure that we regularly refresh our governance approach, the skills of board members etc.
106. It is fair to say that the implementation of those recommendations on all fronts has been incredibly useful to the organisation to get us to where we are today. However, there is still lots of work to do. In a follow-up review recently passed in November 2013, it was agreed that we had made progress, with two thirds of the 75 recommendations fully implemented.
- Our colleagues in DSD advised that four critical control recommendations were outstanding, but they saw the actions we have in place to close those out. Three of those recommendations are partially complete. They will be fully complete by the summer of 2014. One is no longer deemed relevant because we have moved beyond the initial recommendation. Twenty one good-practice recommendations were outstanding. The current position is that 10 have subsequently been implemented, 10 have been partially implemented, and one is outstanding. Some are connected to the sign-off of that contract negotiation. By the end of this year, they will all be closed off. I turn to the concerns noted by the Comptroller and Auditor General in his 2012-13 report. We work closely now with DSD and the Audit Office. They are directly represented at the audit committee to ensure that there is appropriate oversight. With regard to the recommendations in the 2012-13 report, at the last audit committee of the Housing Executive in March, three were complete, six were on target and we were progressing on four. Again, the main reason for those issues was overpayment. When we close that off — which, again, is a key concern for the Committee — that will allow us to move on with those issues.
107. Turning to contracts and contract management on response, as public representatives, you will know and will hear from your constituents that the maintenance service is critical to customers in the services that we deliver. It is one of our highest spending areas. You have heard some of the concerns about social housing reform. It is vital that we deliver investment to give customers the services that they deserve.
108. Although, by and large, we still receive very positive feedback about our service from tenants, we have fallen behind the expectations of both the public sector and our customers when it comes to how we have been managing those contracts. We have

- taken a number of actions to improve contract management. Each review has gone into one single improvement plan. The structure and management of our response maintenance contracts have been radically overhauled. The Committee asked specifically about the gateway review, which is concluded. We received the report just last week. I would like to share some of the findings of that with you today.
109. The delivery model for planned maintenance has also been reviewed. Design responsibility moved from contractor to consultant to give us an added layer of assurance. At local level, management arrangements have been strengthened. We have appointed new dedicated contract managers. The new contracts have updated key performance indicators and robust contract management arrangements that allow us to hold contractors to account properly where there are any issues coming from customers or assurance arrangements. That includes the application of low-performance damages. We can explore that in a wee bit more detail with you and how we have applied those to drive the right responses from our contractors.
110. We established a response maintenance intervention team to go directly into areas where performance is not as it should be. It was created in 2012 and deployed to offices with less than satisfactory results in our corporate assurance team inspections. Thankfully, we have not had to deploy the response maintenance intervention team this year. That is based on positive outcomes from our corporate assurance team. We are doing reviews through our internal audit resource just to check that those positive findings are real and to ensure that we are sharing any learning from them.
111. In addition, we have a new statistical inspection regime that has been instigated to let us find the real issues. As I will touch on through the discussion, we are looking to move to a place where our audit and assurance give absolute assurance, but are proportionate, to ensure that both staff and contractors are able to get on with the job on the ground. We will go into that in a wee bit more detail.
112. In summary, the new regime provides a robust and structured contract management arrangement in the organisation. We now see clear lines of responsibility and accountability, both in the organisation and among our contractors; the support arrangements that come through that, and very clearly defined escalation arrangements to deal with any disputes or performance issues.
113. The Committee is very clearly aware of the concerns that were raised on contracts and contract management arrangements on planned maintenance. We are now reaching a finalised agreement on figures with contractors to close our negotiations on that contract management issue. We will now proceed to seek formal approvals. Again, the detail of that will be subject to formal sign-off. We hope to come back at some stage to present that to the Committee.
114. What we can say is we are drawing up an action plan to address all the issues that come out of the intense reviews of the failings in planned maintenance. Our action plans to move the service forward to delivering excellence were presented to the board and are updated on a monthly basis. That gives the board the certainty that all the learning is not lost sight of and is embedded in our processes. As with response maintenance, there will now be new contractual arrangements for future planned maintenance contracts, and I can tell the Committee — this has just happened — that we are now in a position to award those contracts. I will meet the contractors personally next week, along with Gerry, to establish how quickly we can mobilise those contracts and start getting investment in our communities at the very earliest opportunity.
115. The new contract arrangements have been constructed to help to design out the problems that we saw previously from what was clearly a

- misinterpretation of how the partnership concept should operate. There are now a larger number of contractors to reduce overdependence on just a few limited players. The use of independent consultants has been embedded in the new contracts, and they have been involved in designing schemes, agreeing costs, supervising and approving the work contract. That will give us enhanced controls through segregating duties. We have learned a lot of lessons from the past, especially on pricing and inspection. That will help us to transfer some of the risks associated with design, and we will have improved access to key technical resources, particularly quantity surveyors, to ensure that we have a firm handle on pricing.
116. I said that I want to share with the Committee, and you asked specifically about the gateway review on the new response maintenance contracts. We received that report last week. We have still to take that formally to our board and through the formal processes, but we have updated our board on the key themes through verbal feedback. The review report has presented us with eight recommendations, all of which have been accepted by our organisation, and we are now developing action plans to deal with those. The Housing Executive has taken the opportunity of the gateway 5 findings to review how the contracts are being managed, make sure that we get the benefit from all our arrangements and, critically, have the right relationships with our contractors, going forward, and within the organisation as well. I will come back to the specifics of gateway 5, if I may, Chair. For now, I will work through the statement that we provided you with.
117. The Committee will be aware of the big issue of the culture of the organisation. Some of the adverse findings of the DSD review of governance point to that specific issue and to the skills and knowledge of staff to manage response and maintenance contracts. I and the board have signalled very clearly since my time in post at the organisation that there is a need to promote a new culture of integrity, openness and honesty, which are things that have been in the Housing Executive core values and need to be strengthened. There is a need to complement a real focus on service delivery to move forward to “delivery, delivery, delivery”, and to make sure that everything we do is the right response for our customers and delivers value for money but gets them the services that they need, when they need them, with appropriate application of governance and accountability.
118. Recently, we have seen a marked and planned increase in the visibility of our board and senior management team. Board members have been out and about meeting staff. As I mentioned, since taking up my post, I and the senior team have also undertaken those visits. By the end of May, I should have met all our 3,500 staff to give, from the top of the organisation, clear messages that we want to move the organisation back to delivering for Northern Ireland.
119. Governance arrangements have been reviewed. We have also been looking at the code of conduct and training, and we are now doing an annual review at board level of skills and successes to make sure that is kept refreshed.
120. In operational terms, to strengthen operational control and oversight, a new asset management section has been created and has responsibility for oversight of maintenance and works. Our experience is that the management of contracts is not just a one-off task; it has to be embedded as a day job. We have put in place new systems for contracts, but it is clear to me that, to get this right, the management of contracts and continuous learning has to be a feature of the day job. We must continually probe and challenge at all levels. As acting chief executive, that is where my head is. I need to be absolutely assured that we have all the right systems in place to take the organisation forward and, as accounting officer, to balance delivering value for money against making sure that investment and maintenance services

- are top class and are delivering for our customers.
121. Addressing the culture issues takes time. We have initiated a major transformation programme, which is badged the Journey to Excellence. Hopefully, we will spend time going into that in more detail with you next week. With all that, we have still built up consistency around governance and assurance over these very difficult years.
122. Chair, I hope that goes some way towards reassuring the Committee that intensive actions have been taken by the organisation to address the contract management failings and to move us back to delivering excellent services. If it is all right with you, I would like to read out a few points from the gateway 5 review, which was conducted independently for the organisation.
123. I will read from the headline findings and recommendations in the inspector's report. It states:
- "We found that a number of areas of the contract were working well. Improved performance from the contractors was apparent both in comparison to previous contract arrangements as well as a progressive improvement through the first 18 months or so of this current contract. We found evidence of positive tenant satisfaction."*
124. However, it goes on to tell us:
- "We found an assurance process in place but it appeared to reflect the needs of the organisation during a phase of extensive scrutiny. However, as the needs of the organisation and, in particular, this contract move forward this is a function that needs reviewing and adjusting proportionally to the needs of an established contract management arrangement in steady state. The overall assurance regime appears to be restricting the ability of the maintenance officers and contractors to act within the spirit of the contract."*
125. We take that as a positive signal for the Social Development Committee that the very rigorous assurance and control arrangements have been delivering. However, now is the time to make sure that our actions are proportionate.
- Some of the feedback said, "We see solid evidence that you have the arrangements strictly controlled", but their sense was that it is perhaps a bit too controlled.
126. I, as acting chief executive, cannot allow anything to slip. Rather, I need to move the organisation forward through the controls in the contracts and through the other arrangements that we have put in place on response and planning. Through our layering of corporate assurance, internal audit and external scrutiny, I need to ensure that we look in the right places and keep moving forward while not getting in the way of staff and contractors being able to deliver for us. We will work through and take on board all the recommendations in the report and move those into core improvement plans that keep us moving forward.
127. Given the scrutiny role of the Committee, you have an absolute assurance from me — you will this hear from our chair — that we will not let anything slip in that process.
128. **The Chairperson:** Mags, thank you for the volume of information that you have given and for the assurances that you have provided to the Committee during this inquiry. You appreciate — you finished on this point — that it is our statutory obligation to fully scrutinise all this. No Committee member wants, in any way or at any time, to micromanage the work that goes on. We will not be delving into that. However, it is essential that we do our scrutiny work.
129. I ruled earlier that we cannot delve into the detail of the £18 million issue. However, you mentioned that the negotiation has concluded, bar sign-off. Is that right? The reason I ask is that, although we are not getting into the detail of the issue, it will have a bearing on how members view all the assurances that they are being given. It is contemporaneous in a way. We are hearing and want to hear assurances, and we very much value that. However, by the same token, we have to measure that by what we see on the ground and

- what we see happening. It will, no doubt, have a bearing on members' views on all of this. Is there a sense of when that might be signed off?
130. **Ms Lightbody:** I know that the Committee is concerned about closing out that position. The Housing Executive, the four contractors and their representatives have reached an agreed position but, before we formally approve that, we will need approval from DSD and DFP. That is why, at this stage, we cannot disclose any of the detail. It could be subject to change. However, the Housing Executive has a negotiated position with the contractors and we want to move on and seek formal approvals.
131. **The Chairperson:** OK. Your predecessor in, I think, May 2013, identified four generic issues of culture, contract management, the skills in the organisation and the structures in which all of that is dealt with. You have dealt with a number of those issues. Are you working off the same agenda, are you satisfied that that was appropriate or have you added to or subtracted from it? Are you happy enough with those generic issues?
132. **Ms Lightbody:** Those improvement plan recommendations hold true in all the internal and external reviews. We will work to see those through to their conclusion, and I am sure that we will add to them with the help of the Social Development Committee. As we proceed, the organisation needs to have live learning in everything that we do. The contractors also have a role to play, and they have to be able to share their views freely and make sure that we move on. There will be nothing in the scrutiny that has been applied that we will not see through to a conclusion. If anything, I would like the organisation to move beyond that to a higher level. The negotiated position does not affect any of the valuable learning and the way in which we need to run our business.
133. On the culture and the appropriateness of our structures, I will share the Journey to Excellence programme that I mentioned with you next week. Social housing reform discussions are ongoing. Perhaps, at some stage in the future, there may be structural change, but there is a serious day job to be done in the Housing Executive. Some years ago, we were known for excellence. We want to get back to that position and be ready for any structural change if it happens and if that is the will of the Assembly. We want to be back to a position of delivering for our customers right now. The sessions that we are holding with staff will make sure that they are absolutely clear about what we have to do. We are listening to staff about what is stopping them from delivering excellent services to our customers and making sure that we move the organisation forward in line with that. I am sure that we will see changes, but they will be improvements in the service.
134. **The Chairperson:** OK, Mags. Thank you.
135. **Mr Campbell:** That was a very comprehensive presentation. You talked about the implementation of the 75 recommendations, but you broke them down and I want to be crystal clear about what the outstanding work is. Two thirds of the recommendations — about 50 — have been fully implemented. What is the status of the outstanding 25? Progress has been made on some of them, some had been completed and some were in another category. What was the detail of that?
136. **Ms Lightbody:** On the critical recommendations, it was considered that we had moved beyond one of those. After working with the Department, we have considered that non-relevant because we have moved on and done something about it. One that has been partially completed was on the risk management arrangements, and we are now down to the level of agreeing templates that we will use for reporting before we close that off.
137. A big issue among the critical issues is succession planning for the organisation. That is will take us some time. We are making sure that, for maintenance and contracts, we have

- the right skills in place. We are also conducting a skills audit to look at who we have in the business and, if we were delivered mass programmes again, what skills we would need so that we are ready for the future. We also have a workforce profile in the organisation and have staff who, because of their age, will leave the organisation at some point. We presented a baseline of the organisation's staffing resources to the board. In June, we will make some proposals on how we can make sure that we do succession planning while retaining all the valuable skills and knowledge of staff and making sure that we have the right people in the right place. That will take us a bit of time to complete, and we will probably work through that over the years to keep refining our staff resources.
138. The last critical recommendation not complete was on learning lessons from our counter-fraud work. You will know that we have a specialist team looking at a range of counter-fraud activities. One of the recommendations still to be fully closed out is making sure that we have a clear process for lessons learned from each investigation into the business. As an organisation, we are confident that we do that, but we do not have a documented systematic process, so we are going to put that in place. That will allow us to close out all the critical recommendations.
139. I will ask Gerry to come in on the best-practice recommendations.
140. **Mr Gerry Flynn (Northern Ireland Housing Executive):** A total of 21 of the best-practice recommendations were reported as outstanding. Ten of those are complete, 10 are partially complete in working practice, and one has not been completed because it is tied up in relation to the processing of a final account for a scheme.
141. **Mr Campbell:** Are you saying that half of the best-practice elements that were not complete still are not complete?
142. **Mr Flynn:** Ten are partially completed. We have worked our way through
- them, and it is about the extent to which we have delivered against the written recommendations. Some of those recommendations are in and around administrative arrangements; for example, the running of the audit committee and how we put together a corporate risk register. Work has been done, and we have committed to close out all those recommendations. Each of them has a timescale set against it, and all of those recommendations will be complete within this year.
143. **Ms Lightbody:** I can assure the Social Development Committee that it is not the case that we have not been working on them. It is about fully completing them. For example, one recommendation is on board member appraisals and reviewing board effectiveness. We are into the second year of doing that. That is something we will always do, so it probably will never be fully complete; it will be an annual process. We are working with the Department so that it is fully assured. We also have our internal audit team checking that we are absolutely solid on close-out and lifting issues into the next stage of improvement.
144. **Ms Siobhan McCauley (Northern Ireland Housing Executive):** On the issue of fraud, I would just add that we have a fraud strategy and a fraud risk register in place, and all staff have had fraud training.
145. **Mr Campbell:** Just so that we are clear, are you saying that, if you are back in front of the Committee in January 2015, which is after the end of this year, all of those issues will be completed in their entirety?
146. **Mr Flynn:** Yes.
147. **Mr Campbell:** OK, that is clear enough. You mentioned tenant satisfaction with the maintenance service. That has risen and sits at 81%. I take it that that is a current figure?
148. **Mr Flynn:** Yes.

149. **Mr Campbell:** How does that sit against comparable tenant satisfaction surveys in the rest of the UK?
150. **Mr Flynn:** Generally, across the piece, satisfaction across all our services for tenants is up there amongst the highest in the UK. If you drill down into aspects of tenant services to see where we need to do some work, you see that it is in and around maintenance. In the overall context, we deliver very good services, and people are happy with them, but, if you drill down into the issue of delivering the day-to-day maintenance service, you see that some work needs to be done. Some of that is a direct read-across to the issues that we have had in the past 12 months, particularly with the loss of access to contractors, or contractors going into administration, which creates backlogs of work. The natural response of tenants is, "We are not getting our repairs done." That is an indicator of why that has been down this year. We have work to do in improving those levels of customer service.
151. **Mr Campbell:** Yes, but your submission states:
- "The Continuous Tenant Omnibus Survey demonstrates that tenant satisfaction with all aspects of the maintenance service has risen in each of the past two years and now sits at 81%."*
152. I take that you mean that the 81% satisfaction rate is with the maintenance service.
153. **Mr Flynn:** It is, yes.
154. **Mr Campbell:** But you said that more work has to be done with the maintenance service.
155. **Mr Flynn:** As an organisation, we need to improve on that. If there is 81% satisfaction, it means that around 20% of tenants are not happy with the service.
156. **Mr Campbell:** Yes, but, if you looked at a tenant satisfaction survey of maintenance services in the rest of the UK, where would it sit, on average?
157. **Mr Flynn:** We would be on a par with the others. One thing that I will add to that is that we benchmark all our services every year, and we are due to report to our board in June on last year's performance. I am happy to share that work with you.
158. **Ms Lightbody:** Generally, tenant satisfaction with the whole of the landlord activities is very impressive. It is sitting at 93%. Coming from Glasgow Housing Association, I was quite envious when I arrived here. In respect of the journey to excellence, we are starting to dig underneath that, look at age profiles, and look at what customers want from us in the future. So, we are not resting on our laurels by any manner or means.
159. We are starting to understand what we need to do to get 100% from customers. Maintenance is the service that customers consume most. It is the thing that will be in their homes most. So, we will work with our contractors on customer excellence and will have a whole behaviour piece, delighting our customers when contractors come through the door. We have lots of work to do to get it to "best in class". We are doing well in our public sector space and with housing association comparators, but we want to do better again.
160. **Mr Campbell:** When I see that it has increased and is now comparable with other similar surveys, that brings me to the question: what were the satisfaction rates in those surveys three or four years ago, when it is now 81% and has risen?
161. **Mr Flynn:** I do not have that to hand, but I can get it for you.
162. **Mr Campbell:** The nub of this is that, presumably, it was significantly lower. Apart from the work that you are doing more widely, would that not have flagged up concerns about tenant dissatisfaction at maintenance service in the period between 2008 and 2010?
163. **Ms Lightbody:** It would have been, and should have been, a key indicator. If you look at how we are managing the service now, and some of the penalties that we

- apply, they are based on our internal measures of testing price quality, which is that the customer's voice is a key indicator in telling us how well the service is going. Contractors face penalties if they do not make sure that all those indicators are met. However, at the time, it should have been an indicator that something was wrong in the service.
164. **The Chairperson:** It is important to underscore that. Gregory raised the point and Fra raised it earlier. These things were flagged up quite vociferously by a number of people.
165. **Mr F McCann:** I will be brief as some of the questions have already been asked. Thanks for the presentation. It was very extensive, and it will probably take us a while to get our heads around a lot of the stuff contained in it. I wish you well with the job you are doing.
166. In respect of the 81%, and I am not questioning for one minute that the survey did not say that, I find it difficult to believe that during a period when there was serious upheaval in the organisation, regarding response maintenance and other aspects such as contracts, that it would be that high.
167. **Mr Flynn:** The continuous tenant omnibus survey (CTOS) is based on a rolling sample every quarter. It is what it is. How you get a degree of triangulation around that is through one of the key performance indicators (KPIs) on the response maintenance contract. A sample of tenants is contacted by our customer service unit when they have had a repair, and that KPI is measured against the contractors. If they fail to deliver against it, they get measured down. Our performance is reasonable on that. So, there is a degree of triangulation, but you cannot be complacent about these things. I remember, as you will, as a public representative, that many years ago the Housing Executive was inundated with complaints about the quality of its maintenance service. That is not the case now. Our front offices do not get lots of complaints. Some of the issues during the year were when contractors went into administration and work did not get done, and, quite rightly, individuals complained, as did public representatives.
168. **Mr F McCann:** Is that because there was very little maintenance being carried out for a time? That needs to be taken into consideration.
169. **Ms McCauley:** It also has to be understood that in the past year there has still been contractual work going on in planned maintenance, and the overlay of around £40 million was expended. So, there has been significant work on the ground.
170. **Mr F McCann:** I understand that. I deal with it daily and quarterly in my constituency, where there were difficulties and problems.
171. To go back a bit: over the past number of years, one of the big problems, besides some of the major issues that there were, was that there was a serious dent in the morale of the people who work for the Housing Executive across the board. What is being done to try to address that?
172. **Ms Lightbody:** Kicking off with me and our board chair, we have been holding a lot of the sessions for staff. The organisation could not keep going as it was. With all the learning that has come out, and all the improvements, now is the time to get back to delivering. So, the sessions I have been having are half-day sessions, and I am committing the time, personally, to go out and meet all our staff, reflect on where we have been, and make sure that everyone is clear on why the organisation ended up where it was. However, the sessions are also to acknowledge the hard work that staff were still doing through all of that piece.
173. If I look at our organisation and its 3,500 staff and played back some of the tenants' satisfaction results overall — 93% satisfaction with the landlord — then our staff were still doing great things. So, the scrutiny of this Committee is absolutely rightly on

- these issues, but we still had masses of staff still out, on the deepest, darkest mornings, in houses with customers, helping them with life. So, I am acknowledging with our staff the great work that housing professionals do and looking forward to the challenges that our customers are facing in life.
174. Times are tough in Northern Ireland. Potentially, if welfare reform happens, they could get tougher. We are really trying to unite the masses in our workforce that we need to get back to doing the things that we were famed for, and those are the great things around our services and delivering investment, so moving away from handing back money and actually delivering. I have lots of work to do to get staff morale and their heads back in the right place. They signalled in their staff satisfaction surveys that we need leadership from the top of the organisation, and we will give them that. We also need to give them some guidance and space to be able to do their jobs. One of the stark indicators in our satisfaction survey was that half of our staff felt that they were not empowered and trusted to be able to do their job.
175. We are not shirking these serious issues of governance; and solid, good governance must be at the heart of our organisation. However, our staff have to be able to do what they are supposed to do and be held accountable. The responses from these surveys have been hugely impressive. Staff are hungry to get back to delivering for our political representatives and the people you represent. It is the right time for the organisation, and it is about what 2014 will bring. We need to embed this learning and get delivering on investment, response, good services and innovations. For a few years, we have probably had our eye on sorting out those issues correctly; now we need to move on and start performing.
176. **Ms McCauley:** Also, just to add that staff had asked questions regarding training, and at least six months in a row of comprehensive training has been provided in all the contracts. So, they are very skilled up, at this stage, to know, moving into the new contracts, how to deliver and operate them.
177. **Mr F McCann:** I have just a couple of other comments. I am glad you mentioned Glasgow Housing Association, because it has been held up as an example of where we should be. I am glad to see that we are advanced and are in front of it; I have always believed that to be the case, anyway, and what that suited was other people's agendas. I agree that 2014-15 will tell a tale. We could step backwards and destroy what we have or we can move forward with a stronger platform for all aspects of housing.
178. However, I notice that you sit on the ministerial social housing reform group. We have been told in the past that there is no interference by that group on how the Housing Executive is moving forward. Obviously, the Minister has his agenda for where he would like to see housing, as does the Department. Among the concerns we have raised is that there seems to be an onward rush in the Housing Executive on the division between the landlord and strategic regional services in NI. Our concern has always been that we are being offered a fait accompli. We are told that it is a political decision. It seems to be removed from us because of the work being done on the Housing Executive at present.
179. **Ms Lightbody:** I sit on the social housing reform programme board at officer level, and I am there to represent the views of the Housing Executive. I learned many lessons in Glasgow, which went through a stock transfer process. I probably learned more lessons in how not to do big change than in how to do it. The last five years was spent getting my last employer to work with staff and customers to get that business back on top again.
180. My role in social housing reform is to make sure that the views of the Housing Executive, and the housing professionals in it, are clearly represented, and, as we work through the reform discussions, to make sure that any proposals and

- exploration of options delivers the maximum for Northern Ireland and its tenants. We do not sit at that table with any views on the future; that is for others to decide. I know, from this Committee's early discussions on social housing reform, that you want to test a whole host of options, from public sector retention to —
181. **The Chairperson:** I should say that we are having a presentation from you on the modernisation programme next week, which is distinct from the social housing reform programme, whatever may happen. We will deal with that more substantively next week.
182. **Ms Lightbody:** Absolutely. I can get into the details of that next week.
183. **Mr Dickson:** I apologise for not being here at the beginning of the meeting.
184. We know, and you have been telling us extensively, about the targets for the work: the 75 items that have to be dealt with, the programmes that are being worked through, the training that is being delivered, the staff empowerment that is being done and all those things. A massive effort is going into that. If all that effort is going into dealing with those issues, how can we be sure that you are actually doing the job that you are employed to do, which is to deliver quality housing, maintenance and public sector housing for Northern Ireland? From what you have just said, it appears that an awful lot of time and effort, rightly and unfortunately, is going into redressing the problems of the past and doing all of those things.
185. **Ms Lightbody:** All key contributors — our board, me and my senior team — agree that there is a critical role in scrutiny for the Social Development Committee and other participants, until everyone is convinced. Hopefully, these sessions give a sense of the years of effort put in to address those issues. When people are convinced that we are in a good base shape on that core business, that is the bit that will then let us move on. I want to embed these types of activities so that they are just a part of the day job. So, then we can move away from a host of imposed improvement plans. We need to start creating our own improvements through active learning.
186. There is lots to be done to the organisation regarding modernisation. We probably have some years of catch-up to do. We have big challenges and opportunities around succession plans. All of that will take time. Before coming to work in the Housing Executive, that was a lot of the work that I did with Glasgow Housing Association. It does not happen overnight, but I have shown, hopefully through the experience in my past job, that I know how to do it. We will take a lot of the lessons from work that has been done and, through learning from others, with our team, staff and key partners, move the organisation forward. I would not say that it is easy. We probably have not been to bed early for a while and will not be for a while yet, but we give the Committee our assurance that we are committed to turning the organisation back to where it should be.
187. **Mr Dickson:** I am also looking for an equal assurance — I appreciate that it is a very difficult ask — that, while you are doing all these things — you are clearly getting the boxes ticked and are delivering on that — you are not losing focus of where you have to be to deliver for tenants and future tenants.
188. **Ms McCauley:** What is helpful is that we have structured ourselves into two divisions internally: a regional division, which is a strategic overarching entity that looks at housing in Northern Ireland, and the landlord division that looks specifically at the repair work. It has a customer base with the tenants. That has given us renewed focus. With that, and with moving forward with the controls that Mags said are in place, and in addition to the requirements on compliance that the staff who are doing a very hard job at the moment are aware of, we are in a very strong position. The organisation is turning a corner.

189. **Mr Dickson:** You mentioned the whole issue of succession planning a number of times. To me as a former public sector worker, that implies preparing staff who are coming through the system so that they will be ready for future management roles in the organisation. That is a perfectly legitimate aim, but it is a very public sector-centric concept. Surely, in order to safeguard employment and enrich the organisation, you have to ensure that your staff have adequate training, not just to do the job that they are required to do but to ensure that they can be the future managers or deliverers? I hope that what we are not hearing is that this organisation wants to regenerate itself from within. It is a very open organisation, and anybody who may have been improved in order that they can take part in that succession should understand and realise that they will be competing with many other applicants from many other facets of life and employment.
190. **Ms Lightbody:** Absolutely. We need the best people to lead the organisation forward. Now that I am in post as acting chief executive, I am proud that we have a lot of brilliant people in the organisation, but the organisation now needs to regenerate itself. When I talk to staff, some of them tell me that they have been there for the first 40 years but that I need to prepare the organisation for the next 40 years. The sessions we are having are based around the idea of lifting ourselves out of the traditional public space. Some of the discussions with staff are about what they think a “best” company is. The ambition of the Housing Executive has to be that we will still be a public sector body but that we want to deliver and achieve way above the level that anyone else does, not just in our comparator groups, but in benchmarking with businesses as well.
191. We are starting to get a real look at skills. We are in a modern age, so there are probably different skills that we will need in going forward. A blended mix of people is coming in through the routes opportunities for graduates; opportunities for new blood. My experience is that that gives you a really rich blend of folk to take the organisation forward. We work with a host of key partners. Our level of investment means that we create lots of employment opportunities, so I think that the Housing Executive has a role to play to drive that best-in-business way beyond just 3,500 staff.
192. **Mr Dickson:** Finally, you referred to contracts, working with contractors and looking to get the best from them. In the report, you referred to low-performance damages, which to me is some fine or fault system for dealing with contractors. It sounds fine, and I hope that in one sense it does not happen very often because the contractors would be performing, but can you tell us whether you carry through on that? That is often the failure in audit and public sector reports. We hear fancy words and funny phrases such as “low-performance damages”, but it just means that the contractor is not getting another contract, that you are going to fine them for the work that they have done, or that you will make them do the work again and again until they get it right.
193. **Mr Flynn:** One of the key changes in the current contracts on response maintenance was the introduction of low-performance damages. When they were first set up, we gave new contractors three months to bed in, so that they got a feel for being given their scores every month. It was an interesting learning experience for them to get to a position where they realised that when those need to be applied we apply them.
194. Suffice it to say that, generally speaking, the performance of our contractors is pretty good, so the scores on the doors every month are green. You can see the trends from when we first introduced them to the end of the year: it looked like a patchwork quilt, with some greens and a lot of ambers and reds in those first three months. The colour chart changes gradually throughout the year so the colour is now predominantly green. However, there are ambers and reds, and we raise

- those low-performance damages against contractors where appropriate. There have been a number of contractors whose performance has been escalated as a result of their non-performance; one contractor got to a final escalation stage and is now on a weekly monitoring plan. So, we do apply it and, if we understand rightly, the level by which we have raised low performance damages this year is somewhere in the region of £100,000.
195. **Mr Dickson:** I apologise for interrupting. You are talking about a weekly performance plan. If you were in the private sector, that contractor would not be working for you any longer.
196. **Mr Flynn:** Under the terms of the contract, we are duty bound to put contractors on final notice. The severity of this particular situation means that the contractor's performance is being monitored weekly over a short period. The outworking of that is if it is not delivered, the contract will be terminated and we will get another contractor in place.
197. **Mr Dickson:** How many contracts have been terminated?
198. **Mr Flynn:** We have not terminated any maintenance contracts in the current term. Two contractors went into administration by their own fault but we have not formally terminated any of the current response maintenance contracts.
199. **Mr Dickson:** How many are on weekly monitoring?
200. **Mr Flynn:** One.
201. **Mr Dickson:** OK.
202. **Ms Lightbody:** The message to staff in the organisation, to ensure that you get comfort on this, is that we need to be strong and decisive when things go wrong both with staff and contractors but that they should also learn from gateway 5 to work with our contractors to get the best from them. That is why I want to meet personally with all our response and new planned maintenance contractors. I want to set out our stall to create opportunities where we talk and listen to them regularly about what we can do better to help them and vice versa. They need to be clear on the consequences; if any issues surface, we will deal with them strongly and decisively.
203. **Mr Brady:** Thanks for the presentation. Fra mentioned staff morale and that you had met approximately two thirds of the staff. Part of the difficulty for staff, apart from the daily grind because it is a difficult job that the vast majority do very well, is the perceived uncertainty about their future. That is certainly the message I get, and I deal with local Housing Executive staff on a daily basis.
204. There are just a couple of other things. The CTOS shows that 81% of people have had either response or planned maintenance done, but many people have not been that lucky and are waiting for response or planned maintenance. It is not an unexpected answer in a way, and it is relative of course, but you are only dealing with the people who have had maintenance done.
205. As you are aware, the Housing Executive handed back a huge amount of money in the past year. Are you confident that the money allocated to the Housing Executive in future will be used for the purpose for which it was intended, whether that be planned maintenance or building social housing or supported housing or whatever?
206. I was not going to mention welfare reform, but you did. Glasgow is a good example of where the bedroom tax has not worked. Housing associations built three-bedroom houses and cannot let them because people are reluctant to move into them because of the bedroom tax. Therefore, they cannot service the loans that have to be repaid on those houses. I know it is not necessarily relevant to this matter, but you did mention it.
207. **The Chairperson:** It is not relevant but you are going to make the point.

208. **Mr Brady:** I only mentioned it because you mentioned it. I just wanted to make the comment.
209. **Ms Lightbody:** I will pick up on those issues, and next week I will, perhaps, cover how we are managing staff changes and uncertainty and making sure that we are keeping our staff involved in that. Gerry touched on the numbers in the survey and you made a valid point; we will only be able to rank up the programme when we get a mass test.
210. You asked about the spending of our budgets. At a time when this Committee is hearing about underinvestment in our houses, it is just not palatable for me, as acting chief executive, to be sitting at the end of the financial year and handing back investment moneys in our own stock. We are a bit behind the cosh with the contracts being late in being let, but that has now taken place and part of the meeting with the contractors will involve how quickly we can mobilise while still making sure that we do not fall back to any of the old practices. That is on the board's agenda; it wants regular reports on our budget profiles to show how we are going to spend. That is at the top of my agenda and I need to work through with our contractors and the board to keep in mind that anything we do has to be delivered well, protecting the public purse, but also trying to get investment back to our tenants.
211. **Mr F McCann:** I know all the reasons why the new measures are being brought in. However, when it comes down to the working relationship between your people on the ground and contractors, is a degree of flexibility required to ensure that the whole thing does not come to a stop?
212. **Ms Lightbody:** Some of the gateway findings — and again we got that last week, so we were already working on some of the action plan — showed that their sense was that it was a bit too adversarial in that all of the control, scrutiny and audit checks are in place. We are probably not seeing the right relationship with staff and contractors.
213. As we get the balance right, I will have to look again at how we do audit and assurance but keep it proportionate. There is work to be done there and that is one of the bits they made clear recommendations on, including a contractors' forum, when they get to talk to us regularly. We were already on that in that we need good relationships that will work and assure this Committee, our board and me that money is being well spent. That is a bit we need to do some work on.
214. **The Chairperson:** Mags, thank you, Gerry and Siobhan, unless you have anything to add. If not, we can conclude this evidence session. Thank you for your presentation, responses to questions and the material you provided. This is ongoing work, and we need time to absorb both presentations this morning, so we may well call you back with further questions.
215. **Ms Lightbody:** Thank you, Chair and Committee.
216. **The Chairperson:** Good luck with the work you are involved in.

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 | } <i>Northern Ireland Housing Executive</i> |
| Mr Trevor McCartney | |
| Mr John McVeigh | |

217. **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.
218. 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.
219. **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.
220. 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.
221. 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.
222. 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.
223. 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.
224. 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.
225. 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.
226. 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.
227. 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'.
228. 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.
229. 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.
230. 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.
231. 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.
232. 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.
233. 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.
234. 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.
235. 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.
236. 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.
237. 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.
238. 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.
239. 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.
240. 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.
241. 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.
242. 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.
243. 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.
244. 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.
245. 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.
246. **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.
247. **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.
248. 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.
249. **The Chairperson:** So it is not an additional resource but a better use of resource: is that what you are saying?
250. **Mr T McCartney:** It is absolutely a better use of resources.
251. **Mr Allister:** Have there been audit failures?
252. **Mr T McCartney:** Yes.
253. **Mr Allister:** Have they been extensive?
254. **Mr T McCartney:** One audit from the corporate assurance unit came back with an unacceptable rating.
255. **Mr Allister:** Historically, have you been plagued with audit failures?
256. **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.
257. **Mr Allister:** Explain to us the difference in personnel levels now as opposed to two or four years ago.
258. **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.

259. **Mr Allister:** There have been some quite significant failures in the past three years, have there not?
260. **Mr McVeigh:** It is a matter of record that the Housing Executive has faced significant challenges.
261. **Mr Allister:** Do those challenges include audit failures?
262. **Mr McVeigh:** In the delivery of the audit service?
263. **Mr Allister:** In failing to identify problems.
264. **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.
265. **Mr Allister:** Have there been any deficiencies in the operation of the audit process or the corporate assurance unit?
266. **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.
267. **Mr Allister:** The Audit Office talked about the delay in obtaining clearance for audit reports. Whose fault was that?
268. **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.
269. **Mr Allister:** Was there a culture of interference from the senior management team?
270. **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.
271. **Mr Allister:** Was that with a view to toning down the reports' findings?
272. **Mr McVeigh:** Certainly, it was with a view to challenging the overall assurance option and perhaps some of the rationale behind the report. Yes, that would be the case.
273. **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.
274. **Mr Allister:** So, had there not been that culture of interference, would some of

- the problems that befell the Housing Executive have been avoidable?
275. **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.
276. **Mr Allister:** Was the audit role being frustrated? Was the work of the internal audit unit being frustrated?
277. **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 —
278. **Mr Allister:** Yes, but how independent is it?
279. **Mr T McCartney:** Currently?
280. **Mr Allister:** Yes.
281. **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.
282. **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?
283. **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 were challenged to the extent that it was asked that they be reconsidered before they were presented to the Audit Committee in their current format.
284. **Mr Allister:** Toned down.
285. **Mr McVeigh:** That explicit instruction would never have been given. Certainly —
286. **Mr Allister:** That was the import.
287. **Mr McVeigh:** Perhaps to rethink and reconsider some of the reports' findings.
288. **Mr Allister:** Did you do that?

289. **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.]*
290. **Mr Allister:** So members of the senior management team were pulling rank. Is that right?
291. **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.
292. **Mr Allister:** Who was the accounting officer?
293. **Mr McVeigh:** He is retired now.
294. **Mr Allister:** What was his role? What was his job title?
295. **Mr McVeigh:** He was the chief executive.
296. **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.
297. **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.
298. **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?
299. **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.
300. **Mr Allister:** Has that been done?
301. **Mr T McCartney:** We are doing that, and early indications are that we are happy.
302. **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.
303. 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?
304. 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.
305. **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.
306. 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.
307. 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.
308. 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.
309. **The Chairperson:** OK, John, thank you.

310. **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?
311. **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.
312. 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.
313. **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?
314. **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.
315. **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?
316. **Mr McVeigh:** I refer you to my colleague Gay. That is her side of the business.
317. **Ms Gay Ireland (Northern Ireland Housing Executive):** You are talking about response maintenance as opposed to planned.
318. **Mr Wilson:** No, the planned maintenance.
319. **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.
320. **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.
321. **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.
322. 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.
323. **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.
324. **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.
325. **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?
326. **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.
327. **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.
328. **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.
329. **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.”*
330. Can you comment on that?
331. **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.
332. 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.
333. **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?
334. **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.
335. **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.
336. **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.
337. **Mr F McCann:** Did last year's announcement about the £18 million originate from your offices or from the audit office?
338. **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.
339. 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.
340. 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.
341. 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.
342. 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.
343. **Mr F McCann:** Who stepped in to take that forward?
344. **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.
345. **Mr F McCann:** I remember that, at the time, community organisations in west Belfast, and my MP, raised a question about Red Sky.
346. **Mr McVeigh:** Yes.
347. **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?
348. **Mr McVeigh:** OK. I was appointed in June 2008.
349. **Mr F McCann:** Yes.
350. **Mr McVeigh:** My understanding of —

351. **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.
352. **Mr McVeigh:** OK.
353. **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?
354. **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.
355. 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.
356. **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?
357. **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.
358. The wider issue in bringing in external quantity-surveying professionals, I understand, would have had to be procured through the normal process.
359. **Mr Allister:** Who were they?
360. **Mr McVeigh:** From memory, I think that the firm was called Murray Macdonald, but I would need to check.
361. **Mr F McCann:** Is that the Macdonald report?
362. **Mr McVeigh:** Murray Macdonald, yes, that is right.
363. **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?
364. I thank you, Trevor, Gay and John, for attending and dealing with the questions as you have.

5 June 2014

Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
 Mr Mickey Brady (Deputy Chairperson)
 Mr Jim Allister
 Mr Michael Copeland
 Mr Stewart Dickson
 Mr Fra McCann
 Mr Sammy Wilson

Witnesses:

Mr Donald Hoodless } *Northern Ireland*
 Professor Peter Roberts } *Housing Executive*

365. **The Chairperson:** We have Professor Peter Roberts, the chair of the audit committee of the Housing Executive, and Donald Hoodless, who, of course, is chair of the Housing Executive and whom we have met on quite a number of occasions.
366. Obviously, we are addressing phase 2 of the inquiry, which is the issue around the adequacy of the actions proposed by the Minister for Social Development and the Housing Executive to address previous, well-documented failings in relation to procurement and contract management. There is quite an extensive range of issues, and we have been trying to knuckle down to say that there have been well-documented failings and a number of inspections and so on and recommendations flowing from those. We need to ascertain whether all of those recommendations have been adopted and whether they are effective and whether they will be implemented and will be effective. We seek some assurances around that.
367. Members will have their own relevant questions that they want to ask. When we invite witnesses to the inquiry, for procedural fairness, you are made aware in advance what issues we want to deal with. That gives you the opportunity to address those at the outset. The meeting will then be open to members' questions. Is that fair enough?
368. **Mr Donald Hoodless (Northern Ireland Housing Executive):** That is absolutely fine.
369. **The Chairperson:** Donald and Peter, thank you again for your presence today. I know that Peter is trying to catch a flight, so we will try to be reasonable with our time frame. Over to you, Donald.
370. **Mr Hoodless:** Thank you very much. First, I thank the Committee for arranging this afternoon's meeting; it is greatly appreciated. So, thank you very much for that. We have submitted a written paper to you, but rather than going through all of it, I will just pick up on some of the points.
371. I emphasise that Peter and I know that good governance is critical to the Housing Executive's success. We have a positive story of progress in moving on from the past. That is really what we want to say today, but it is a journey with a lot more to do. Equally, we do not want to forget at all that we are here to provide more social homes, to work with our tenants and to maintain, improve and, at times, remodel tenants' homes so that all are living in good-quality accommodation. That is our role.
372. The board's role is to work within the framework set by the Department. Within that, the board is there to set the direction, priorities and plans for the future. It is also responsible for performance. We are answerable to all stakeholders, from tenants through to the Minister. We are there to hold management to account. That is very much our role. The board has to have an overview of the Housing Executive's work to see the bigger picture and to assess performance, but it also needs to spend time understanding and discussing the problems and issues that we face so that we are better informed.
373. What we have done is reviewed the scheme of delegation from the board

- to managers. We have passed that responsibility down so that we can see that bigger picture. We have simplified the structures in the organisation and reorganised the agendas of board meetings. Every six months, we have held board awaydays, where the board spends more time working together and we get speakers from outside the Housing Executive to explain what they do and how they work so that we as a board are better informed about possible ways forward for ourselves.
374. We have also reviewed our board's effectiveness. We did that a year ago and revisited it in April. So, we check to see that what we are doing is working and that we have done what we said we would do. In other words, we are engaged in a process of renewal in the organisation.
375. You have already heard about the Journey to Excellence and the leadership forum. I have played an active part in both. One of the things that I have done in my chairmanship to date is to visit the offices and talk to staff. I was told this morning that I have done 27 offices. I enjoy talking to staff about the issues that they face, how they are working and what they find are the problems.
376. Of course, the concerns on governance go back a long way to 2010. It is a legacy that has to be managed and resolved. We as a board are totally committed to reducing all the outstanding issues. I think that there are two big reasons for that. First, we want to be the best at what we do. Secondly, we want to do it because of the Housing Executive staff. They have been subject to continuous and intense scrutiny and checking, which has been wearing for them, it makes all staff risk-averse and that inhibits the organisation's innovation, which any organisation needs. We need the creativity of those staff to be better. So, we need to change the culture and the way that we work there.
377. There is much more to do. On asset management, again, we as a board need to check that the staffing structures
- and the skills that we have are the right ones and to make sure that they work effectively. We also are looking to ensure that our procurement processes are the best that they can be.
378. A key issue for us is whether we are delivering our programmes. The board, in other words, has to be constantly vigilant and challenging to management. That is what we are doing. That is where we are now, and it is what we want to continue to do. We are doing much better, and we are striving to be the best again.
379. I will now pass to Peter, who will tell you what the audit and risk committee is doing within that framework.
380. **Professor Peter Roberts (Northern Ireland Housing Executive):** I add my thanks because it was principally my fault that we could not make your earlier date. I needed to take my wife to hospital; she has been receiving quite intensive treatment, so thank you for accommodating us this afternoon. I am very grateful.
381. I took responsibility for the audit and risk assurance committee at the start of the 2013-14 financial year. All I can do is reflect on what we have done over the past year. The annual report for that year will be available in the next month. Obviously, you will be welcome to see a copy of it.
382. When I took charge of the audit and risk assurance committee, we did three things. First, we acknowledged that we needed to restructure our committees. Until then, we had two committees — the audit committee and the risk and performance committee — that worked separately; they did not work in harmony. There is always a big danger when you have two committees that they assume that each other is doing something and things slip through the gaps, or that they duplicate or overlap. We decided to bring the two committees together. That was agreed by the board, so I inherited a unified committee concerned with audit and risk. Since then, we have been trying to move those forward.

383. Secondly, we initiated a review of what the terms of reference should be. We had, very helpfully, three sources of expert best-practice guidance available to us: the Northern Ireland Audit Office (NIAO) guidance, which was extremely helpful; DFP guidance; and HM Treasury guidance. We refreshed the terms of reference for the new committee on the basis of best-practice guidance at the very leading edge.
384. That review involved a number of people in and outwith the executive. The people outwith were principally from the Northern Ireland Audit Office, DSD and elsewhere in government. The terms of reference were developed and agreed by the committee on 9 October 2013 and were recommended to the board, which accepted the recommendation and approved the terms of reference on 29 October 2013.
385. Thirdly, the measures plus a review of the membership, which I will come to in a second, provided a much stronger platform for the scrutiny role of the audit and risk assessment committee.
386. In parallel with the reconstitution of the audit and risk assurance committee, and in accord with good governance principles and practice, a review of committee membership took place. Given the new mandate the committee had, the review suggested that we needed to strengthen the committee's competence in relation to governance and risk. We took that forward because we had the retirement of one of the existing audit specialist members. We appointed a chap called J P Irvine, who is the company secretary and counsel general of Translink, as an additional non-executive specialist member of the audit and risk assurance committee. He complements the skills already performed by Dean Morrice, who is an audit specialist.
387. Additionally, in order to ensure that audit and risk matters are dealt with correctly and expeditiously, and without any fear that internal audit or other reports have been subject to undue management alteration or editing, the audit and risk assurance committee discussed and agreed a new set of procedural structures on 15 January this year. Again, we took that to the board for approval. The board approved the new process for the submission of reports at its meeting on 29 January.
388. I will conclude at this point. I think that the audit and risk assurance committee is now fit for purpose. It is much more proactive than in the past in seeking matters to be subject to audit and to risk assessment, and it also has the necessary skills to allow it to discharge those functions. I am happy to answer any questions.
389. **The Chairperson:** Thank you, Professor, for that. Before I bring in members, I have two points. I think that there is a widely held view that a lot of the procedures were in place over the years but that they were not applied by personnel. Notwithstanding the fact that you have new and additional procedures in place, are you satisfied that they will be protected against the non-application — if I can use that diplomatic word — of procedures? Secondly, are you satisfied that the additional work the Department may have undertaken is complementary to your measures? I am trying to tackle all this from both sides.
390. **Professor Roberts:** I will take the second question first. I am assured of that, because I have taken steps to make sure that the departmental representative, Donald Heaney, is more involved in the work of the committee and in agenda setting than in the past. Also, even though he has observer status because of the structural relationship, we make sure that he is fully involved in our discussions, and he is now asked to take away matters and report back. So, I think that the Department does stand behind us on those matters. On another strand of work, we gain further reassurance from the Department's reviews of our processes and procedures and we are held to account by the Department on those.
391. On your first question, I think that the evidence is that the process is working.

- My background is as a planner, and planners are often guilty of producing wonderful plans that get stored away on shelves and look very neat and nice, but really the essence of any process or plan is its application and implementation.
392. Two things are worth noting. First, as part of the new process and procedures that have been agreed and implemented, I have regular meetings with the two people you talked to last week, the head of internal audit and the head of the corporate assurance unit, outwith the audit and risk assurance committee and make sure that progress is being made. Secondly, the real proof of the pudding is in the products. Only today, I received two pieces of work that the audit and risk assurance committee asked to be brought forward prior to its next meeting because we saw them as important matters. Those two reports have been produced.
393. So, I think the process is working. It is delivering what we wanted, with timely rather than retrospective reports. We want reports on issues that we have seen as potential problems, and we want them as early as possible so that we can avoid what might be a minor difficulty becoming a major problem. I am very keen that we do not simply store stuff up behind the dam and fail to recognise those problems.
394. **Mr Allister:** You are telling us that everything is good, that there are lots of checks and balances and that all is well. If the Committee had asked your predecessors the same question five years ago might it have got the same answer?
395. **Professor Roberts:** You may well have got the same answer, but whether they would have the same confidence that the answer is justified by the evidence is a different matter. You would have to ask them that question.
396. **Mr Allister:** In terms of the confidence that we should repose in what you are telling us now, how could we be assured that the audit committee is receiving
- unaltered reports, given that there was a history of them being altered before they got to the committee? How can we be assured that there is no opportunity or possibility of that happening?
397. **Professor Roberts:** You are tempting me into the land of assuming that everything is possible and yes, it is. I accept that and that, even with the best checks and balances in the world, it is still possible for people to operate outwith the conventions and principles that are agreed that represent good practice.
398. The analogy that I always draw is that it is fine and dandy having wonderful fire insurance, but you still need to make sure that the kids are not smoking in bed. That is why I have regular private meetings with the head of internal audit, at which I normally look him in the eye and ask him whether he is concerned about any issues above and beyond the normal process that he wants to convey to me. I will continue to ask her or him that question, as head of internal audit. Equally, I ask the same question of the head of the corporate assurance unit. Secondly, the procedures within the formal management structures are noted and minuted and are changed. Those procedures would make it more difficult for things to be altered.
399. However, to be honest, Mr Allister, I would have to agree with you that it is always possible that, if people are going to be totally devious and wish to subvert any process, however well intentioned, well supported and well pleased, they can get around those things.
400. **Mr Allister:** How far has the personnel changed?
401. **Professor Roberts:** There have been some alterations to the staff in internal audit and the corporate assurance unit. At this stage, those are not extensive, but there have been some minor alterations.
402. **Mr Allister:** Was anyone ever removed from position because of any of the findings in any of the reports that drew attention to these matters?

403. **Professor Roberts:** Not in my time as chair of the audit and risk assurance committee. However, if you want to review the personnel, we could do that and get back to you, but I do not have the personnel statistics for the two units in front of me today.
404. **Mr Allister:** Mr Hoodless, the series of reports, which found all sorts of deficiencies, were essentially awaiting you when you arrived in office. We are now asked to believe that things are so much better and different, but if we take as an example — I do not want to stray needlessly, but I think that it is relevant — the £18 million in overcharges. We had you, as chairman, coming out and declaring very robustly that to be a fact. We now understand that it looks like anything but a fact. So, how did the processes, which you now stand over, allow that situation to evolve?
405. **Mr Hoodless:** I do not entirely agree with how you put that. The board was advised that it was £18 million. I did not make that figure up.
406. **Mr Allister:** No, but it was done under a process of investigation initiated by you.
407. **Mr Hoodless:** No, it was not a process. The planned maintenance contracts were ongoing. There was an issue about overpayments when I arrived to the board, which had been going on since 2010.
408. **Mr Allister:** Sorry, your statement of 10 June last year said:
“When I took up office in November 2012 and was briefed on the Housing Executive’s management of planned maintenance contracts by the Minister, I requested in December a comprehensive investigation from the Chief Executive into this matter.”
409. Was that the comprehensive investigation that threw up the £18 million?
410. **Mr Hoodless:** Yes.
411. **Mr Allister:** So, you had oversight of that.
412. **Mr Hoodless:** The board had oversight of it and I am the chair.
413. **Mr Allister:** You are the chairman.
414. **Mr Hoodless:** The object was to resolve that issue. As far as the Housing Executive is concerned, we have resolved it. We have reached agreement with the contractors and the matter is now with the Department and —
415. **Mr Allister:** Then tell us, was there overcharging, as you claimed, of £18 million?
416. **Mr Hoodless:** I think that it would be premature of me to make comments about an agreement that we have with the contractors before it has been agreed formally.
417. **Mr Allister:** If it turns out, Mr Hoodless, that the process that you trumpeted — you trumpeted the £18 million and had some very robust things to say about it — does not stand up to scrutiny, what does that tell us about the value of the processes that you have now put in place?
418. **Mr Hoodless:** I think that you will need to wait to see whether that is in fact —
419. **Mr Allister:** That is an easy cop-out.
420. **Mr Hoodless:** You interrupted. I was going to carry on to say that the processes we have put in are to change some of the structures of the department so that all maintenance is now brought together in one place. I mentioned that the board has asked to ensure that that department has the right level of staffing and skills, which is under way.
421. I have made it quite clear that we think we are doing better, but it is a long road ahead to be the best and it is a journey that we are on. So, it would be wrong to say that we were black and now we are white. It is a process of movement forward in a positive way. That is what we are about.
422. **Mr Allister:** If I can put it to you another way, if it turns out that you got that wrong, what confidence should this Committee have in you getting other things right in running the Housing Executive?
423. **Mr Hoodless:** You will have to wait to see whether I have actually got it wrong.

- I did not get it wrong; the figures were given to the board.
424. **Mr Allister:** By you.
425. **Mr Hoodless:** No, the £18 million —
426. **Mr Allister:** Well, by your instructions.
427. **Mr Hoodless:** No, come on. We, as the board, have oversight. The board and I asked specifically that they determine exactly what they considered the overpayments to be. That is the figure that came back. It is not my figure.
428. **Mr Allister:** You were confident enough to go on the radio and talk about it.
429. **Mr Hoodless:** I have not been on the radio to talk about it.
430. **Mr Allister:** You were on Radio Ulster back then talking about it in very robust terms.
431. **Mr Hoodless:** I told the Minister and everyone what we had been told.
432. **Mr Allister:** So, if you swallowed false information, does that not raise questions for us as to what credence we should give to what you are telling us now?
433. **Mr Hoodless:** You are making the assumption that it is false information. It was caveated.
434. **Mr Allister:** Not by you it was not, and Campbell Tickell pointed out that, instead of putting in the caveat that it was a broad-brush figure etc, you and the Minister rushed to simply talk about the £18 million.
435. **Mr Hoodless:** The Minister did talk about the £18 million and I informed him of it, because it is my responsibility as chairman to tell the Minister and the Department what we have found and what we have been advised, and we were advised that.
436. **Mr Allister:** You do recall what paragraph 10.1.6 of Campbell Tickell said:
- “That problem was then exacerbated when that figure of £18m was put in the public domain, with no reference to the caveat.”*
437. There was no reference by you or the Minister to the caveat. So, as chairman, you were prepared to put a figure in the public domain without reference to the caveat. The point I am drawing out of that is that, if it was cavalier to do that, now that you are still in charge of the Housing Executive, should we have the confidence you invite us to have that everything is now hunky-dory?
438. **Mr Hoodless:** The board worked together. The board is responsible for oversight. I lead that board and we work together to ensure that we fulfil our responsibilities. We are on that route.
439. **Mr Allister:** If I was a board member, how much advance notice would I have of the agenda papers and opportunity to study them, given that I would probably have another job to do?
440. **Mr Hoodless:** When I arrived, they were sent out at the weekend before a Wednesday board meeting and they were that thick. They now go out a week before and they are that thick in order that the board members have the opportunity to consider all of the papers properly.
441. **Mr Allister:** They are getting fewer papers?
442. **Mr Hoodless:** They are getting more succinct papers and they are not being asked to make decisions about issues with no context in which they can understand the broader picture.
443. **Mr Allister:** Who sifts the papers?
444. **Mr Hoodless:** It is not a question of sifting the papers. We have made clear that we have a forward work plan for the board. That plan has set and agreed our awaydays, and the management has to produce the papers according to that plan.
445. **The Chairperson:** It is a fair and very appropriate line of questioning, although the issues at hand predate your appointment — we accept that entirely — and we are also labouring under the fact that we do not have the end result of the negotiations between you and the contractors. We agreed this morning as a Committee that we

- were quite concerned that that was still going on for some time. We were intending to ask you what point that negotiation is at. I think you said that it had been concluded between you and the contractors and it is now with the Department, so we will pursue that robustly with the Department, because clearly we think it is an unacceptable delay, particularly if contracts are not awarded until later in the year. What is relevant about this line of questioning is that, unfortunately for you, perhaps, even though the issues predate your time, we have to satisfy ourselves, under the phase 2 criteria and terms of reference, whether the actions that have been taken are appropriate. If we have a question mark in the way that Jim has outlined, you will appreciate where we are coming from. We have to satisfy ourselves on the question of whether the measures adopted were appropriate. We have a big question mark in our minds because of what has happened, to use shorthand, with the £18 million in the Campbell Tickell report saga. As you know, we will address that at another meeting with you and Will Haire anyhow. So, we are labouring a bit under that problem, but you know where we are coming from, to be fair.
446. **Mr Hoodless:** I think that we are equally as frustrated that it is taking such a long time to resolve this. As far as the board is concerned, it signs it off. It is with the Department, and it is a matter really for the Department and DFP to go through their processes and then it can be a public matter.
447. **Mr Allister:** Have you been given any timescale on that?
448. **Mr Hoodless:** No.
449. **Mr Allister:** How long has it been with DFP and DSD?
450. **Mr Hoodless:** Two and a half weeks, I think. The board meeting was on 14 May, when we formally signed it all off.
451. **Mr Allister:** On the matter of more up-to-date reviews, has the gateway review been carried out?
452. **Mr Hoodless:** The gateway review is being looked at by officers. It is on the board agenda for June. You are talking about gateway 5.
453. **Mr Allister:** Yes, gateway 5.
454. **Mr Hoodless:** That is on the board agenda for June.
455. **Mr Allister:** Was that done, as promised, in April?
456. **Mr Hoodless:** I am not certain that it was promised in April.
457. **Mr Allister:** It was. I have Assembly answers that say that it was happening on 1 April to 3 April and that it would be published within two or three weeks.
458. **Mr Hoodless:** All I know is that the officers have had the gateway review and are reporting their findings to the board with recommendations in June.
459. **Mr Allister:** You do not know the outcome of that.
460. **Mr Hoodless:** Not yet.
461. **Mr Allister:** You do not know whether things have improved or not.
462. **Mr Hoodless:** No, I understand the issues involved in the gateway review, but it has not formally come to the board yet because the officers have been working on the report and will give us their recommendations for what happens next. We will look at those carefully and see whether we think that they are right.
463. **Mr Allister:** The Audit Office report talked about resource pressures on the corporate assurance unit. Have those been addressed?
464. **Mr Hoodless:** I think that I should point out that the corporate assurance unit and audit unit have a total of 39 staff. I think that that is a fairly substantial number.
465. **Mr Allister:** The Audit Office talked about resource pressures being accountable for the slowness in producing draft reports following inspections etc. Has that improved?

466. **Professor Roberts:** As far as I am concerned, the only notified problem, and the only thing sent to me by the head of the corporate assurance unit, is that, due to sick leave, we were short of a quantity surveyor (QS). We have sought to fill that gap through an agency appointment in the short term. There was a hiatus because of the absence of a QS, but I understand that that has now been resolved. You cannot account for sick leave, can you? We are trying not to over-staff our assurance functions to the detriment of delivery functions. We are trying to produce a measured and proportionate response to the issues before us.
467. **Mr Wilson:** You explained what you have done on restructuring. I cannot understand how a lot of these problems arose given the structures you had in place in the first place. There were supposed to be checks and further checks and further checks. You now have an additional one, the asset management unit, on top of the audit committee and the corporate assurance unit as well as all the staff in the district offices. The point that worries me is that you can have all these structures in place, but the information feeding up from the bottom can be of not good quality or, indeed, as Jim has pointed out, has sometimes even been manipulated when people do not want you to know the truth of what is going on.
468. Given that, I assume, you had the staff who were dealing with maintenance contracts for years anyway in the Housing Executive, how did the failure arise at the bottom level that you did not have the quality of information coming through, the proper inspections being done and reports on those inspections? Rather than just put in more layers of governance, what is being done to address the issue at the bottom end?
469. **Mr Hoodless:** There has been a much firmer emphasis on making people understand the processes and giving them training to follow. We have been told that there is more consistency and more effort on making sure that it is all done properly at the front line.
470. One of the other concerns that I have is that there is an awful lot of checking. There needs to be checking, but we have got checkers checking the checking, and we need to make certain that we get the balance right so that people at the front line are able to make decisions and do the job properly. They need to have the training and skills to do that so then we can have people who can make certain that that has happened properly.
471. **Mr Wilson:** Given that the Housing Executive has been dealing with maintenance contracts since it came into existence, how did we get to the stage where there were gaps in knowledge, first on how those contracts should be dealt with and the practices that should be put in place to ensure that they were properly dealt with?
472. **Mr Hoodless:** It is impossible for me to answer that because it goes back so far. My experience of it is that we do it in a quite complicated and bureaucratic way. That is one of the reasons why we have asked to have a look at our procurement processes, because they seem to add layers rather than get to the point of good, straight-forward procurement. It is an issue that we, as a board, have on our agenda. I think that you, Peter, have started some work on procurement in the audit and risk committee, because it seems to me that we have got into a position where we make it a very complicated process.
473. **Mr Wilson:** The reason for my asking, and I did not expect you to give me a history lesson on how it all deteriorated, but, if the problem arose because of failures at inspection on the ground and those were hidden, either by people who asked for reports to be changed or whatever, I want to know whether you have learned any lessons from the past that you are applying to current staff to ensure that those mistakes are not made again.
474. **Mr Hoodless:** Yes.
475. **Professor Roberts:** There are two points there, Mr Wilson. First, inevitably, there were difficulties in adopting the Egan

- form of contract, and those difficulties were not unique to the Northern Ireland Housing Executive. Quite a lot of organisations found that they needed to go through a cultural change in order to make best use of the Egan contract procedures. It was a different form of contract and it required retraining, but, more importantly, a cultural change among all the workforce from top to bottom. I am only guessing now, and it is on the basis of hearsay, but I am not sure that the process of cultural change adequately permeated throughout all the layers of the NIHE. That is the first point to make. Everybody I know and everybody I have spoken to accepts that Egan contracts were not implemented in the way in which best practice dictated, but other organisations hit the same problems.
476. The second point is about the reporting arrangements that we now have in place. We now have much more adequate processes to capture inadequacies in the implementation process, especially the procurement part, than we had in the past. For example, until August 2013, procurement risks did not figure on the corporate risk register. I instituted an initial investigation into some of the issues surrounding the procurement process and the way that procurement was used by the Housing Executive corporately. I think that recognising the risks in the first place is important, and we now recognise, accept and take positive pro-action in order to mitigate those risks. That contrasts markedly with the past.
477. The additional point is that, as I said to Mr Allister, you cannot assume that putting processes in place will solve the problem. You need to be very vigilant, very proactive and very questioning about the way in which you operate those processes and procedures to make sure that people are not circumventing them or, simply by sins of omission, failing to do what is required of them.
478. **Mr Wilson:** Very often, people try to circumvent them because they are dealing with a problem that they were not equipped to deal with in the first place, and you have mentioned the lack of preparation for the Egan contracts.
479. Let me give you a more up-to-date problem that I think will arise and will lead to the same kind of issue in the future. You mentioned procurement. The Housing Executive seems to have been willing to accept procurement contracts for maintenance that, I am told, even a cursory examination would have shown could not be delivered for the price they were delivered for. Some contractors have already gone out of business, and you are having to increase your direct labour organisation as a result of that. Other contractors are probably in the same boat. Why was that not picked up? What kind of problems do you believe that will store up for the future when contractors start to cut corners and try to make savings and there is some pressure on staff again to go through the whole cycle once more of deciding whether it is more important to keep contracts going and the maintenance happening rather than be too robust in inspections?
480. **Professor Roberts:** That is my point. That was the point of conducting the initial review of the procurement processes. I said that there were two subsets. One is the process itself and one is the way in which that process is used. The corporate tasking of the procurement function is really important and, in tasking the procurement function, I can offer you no better advice than my nain — my Welsh grandmother — offered me. Her advice was, “Buy cheap, buy twice”. One of the criteria that you normally build into a procurement specification is the viability of the offers made by the tenderers.
481. **Mr Wilson:** These are not old contracts. These are new contracts.
482. **Professor Roberts:** I know, but some of these things were settled, with respect to the procurement process, prior to the appointment of Donald and me.

483. **Mr Hoodless:** The new routine contracts that you are talking about were set in place before we came, and what strikes me about them is that the planned maintenance contracts placed a huge amount of responsibility on contractors. The pendulum has swung so far the other way with the new contracts, and contractors have no flexibility, which goes back to the gateway 5 review that we will look at it. Personally — and we have to discuss it as a group — I think that they are too tight and give no flexibility at all. We will come back to that when we discuss it at our next meeting. The pendulum swung from one extreme to another, and we have to get it back to a sensible place.
484. **Mr Wilson:** If you have recognised that there is a problem, looking ahead, what is now being done to address the problem that you have identified, namely contracts being awarded at inappropriate prices or inflexibility built into them that will create difficulties in the future? What is being done to ensure that we do not finish up with the same set of problems that has led to this investigation?
485. **Mr Hoodless:** We have a contract and a contractual period. So, the contracts have to run. We do monitor them. The performance on the routine maintenance contracts has improved considerably, but that does not mean to say that there is not a reason to change some of the KPIs when it comes back to the board in June. Equally, it goes back to us looking ahead so that, when we procure in future, we have the best procurement process or a better procurement process that balances those issues out, we have a, frankly, less bureaucratic process than the ones we have at present and is a simpler way of dealing with contractors. The point, which I think I made before, is that, for most Housing Executive tenants, the face of the Housing Executive is that contractual maintenance is there for you. And so, that relationship, between the contractor and the Housing Executive, is a critical one to get right.
486. **Mr Wilson:** One of the ways in which you have had to deal with immediate problems has been by increasing your direct labour organisation (DLO). What has that cost you? I understand that you have had to order additional vans and take in some of the workers from the existing firms. What has that cost the Housing Executive to date?
487. **Mr Hoodless:** I do not know the answer to that question in that way. We could come back and look at it specifically. Let me explain. When those contractors went into administration, under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE), we had to take the staff on and, after six months, they became our staff permanently. So, we effectively got a direct labour organisation of the size we have by accident.
488. We have set up a subcommittee to monitor the direct labour organisation. It is having its first meeting next week. Because it is a contractor and we are a client, we need to look at its business separately. So, it is another point about good governance that we have established: because it is a contractor and it is our contractor, we still have to look at its performance. We have started that process. As I said, we recruited external people with experience on to the committee, as well as our own board members, to ensure that we manage it properly. We know the answers to all these questions, but I cannot provide the detail directly.
489. **Mr Wilson:** It would be useful for the Committee to know what additional expenditure the Housing Executive had to incur as a result of this increase in the direct labour organisation, with all the equipment and facilities etc that that required, plus whatever additional supervision that has led to.
490. **Mr Hoodless:** I can only take that query back and find out about it.
491. **The Chairperson:** I have a couple of points for you. I am just looking at previous reports that followed on from the 2010 governance review, and the

- PAC and Audit Office reports. Professor Roberts, you introduced the issue around the QS recently brought in through the agency. However, one of the previous concerns was that there were too many agency staff, which does not allow you to have that built-in capacity and experience that is clearly required. Can you address that for a second or two?
492. There is also the whole issue of whistle-blowers. Again, you highlighted that you can put procedures in place, and in fact most people believed that there were sufficient procedures in place in the first instance, although we welcome additional measures. As you said, there is always the potential for someone to supersede or circumvent all that. The whole question of the treatment of whistle-blowers was raised in the PAC report as well. This question is probably more for Donald, but what measures has the Housing Executive taken to protect whistle-blowers, support them and take seriously the matters they are bringing to your attention? That is obviously an essential element of where procedures may be going wrong because of whatever, when someone wants to bring things to your attention.
493. **Mr Hoodless:** At our June board meeting, we are going to have our first manpower plan for a very long time. It goes back to the point that you make. We have a lot of agency and temporary staff; we have people who have been filling jobs at a higher grade, in some cases, for a number of years, which I do not think is acceptable. What we are trying to do in that manpower plan is to ensure that we have the staff that we need as employees of the Housing Executive, and not as agency staff, where we can do that. I have not yet seen the report because it is coming to the board in June; but it is another part of our work intended to ensure good governance. It will ensure that we have good management of the staff by making certain that they are our staff and not agency staff or temporary. We are exploring that and, as I said, it is coming to the June board meeting for us to look at.
494. **The Chairperson:** And what about the issue of whistle-blowers, Donald? Again, the whole issue of whistle-blowers and their treatment in the past was highlighted by the PAC and the Audit Office. You can have all the procedures you want, but some people may still wish to circumvent them. The fact is that human resources has a bearing on this as well to draw attention to problems that it sees emerging.
495. **Mr Hoodless:** Peter is going to look at whistle-blowing with his committee.
496. **Professor Roberts:** Yes, we have whistle-blowing policies, as you well know. Additionally, I instituted a standing item on the agenda of the audit and risk assurance committee, which is to have any reports on additional whistle-blowing or other forms of extraordinary reporting — I cannot remember exactly the form of words I used. I am conscious that we ought to be proactive in this matter.
497. To be honest with you, a lot of difficulties are encountered, especially by large organisations such as the Housing Executive, by being reactive rather than proactive. The more you can do to anticipate and deal with issues before they become problems, the better. That has been my philosophy for a long time. As you know, I have sat on other large public bodies' audit and risk committees and I chair another audit and risk committee in a £280 million per year public body.
498. I truly believe that we need to be driving forward by looking through the windscreen rather than the rear-view mirror. That is the appropriate model that we should have. I am not ignoring the issues of the past, Mr Wilson. I know that there are historical issues that we still need to close, and we talked today about the maintenance contracts. My primary driver is that we ought to be putting in place procedures that are robust, address the issues and do not assume that everything in the garden is rosy until we have the

- assurance that it is — and if it is not rosy enough, we make it rosier.
499. In other words, I want to see risks going from red to amber to green but I do not want to do that with just a set of coloured pencils. I want clear, well-argued mitigating measures and actions that give me and the audit and risk assurance committee the confidence to say to the board, “We can give you that assurance”. That is an importance defence for the organisation as a whole. It is not an act of faith. It is making sure that we adhere to best-established practice in public sector bodies.
500. **The Chairperson:** I appreciate that. You are going to some length to demonstrate the additional measures you are taking. You acknowledged that notwithstanding all that, there may well still be problems. It has been said that the Housing Executive was not supportive or tolerant of people who were whistle-blowing. We had John McVeigh at a recent evidence session who, from my recollection, indicated that staff members were highlighting problems but that they were not going anywhere. That does not give me confidence, unless somebody is able to tell me that whistle-blowing is respected, treated properly and that people are not only tolerated but supported, and encouraged, in fact, and that best practice is used. We are looking for assurance on those aspects as well.
501. **Professor Roberts:** This is almost a credibility issue here in terms of a newly appointed vice-chair becoming chair of the audit and risk assurance committee, moving into an organisation and saying, “Everything in the house is wrong. Let’s change it all tonight. Please believe me, it will be better tomorrow.”
502. I certainly did not adopt that approach nor was I encouraged by Donald to adopt that approach. What we have done is a step-wise, measured approach to improving the procedures and their implementation in the organisation. That is why now, this quarter, I introduced that new standing item on the agenda of the audit and risk assurance committee.
- I am not saying that I am going to encourage whistle-blowing but I am going to take it seriously. I do take it seriously and an organisation that does not take whistle-blowing and other lesser forms of internal or external additional information provision seriously is failing in its duty. It is as simple as that. I do not regard a whistle-blower as somebody to be ignored but as a necessary part of good governance.
503. **Mr F McCann:** I will be brief. You spoke earlier about the Egan contracts. I remember that, when the whole discussion about the Egan contracts was taking place — and I think that you touched on it — some people were saying that this new way of doing things, as they called it, was actually doing things on the cheap.
504. **Professor Roberts:** The danger is that you go for the cheapest.
505. **Mr F McCann:** That is it. In many ways, you were going for quantity rather than quality. There were people who said at the time that it had difficulties. Even a lot of the contractors said at the time that they could not meet the demands being made of them. It bred that wee thing of people going in low. As Sammy touched on, we have dealt with stuff even in the past 18 months. Contractors were going in 30% below the rate that would have been acceptable, and those contracts were being accepted. One of the last batch of contractors that went bust had bid 30% below. Other contractors were saying openly, “It is impossible to do it for that price.”
506. I cannot understand how questions were not raised about that, in the first instance, within an organisation such as the Housing Executive and, secondly, within the Department, which has an overseeing role. I cannot understand how nobody caught on that this was the case. Are you confident that all the difficulties with the processes that existed a year or 18 months ago can no longer happen? I always thought that, if somebody bid 30% below a contract, you did an investigation into their ability to be able to deliver the contract at that

- price. Obviously, that did not happen. For all contracts that are applied for now, is an investigation done into the ability of the contractors to do them? If they do not have that ability, is the contract not accepted because it is too low?
507. **Mr Hoodless:** I think that the answer to that is yes.
508. **Mr F McCann:** To what part of it?
509. **Mr Hoodless:** The part about checking on contracts. It is a bit difficult for us because this was an inheritance. These contracts were let at those prices. From my experience in housing management and maintenance, I would worry immediately if someone were bidding low because, once they do so and cannot deliver, you are failing your tenants. It is something that we are now very conscious of because we have members of the board — Peter and I — who have had that experience of social housing and of what you require from your contractors. You need to give them a reasonable price, and you want to have a good relationship that makes certain that tenants get the work done to good quality. So, yes, we are aware of it. At the moment, there are no more contracts to let, so it is not an immediate issue. However, it is on our radar. As I keep mentioning, a whole procurement process would cover that.
510. **Mr Wilson:** It is an issue in so far as the same problems that arose with the last lot of contracts could start arising again. As contractors are forced to cut corners, as maintenance officers are forced to turn a blind eye to that rather than not have the work done, and as reports are fudged to hide that, we could go through this whole cycle again. What steps have you got in place to make sure that, if you have assessed that as a risk, it is identified quickly?
511. **Mr Hoodless:** We will have an opportunity at the June board meeting to look at the gateway 5 review, which covers the routine maintenance of these contracts. There is an issue in our minds about how we proceed on that. It is a contract, so there is a limit to what you can do outside the contractual terms. However, clearly, we want an effective working relationship that gets the work done for tenants.
512. **Professor Roberts:** And which does not cause us to have to default to a more expensive, or potentially more expensive, arrangement in order to fulfil the relationship we have with tenants. Tenants deserve the service they are paying for. We are very clear-minded that we need to provide that service. Mr McCann, you are absolutely right to remind me that “Buy cheap, buy twice” is a very good maxim. If it looks as though people are buying work by underbidding, it is probably right that they are buying work by underbidding. When the Egan contracts were first instituted, they were not well understood. As I said before, that was not just in Northern Ireland, and a lot of housing associations and local authorities elsewhere in the United Kingdom had the same difficulties with them.
513. **Mr F McCann:** I just want to make one point. I think that the big problem was that they learned that there were serious problems with the contracts in England, yet they went ahead with them here.
514. **Professor Roberts:** Yes. If you were to ask Sir John Egan whether that was what he intended, he would say, “absolutely not”. He was looking for a new system of contracts that would be better for all the parties involved by reducing unnecessary bureaucracy. What you ended up with was people not understanding the fundamental philosophy of working in partnership to deliver the best deal for tenants. I have had those discussions with John Egan and he stands by his guns and feels that misapplication was the problem and not the contracts themselves philosophically.
515. **The Chairperson:** We are about to wrap up as you have to get your flight, but I have a wee note of caution in my mind about some of these things. In a previous briefing to the Committee, Gerry Flynn made the point that, when

we are dealing with contracts and staff been shifted through the direct labour organisation and all the rest of that, they monitored the work going through the DLO to check that the prices being quoted and tendered for were appropriate. If I remember correctly, Gerry told me that they were satisfied they were. That flags up with me that that was —

516. **Mr Hoodless:** Our new DLO committee will check that. As I said, it has been set up and will meet for the first time.
517. **The Chairperson:** I do not want to misrepresent Gerry, but that is my very clear recollection of the kind of conversation we had. I am putting it on the record for your attention.
518. **Professor Roberts:** Occasionally in procurement systems you find that people significantly underbid the average among the tenderers. Sometimes, by subjecting that particular bid to intense scrutiny, you discover that they have a radically different way of delivering the service from what was intended, which can work. I have a really good recent example of that, but that is the exception rather than the rule. The normal rule is caution if you find that people are underbidding.
519. **The Chairperson:** No other members have indicated that they want to speak. Donald or Peter, is there anything else that you want to add?
520. **Mr Hoodless:** I just want to emphasise that we are on a journey, making changes and very concerned about good governance. We are also very concerned about moving the Housing Executive into a better place in everyone's eyes so that we deliver services to tenants and have the confidence of everyone that the Housing Executive is doing a good job. That is what we are about and what we want to do.
521. **The Chairperson:** Thank you, Donald and Peter. Safe journey on your flight. Thank you for your evidence, and we look forward to engaging with you again.

11 September 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 Trevor Clarke
 Mr Stewart Dickson
 Mrs Dolores Kelly
 Mr Fra McCann

Witnesses:

| | |
|---------------------|--|
| Mr Kieran Donnelly | } <i>Comptroller and Auditor General</i> |
| Ms Anu Kane | |
| Mr Brandon McMaster | } <i>Northern Ireland Audit Office</i> |
| Mr Tomas Wilkinson | |

522. **The Chairperson:** I formally invite Kieran Donnelly, Tomas Wilkinson, Brandon McMaster and Anu Kane to take their seats. You are all very welcome. This is in respect of phase 2 of our inquiry. I will basically characterise what phase 2 is really about, which is to try to establish that a range of deficiencies and problems were identified and a range of recommendations have been put forward by various bodies, including your own. We want to satisfy the Committee via the inquiry that all those measures and whatever other appropriate measures are taken on board to deal with the identified problems in the past. We have to satisfy ourselves as a Committee, as part of our role here, that, in phase 2, the Department and the Housing Executive are taking on board all the necessary precautions. To that extent, we wanted to hear from you because you have a critical role in all this. Without any further ado, I invite you, Kieran, and your colleagues to present to the Committee.

523. **Mr Kieran Donnelly (Comptroller and Auditor General):** Thank you very much, Chair, for the opportunity to address the Committee. My colleague Brandon McMaster, on my right, led the value for money inquiry that we did in 2012. That

is the older material. Tomas Wilkinson and Anu deal with the up-to-date stuff. Tomas is the director of the audit of accounts, so he has the more up-to-date position.

524. The issues relating to contract management on planned maintenance and response maintenance are issues that we have been reporting on for some time. Back in late 2008, a whistle-blower first approached the Public Accounts Committee (PAC) about concerns relating to response maintenance, and we brought those issues to the Housing Executive and the Department. The issues were then investigated by the executive and an independent firm, which was ASM Horwath.

525. Over the next year or so, we became increasingly concerned that there were general issues relating to the management of response maintenance contracts, and, in 2011, I decided that we should do a detailed value-for-money review. That report was published in September 2012 and led to a Public Accounts Committee hearing in the same month, and the report from the Public Accounts Committee followed shortly afterwards.

526. I will go through some of the key strategic issues that were raised by the Public Accounts Committee at that time. They go far beyond one particular contract or contracts in general. They get right into the heart of governance issues within the Housing Executive. So, there were some big wider governance issues, and I will mention four. The first was about the quality and reliability of information going up to the executive's board and audit committee. There were problems in respect of the right information going up. Important things were not being escalated, particularly where there were problems with contracts. In a sense, sometimes, the committees were bombarded with a

- mountain of paper, but there was a lack of clarity on what the key issues were. That was one of the big issues. Also, at that time, issues were being raised by the executive's internal audit unit and the corporate assurance unit (CAU), and we had concerns about the independence of both. That was a big issue at the time. We also said and the Public Accounts Committee said that the third point was that the Housing Executive should not be a cold house for whistle-blowers. There was a need to take whistle-blowers seriously. That was another key strategic point coming out at that time. Also, when the Committee reported, there were a lot of outstanding investigations into various contracts, and the Committee had recommended that those be completed as soon as possible and the weaknesses eradicated.
527. In each of the big strategic issues, progress has definitely been made. The papers now going to the board and the audit committee are much more succinct and highlight the key issues arising. There is also evidence that the internal audit and corporate assurance units do not have the same degree of challenge from line management that they had in the past, and their draft reports are being cleared quickly. In the past, if there were difficult issues in reports, sometimes, draft reports did not emerge for a very long time. That problem has been addressed.
528. There are revised whistle-blowing policies in place, and progress on whistle-blowing investigations is now discussed at the Housing Executive audit committee. Also, most of the various investigations that were outstanding at that time have been brought to conclusion.
529. At the same time, we have been carrying out each year an audit of the accounts, and there continue to be issues around planned maintenance and response maintenance. So, I have qualified my audit opinion on both response maintenance and planned maintenance every year since 2010-11. In 2011-12, I think that we stated that there were still systemic weaknesses in contract management. Bringing it right up to date, the 2013-14 accounts are being laid today in the Assembly. My opinion is still qualified on both response maintenance and planned maintenance, but we have seen considerable improvement, mainly in response maintenance. I would like that improvement to be sustained for another year before considering lifting the qualification. There are probably more unresolved issues in planned maintenance, so I will come to that in a minute.
530. The executive has taken various initiatives, and one of the most important is improved training for its staff. It has placed intervention teams in poorly performing districts, and that is beginning to work. You will see from the briefing paper that the results of the various inspections have lifted considerably. They were much better last year. Nonetheless, we qualify our opinion on response maintenance because we really want to see those improvements sustained. On planned maintenance, the executive's assurance unit has shown that 14% of schemes examined last year were given a limited or unsatisfactory opinion. That is a lot better than before, but we still have some concerns. That particular unit has not had a quantity surveyor on its team for some time, which has meant that the work has focused mainly on ensuring the quality of the work done and less on the financial aspects. The executive recognises this as an issue, but it is one that needs to be dealt with. Also, I think that there were gaps in coverage on certain types of work, particularly heating installations. Planned heating maintenance was 28% of the spend last year, but no work was carried out in this area by the corporate assurance unit.
531. Recently, a whistle-blower came forward on issues around planned maintenance schemes, and that has resulted in the dismissal of two members of staff. The executive was concerned about the fact that it had been given a satisfactory rating in that area by corporate assurance unit,

- and it has launched a review into how these ratings were decided on planned maintenance. That review has still to be completed, so that story is not finished. Because of the uncertainties around these issues, we again qualified our opinion on planned maintenance. So, there are more unresolved issues on planned maintenance than on response maintenance.
532. A significant issue that has been reported over the last year is the overpayments arising from planned maintenance schemes. We have discussed that in detail in part 3 of today's report. I am aware that the chair and the chief executive of the Housing Executive are coming up next week to go through that in detail. I think that the key point here is, regardless of the amount that was eventually recovered, it was very clear that the original contractual arrangements were not working. The way that the contract was supposed to have worked was that reimbursement was to be carried when the actual work was done for each scheme, and measurement at that stage would allow adjustments to be made against agreed standard costs. However, that was not done for a number of years. What was really happening was that the executive was going back in trying to do the calculations over time.
533. What we had, I suppose, was a light-touch regime that operated on trust. Had proper arrangements been in place at the outset, including remeasurement, the issue of overpayments and underpayments would not have emerged in the first place. So, there was really a whole mess around overpayments and underpayments, but the root cause of that problem was that there was not proper compliance: the executive was not managing the contracts properly in the first place. That was the root cause of the problem. I think that we said straight that it was unacceptable for that situation to have arisen. That is really all I want to say at this stage, Chair.
534. **The Chairperson:** OK. Thanks very much for that. I remind members that we have a significant amount of material provided by your office, so thank you for that. You have touched on issues that we are going to deal with next week in terms of the planned maintenance contract settlement. Whilst that is not specified in the inquiry, in the first instance, members should focus their minds on phase 2, which deals with the adequacy of the actions proposed by the Minister for Social Development and the Housing Executive to address the previous well documented failings in relation to the management. If I heard you right, Kieran, you are basically saying that there has been significant ongoing improvement, particularly in regard to response maintenance —
535. **Mr Donnelly:** Yes.
536. **The Chairperson:** — and you want to see that sustained, at least until next year, before you lift your qualification.
537. **Mr Donnelly:** That is a fair summary, Chair.
538. **The Chairperson:** You then want to see significant improvement in relation to planned maintenance.
539. **Mr Donnelly:** Yes. There are still some doubts about the planned maintenance regime; I want to see those sorted out.
540. **The Chairperson:** But, overall, it is certainly more positive. From our point of view, the key phase 2 issue that we must address is whether the actions that were identified have been taken. Have they been embraced and taken? Are they satisfactory? Of course, determining that will be an ongoing process. That is my understanding. So, it is an ongoing improvement situation, but you have identified specific areas where, clearly, more work needs to be done.
541. **Mr Donnelly:** It is fair to say that all of this started from a low base. It was a bit like turning around a tanker, and the whole approach to managing contracts had to be fundamentally reviewed. It is definitely going in the right direction.
542. **The Chairperson:** Yes. We all obviously welcome hearing that. However, one

- point that I want to make is that we recently met the chair of the Housing Executive, Donald Hoodless, and he was accompanied by Professor Peter Roberts, who was the chair of the audit committee. I specifically addressed the issue of whistle-blowers and the lessons learned. On reading your material, I have to say that I am not satisfied with the responses that I got that day. People can check the record, because I think that we were not given as much information as we should have been. So, I feel a wee bit blindsided. I will certainly write to the Housing Executive to ask for clarification. We will refer them to the Hansard report of that meeting. But, overall, you are saying that it is going in the right direction, I think—
543. **Mr Donnelly:** Yes
544. **The Chairperson:** — which is, I think, what everybody would want to hear.
545. **Mr Allister:** You described to us quite graphically in the documentation all the difficulties and deficiencies within the Housing Executive. The Department has a housing unit that is supposed to have an oversight role —
546. **Mr Donnelly:** Yes.
547. **Mr Allister:** Is it self-evident that it, too, fell down or do you make any criticism of it?
548. **Mr Donnelly:** I will go back to the PAC inquiry of 2012. The PAC was very clear that there were deficiencies in departmental oversight. In that earlier period, there was quite a hands-off regime. That has changed significantly over these past few years. For example, the Department is now copied into draft internal audit reports and reports from the corporate assurance unit. That is a much better regime. It is also attends the audit committee meetings, so there probably has been a sea change in departmental oversight, going back certainly the last four or five years.
549. **Mr Allister:** It is now doing what it always should have been doing.
550. **Mr Donnelly:** Absolutely, yes.
551. **Mr Allister:** Did any of the whistle-blowing implicate the corporate assurance unit?
552. **Mr Tomas Wilkinson (Northern Ireland Audit Office):** In terms of the recent whistle-blowing, there are issues relating to planned maintenance in one area, and that reflects on the people who work there. The investigation is still under way, so it would probably be unfair to get into too much detail on that. It identified wider issues in that the CAU had given that area a satisfactory rating. That may be partly to do with the fact that it did not have a quantity surveyor, because, had it had a quantity surveyor —
553. **Mr Allister:** It still does not have a quantity surveyor.
554. **Mr Wilkinson:** It does, I think, as of now.
555. **Mr Allister:** Right.
556. **Mr Wilkinson:** But it did not have a quantity surveyor then. Had it had a quantity surveyor, it might have been expected to identify those issues.
557. **Mr Allister:** How far was the work of the CAU and its predecessors hamstrung by the challenges of management?
558. **Mr Donnelly:** It certainly was hamstrung in the earlier period. There is absolutely no doubt about that.
559. **Mr Allister:** How high did that challenge go within management?
560. **Mr Brandon McMaster (Northern Ireland Audit Office):** That challenge was up at a senior level.
561. **Mr Allister:** How senior?
562. **Mr McMaster:** You are certainly talking about one down from the chief executive.
563. **Mr Allister:** One down. What director is that?
564. **Mr McMaster:** They have now gone; retired a number of years ago.
565. **Mr Allister:** In all of this what you called “mess”, was anyone ever disciplined?

566. **Mr McMaster:** Not that we are aware of.
567. **Mr Allister:** Does that surprise you?
568. **Mr McMaster:** People had left the organisation before the reports were finalised.
569. **Mr Allister:** Were they facilitated to leave?
570. **Mr McMaster:** I cannot answer that. That is one you would really have to put to the Department or to the Housing Executive.
571. **Mr Allister:** You see, we are now going to have this overview again in regard to the CAU and all of that. Is that not right? A due diligence exercise. But that is going to be carried out by the head of internal audit, and that unit is now to be amalgamated with CAU. Is that not right?
572. **Mr Donnelly:** That is certainly a proposal, yes.
573. **Mr Allister:** What does that do for the — let us use a neutral word — efficiency of that due diligence exercise?
574. **Mr Wilkinson:** It will be looking at work that was done by the previous head of the corporate assurance unit. They used to be two separate divisions. I think this due diligence exercise was initiated before the two units merged. Obviously, they have now merged, but the head of internal audit is doing a full review of the methodology and the scoring methodology that was used in relation to planned maintenance. I do think he is independent of —
575. **Mr Allister:** Do you have no concerns there?
576. **Mr Wilkinson:** We have concerns that, because of what was being done in the corporate assurance unit in terms of the scoring, the results of the planned maintenance inspections appear to have been inconsistent. That is one factor in why we qualified our audit opinion this year. We will look closely next year at what it has done, what methodology has changed and the impact on the results. But it is fair to say that, in relation to planned maintenance, and the results of the CAU that are being reported this year, we have some doubts as to whether they may be more favourable than they might have been under a new scoring mechanism in the future.
577. **Mr Allister:** So, what does all that mean?
578. **Mr Wilkinson:** Fourteen per cent got limited or unsatisfactory. The Housing Executive is looking into whether that could have been higher had there been a different scoring mechanism. It is certainly what —
579. **Mr Allister:** So, was even the scoring mechanism tweaked to downplay these problems?
580. **Mr Wilkinson:** I honestly do not think that it was tweaked deliberately to do that because it went through a whole committee of people within the Housing Executive, but that may have been the result.
581. **Mr Donnelly:** It is the type of thing that we would always be sceptical about. You will see that, on response maintenance, the scores have also gone up. There is a footnote to table 1 that says that we reviewed the methodology and were content with it. We also want to satisfy ourselves about whether you would have got the same results if you had continued with the old methodology. We certainly think that that is the case on response maintenance. We were satisfied on the response maintenance. There is more doubt on the planned maintenance. When we see a change in methodology, we are always sceptical and want to satisfy ourselves that any improvement is genuine rather than because of a shift of the goalposts.
582. **Mr Allister:** Could I move on to ask you something different? How happy were you in your inspections with the Direct Labour Organisation (DLO), which has been enlarged?
583. **Mr Donnelly:** This is a whole new area. Because a number of contractors have got into financial difficulty, the work and the staff have transferred. So, the Direct Labour Organisation is much

- bigger than in the past. That creates a new set of issues. How do we assess its efficiency vis-à-vis contractors? There are important issues for the executive there. Is the increase in the DLO's size temporary and some of that work will go back out, or is it a permanent shift? That is a new dimension that we have not really got into yet, but it will be very important to be alert to new risks there.
584. **Mr Wilkinson:** The teams on the ground, the district offices and the CAU inspect the work of the DLO in the same way as they inspect the work of a private contractor. The DLO is treated in the same way so there should be the same assurance, at least on the quality of its work. I know that the Housing Executive may have value-for-money or efficiency issues, but the quality of the work done is inspected.
585. **Mr Allister:** Have you any view on whether it is adequately inspected?
586. **Mr Wilkinson:** It is as adequately inspected as everybody else, so, within response maintenance, yes. We have some concerns about the CAU and its scoring mechanisms etc on planned maintenance, but it is inspected in the same way as everybody else.
587. **Mr Allister:** Is it outside your ambit to concern yourself with the huge growth that there has been in the DLO as a consequence of TUPE and everything else? Someone might be inclined to inspect and ask, "Why is it this big? Is this really value for money?". Do you do any of that?
588. **Mr Donnelly:** It is not something that we would look at in signing off the accounts; it is beyond that. We have not done any specific value-for-money work on that issue as yet, but that is not to say that we could not.
589. **Mr Allister:** Finally, are there still instances of whistle-blowing coming to your attention?
590. **Mr Donnelly:** No, they have stopped. I think that is a fair assessment. When I first came into this job in 2009, there were quite a number of serious whistle-
- blowing cases, but none has hit my desk directly in the last couple of years.
591. **Mr Allister:** Chair, I have questions on part 3, but I am happy to leave those for now.
592. **The Chairperson:** We might have to leave that anyway because, as I said, members and everybody else are scheduled to deal with phase 2, but we will try to deal with some stuff.
593. Kieran, I would not expect you would be able to give a full report on value for money in and around the TUPE arrangements and the DLO. From where I am sitting, I think those have been entirely ad hoc arrangements. We now have a third company that has gone into administration with requests around TUPE arrangements. I am certainly not satisfied that that has been organised in a thought-through or planned way. As I said, the arrangements are far too ad hoc and, in a way, maybe even unbalanced. I suggest to members that we clarify with the Department what its current status around the DLO is, how it expects to manage what is clearly now an enlarged unit, and all the arrangements around that. I appreciate that you are trying to deal with that, Kieran, but you would not be able to do it fully at this stage of the game.
594. **Mr F McCann:** Jim has touched on some of the stuff that I was going to say. I know that, in a past life, there was a DLO within the Housing Executive. That was people who near enough grew up with the Housing Executive and provided maintenance on a long-term basis. The difficulties that have arisen now may be because many of the people who have been TUPE'd across have come from companies where there were difficulties in the past. That is the point that we need to make. Is there value for money there? Is the quality of work checked on a regular basis? As Alec has said, there seems to be a new company that has come out of the difficulties in the construction industry.
595. **Mr Donnelly:** Just to recap, we can give some assurance that there is control

on the quality side of it. I am not in a position to comment on the cost end of it but, if you are looking at value for money, there are three things: quality, cost and timeliness. It boils down to those three simple things. There has been a lot of debate about the key performance indicators for maintenance work. When we looked at this in 2012, there were not adequate KPIs on cost and timeliness, so those were deficient. What you have now is quite an elaborate set of eight or nine KPIs. The latest gateway review said that those need to be simplified. That sort of thing needs to be dealt with in a common sense way. You need simple measures of those three things — quality, cost and timeliness — and not much more than that. Back in 2012, they were not measuring cost and timeliness.

596. **Mr McMaster:** Certainly, insufficient weight was given to those aspects. That is one of the flaws in the methodology that we identified in our report. In essence, you could have a district where poor-quality work that was coming through was still getting an overall assurance of satisfactory because the weighting given to it was insufficient and inappropriate. They were focusing on other areas of work: tenant satisfaction, how the contractor viewed the relationship with the Housing Executive, and how the Housing Executive viewed the relationship with the contractor. Those got much greater focus, so we said, “Your methodology is actually wrong here. You need to go back and look at quality and timeliness.” The other factor that was not included when we started our review was errors in invoices coming in from contractors. That was not recorded. When they started recording that, there was a very significant spike in the rates of error coming through.
597. **Mr F McCann:** Going back a number of years, I remember standing in a constituent’s hall. They had dug up the hall looking for the cause of a complaint. The argument was not about how best to repair the damage but the price that they were going to get for completing the thing. I remember the argument at the time: “I do not really care about your arguments; it is about how you repair this.” So, there were problems. How much did the likes of the Egan contracts, or going for contracts that went for price rather than looking at the ability of the contractor to deliver, play a part in some of the problems that existed?
598. **Mr Donnelly:** I think we said in the report that it was not Egan, as such; it was how it was applied in practice. They took a very rough and ready approach to applying the Egan principles. I think that that was the problem.
599. **Mr McMaster:** Yes, they did. Egan was about partnership working, and the Housing Executive took a view that, in partnership working, contractors would be honest and open with them and that the same level of checks would not be required to be carried out. That is not what Egan was saying. The principles of Egan still required a level of checking to be done to verify that the work was being done properly and with regard to cost, quality and timeliness.
600. **Mr F McCann:** I thought that it was also about getting more for less in terms of how they dealt with and procured contracts. One of the other questions I wanted to ask was about the procurement of the Campbell Tickell report. Did it fall within DFP guidelines?
601. **Mr Donnelly:** Eventually, yes. It is consultancy. As you know, there is a low threshold for consultancy expenditure. The original bid was under the threshold, but the final amount was over.
602. **The Chairperson:** I am mindful that this is phase 2 of the inquiry; I do not want to be straying into matters that are not part of this inquiry. We will have the Minister, chair and permanent secretary here next week to deal specifically with that. We said to Kieran in advance of today that we may well get a question to him on this, but we cannot go into it in any depth. I am sure you will appreciate that. Other members wanted to ask the same question.

603. **Mr F McCann:** Chair, I understand what you are saying, but Kieran and his team have looked into this.
604. **The Chairperson:** I understand that.
605. **Mr F McCann:** Next week, we may not have the advantage of their experience in how we deal with this.
606. **The Chairperson:** We said to Kieran in advance of today's meeting that we might well try to deal with this peripherally, on the edge of the phase 2 inquiry. This is phase 2 of the inquiry, not the Campbell Tickell report.
607. **Mr F McCann:** Peripherally, I am asking —
608. **The Chairperson:** That is OK. I will decide how far we go with it, Fra. Kieran, can you give a brief answer, for the benefit of all of the members? We will not take another question on it this morning.
609. **Mr Donnelly:** Strictly speaking, because the out-turn was higher than what was budgeted, it should have gone back for approval.
610. **Mr Wilkinson:** It has gone back for approval
611. **Mr Donnelly:** It has gone back, retrospectively.
612. **Mr Wilkinson:** It was initially budgeted at around £40,000, which required approval by the head of DSD. However, it increased and has ended up costing more. I think that that means that it now needs approval through DFP and the Minister. I am not sure if that has been got —
613. **The Chairperson:** We are going to move on from this, but I think the point that Fra and other members were making was that the procurement was done within something like 48 hours, without even a question of a financial threshold. Anyway, that is the question that was in the back of people's minds. Obviously, you have to get yourselves back again to deal with other matters — including that, probably — but we have to hear from the Department and the Minister next week.
614. **Mr F McCann:** This is important. When the chair of the Housing Executive was in front of the Committee, I thought he said that he had spoken to the board when the decision was made, but I think your report says that he did not go to the board. The next question I was going to ask was about a conflict of interest that may exist between a member of the board and the relationship with Campbell Tickell.
615. **The Chairperson:** It is dealt with in the report. I will let you make one final — I do not mean to say “allow”, but I only want to deal with this in one final comment, Kieran, because we will have to return to it once we have the Minister.
616. **Mr Wilkinson:** My understanding is that it was a single-tender action initiated by the chairman, who discussed it with the Department. I do not think that there was a detailed discussion with the board at the time the decision was made.
617. **Ms Anu Kane (Northern Ireland Audit Office):** Our understanding is that when the chair went to the board, he agreed that they would need to appoint somebody. However, the actual decision to appoint Campbell Tickell was made by the chair himself. It was a single-tender action and got approval from the Social Development Minister — or, sorry, the permanent secretary.
618. **The Chairperson:** We will have them here next week, and they will have to explain their process and deal with members' questions. Following that, we will return to the issue in a formal and substantive way. That is the best way we can do it.
619. **Mrs D Kelly:** Thank you for your presentation. I want to clarify a couple of points. The reports in relation to the audit concerns go back to about 2004. Within your office and its powers, are there any shortcomings or any areas that the Assembly needs to strengthen in relation to your ability to ensure that Departments follow up and action the recommendations?

620. **Mr Donnelly:** That is a good point. You mentioned 2004; we had another report out that year on district heating schemes in the Executive. Some of the issues that were in the district heating report came up again in the 2012 report, particularly around the whole inspection regime. That report was done under direct rule, and, through the Assembly procedures and the work of the Public Accounts Committee, there has been a much more proactive follow-up on reports since devolution. I can honestly say that. Back in the direct rule days, action was not sufficient on occasions.
621. **Mrs D Kelly:** That is not surprising on some counts, because of the lack of scrutiny. Nonetheless, there were departmental heads and permanent secretaries charged with following up on that.
622. The second part of my question is around the powers that the Audit Office has for mandatory actioning of recommendations and whether or not there is a weakness.
623. **Mr Donnelly:** No, we work on the basis of influence. We have no mandatory powers, and that is consistent with how audit offices work throughout these islands. So it is on the basis of influence — not just our influence but the joint influence of the Audit Office and the Public Accounts Committee of the Assembly.
624. **Mrs D Kelly:** But obviously there would be —
625. **Mr Donnelly:** The process where we make recommendations is that they are considered at the lower level at the audit committees of the entities concerned. If we were making recommendations for a number of years that no one was taking any notice of, we would be prompted to go stronger and issue a public report. Since devolution, there has been quite a rigorous system for follow-up on tracking PAC recommendations and reporting back to the Assembly. That system, in general, is much better than it was back in the 1990s, for example.
626. **Mrs D Kelly:** That is reassuring. Would the Audit Office therefore have a chart in relation to the Housing Executive and/or DSD's housing division in relation to recommendations dating back to 2004? Would there be a progress chart? How are those recommendations red-flagged other than by having to research documents individually?
627. **Mr Wilkinson:** All recommendations that come up through our annual audit procedures are followed up and reported on annually. We go back, in our reports to those charged with governance each year, to what was recommended last year and ask whether that has been implemented or not. If something has not been implemented, we re-recommend it. We also follow up recommendations. For example, in the PAC report from 2012, we will follow up the issues raised. There are lots of issues regarding response and planned maintenance, and we follow those up as a matter of course in our audit work.
628. **Mrs D Kelly:** Thank you. OK. The report refers to one district remaining more problematic than the others. Can you share with us what that district is? Can I also express some concern that it seems to me that the members of staff who lost their jobs are relatively far down the food chain, while others seem to be able to be allowed to retire? Do you have any concerns around that?
629. **Mr Donnelly:** Do you want to take the first one? Are you aware of the district?
630. **Mr Wilkinson:** Yes. The district involved is the southern district. The investigations are under way. *[Interruption.]*
631. **The Chairperson:** You have excited the interests of members.
632. **Mr Wilkinson:** The individuals involved were people who were directly involved in this. The investigation continues, and it may well proceed to other disciplinary action. One permanent member of staff and one agency member of staff were disciplined.

633. **The Chairperson:** We need to be mindful that if there are ongoing investigations, we treat this information very sensitively, although I think overall — and I will put this directly to you, Kieran — that a lot of us have a picture that, over a significant period of time, when reports were being qualified and issues were being raised through PAC and other fora, a lot of problems were identified, but there does not seem to have been any accountability. I, personally, am not that confident yet, and I do not want to disrespect your last comment, but I am not so confident yet that all the system is entirely joined up. Where there are problems identified, they must be flagged across the piece and then there is accountability. If you look at a personnel chart on the wall, you can see some people involved in some of these things where you and others are expressing serious reservations and problems, but, in my opinion, people who should have gone out the door seem to be going up the ranks. There is no accountability. I think that the system has not generated accountability for a lot of these problems, but you might have a comment on that overall picture. That is the picture that most of us have over the last number of years.
634. **Mrs D Kelly:** There is just one final point before I respond to that. With regard to the concerns raised that important audit information was withheld from the former chairman of the executive, has that now been rectified? Do the board and the chair get full access to all relevant and pertinent information in a timely manner?
635. **Mr Donnelly:** I cannot give you a guarantee because it is only when something happens, but our general view is that where problems are emerging, they are escalated up to the top of the organisation, whereas previously they would have been filtered. Bad news would have been suppressed. We certainly have seen a sea change in that. Our own staff attend audit committees, so there is a change from four or five years ago.
636. **Mr Wilkinson:** You can see that the culture has changed. If you go back three years, any criticism was not welcomed at all, whereas now, in the audit committee, we are seeing a culture of, “If there are issues coming up, let’s deal with them.”
637. **Mr Dickson:** Just going back a little, I appreciate that people are coming next week and we will have an opportunity to ask questions in relation to the increase in the size of the Direct Labour Organisation, but it is a substantial change in a function of the Housing Executive.
638. **Mr Donnelly:** It is a substantial change. As the Chair suggested, it has happened by accident rather than by design because of firms going into financial difficulty.
639. **Mr Dickson:** Yes, but there may very well have been other ways of dealing with the situation than just simply taking these people on under TUPE.
640. **Mr Wilkinson:** Yes. The first preference of the Housing Executive is always to try to find adjacent contractors from nearby areas to take over contracts. That is what should happen in most cases. In two cases last year, it was not possible to get adjacent contractors to take over that contract for various reasons, including TUPE and the staff that they were going to have to take over and to do with the pricing of the contract, etc. Because of that, the Housing Executive was left with no choice but to TUPE in those staff and keep the service going.
641. **Mr Dickson:** The consequence of that is that those people who previously were not employees of the Housing Executive, were never recruited by the Housing Executive, were never interviewed by the Housing Executive and were never equality checked, through their recruitment processes, by the Housing Executive end up being not only Housing Executive employees but in the Housing Executive and public sector pension scheme, effectively by default.
642. I appreciate the power of TUPE, but, I am saying that, at that point in time, it

- was effectively doubling nearly trebling the workforce of the organisation, increasing the cost from £4.4 million to £11 million. Are you asking questions about the corporate governance and the decision-making processes that allowed that to happen in an incredibly short period of time? Was there an alternative to that which would have protected the public purse from that additional pension cost and potentially protected the public from a recruitment methodology which is perfectly correct but, nevertheless, has the potential to substantially skew already very balanced relationships in the organisation? Where are the management? Where are the management controls for nearly tripling the size of the organisation in that space of time?
643. **Mr Donnelly:** It is an issue that we have not delved into in depth, but I imagine that, as we go forward, we will look at that quite closely.
644. **Mr Dickson:** It is reassuring that you are telling us that you will do that.
645. **Mr Wilkinson:** The most recent contractor who went into administration was taken over by the adjacent contractor in that case. There were two cases last year. The Housing Executive is certainly aware of it now. It was very much a last resort.
646. **Mr Dickson:** It did not seem to be a last resort at the time.
647. **Mr McMaster:** One of the things to add is that, when the PAC considered our report, it was conscious that new contracts were being let. It expressed concern in the report that the pricing of contracts was unsustainable and that there was a danger of firms going into administration. In fact, I think that this raises a much broader question, which came up at yesterday's PAC meeting in a follow-up response from the Department to queries from PAC. It does raise queries over procurement where you have lowballing taking place at unsustainable rates. I think that that is maybe worthy of further consideration by, I suggest, the public service and, in particular, CPD in the Department of Finance and Personnel. Is this sustainable, and what can be done in the circumstances?
648. **Mr Dickson:** What you are actually saying is that the only alternative to a company going into administration or going bust is for the contract to be taken over by a public sector body. Surely there is an alternative, and that alternative is a reinvention of the company. It is in the private sector, so why did it not just go and reform the company, or why did somebody not start a new company? That is an alternative.
649. **The Chairperson:** I think, Stewart, that we are straying into —
650. **Mr Dickson:** I appreciate that, but I think, Chair, that this is important. We have a good message from the Audit Office that this is an area of future concern for it. The sad reality, of course, is that the Audit Office looks at things that have happened rather than predicting the future, and that is a problem for us.
651. **The Chairperson:** That is the key to it. I appreciate that Kieran has given us an assurance that he will deal with it, albeit more retrospectively. Part of the issue that we are dealing with this morning — it is the same thing as the question that Fra is raising — is that it is not specifically related to phase 2 of the inquiry. That is probably because we have not had the Audit Office here before. It strikes me that we probably should have had you in before now to have a fuller discussion, which we will return to, if you do not mind. We advised you before today that we might stray into some of those other issues, but, obviously, we cannot go into them in any real, big depth. What information you have given us so far has been very helpful, and I appreciate that. Obviously, I appreciate that members want to ask a lot of other questions, but we need to stick to the terms of reference this morning. We will return to those big questions later.

652. **Mr Clarke:** Thanks, Chairman. There is just one thing that has maybe been left hanging in relation to that. I agree wholeheartedly with the point that Stewart has made, however I think that any of us who have come through local government and have dealt with procurement there will know that the same shady practices happen there and that the issues with pricing and procurement in local government are the same. It seems that it is a problem throughout the public sector, and it should be addressed. I appreciate your guidance that we are straying from where we should be, but I want to put on record that it does not happen just in this contract but seems to be a problem throughout the public sector. It should be addressed.
653. Brandon, I apologise for missing the start of this. When I came in, you were talking about some invoices coming in, and you noticed that there was a trend of invoices being wrong. You were talking about duplicate invoicing earlier. Is this only in relation to this contract, or are you finding this elsewhere?
654. **Mr Donnelly:** This is the stuff that dates back.
655. **Mr McMaster:** This goes back to the historical cases in our report. It really started in 2010-11 and 2011-12. Prior to that, if an invoice came in from a contractor and was incorrect, it was not recorded as an error by the district staff. It was only from that point on that they started recording that. If I can read the graph that is in our report —
656. **Mr Clarke:** Sorry, what page is that on?
657. **Mr McMaster:** We have a proof copy of the 2012 Audit Office report. It is on page 14. We had rates running at up to 5% up to 2009-2010. In 2010-11, we were up to 10% and, from 2011-12, we were heading up towards 20%.
658. **Mr Clarke:** It would be useful to know what that 5% is of.
659. **Mr McMaster:** That is of the invoices that are coming in.
660. **Mr Clarke:** Yes, but what is the value?
661. **Mr McMaster:** I do not know the value of those. I do not think that we even have that information. We were interested in the trend. This was part of the information that was going up to management.
662. **Mr Clarke:** I appreciate that you were not expecting that question today. I ask that because, if you take the recent incident of £18 million that has been sorted out and which, obviously, was calculated down and there has been a trend since 2010 that has been 5% of something, what is it 5% of and how much is that worth? If it is up to 25% of something, how much is that worth? That will run into tens of thousands, if not millions, of pounds. I think that it would be useful to try to quantify that, because there definitely seems to have been a problem in the Housing Executive, certainly going back to 2010, over how it managed its contracts and its invoicing and how it managed the review of the jobs and the quality of the work that it was getting. So I think that it would be useful if we could get that information.
663. **Mr McMaster:** We will certainly look to see whether we have it. The title of that graph is:
“The percentage of failed post-inspections of response maintenance jobs”.
664. That includes a range of things, one of which is incorrect invoices. It only started recording the incorrect invoices from 2010-11. Prior to that, it was not recorded; it was not counted.
665. **Mr Clarke:** So, you could describe it as a blank cheque prior to 2010.
666. **Mr McMaster:** There was certainly a lack of proper control.
667. **The Chairperson:** It is important to understand that context so that we can assess for ourselves, ultimately, as a result of phase 2 of this inquiry, that all of those issues, having been identified, are now being properly addressed.

668. **Mr Clarke:** Yes, that is useful, Chair, to give confidence, but it shows you how little control there was in the Housing Executive prior to 2010. Given that it is recording its failings from 2010-11, it shows how out of control that Department was.
669. **The Chairperson:** That is one of the reasons why we are all here where we are today. Absolutely.
670. **Mr F McCann:** One of my questions is as a matter of interest. Running through your report is the importance of not having a quantity surveyor, but this seems to have been going on forever and a day. I cannot understand why people just did not go out and hire quantity surveyors or a quantity surveyor if they were so important to finding out the difficulties or identifying the problems that there were with maintenance.
671. **Mr Donnelly:** I understand that, at one stage, there was a cutback in running costs and that a lot of quantity surveyors left the organisation. Technical skills are really important in this area. That is much more important for planned maintenance than for response maintenance, which is low-value jobs.
672. **Mr Wilkinson:** Just to be clear, the Housing Executive does have quantity surveyors at district level who carry out work. In our report, at least for 2013-14, we refer to the lack of a quantity surveyor in the CAU team to review their work and to check that their work was being done properly. The CAU team was unable to check that work. There are quantity surveyors. Maybe there were not enough historically, but there are some at a district level.
673. **Mr F McCann:** You would think that they would lift the phone to say, "Could you send one of your quantity surveyors?" As Mickey says, maybe I am after quality rather than quantity.
674. **The Chairperson:** The point you are making, Fra, is that the clue is in the title; it is the central assurance unit. You cannot get assurance if they do not have the personnel.
675. **Mr F McCann:** A lot has been said about the Housing Executive. Comments have been made that it is rotten to the core — certainly not by you, but by others. When you were looking at the thing, were there problems at district level, regional level, executive level or all three?
676. **Mr McMaster:** I go back to the report that we did in 2012. When we looked at the findings from the repairs inspection unit, which basically involved going out and re-checking the work that had been done at a district level, it identified problems at district level in the quality of the inspection that was being done. The repairs inspection unit was passing that information up within the chain of command, which was the regeneration division, which was by far the largest division in the Housing Executive and dwarfed every other division. Basically, at that stage, we found that its findings were not being passed on from that division up to the audit committee and the board. We make the point in the report that key issues were being glossed over. So, an element of censorship was taking place in that division and the information that it was passing on. Therefore, the audit committee and the board were not being made aware of the issues that were coming through.
677. Just to put that in context, when we started looking at this and the performance, it was quite a simple thing. In our report, we set out graphically the expenditure over the year, and we had high, satisfactory, limited and unacceptable assurance ratings. In each of those districts, of the £42 million of overall expenditure, we show graphically that £16 million was covered by a limited and unacceptable assurance rating. That sort of information should have been going up to the audit committee and the board. The directorate should have been looking for that sort of information and the information was there if it wanted it in that way, but it did not pass that information on. It did not look at it in that way.

678. **Mr Donnelly:** It was more than just the report; it was acting on it. There was loads of inspection going on, but the reports were just going into the cupboard. There was a lack of action on the findings.
679. **Mr F McCann:** I will make a final point. There is a trail going back quite a number of years, and obviously there are problems. There seems to be a blockage in the flow of information at a level in the Housing Executive. Some people have classed the Housing Executive and the Department's relationship as a parent/child relationship in many ways in that, whilst the Housing Executive is an arm's-length body, the Department has a say in things, especially in terms of auditing and other aspects. Does the Department share any responsibility for some of the difficulties? This goes over a fairly lengthy period.
680. **Mr Donnelly:** When serious problems erupt in an arm's-length body, the background is usually lack of departmental oversight. Sometimes, when there is a problem, the pendulum will swing the other way, and I think that the pendulum actually needed to swing and, at a certain point, the Department needed to be much more actively involved. But when things settle down, there needs to be equilibrium. A parent Department cannot micromanage a large non-departmental public body (NDPB), but it needs to manage or oversee in a strategic way.
681. **Mr F McCann:** Kieran, I am sorry for cutting across you, but are you saying that, despite the extent of the problems in the Housing Executive, which, in effect whistle-blowers were trying to highlight, the Department missed them? Or, did it know about them? I read a report that, going back a number of years, the Department had knowledge of there being problems there but did not act on it.
682. **Mr Donnelly:** There is substance to some of that being the case in the earlier period.
683. **Mr McMaster:** There is, and the Public Accounts Committee picked that up. One of the recommendations, which the Committee reiterates, is that it is the responsibility of the sponsor Department to regularly review its processes for gaining assurance on sponsored bodies' management of risks. The Committee highlighted that there were problems with the Department's oversight going back over time, but, as the Comptroller and Auditor General (C&AG) said, it is not the role of a sponsor Department to get into micromanaging, but it needs to be aware —
684. **Mr F McCann:** — that there are problems.
685. **The Chairperson:** Before bringing Trevor in to follow on that, you mentioned a directorate in which there was a logjam or blockage. Do we know what directive that was? Can you share that with us?
686. **Mr McMaster:** Yes, it was the regeneration directorate within the Housing Executive.
687. **The Chairperson:** OK. Trevor, you wanted to follow up on that, before I bring Jim in.
688. **Mr Clarke:** In response to Fra's question, Brandon, you talked about district level inspections. I thought that our district inspectors did not do planned maintenance; I thought that they brought in the teams that were responsible for the planned maintenance, as opposed to district officers.
689. **Mr McMaster:** I was referring to the response maintenance. Our 2012 report dealt with response maintenance.
690. **The Chairperson:** Are you happy enough? Jim, you wanted in.
691. **Mr Allister:** I want clarification. You have restricted us on asking questions on part 3. Are we restricted in asking questions about part 4 of the report dealing with housing benefit?
692. **The Chairperson:** It is not that I am restricting you; we are dealing with phase 2 of the inquiry. We alerted

- Kieran and his team to the fact that we might want to have a little bit of information on things such as the TUPE arrangements, the DLO and the issues that Fra McCann raised. We could not labour on those, but we appreciated some initial response. We are dealing with those in a substantive matter next week. We have already agreed that we are going to be dealing with the Department around the whole question of the DLO and how that is evolving to make sure that there is no “ad hocery” and to make sure that it is properly planned, thought through and worked out. We have to remind ourselves that we are dealing with phase 2 of the inquiry; we are not dealing with phase 3, phase 4 or any other phase, if you know what I mean, Jim.
693. **Mr Allister:** Perhaps this is something that does not fall into any phase. We have the Audit Office in front of us; it is dealing with fraud, error and housing benefit. I want to ask a couple of questions on that.
694. **The Chairperson:** We have given a bit of latitude, as you will appreciate, so put the question and, if Kieran could give us a bit of an initial response, that would be good. We will follow up with a written question.
695. **Mr Allister:** OK. Part 4 of your most recent report, at page 25, identifies that there was £25.9 million of irregular payments of housing benefit. They were made up of £21 million of overpayments and almost £5 million in underpayments. Of the overpayments, £11.7 million is customer fraud. Is that correct? That is a huge increase from, say, two years ago, when customer fraud was £2.8 million; indeed, it is a 27% increase on last year. What does that tell you about the adequacy of the checking processes within the Housing Executive and the efficiency of the follow-up for recovery and prosecutions? It has radically increased from £2 million to £11 million in two years. Is that sending any message?
696. **Mr Wilkinson:** I suppose that there will always be an element of fraud and error.
- The Housing Executive has pointed out that if you compare those figures with GB, they will compare reasonably favourably. These figures are based on a sample that is tested in the Social Security Agency. It has a special unit that does statistical sampling to try to estimate the amount of fraud and error, so there will be some movement from year to year. We take the mid-points of all these figures, so it could be slightly less. What does seem to have happened is that there has been some increase in fraud. It may not be just as stark as those figures because there is a statistical degree of error.
697. **Mr Allister:** The statistical degree of error must be modest, surely?
698. **Mr Wilkinson:** They produce a range in each year, so if you take the lower end of this year’s range to the higher end of the range two years ago, there would still be a rise, but it may not just be as stark at this one. The Housing Executive does have a strategy in place as to how it will tackle all this.
699. **Mr Allister:** Is it working if historic fraud has risen from £2.8 million to £11.1 million in two years?
700. **Mr Donnelly:** We look at this, not just the Housing Executive but the Social Security Agency, which has been bearing down on fraud and error, so that is going in the other direction. There is an issue here, I suppose in the context of welfare reform. Benefits are not the Housing Executive’s core business, in a sense, but a huge amount of expenditure is going through here, so it is important that —
701. **Mr Allister:** Is it falling between two stools?
702. **Mr Donnelly:** There is a bit of that, yes, in that it does fall between the Social Security Agency and the Housing Executive, so there are issues there. We found the same trends with rates on the Land and Property Services (LPS) side. There are genuine issues there that need to be borne down on.

703. **The Chairperson:** Jim, if I remember correctly, there was some suggestion, not that long ago, when some of these figures were publicised — in fact, I think we dealt with it at the Committee — that there was a different mechanism or method for counting this. It was something to do with taxation or HMRC.
704. We will need to follow that through because it is important. On paper, we are being presented with a stark increase, and we need to drill down on that to get the correct picture. Again, that goes to the heart of the point that I think Jim is making, that we need to satisfy ourselves that all the relevant and appropriate mechanisms are in place to prevent these types of problems from continuing.
705. **Mr Allister:** Why are underpayments classified as irregular and overpayments are not?
706. **Mr Donnelly:** It is the other way around. Oh, sorry, do you want to take that?
707. **Mr Wilkinson:** They are both counted as irregular.
708. **Mr Allister:** Sorry, at the bottom of page 25, the report states:
- “All of the overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular.”*
709. **Mr Wilkinson:** Yes. All overpayments are irregular, and underpayments due to official error are irregular. An underpayment due to a customer error, for example, is not irregular.
710. **Mr Allister:** Yes, I understand now.
711. **The Chairperson:** Kieran, Tomas, Brandon and Anu, I thank you for attending the Committee this morning and helping us in our deliberations, particularly in relation to phase 2 but dealing with the other matters as well. You will appreciate that there are a number of substantive issues that we have covered this morning and we will deal with them one by one, partly as a result of this inquiry and sometimes separately, although they are in a way all inter-related in one way or another. We need to stick to our processes. You will appreciate that we will probably follow up on some of the questions in writing and invite you back again.
712. **Mr Donnelly:** Chair, we are happy to answer further written queries.
713. **The Chairperson:** OK, Kieran, I thank you and your team.



Northern Ireland
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Appendix 3

Written Submissions

List of Written Submissions

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DSD Briefing Paper

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1 May 2014

Dear Kevin

SDC Inquiry – Phase 2 evidence session – 8 May 2014

I refer to your letter dated 16 April 2014 requesting departmental officials, Will Haire and Jim Wilkinson, to attend the Phase 2 Inquiry session on 8 May 2014.

In your letter you ask the departmental officials to provide a short briefing to the Committee outlining what steps the Department has taken to address previous well documented failings in relation to procurement and contract management since 2010. The Department forwarded to the Committee on 28 February 2014 a comprehensive memorandum in relation to Phase 2 of the Inquiry which sets out the governance and oversight structures and processes that are in place and identifies the key actions taken since the Review of Governance in the Northern Ireland Housing Executive in 2010 to address previous well documented failings in relation to procurement and contract management. However, a short written briefing is attached at Annex A.

You also advised that the Committee would welcome an update on the outcome of the review of the oversight arrangements in place between the Department and the Housing Executive and an update on the development and implementation of an inspection regime for the Landlord Function within the Housing Executive. This is contained within the written briefing at Annex A.

I hope this information is helpful

Yours sincerely



Susan McCarty

Annex A

Written briefing from Will Haire and Jim Wilkinson outlining what steps the Department has taken to address previous well documented failings in relation to procurement and contract management since 2010.

From the Spring of 2010 there was a growing number of concerns in relation to the Housing Executive's governance and contract management regime that culminated in the then Minister, Alex Attwood, commissioning in October 2010 a review of Governance in the Housing Executive. This followed a series of internal and external investigations into the Housing Executive which raised concerns that its governance systems were not sufficiently robust.

Therefore, the Permanent Secretary, in October 2010, asked the Department's Senior Internal Auditor to lead a team to examine and report on the governance structures, controls and skills of the organisation. In addition, external specialist assistance was secured through the Central Procurement Directorate, Department of Finance and Personnel, for a Gateway Review of procedures for letting and managing EGAN contracts.

An oversight panel set up and chaired by the Permanent Secretary, which also included independent membership, was reported to by the audit review team on an ongoing basis and the Review of Governance in the Housing Executive was completed in December 2010 and both it and the Gateway Review were published in January 2011. A number of oversight arrangements were then put in place by the Department to ensure the recommendations in both reviews were appropriately implemented.

An Oversight Implementation Group was set up and chaired by the Permanent Secretary which included cross departmental and independent membership. The Group met regularly and the Housing Executive's then Acting Chief Executive attended the meetings to provide reports and an update on the implementation of the recommendations.

The Permanent Secretary also held an Accountability meeting with the Chairman, Vice Chairman and Chief Executive in April 2011 to discuss a number of key strategic issues, which included the Gateway Review. The then Minister, Alex Attwood, also held performance review meetings with the Chairman and Chief Executive on 23 February 2011 and 3 May 2011.

During this period, on taking up post in May 2011, Minister McCausland also expressed his concerns about the issue of contract management, both on foot of briefing on the governance review findings and implementation, and on the issues leading to the termination of the Red Sky contract in July 2011. In light of his continuing concerns he asked that a forensic investigation was carried out of a sample of Housing Executive maintenance contracts to provide him with assurances in relation to the other contracts, the quality of services to tenants and the proper use of public funds. (The subsequent findings and the evidence in the ASM report, published in June 2013, demonstrated that there were considerable issues and shortcomings in relation to the Housing Executive's management of response maintenance contracts.)

The Permanent Secretary, who had chaired the Oversight Group, still had concerns in relation to the effective implementation of the recommendations made in the 2010 Governance Review in relation to the management of maintenance contracts. In particular, he had concerns that the Housing Executive was not making full use of its internal assurance regime to improve contract management. He wrote to the Chief Executive and the Chairman a number of times, between January and May 2012, about contract management arrangements and his serious concerns in relation to the implementation of the governance arrangements in place. He then increased the Accountability meetings from twice yearly to quarterly and advised that the meetings should be between Accounting Officers, instead of with the Chairman.

However, as a result of these concerns, the Permanent Secretary then instructed the Department's Senior Internal Auditor to conduct an independent review of the actions taken by the Housing Executive to implement those particular recommendations relating to the operating of the independent inspection function.

The review was completed in July 2012 and the opinion of the Review Team was that Senior Management within the Northern Ireland Housing Executive had not acted quickly enough to resolve the issue of the agreement of draft reports from the Repairs Inspection Unit. In expending so much effort in debating the methodology used in producing the reports the Housing Executive had failed to focus on the significant findings in the reports. Time that could have been better spent addressing the issues identified had instead been lost in internal debate.

In July 2012, the Minister then introduced special accountability measures which took account of the recommendations in the DSD Internal Audit Review and were to enhance significantly the oversight arrangements between the Department and the Housing Executive. There was an increase in the accountability meetings from quarterly to monthly between the Department and the Housing Executive. At these meetings the issues relating to the Housing Executive's management of contracts were (and still are) regular agenda items along with progress updates on the actions taken to implement the NI Audit Office priority 1 recommendations from the Reports to those Charged with Governance.

In September 2013 the Permanent Secretary instigated a further governance review by the Department's Head of Internal Audit to assess the outcome of the implementation of the recommendations of the Housing Executive governance review in 2010, the special accountability measures and the ASM Report recommendations. It also looked at the lessons learned by the Housing Executive in respect of the management of response maintenance and the extent to which they have been applied to the management of planned maintenance contracts.

It concluded that there was still a considerable amount of work ahead for the Housing Executive if they were to see through the necessary structural and cultural changes to ensure that the lessons learned from Response Maintenance were applied. Good progress had been made in implementing the actions from the 2012 Work Plan. However, it was critical that the remaining recommendations were completed. The report was forwarded to the Housing Executive Chairman who reported back to the Department in March 2014 and provided a report from their Internal Audit on the outstanding recommendations and timescales for completion.

At this time the Department is currently reviewing the oversight arrangements in place between the Department and the Housing Executive. This is ongoing and no changes have yet been considered for implementation.

However, in response to the concerns about the robustness of the current governance and assurance arrangements, the Permanent Secretary has asked the Inspection Team within the Housing Division Governance and Inspection Unit to develop and implement an inspection regime for the Landlord Function within the Housing Executive, which would subject that organisation to a similar degree of scrutiny as Housing Associations. The Inspection Team currently carries out Regulation and Inspections of Housing Associations within Northern Ireland.

The Team will provide an independent and objective opinion on risk management; control and governance; and property management by measuring and evaluating their effectiveness in achieving the Housing Executive's agreed objectives within its landlord function. Staff were appointed on 14 April 2014 and terms of reference are being developed to establish the scope, objectives and modus operandi of the NIHE Inspection Team and also to establish the reporting lines.

NIHE Briefing Paper

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2 May 2014

Dear Kevin

SDC Inquiry – Phase 2 evidence session – 8 May 2014

I refer to your letter dated 15 April 2014 requesting NIHE officials to attend the Phase 2 Inquiry session on 8 May 2014.

Attending will be:

- Mags Lightbody Interim Chief Executive
- Siobhan McCauley Director of Regional Services
- Gerry Flynn Director of Landlord Service

In your letter you ask NIHE officials to provide a short briefing to the Committee outlining what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010. You also advised that the Committee would welcome an update of the OGC Gateway Review 5 on the new Response Maintenance Contracts which took place at the start of April 2014. A written briefing is attached at Annex A.

I hope this information is helpful

Yours sincerely



Susan McCarty

Annex A

Written Briefing from NIHE Officials for the Phase 2 Inquiry Session on 8 May 2014

Northern Ireland Housing Executive

The adequacy of actions proposed by the Minister, DSD and NIHE to address previous, well documented failings in relation to procurement and contract management.

This briefing takes into account:

- what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010.
- what steps senior management has taken to address the concerns noted by the Comptroller and Auditor General in his 2012-13 Report to those Charged with Governance and the NIHE accounts which led to a qualification on the total expenditure for response and planned maintenance in 2012-13.
- Findings of the recent DSD Follow-Up Review of Governance in the NIHE.
- An update on the outcome of the OGC Gateway Review 5 on the new Response Maintenance Contracts which took place at the start of April 2014.

Introduction

Over recent years the Housing Executive Board's and Senior Management team's overarching priority has been to implement measures to address well-documented failings and tackle the legacy issues which have been prevalent from 2010.

We have also accepted the recommendations in the DSD's governance review (and subsequent follow up review), the Gateway Review into response maintenance contracts, NIAO and PAC reports into the management of response maintenance contracts, and also the Comptroller and Auditor General's report to those charged with governance. At the same time we have undertaken a number of internal reviews and audits. The senior management team is confident that each contract has a number of clear controls in place and that the concerns identified in these reports are being fully addressed.

Good progress has been made and there are encouraging signs in how we have been managing both planned and response maintenance contracts:

- The Continuous Tenant Omnibus Survey demonstrates that tenant satisfaction with all aspects of the maintenance service has risen in each of the past two years and now sits at 81%.
- This year, the findings of the Corporate Assurance Unit's inspections of response maintenance contracts have been positive: all 11 completed inspections have either received satisfactory or substantial assurances.
- Monthly performance meetings are now held with contractors and damages are being applied in cases of poor performance. In addition escalation procedures have been activated where required.
- Performance across all contracts is now regularly reported at senior management and board level.

The senior management team recognises there is still work to do. The Social Development Committee will know that we are finalising a resolution to our dispute with planned maintenance contractors. It will take time to resolve some of the outstanding legacy issues surrounding contracts and also changing the culture of the organisation. We will continue to work closely with DSD and NIAO to ensure there is appropriate oversight in place across all aspects of contract management so that we can restore and to re-establish trust and confidence in our maintenance service.

DSD Review of Governance 2010

The DSD's Governance Review of 2010 found "much evidence of good practice" and that there were "appropriate structures to effectively detail and manage risk". The review put forward 75 recommendations that the Housing Executive should put in place to improve governance structures. The senior management team established an oversight board and appointed a full time project manager to oversee the implementation of the recommendations. We found the implementation of its recommendations was an extremely worthwhile exercise and central to the improvement in governance within the organisation.

In the follow up Review in November 2013, it was found that the Housing Executive has made progress in addressing issues relating to governance, and that two thirds of the 75 recommendations have been fully implemented. DSD advised that four critical control recommendations were outstanding. The Housing Executive can confirm that three of the recommendations are partially completed and will be fully complete by summer 2014. One is no longer deemed relevant.

In terms of the good practice recommendations, in November DSD advised that 21 recommendations were outstanding. The current position is that 10 recommendations have been subsequently implemented, 10 have been partially implemented and one is outstanding. These will all be implemented by December 2014.

The Housing Executive's Governance Structure

The Governance Review led to a fundamental review of all aspects of governance within the organisation. The current governance framework is outlined below and brings together legislative requirements, governance principles and management processes. The framework comprises the systems and processes, cultures and values by which decisions are made and the functions undertaken to deliver the highest standards of housing services in accordance with the organisation's duties and responsibilities.

The Governance structure includes:

- Standing Orders which regulate the proceedings, meetings and business of the Board and its Committees and ensure transparent and effective decision making.
- The annual review of the effectiveness of our governance framework, including the system of internal control. The Head of Internal Audit's annual assurance statement for the period provides an opinion on the organisation's control environment.
- The Corporate Assurance Unit (CAU) provides assurance on the management of key risks and, through inspection, assurance on the management of response and planned maintenance contractors.
- The Board receives a monthly "Emerging Issues" report from the Chief Executive. This report is designed to advise the Board of key issues that may have emerged since its last meeting.
- The Audit Risk & Assurance Committee provides an independent assurance on the adequacy of the risk management framework and associated control environment. The Committee supports the Board in its responsibilities for issues of risk, control and governance, by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs and reviewing the reliability and integrity of these assurances.
- Directors and Assistant Directors are required to complete quarterly assurance statements. These assurance statements are used to inform the Chief Executive's Quarterly Assurance Statement for the Board and Quarterly Stewardship Statement for DSD.

Contracts and contract management response maintenance

Following the 2011 Gateway Review, the structure and management of our response maintenance contracts have been radically overhauled. The basic structure of the response maintenance contracts is now our standard model for other maintenance contracts (heating, grounds, planned maintenance and double glazing). The delivery model for planned maintenance has also been reviewed and design responsibility will move from contractor to consultant, which will add another important layer of assurance. At local level, the management arrangements for maintenance have been strengthened, including new dedicated contract managers for response maintenance.

The new contracts have updated KPIs and robust contract management arrangements that allow us to properly hold contractors to account, including the application of Low Performance Damages. The KPIs fall into four broad groups – quality of work, payment accuracy, timeliness and customer satisfaction. Low Performance Damages clauses are applied when contractors fail to meet the KPI targets. This is backed by a requirement for Contractor Improvement Plans, which are formally monitored. Failure to meet KPIs and/or deliver the required improvements can result in termination. Extensive training of contractors has taken place to ensure complete knowledge of what is required under the contract.

A Response Maintenance Intervention Team (RMIT) was created in May 2012 and was deployed to offices that received a less than satisfactory CAU inspection classification. In 2012 and 2013, 16 offices were visited, and local action plans were developed in each office. The RMIT re-visited the offices to confirm that actions have been implemented and that improvements are being delivered. RMIT has not been required to visit offices this year as they have received positive inspections.

In addition a new statistical inspection regime has been instigated, which is risk-based and generated automatically from the repairs database. This has been designed (and validated) to generate sufficient inspections from which conclusions can be drawn about contractor performance and performance changes over time, allowing the reliable calculation of KPIs related to quality and payment accuracy.

There is a full range of controls in place under each contract which enables the senior management and the Board to have oversight across all contract management. In summary the new regime provides a robust and structured contract management regime within the organisation, with clear lines of responsibility and accountability, and defined escalation arrangements to deal with disputes and/or performance issues.

Contracts and contract management planned maintenance

The Minister had discussed concerns about planned maintenance contracts with the previous Chairman in 2012 and current Chairman in November 2012. The Chairman subsequently asked that the matter was investigated by the Chief Executive.

In May 2013 the Board received a report from the Chief Executive which detailed concerns about planned maintenance contracts. The Board then asked for an independent review of the Housing Executive's handling of planned maintenance and Campbell Tickell published its report in November 2013. The senior management has subsequently drawn up an action plan to address issues raised in the report and this is presented to the Board on a monthly basis.

As with response maintenance, there are new contractual arrangements for the management of future planned maintenance contracts to address control weaknesses:

- The new contracts have been constructed to 'design out' the problems previously encountered around relationships defined under the misinterpretation of the 'partnership' concept.
- A larger number of contractors to reduce overdependence on contractors and provide extended competition.

- The use of independent consultants to design schemes, agree costs and supervise and approve work content: this will provide enhanced controls through:
 - more effective segregation of duties between delivery and management, especially with regard to pricing and inspection of work;
 - transfer of some of the risks associated with scheme design and management as consultants will have to meet key performance indicators or suffer financial penalties;
 - improved access to key technical resources, particularly quantity surveyors.

Reporting arrangements

Arising from the various reviews, special accountability provisions were introduced by the DSD. As part of these, the senior management team collated improvement actions related to a series of maintenance and governance issues into a Work Plan and progress on this plan was reported initially on a two-weekly basis and more recently on a monthly basis to the DSD. Additionally, since September 2012 monthly Accountability/Progress Meetings have been set up between the NIHE Chief Executive and the Permanent Secretary.

At the request of the current Board, reporting arrangements have been overhauled. The performance of response, planned, heating and grounds maintenance contractors are now reported to the Board every second month. In addition assurance arrangements have been strengthened with the Corporate Assurance Unit now reporting directly to the Audit and Risk Committee and the Unit as well as Internal Audit now have a monthly meeting with the Chief Executive.

Improving the skills and knowledge of staff working with contracts

The senior management team also put in place a number of actions to improve the skills and knowledge of staff involved in contract management:

- We have reviewed the competency framework and qualification requirements for new staff.
- New accredited training courses have been developed specifically for response maintenance.
- All technical staff engaged in planned maintenance have received specific training on specifications for work.
- Additional quantity surveyors have been employed.
- All guidance and advice notes related to response and planned maintenance have been reviewed and updated.

The OGC Gateway Review 5 on the new Response Maintenance Contracts

The Housing Executive received the OGC Gateway 5 Review on the new Response Maintenance Contracts at the end of April 2014. The Review contained 8 recommendations. An Action Plan is being developed in order to address these and monitoring arrangements are being established in order to ensure progress against set timescales. The Housing Executive views it as an opportunity to review how the contracts are being managed, the benefits to be realised from them and how we develop the relationship between the Contractors and ourselves for the benefits of all.

Improving the culture

Some of the adverse findings from the DSD's Review of Governance related to the culture within Housing Executive and the skills and knowledge of staff directly involved in response and planned maintenance contracts. The Housing Executive Board signalled a need to promote a new culture of integrity, openness and honesty to complement a focus on service delivery and appropriate application of governance and accountability requirements.

- Since 2011, there has been a marked increase in visibility of Board members and the senior management team, with every office visited at least once. At these visits, members have reinforced the need for good governance, the principles of public life and the importance of behaving responsibly.
- Governance arrangements within the organisation have been reviewed and governance and Code of Conduct training has been delivered to all staff.
- In order to strengthen operational control and oversight, a new Asset Management section has been created and is responsible for all maintenance and works activity.

In order to address culture issues within the organisation, the senior management team has initiated a major transformation to ensure that we deliver top quality services which provide value for money. The Journey to Excellence Programme will aim to ensure consistent approaches to governance and how we improve public services.

NIHE Corporate Assurance Unit Briefing Paper

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23 May 2014

Dear Kevin

SDC Inquiry – Phase 2 evidence session – 29 May 2014

I refer to your letter dated 15 April 2014 requesting NIHE officials to attend a Phase 2 Inquiry session which is now to be held on 29 May 2014.

Attending will be:

- Trevor McCartney Director of Corporate Services
- Gay Ireland Head of Corporate Assurance Unit
- John McVeigh Head of Internal Audit

In your letter you ask NIHE officials to provide a short briefing to the Committee outlining what steps the Corporate Assurance Unit and Internal Audit have taken to address the following findings and recommendations as documented in the DSD Follow-up Review and the NIAO 2012-13 NIHE accounts:

- Contract management and procurement of planned and response maintenance contracts;
- Weaknesses in management of planned and response maintenance contracts;
- Delivery of Internal Audit Programme; and
- Best use of the Corporate Assurance Unit.

A written briefing is attached at Annex A.

I hope this information is helpful.



Susan McCarty

Annex A

Written Briefing from NIHE Officials for the Phase 2 Inquiry Session on 29 May 2014

The adequacy of actions proposed by the Minister, DSD and NIHE to address previous, well documented failings in relation to procurement and contract management.

The officials are asked to provide a short briefing to the Committee outlining what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010.

In particular, the briefing paper should also address what steps the Corporate Assurance Unit (CAU) and Internal Audit have taken to address the following findings and recommendations as documented in the DSD Follow-Up Review and the NIAO 2012-2013 Report to those Charged with Governance and the NIAO Report on the 2012-2013 NIHE accounts:

- Contract management and procurement of planned and response maintenance contracts;
- Weaknesses in management of planned and response maintenance contracts;
- Delivery of Internal Audit Programme; and
- Best use of the Corporate Assurance Unit.

Introduction

On 5th May, the Committee received a briefing from the Department for Social Development and members of the Housing Executive's senior management team regarding actions taken to address concerns about governance and contract management within the organisation.

This briefing outlines the role of the organisation's Internal Audit Department and Corporate Assurance Unit (CAU) in terms of improving governance and addressing the failings relating to procurement and contract management.

The roles of Internal Audit and CAU within the Housing Executive's governance framework

The Governance Framework comprises the systems and processes, cultures and values by which decisions are made and the functions undertaken to deliver the highest standards of housing services in accordance with the organisation's duties and responsibilities.

In terms of the roles the Internal Audit and CAU have within the organisation's Governance framework:

- The annual review of the effectiveness of our governance framework, including the system of internal control. The Head of Internal Audit's annual assurance statement for the period provides an opinion on the organisation's control environment.
- The CAU provides assurance on the management of key risks and, through inspection, assurance on the management of response and planned maintenance contractors.
- Both units report findings and the Heads of both Units attend the quarterly meetings of the Audit Risk and Assurance Committee. The Audit Risk and Assurance Committee see a summary of each completed audit from Internal Audit and CAU.
- Both Head of Units attend a pre-Audit Risk and Assurance Committee meeting with the Chair of the Committee.
- 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 which are currently in place between DSD and the Housing Executive.
- Draft Internal Audit and CAU reports are sent to DSD Director of Housing, following ten days of issue to Directors. Final reports are sent also, 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 NIAO and DSD also attend the quarterly meetings.

Internal Audit

In keeping with its requirements as a Non-Departmental Public Body, operating under Managing Public Money (NI), the Housing Executive is obliged to maintain an effective internal audit service. The Housing Executive Internal Audit Department currently provides this service, operating under 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. These are:

- 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;
- Identify and evaluate controls established by management in systems to achieve organisational objectives in the most economic and efficient manner, taking account of value for money;
- Report findings and conclusions and where appropriate, make recommendations for improvement;
- Advise on internal control and risk implications of enhancements to existing or new systems;
- Provide consultancy services and advice where relevant;
- Provide input into counter fraud and money laundering controls where required.

Contract Management and Procurement of Planned and Response Maintenance Contracts

Internal Audit Department has carried out extensive work in relation to both contract management and the procurement of planned and response maintenance contracts. In the period from January 2008 – April 2014, Internal Audit carried out and reported the following:

- 14 Response Maintenance related Internal Audit Reports;
- 26 Planned Maintenance related Internal Audit Reports;
- 6 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/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 the committee.

In terms of audit follow-up on areas of concern, audits receiving a limited or unacceptable classification receive a follow-up Audit visit as a priority within the next 12 months.

Issues relating to Internal Audit arising from the DSD Follow-Up Review of Governance

One recommendation which related to Internal Audit issues remained outstanding at November 2013. This was deemed as no longer relevant. Three best practice recommendations specifically relating to Internal Audit issues were noted as "partially

completed” in November 2013 Report. Actions have now been taken which will ensure they are completed by the end of the 2014-2015 financial year.

Internal Audit also carried out a compliance exercise on behalf of DSD Internal Audit, to ensure the actions reported by Housing Executive in relation to all outstanding recommendations was accurate and complete.

Internal Audit recommendations from NIAO Report to Those Charged with Governance 2012/13

The NIAO Report to Those Charged with Governance 2012-2013 made three findings specifically in relation to the delivery of the Internal Audit Service within the Housing Executive.

The recommendation relating to the rotation of Internal Audit staff has been implemented. The recommendation that the Housing Executive should consider whether it would be beneficial to bring in independent Internal Audit expertise to perform systems audits on key computer system is in the process of being implemented. The Housing Executive has also taken steps to address the finding relating to the delivery of the Internal Audit programme. This included a strategy of substantive recruitment to fill vacant posts, additional temporary resources providing short term cover and the external procurement resource mentioned above.

Corporate Assurance Unit

The Corporate Assurance Unit (CAU) was set up in 2011 to bring together all the key inspection functions within an independent unit within the Housing Executive. Its role was later expanded to include championing corporate risk management and facilitating the corporate assurance process and the Unit has subsequently evolved through a series of strategic changes.

As a result of these CAU currently provide annual inspection programmes over the following key business areas:

Technical Audit

Qualified technical officers based in CAU complete annual inspection programmes covering all aspects of the Housing Executive’s maintenance programmes including:

- Planned Maintenance Schemes, 88
- Response Maintenance Services, 26 districts 12
- Heating Installations, cyclical servicing and response maintenance 4
- Private Sector Grants (including Boiler replacement scheme) 6

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 recommendations made.

Risk Management and 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 and manages the Corporate Risk Register on behalf of the Board and report quarterly to the Board and Audit Risk and Assurance Committee. CAU also co-ordinates the Assurance Statement process whereby Directors and Assistant Director sign off on a quarterly basis 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 which identifies areas where assurance (internal or external) is currently being provided on the controls in place to manage the organisation's key risks. In addition this will identify the adequacy of the assurance, current gaps and produce an action plan to address weaknesses or gaps.

Issues relating to CAU arising from the DSD's Review of Governance 2010

Performance Measurement

In line with recommendations made in the DSD Governance Review that CAU makes greater use of data analysis to identify potential trends and areas of concern to direct their inspection work, the Board approved that the role of the Performance Measurement be transferred from the Landlord Services' Division Business Unit to the independent CAU.

Heating

DSD's Governance Review recommended that CAU inspection programmes should 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. These inspections began during 2013/14 and a programme is in place to inspect heating maintenance and servicing of heating appliances within our housing stock. Prior to this, the Housing Executive's Housing and Regeneration Division carried out periodical inspections of heating installations and repairs.

Recommendations relating to CAU arising from the DSD Follow-Up Review of Governance

CAU has addressed the recommendation that the Land and Property Inspection Unit should 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 Purchase of Evacuated Dwellings (SPED) scheme 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.

CAU recommendations from NIAO Report to Those Charged with Governance 2012/13

With regards the comment relating to weaknesses in the management of response maintenance contracts, it was recommended that the Housing Executive should 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, action is taken promptly. In 2013/14 the CAU inspected all districts (12) in line with the agreed programme.

The CAU has also addressed the recommendation regarding steps are taken to ensure best use of the Unit as outlined in the NIAO report from 2012/13.

The results of CAU inspections have shown significant improvements. In terms of response maintenance CAU inspections, these have been completed based on the 12 area office structure of NIHE. While two of the office inspections are yet to be completed to final report stage the 10 which have been completed have all received a Substantial (7) or Satisfactory (3) assurance.

In terms of CAU inspections on planned maintenance schemes, the results of our inspection programme for 2013/14 have shown improvements with 13 reports provided with a Substantial assurance level, 1 report provided with a Limited assurance level and 1 report provided with an Unacceptable assurance level. This indicates a substantial improvement on last year's results which had 11 reports as Substantial, 10 reports as Satisfactory, 10 reports as Limited and 10 reports as Unacceptable.

Next steps

Following a review of the provision of audit, assurance and technical inspection services in 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/inspection teams within it. Key benefits associated with this proposal include:

- Fully addresses recommendations of internal and external governance and contract reviews since 2010;
- One overall assurance plan with clearer idea of resource requirements whilst addressing current overlap and duplication and consistency in reporting;
- A single team of contact on audit, assurance and risk matters;
- A seamless service with technical skills available to provide a more comprehensive Internal Audit and Assurance service.

Conclusion

Both Internal Audit and CAU have played a key role in improving governance arrangements within the Housing Executive over recent years.

In summary, Internal Audit would acknowledge that some improvements have been made in the areas of Maintenance, Procurement and Governance under examination by the Committee. This view would be supported by the results of audit work carried out, particularly in the last 12 months. The Head of Internal Audit Opinion on the system of internal control within Housing Executive for 2013 / 2014 has been classified as “Satisfactory” and while 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 NIAO report issued during 2011-13 have been implemented. Contract management and procurement in both planned and response maintenance, however, will continue to be key areas for inspection and monitoring for both Internal Audit and CAU for the future to ensure the progress made is embedded across staff and contractors.

The planned merger of the 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. This should enable better, intelligence led governance reporting business areas and provide strong assurance of this area going forward.

NIHE Chairperson and Vice Chairperson Briefing Paper

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30 May 2014

Dear Kevin

SDC Inquiry – Phase 2 evidence session – 5 June 2014

I refer to your letter dated 16 April 2014 requesting Donald Hoodless, Chairman NIHE, and Professor Peter Roberts, Vice Chair, to attend the Phase 2 Inquiry session on 5 June 2014.

In your letter you ask for a short briefing to the Committee outlining what steps the Housing Executive has taken to address previous well documented failings in relation to procurement and contract management since 2010 and, in particular, the briefing paper should address what steps the Housing Executive Board and Audit have taken to address the findings and recommendations as documented in the DSD follow-up review and the NIAO 2012-13 Report to those Charged with Governance.

A written briefing is attached at Annex A.

I hope this information is helpful

Yours sincerely



Susan McCarty

Briefing to the Social Development Committee on:

The adequacy of actions proposed by the Minister, DSD and NIHE to address previous, well documented failings in relation to procurement and contract management.

This briefing takes into account:

- what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010.
- what steps the Housing Executive has taken to address the concerns noted by the Comptroller and Auditor General in his 2012-13 Report to those Charged with Governance.
- Findings of the recent DSD Follow-Up Review of Governance in the NIHE.

Introduction

The Social Development Committee has received briefings from the Department for Social Development and the Housing Executive about measures put in place to address failings in relation to governance and contract management.

This briefing outlines the role that the Board of the Housing Executive has played in addressing governance and contract management issues which first arose in 2010.

The role of the Board

The Board is responsible for the overall strategic direction of the Housing Executive within the policy and resources framework determined by the Minister for Social Development. In addition, the Board is responsible for the performance of the Housing Executive. Key functions of the Board include setting direction; priorities; corporate planning objectives; overseeing performance; the efficiency and effectiveness of operations and the quality of services; and ensuring that it is made aware of any concerns about the running of the organisation.

The Audit and Risk Assurance Committee provides assurance to the Board on the adequacy of the risk management framework and associated control environment. The Audit and Risk Assurance Committee supports the Board in its responsibilities for issues of risk, control and governance.

Recommendations from DSD's Governance Review

Some of the adverse findings from the DSD's Review of Governance 2010 related to the culture within the Housing Executive. The Board immediately signaled a need to promote a new culture of integrity and openness to complement a focus on service delivery and appropriate application of governance and accountability requirements. Since 2011, there has been a marked increase in visibility of Board members and the senior management team, with regular office visits. At these visits, members have reinforced the need for good governance, the principles of public life and the importance of behaving responsibly.

The DSD's Governance Review of 2010 had a number of recommendations which directly related to the work of the Board and the majority of these have been fully or partly implemented after full consideration by the Board. These include:

- reviewing the organisation's Standing Orders;
- developing a formal Terms of Reference for the Board and the Audit and Risk Assurance Committee;
- developing a robust system of quarterly assurance statements across the organisation;

- carrying out reviews on the Board's and the Audit and Risk Assurance Committee's performance and also the quality of information and data being presented to members;
- a review of committee structures within the Housing Executive;
- developing a single register for all staff and Board members regarding gifts and hospitality;
- a lessons learned report on Counter Fraud Work to the Audit and Risk Assurance Committee;
- the development of a schedule for current policies and strategies;
- creating a formal induction checklist for Board members.

In the follow up Review in November 2013, it was found that the Housing Executive has made progress in addressing issues relating to governance, and that around two thirds of the 75 recommendations have been fully implemented. DSD advised that four critical control recommendations were outstanding. The Housing Executive can confirm that three of the recommendations are partially completed and will be fully complete by summer 2014. One is no longer deemed relevant.

In terms of the good practice recommendations, in November the DSD advised that 21 recommendations were outstanding. The current position is that 10 recommendations have been subsequently implemented, 10 have been partially implemented and one is outstanding. These will all be implemented by December 2014.

Steps the Housing Executive has taken to address the concerns noted by the Comptroller and Auditor General in his 2012-13 Report to those Charged with Governance.

The Housing Executive's management team reports to the Audit and Risk Assurance Committee meeting on a quarterly basis and to DSD (on a monthly basis) on the implementation of recommendations stemming from each Comptroller and Auditor General's Report to those Charged with Governance. There were 13 recommendations in 2012/13 and at the last Audit and Risk Assurance Committee meeting in March it was reported that six recommendations were on target for completion and four which are at risk of not being fully completed. The main reason for not meeting target dates has been the issue of overpayments.

The key issues and recommendations arising from the 2012-13 Report to those Charged with Governance which relate to the work of the Board and the Audit and Risk Assurance Committee are:

- Staff rotation;
- Weaknesses in management on response maintenance;
- Weaknesses in management and procurement of planned maintenance contracts;
- Impact of contractor overpayments on the accounts;
- A review of agenda and papers of the Audit and Risk Assurance Committee.

The Board's work in addressing issues relating to contract management

One of the Board's key priorities from 2010 has been to re-establish trust and confidence in the management of the maintenance contracts. The Board has accepted the recommendations in the DSD's governance review (and subsequent follow up review), the Gateway Review into response maintenance contracts, NIAO and PAC reports into the management of response maintenance contracts and also the Comptroller and Auditor General's Report to those Charged with Governance.

The Board has been working closely with DSD in terms of oversight to ensure that recommendations from these reviews have been adopted and that the failings have been addressed. Following the Governance Review in 2010, the Board has been central in putting in place a robust governance structure which brings together the legislative requirements,

governance principles and processes that all public bodies are expected to have in place. It is worth noting that the Board believes that new contractual arrangements for response and planned maintenance put in place by the Housing Executive for the management of future planned maintenance contracts address many of the control weaknesses.

Some of the key actions which the Board has carried out are detailed below:

- At the recommendation of the Board in December 2013 the management of response and planned maintenance programmes have been moved into one Asset Management Department under the Director of Landlord Services.
- The Board has revised the agenda of its monthly meetings so that it can: receive extensive information on operational risks, have more time to hold officers to account and to have a clearer sight of contractor's performance.
- The current Chairman and Board have specifically overhauled reporting arrangements for performance of response, planned, heating and grounds maintenance contractors. Detailed reports on performance are now reported to the Board every second month.
- In April 2013 the Audit Committee of the Board was reconstituted as the Audit and Risk Assurance Committee. Its Terms of Reference, procedures and membership were reviewed to ensure the Committee complied with Treasury, DFPNI and NIAO guidance and had the necessary skills and expertise. New external membership has provided added skills of risk assurance and corporate governance.
- The Housing Executive's Corporate Assurance and Internal Audits Units now report directly to the Audit and Risk Assurance Committee.
- Following his appointment in November 2012, the Chairman raised concerns with officers about issues related to planned maintenance. He asked for a report into the matter and this was presented to the Board in May 2013. The Board then requested an external report.
- In June 2013 an external consultant was commissioned by the Chairman on behalf of the Board to review the management of planned maintenance contracts as a result of concerns about suspected overpayments to contractors. A comprehensive action plan has been put in place to address the weaknesses and culture which allowed this to happen and to ensure that recommendations are implemented efficiently and effectively. Progress is reported to the Board on a monthly basis.
- In 2013 the Board asked officers for assurance arrangements over all contracts and received a comprehensive presentation by the Director of Landlord Services in December 2013 confirming he was satisfied that the controls in place were adequate to manage maintenance contracts.
- The Board also asked for a review of skills within the teams responsible for managing contracts and what would be required in the future, to ensure these met the requirements to manage contracts. This is currently taking place.

Review of performance of the Board

Following recommendations contained within the Governance Review of 2010, the Board has conducted reviews of its performance in 2011, 2013 and April 2014. The key conclusions of the independent reviews into the effectiveness of the workings of the Board carried out in April 2013 and April 2014 are as follows:

- The Board is currently in a transitional period but already with recognition that recent changes have had a positive impact;
- The Board has set clear priorities for the organisation over the past 6 months with further focus on strategic development and broader performance management now required to be delivered;

- There has been significant focus over the past 12 months on operational risk;
- There is recognition that this was necessary but it is now time to focus greater attention on key strategic risks and the development of the organisation's assurance framework.

Following his appointment in November 2012, the Chairman initiated a review into the workings of the Board. A number of changes have been introduced which have been designed to give the Board greater opportunities to focus on strategy and future direction, key policies of the organization and performance. As part of this review, the Board has considered the type of information that it requires, how it should be presented and how frequently. A revised agenda has been introduced that facilitates early engagement of the Board in areas of "work in progress" in addition to policy, performance and finance issues related to landlord and regional services delivered by the organisation. The Board receives a monthly "Emerging Issues" report from the Chief Executive. This report is designed to advise the Board of key issues that have emerged since its last meeting.

In April 2013, following his appointment to the Chair of the Audit and Risk Assurance Committee, the Vice Chair of the Board initiated, (with Board approval) a review of the Committee's Terms of Reference in line with Treasury, DFPNI and NIAO guidance. This resulted in the Committee agreeing new draft Terms of Reference, procedures and membership to ensure the Committee is fit for purpose. These new Terms of Reference were agreed by the Board. Importantly, the Audit and Risk Assurance Committee recommended, in advance of the independent Campbell Tickell report, that a direct line of reporting be established for both the organisation's Internal Audit and Corporate Assurance departments to the Chair and the Audit and Risk Assurance Committee. This was agreed by the Board. It also agreed that a new external non executive member be appointed with specific skills and experience in governance and risk assurance. This appointment was made from February 2014.

Conclusion

The Board of the Housing Executive believes that 2014 marks a turning point for the organisation. The Board recognised that it has a key role in changing the culture of the Housing Executive by leading by example and by reassuring staff of support for their work.

Members believe that the organisation has come a long way from the first Governance Review in 2010. Crucially the Board has a clearer picture of performance across all areas of business within the Housing Executive, especially in relation to maintenance contracts.

However, members recognise that there is still considerable work ahead for the Board, the Audit and Risk Assurance Committee and for the Housing Executive. It will take time to resolve some of the outstanding legacy issues surrounding contracts and perceived the culture of the organisation. The Board is committed to working closely with DSD and NIAO to ensure there is appropriate oversight in place across all aspects of contract management so that the Housing Executive can re-establish trust and confidence in its maintenance service and in the organisation as a whole.

Phase 2 Memorandum

Department for Social Development Committee for Social Development - Inquiry Phase 2 - Memorandum

28 February 2014

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- C. DSD Organisation Chart to Director level
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- E. DSD Oversight Structure
- F. Governance Accountability Cycle
- G. NIHE Accounting Officer responsibilities
- H. NIHE Governance Structure
- I. List of formal meetings between the Department and NIHE
- J. Terms of Reference - Oversight Implementation Group
- K. Timeline of events
- L. Abbreviations

1. Background

- a. The Social Development Committee (SDC) Terms of Reference for the Inquiry are:
- i. *Decision making relating to the award, modification and cancellation of NIHE maintenance contracts to establish any impropriety or irregularity and, in particular, whether the actions of Ministers were appropriate.*
 - ii. *Allegations that the Committee was misled by the Minister for Social Development over his decision to seek a review of the specification for the supply and fitting of double glazing.*
 - iii. *The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.*

Should the Committee identify any evidence of corruption in relation to the operation of NIHE maintenance contracts and/or any actions indicating possible breaches of relevant codes of conduct, these will be reported directly to the appropriate authorities.

- b. Phase 2 of the Inquiry will consider:
- “The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.”*

2. Context

- a. It was agreed that the Department for Social Development (DSD) would develop and prepare a memorandum, in line with Phase 2 of the Committee’s terms of reference, which sets out the key governance and oversight structures and processes in place between the Department for Social Development and the Northern Ireland Housing Executive. This is to enable the Social Development Committee to interpret the key documents and information that will also be provided.
- b. The memorandum will set out the governance and oversight structures and processes that are in place and will identify the key actions taken since the Review of Governance in the Northern Ireland Housing Executive in December 2010. This will incorporate details relating to the Department’s role in identifying areas of concern, for example relating to financial management, contract management and governance, and the actions taken thereafter to secure improvements. This will be supported by the provision of the appropriate documents to the Committee.
- c. Terms of reference for the memorandum are attached at **Annex A**.

3. Governance Structures, Roles and Responsibilities – Department for Social Development (DSD) and the Northern Ireland Housing Executive (NIHE)

Founding legislation; status

1. The Northern Ireland Housing Executive (NIHE) was originally established under the Housing Executive Act (Northern Ireland) 1971, now repealed. It currently operates under a number of Housing (Northern Ireland) Orders from 1981-2003, the Housing (Amendment) (NI) Order 2006 and the Housing (Amendment) Acts (NI) 2010 and 2011, subject to the provisions of the Northern Ireland Act 1998. Within this legislative framework, it is subject to the overall direction and control of the Minister for Social Development.

Classification

2. For policy/administrative purposes NIHE is classified as an executive non-departmental public body (NDPB). For national accounts purposes NIHE has been traditionally classified to the public corporations sector, although, following examination by the Office of National Statistics, this has been changed from 1 April 2014. From that date its landlord function is classified as a public corporation and its regional activities as an NDPB.

The functions, duties and powers of NIHE

3. The various Housing (Northern Ireland) Orders from 1981-2003; The Housing (Amendment) (NI) Order 2006; The Housing (Amendment) Acts (NI) 2010 and 2011; The Social Security Administration (Northern Ireland) Act 1992; the Domestic Energy Efficiency Grants Regulations (NI) 2009; and The Housing Support Services (NI) Order 2002, require NIHE to carry out a number of Statutory functions and powers including the following:-

Functions:

- The regular examination of housing conditions and housing requirements;
- Drawing up wide ranging programmes to meet housing needs;
- Establishing housing information and advisory services;
- Consulting with District Councils and the Northern Ireland Housing Council.

Powers:

- Effecting the closure, demolition and clearance of unfit houses;
- The possession of unoccupied houses;
- Carrying out improvements or repairs by agreement;
- Entry to land for the purpose of survey, valuation or examination;
- Acquisition and disposal of land;
- Administering Housing Benefit to the public and private rented sectors;
- Undertaking the role of the Home Energy Conservation Authority for Northern Ireland; and
- Administering the “Supporting People” initiative.

In addition NIHE carries out a number of duties including the following:-

- Effecting the improvement of the condition of the housing stock;
- Identifying the need for the provision of new social houses;
- Managing its housing stock in Northern Ireland;
- Keeping a register of rents; and
- Ensuring that accommodation becomes available for applicants who meet the statutory criteria for homelessness assistance.

4. The Minister may also from time to time indicate non-specific policy priorities and spending priorities that he wishes NIHE to pursue in particular key areas of its business.

Responsibilities and Accountability

Minister

4. The Minister is accountable to the Assembly for the activities and performance of NIHE. His responsibilities include:
- approving NIHE's strategic objectives and the policy and performance framework within which NIHE will operate (as set out in a *Management Statement* and *Financial Memorandum* and associated documents);
 - keeping the Assembly informed about NIHE's performance;
 - approving the amount of grant to be paid to NIHE, and securing Assembly approval;
 - carrying out responsibilities specified in legislation, including appointments to NIHE Board, and laying of the annual report and accounts before the Assembly;
 - approving NIHE's annual budget; and
 - setting rents.

Overall Aim

5. The Minister has approved the overall aim for NIHE to be the single regional strategic housing authority in Northern Ireland responsible for carrying out functions such as those listed:
- The regular examination of housing conditions and housing requirements;
 - Drawing up wide ranging programmes to meet housing needs;
 - Establishing housing information and advisory services; and
 - Consulting with District Councils and the Northern Ireland Housing Council.
6. DSD determines NIHE's performance framework in the light of DSD's wider strategic aims and current PFG objectives and targets. The Minister approves the NIHE's Corporate Plan and Business Plan which reflects NIHE's statutory duties and, within those duties, the priorities set from time to time by the Minister. In particular, the Plan must demonstrate how NIHE intends to contribute to the achievement of the Department's strategic aims and PFG objectives and targets. Furthermore the Plan must comply with any funding conditions and with any general or specific directions which the Department has given to the Executive.

The Accounting Officer (DSD)

7. The Permanent Secretary, as DSD principal Accounting Officer (the 'Departmental Accounting Officer'), is responsible for the overall organisation, management and staffing of the sponsor Department and for ensuring that there is a high standard of financial management in the Department as a whole. The Departmental Accounting Officer is accountable to the Assembly for the issue of any grant-in-aid to NIHE. The Departmental Accounting Officer designates the Chief Executive of NIHE as NIHE's Accounting Officer (see **Annex G**), and may withdraw the Accounting Officer designation if he/she believes that the incumbent is no longer suitable for the role.
8. In particular, the Departmental Accounting Officer of DSD shall ensure that:
- NIHE's strategic aim(s) and objectives support the sponsor Department's wider strategic aims and current PFG objectives and targets;
 - the financial and other management controls applied by DSD to NIHE are appropriate and sufficient to safeguard public funds and for ensuring that NIHE's compliance with those controls is effectively monitored ("public funds" include not only any funds granted to NIHE by the Assembly but also any other funds falling within the stewardship of NIHE);

- the internal controls applied by NIHE conform to the requirements of regularity, propriety and good financial management; and
- any grant-in-aid to NIHE is within the ambit and the amount of the Request for Resources and that Assembly authority has been sought and given.

Sponsoring Branch in DSD

9. Within DSD, Housing Division is known as the sponsoring Branch for NIHE. The Branch, in consultation as necessary with the relevant departmental Accounting Officer, is the primary source of advice to the Minister on the discharge of his/her responsibilities in respect of NIHE, and the primary point of contact for NIHE in dealing with DSD. Housing Division carries out its duties under the management of a senior officer, who has primary responsibility within the team for monitoring the activities of NIHE. Further information on the Sponsor Branch role can be found in Section 4.
10. Housing Division shall advise the Minister on:
- an appropriate framework of objectives and targets for NIHE in the light of DSD's wider strategic aims and current Programme for Government (PFG) objectives and targets;
 - an appropriate budget for NIHE in the light of DSD's overall public expenditure priorities and how it performs against that budget; and
 - how well NIHE is achieving its strategic objectives and whether it is delivering value for money.
11. In support of the Departmental Accounting Officer, Housing Division:
- on performance and risk management –
- monitors NIHE's activities on a continuing basis through an adequate and timely flow of certified information from NIHE on performance, budgeting, control, and risk management, including early sight of NIHE's Governance Statement;
 - address in a timely manner any significant problems arising in NIHE, whether financial or otherwise, and require explanations and assurances from the Board that appropriate action has been taken;
 - periodically carry out a risk assessment of NIHE's activities to inform DSD's oversight of NIHE; strengthen these arrangements if necessary; and amend the *Management Statement* and *Financial Memorandum* accordingly. The risk assessment takes into account the nature of NIHE's activities; the public monies at stake; NIHE's corporate governance arrangements; its financial performance; internal and external auditors' reports; the openness of communications between NIHE and DSD; and any other relevant matters;
- on communication with NIHE –**
- inform NIHE of relevant government policy in a timely manner; if necessary, advise on the interpretation of that policy; and issue specific guidance to NIHE as necessary;
 - bring concerns about the activities of NIHE to the attention of the full Board, and require explanations and assurances from the Board that appropriate action has been taken.
- #### **NIHE Board**
12. NIHE's Board consists of ten persons (including Chair and Vice-Chair) appointed by DSD, with four members selected from the membership of the Housing Council. Appointments are made in line with the Commissioner for Public Appointments NI - Code of Practice for Ministerial Public Appointments in Northern Ireland.

13. The Board has corporate responsibility for ensuring that NIHE fulfils the aims and objectives agreed in the Corporate and Business Plans approved by the Minister, and for promoting the efficient, economic and effective use of staff and other resources by NIHE. To this end, and in pursuit of its wider corporate responsibilities, the Board shall:
- establish the overall strategic direction of NIHE within the policy and resources framework determined by the Minister and DSD;
 - constructively challenge NIHE's executive team in their planning, target setting and delivery of performance;
 - ensure that DSD is kept informed of any changes which are likely to impact on the strategic direction of NIHE or on the attainability of its targets, and determine the steps needed to deal with such changes;
 - ensure that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with DSD, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account all relevant guidance issued by DFP and DSD;
 - ensure that it receives and reviews regular financial information concerning the management of NIHE; is informed in a timely manner about any concerns about the activities of NIHE; and provides positive and timely assurance to DSD that appropriate action has been taken on such concerns;
 - demonstrate high standards of corporate governance at all times, including using the independent audit committee to help the Board to address the key financial and other risks facing NIHE; and
 - appoint, with DSD's approval, a Chief Executive to NIHE and, in consultation with DSD, set performance objectives and remuneration terms linked to these objectives for the Chief Executive, which give due weight to the proper management and use of public monies.
14. Individual Board Members shall act in accordance with their wider responsibilities as Members of the Board – namely to:
- comply at all times with the Code of Practice that is adopted by NIHE and with the rules and guidance relating to the use of public funds and to conflicts of interest;
 - not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations; and to declare publicly and to the Board any private interests that may be perceived to conflict with their public duties;
 - comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments; and
 - act in good faith and in the best interests of NIHE.

Chairman

15. The Chairman is appointed by DSD, with the approval of the Minister for Social Development, for a term of office not exceeding five years and restricted to two terms. The maximum period in office must not exceed 10 years on the same Board. Appointments are made in line with the Commissioner for Public Appointments NI - Code of Practice for Ministerial Public Appointments in NI.
16. The Chairman is responsible to the Minister and will ensure that the Minister is provided with regular reports on the Housing Executive's performance. The Chairman shall ensure that the Housing Executive's policies and actions take due account of the wider strategic priorities of the Minister and that they are compatible with any conditions of funding, and with any general or specific direction, which the Department has issued to the Housing Executive.

The Chairman shares with the other Board Members the corporate responsibilities and, in particular, responsibility for ensuring that the Housing Executive achieves the overall aims, objectives and targets which have been agreed as part of the Housing Executive's corporate plan and business plan.

17. The Chairman has a particular leadership responsibility on the following matters:
- formulating the Board's strategy;
 - ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Minister or DSD;
 - promoting the efficient, economic and effective use of staff and other resources;
 - encouraging and delivering high standards of regularity and propriety;
 - representing the views of the Board to the general public; and
 - ensuring that the Board meets at regular intervals throughout the year and that the minutes of meetings accurately record the decisions taken and, where appropriate, the views of individual Board Members.
18. The Chairman shall also:
- ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management and reporting requirements of public sector bodies and on any differences which may exist between private and public sector practice;
 - advise DSD of the needs of NIHE when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise; and
 - assess the performance of individual Board Members. Board Members are subject to ongoing performance appraisal, with a formal assessment being completed by the Chair of the Board at the end of each year [and prior to any re-appointment of individual Members taking place]. Members will be made aware that they are being appraised, the standards against which they will be appraised, and will have an opportunity to contribute to and view their report. The Chair of the Board will also be appraised on an annual basis by the Departmental Accounting Officer or an official acting on his or her behalf.
19. The Chairman shall also ensure that a Code of Practice for Board Members is in place, based on the Cabinet Office's *Code of Practice for Board Members of Public Bodies*, (FD (DFP) 03/06 refers). The Code shall commit the Chairman and other Board Members to the Nolan "seven principles of public life", and shall include a requirement for a comprehensive and publicly available register of Board Members' interests.
20. Communications between the Board, the Minister and the Department shall normally be through the Chairman. The Chairman shall ensure that the other Board Members are kept informed of such communications on a timely basis.
- The Chief Executive's Role as Accounting Officer**
21. The Chief Executive of NIHE is designated as NIHE's Accounting Officer by the Departmental Accounting Officer of DSD. The NIHE's Accounting Officer responsibilities are detailed at **Annex G**.
22. The Accounting Officer of NIHE is personally responsible for safeguarding the public funds for which he/she has charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of NIHE.

23. As Accounting Officer, the Chief Executive shall exercise the following responsibilities in particular:

on planning and monitoring –

- establish, in agreement with the Board, NIHE's corporate and business plans in support of DSD's wider strategic aims and current PFG objectives and targets;
- inform DSD of NIHE's progress in helping to achieve the Department's policy objectives and in demonstrating how resources are being used to achieve those objectives;
- ensure that timely forecasts and monitoring information on performance and finance are provided to DSD; that DSD is notified promptly if overspends or underspends are likely and that corrective action is taken;
- ensure that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to DSD in a timely fashion. This includes circumstances such as would be highly likely to attract media reaction (i.e. cases where there is a reputational risk to the Organisation).

on advising the Board -

- advise the Board on the discharge of its responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time by DFP or DSD;
- advise the Board on NIHE's performance compared with its aims and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed appropriately;
- take action if the Board, or its Chairman, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity, or does not represent prudent or economical administration, efficiency or effectiveness;

on managing risk and resources -

- ensure that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensure that an effective system of programme and project management and contract management is maintained;
- ensure compliance with the Northern Ireland Public Procurement Policy;
- ensure that all public funds made available to NIHE [including any income or other receipts] are used for the purpose intended by the Assembly, and that such monies, together with NIHE's assets, equipment and staff, are used economically, efficiently and effectively;
- ensure that adequate internal management and financial controls are maintained by NIHE, including effective measures against fraud and theft;
- maintain a comprehensive system of internal delegated authorities that are notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- ensure that effective personnel management policies are maintained;

on accounting for NIHE's activities –

- sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Minister, DSD or DFP;

- sign a Statement of Accounting Officer's responsibilities for inclusion in the annual report and accounts;
- sign a Governance Statement regarding NIHE's system of internal control, for inclusion in the annual report and accounts;
- ensure that a robust level of budgetary control is maintained;
- ensure that effective procedures for handling complaints about NIHE are established and made widely known within NIHE and to NIHE customers;
- act in accordance with the terms of the MS/FM document and with the instructions and relevant guidance in *MPMNI* and other instructions and guidance issued from time to time by DSD, DFP and OFMDFM ;
- give evidence, normally with the Accounting Officer of DSD if summoned before the Public Accounts Committee on the use and stewardship of public funds by NIHE;
- ensure that an Equality Scheme is in place, reviewed and equality impact assessed as required by the Equality Commission and OFMDFM;
- ensure that Lifetime Opportunities is taken into account; and
- ensure that the requirements of the Data Protection Act 1998 and the Freedom of Information Act 2000 are complied with.

NIHE Audit Committee

24. Each Arm's Length Body with responsibility for administering public funds is required to have an Audit Committee. The Audit Committee is a Sub- Committee of the NIHE Board, and its purpose is to advise the Board and the Body's Accounting Officer on the risk management, control and governance arrangements within the Body. In doing so this helps inform the Body's Accounting Officer in his/her completion of the Statement on Internal Control.
25. While the role of the Body's Audit Committee is primarily to provide assurance to the Arm's Length Body Accounting Officer and Board, an effective Arm's Length Body Audit Committee will also assist the Department meet its oversight and sponsorship responsibilities. If an Arm's Length Body has an effective, challenging Audit Committee in place the Department should be able to place reliance on and take assurance from the work it undertakes.
26. One of the main Audit Committee principles is that it should be independent of executive management, in most cases this means that the Audit Committee in an Arm's Length Body will be made up of the Body's Non- Executive Board Members with one of these Members acting as Audit Committee Chair. Arm's Length Bodies should also further strengthen the independence of the Audit Committee by appointing independent external Members who are not Board Members.
27. It is now common place for a representative from the Department to attend Arm's Length Body Audit Committee meetings. The Departmental Management Board has directed that a member of the Sponsor Branch should attend all Audit Committee meetings in an observer capacity, not as an Audit Committee Member. Through such attendance the Department is able to assess how effectively the Audit Committee is discharging its challenge function and to gain a good insight into the governance arrangements within the body. It also helps to gain a greater understanding of the Body's business and the key risks and issues facing the organisation. Any identified issues must be brought to the attention of the Sponsor Branch management.
28. As an attendee the Departmental representative will normally receive full Audit Committee papers and minutes. If not attending every Audit Committee meeting then the Sponsor Branch should determine appropriate arrangements for receiving and reviewing papers and minutes. The Sponsor Branch should review the minutes of all meetings attended to ensure they are an accurate reflection of the meeting.

29. To further strengthen links between the Department and the Arm's Length Bodies an Audit Committee Chairs' Forum has been established. The Forum, chaired by the Chair of DSD's Audit and Risk Assurance Committee, meets at least bi-annually, its aim being to:
- facilitate cooperation between the Departmental Audit and Risk Assurance Committee and the Arm's Length Body Audit Committees;
 - identify common issues and challenges;
 - act as a vehicle to develop best practice;
 - promote mutual support;
 - inform the development of good governance and risk management; and
 - share points of view and learning.

NIHE Internal Audit

30. Arm's Length Bodies¹ are required to have an Internal Audit function which complies with Government Internal Audit Standards (GIAS). The role of Internal Audit within an Arm's Length Body is to provide the Body's Accounting Officer with an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. If adequate and effective Internal Audit arrangements are in place within Arm's Length Bodies then Sponsor Departments should be able to place reliance on the work undertaken by the Body's Auditors. It is a role of the Arm's Length Body's Audit Committee to provide an opinion on the effectiveness of the Body's Internal Audit function.
31. The Northern Ireland Housing Executive has its own Internal Audit service, which operates to Government Internal Audit Standards. Sponsor Branches should ensure that they receive any Internal Audit reports that are presented to the Body's Audit Committee.

DSD/NIHE Management Statement: Financial Memorandum.

32. Departments need arrangements to monitor and understand their Arms Length Bodies (ALB) strategy, performance and delivery, usually built around a management statement and financial memorandum (MS/FM) that sets out a clear framework of strategic control for the NDPB. The framework covers the operations, financing, accountability and control of the ALB and the conditions under which any government funds are provided to the body. All MS/FMs require DFP approval as do any subsequent significant revisions.
33. These documents set out the controls to be exercised over the different areas of the NIHE's activities by the Department directly or by the NIHE itself. The prime purpose of the documents is to assist the Permanent Secretary of DSD in discharging his responsibilities in relation to the NIHE's systems and to provide the NIHE with a formal statement by DSD of the standards it requires the NIHE to achieve in relation to the probity of activities.
34. The documents accordingly seek to set down the broad policies and related procedures of the NIHE, which are agreed by DSD and for which the Permanent Secretary, as Accounting Officer, is responsible and would answer accordingly to the Public Accounts Committee. Actions and decisions taken within policies and procedures set out in the documents are the responsibility of the NIHE's Board.
35. DSD's approval of the NIHE's budgets and the payment by DSD of Housing Grant to the NIHE is conditional upon the NIHE's compliance with the terms of the documents.
36. In addition, DSD may also under Article 10 (1) of the 1981 Order, give directions of a general or specific nature to the NIHE regarding the discharge of its functions. The 1981 Order requires the NIHE to act in accordance with such directions.

1 Descriptions of different kinds of ALBs - Agencies, Non-ministerial departments, Non Departmental Public Bodies

37. Certain controls set out in the documents lend themselves particularly to audit review to establish whether they are being followed and whether the procedures described are adequate. This is the responsibility of the NI Audit Office and the NIHE's Internal Audit Section.
38. The format of the documents is as follows:-
- **Management Statement** - sets down the general framework governing the NIHE's operations and its relationship with DSD.
 - **Financial Memorandum** - sets out the financial controls governing the NIHE's operations.
 - **Individual Control Documents** - either specifying procedures for obtaining DSD/DFP approval, or prescribing varying levels of delegated authority within policies and guidelines laid down or agreed by DSD/DFP
39. A senior officer in both DSD and the NIHE has been delegated responsibility for maintaining these documents. In DSD this responsibility rests with the Head of Housing Governance and Inspection and in NIHE with the Director of Finance.
40. Further information can be found in Section 5.

4. DSD Governance Oversight Processes - Overview

1. The principal Accounting Officer has a duty, amongst other things, to satisfy himself that all of the Department's Arm's Length Bodies (ALBs) have adequate financial systems and procedures in place to promote the efficient and economical conduct of their business and to safeguard financial propriety and regularity.
2. He relies on the Sponsor Branch within the Department and other core disciplines such as Finance, Human Resources, Corporate Planning and Governance Unit and Internal Audit, which make up the wider Sponsor Team, to contribute sound arrangements for sponsor control. He needs assurance that those arrangements and relationships are operating effectively and to the highest standards.
3. A Sponsorship Manual has been developed to bring an essential measure of consistency of approach to sponsorship across the Department's Bodies. This Sponsorship Manual is for the use of management and staff within the Department who have responsibility for sponsoring the Department's Arm's Length Bodies. The purpose of the manual is to set out the Department's approach to sponsorship of its Arm's Length Bodies to ensure as far as possible that there is consistency and proportionality of application.

General Approach to Sponsorship in DSD

4. A team approach has been adopted within the Department to sponsorship whereby other core disciplines such as Finance, Human Resources, Corporate Planning and Governance and Internal Audit for example may meet with Sponsor Branch Staff to consider matters relating to the Arm's Length Body, its relationships with the Department and the accountability arrangements that must properly exist.
5. Key to these arrangements working effectively is recognition by Sponsor Branches, in the context of the wider Sponsor Team, that a partnership approach minimises the likelihood of something going wrong. At the heart of the arrangements are the fundamental principles of governance and accountability, principles which should be embedded at all levels within the Department's culture and ethos and which should be clearly evident at all times. Whilst it is acknowledged that most day-to-day liaison with Arm's Length Bodies will be handled by the Sponsor Branch, the need for ongoing and constructive communication between Sponsor Branches and members of the wider Sponsor Team is particularly key to the success of these arrangements as it brings together a broader range of knowledge and experience.
6. DSD Corporate Planning and Governance Unit has responsibility for ensuring that the Accounting Officer and Board is kept informed of governance issues as they arise. This will be achieved, for example, through the provision of regular quarterly updates on performance against targets and risk management in Arm's Length Bodies and through the internal Certificate of Assurance process which will enable Senior Sponsors to highlight issues of importance directly to the Accounting Officer. Corporate Planning and Governance Unit is also responsible for sharing good practice and providing advice and disseminating guidance as required.
7. Risk management is established management practice within the public sector. The process is key to assisting management in ensuring that organisations are successful in managing risks to meeting organisational objectives. All the Department's Arm's Length Bodies are required to have in place a risk management process which identifies; assesses; reviews; and reports on key risks relevant to the Arm's Length Body.
8. Sponsor Branches ensure that:
 - there is a process for risk management within individual Arm's Length Bodies and that this is consistent with Departmental policy and guidance;
 - there is broad consistency in the format of risk registers and that the Body's risk registers are provided to the Departmental Board at least quarterly;

- these are reviewed to determine if all key risks have been included and where appropriate action is being taken to mitigate risks identified; and
 - where appropriate, risks are included on Departmental, Divisional or Branch registers and considered jointly with the Body.
9. Sponsor Branches review Arm's Length Body risk registers bearing in mind other supporting information that the Department has available on the Body's business e.g. evidence obtained from accountability meetings, Stewardship Statements from the Body's Accounting Officer, review of the Annual Report and Accounts and internal/external audit reports etc.
10. Corporate Planning and Governance Unit, via the Sponsor Branch, request copies of the Arm's Length Bodies' risk register for presentation to the Departmental Management Board. The request will be in line with the quarterly stewardship statement.

Stewardship/Assurance Reporting

11. Assurance Reporting is a process whereby individuals account for their management (i.e. stewardship) of the resources for which they have been allocated responsibility. The process can itself emphasise and reinforce the principle of accountability in relation to the management of public funds and specifically the Chief Executive's role as Accounting Officer for a Body's funds and performance.
12. Corporate Planning and Governance Unit, via the Sponsor Branch commission stewardship statements and risk registers relating to Arm's Length Bodies on a quarterly basis. These returns are then provided to the Departmental Management Board and the Department's Audit and Risk Assurance Committee. Accountability meetings allow for issues to be identified and escalated to Departmental Board level between updates if necessary.
13. Sponsor Branches:-
- ensure that the stewardship statements issued quarterly by Corporate Planning and Governance Unit are promptly completed by the Arm's Length Body's Accounting Officer;
 - critically review and evaluate returns to determine if the information provided is in line with the Department's knowledge of the Arm's Length Body and any particular risks or issues facing the organisation:
 - consider any "exception" information provided by the Arm's Length Body Accounting Officer which indicates that there are issues emerging which the Department was perhaps previously unaware, or which the Department needs to consider further; and
 - ensure that key issues are discussed with the Arm's Length Body; the actions necessary to address these are agreed; and that these issues are brought to the attention of the senior Departmental Sponsors.
14. The information contained within Assurance /Stewardship Statements are also used by the Sponsor Branch in reviewing the Arm's Length Body's Accounting Officer's end-of-year Governance Statement.
15. Sponsor Branches also review the Governance Statement. Significant issues within Stewardship reports or Governance Statements are discussed with the Body and, if required, tracked to ensure that issues are monitored and ultimately addressed. Additionally consideration is given as to the importance of the issues raised by Arm's Length Body Accounting Officers' statements and consideration given as to the need to reflect these in the Departmental Accounting Officer's Governance Statement.
16. Sponsor Branches are responsible for ensuring that relevant information relating to Arm's Length Bodies is highlighted in the quarterly Certificates of Assurance completed by their Branch internally. This information is used to inform completion of the Department's Governance Statement.

Performance Review meeting with Minister

17. As part of the Governance/Accountability Cycle, the Sponsor Branch is responsible for coordinating a meeting between the Chair of each Arm's Length Body and the Minister. These meetings should happen at least on an annual basis. Generally these meetings are also attended by the Senior Sponsor and the Deputy Secretary/Permanent Secretary etc. The Sponsor Branch should decide, in consultation with the Minister and Arm's Length Body Chair, whether the Chief Executive should attend this meeting.
18. The purpose of this meeting is for the Minister to outline to the Chair etc. the priorities for the incoming year and to emphasise the importance of the Arm's Length Body's contribution to Government priorities and to provide strategic direction to the Body. It will also be an opportunity for the Minister to review the Body's, and indeed its Board's, performance over the previous year and to discuss any significant issues which have arisen or are foreseen. A record of the meeting with the Minister should be made summarising the discussions held.

Accountability meetings

19. Regular Accountability Meetings are key to how the Department formally monitors an Arm's Length Body's performance and its compliance with governance and financial management requirements.
20. The key areas to be covered at Accountability Meetings are in relation to the review of:-
 - Arm's Length Body financial management/expenditure;
 - Other accountability or governance issues; and
 - Arms Length Body performance.
21. A formal record of discussions at Accountability Meetings, including action points, should be maintained by the Sponsor Branch. This should be circulated to the Arm's Length Body. It is also good practice for the Chief Executive (and/or Chair if attending) of the Arm's Length Body to provide the full Board of the Arm's Length Body with an update on the matters discussed at such review meetings.
22. Sponsor Branches need to:-
 - determine and agree in line with the Governance/Accountability Cycle a formal programme of Accountability Meetings with their Arm's Length Bodies; and
 - ensure that such meetings are formal and well structured covering the key issues.

5. DSD Housing Division Oversight Arrangements with NIHE

1. Departments need arrangements to monitor and understand their Arms Length Bodies (ALB) strategy, performance and delivery, usually built around a management statement and financial memorandum (MS/FM) that sets out a clear framework of strategic control for the NDPB. The framework covers the operations, financing, accountability and control of the ALB and the conditions under which any government funds are provided to the body. All MS/FMs require DFP approval as do any subsequent significant revisions. See Section 3 for further details.
2. These documents set out the controls to be exercised over the different areas of the Northern Ireland Housing Executive's (NIHE) activities by the Department for Social Development (DSD) directly or by the NIHE itself. The prime purpose of the documents is to assist the Permanent Secretary of DSD in discharging his responsibilities in relation to the NIHE's systems and as such it represents a formal statement by DSD of the standards it requires the NIHE to achieve in relation to the probity of its activities.
3. The documents seek to set down the broad policies and related procedures of the NIHE, which are agreed by DSD and for which the Permanent Secretary, as Accounting Officer, is responsible and would answer accordingly to the Public Accounts Committee. Actions and decisions taken in line with policies and procedures set out in the documents are the responsibility of the NIHE's Board.

Performance Review Meeting

4. The controls to be exercised by the Department over the different areas of the Northern Ireland Housing Executive are set out in the Dossier of Controls (the Dossier). One such control is a bi-annual performance review meeting between the Minister and the Chairman of the Board of the Northern Ireland Housing Executive. These meetings are normally held in June and December.
5. The meeting, which usually takes the form of a discussion, is an opportunity to have an open forum and an exchange of views. The main purpose is to examine the Northern Ireland Housing Executive's performance to date against plan, budgets and targets, as well as procurement issues.
6. Minister chairs the meeting and departmental attendees are usually the Permanent Secretary, Deputy Secretary and Director of Housing. The Housing Executive representatives are usually the Chairman, Chief Executive and Director of Housing and Regeneration.

Minister's regular meeting with Chairman and Vice Chairman

7. When the Chairman was appointed in November 2013, the Minister decided to hold a regular meeting with the Chairman and the Vice-Chairman which is held every 6 weeks. This is to discuss matters of mutual concern.

Accountability meetings

8. As a result of the Minister's concerns in relation to the governance and oversight of the NIHE, he introduced Special Accountability Measures in July 2012. These included an increase in the accountability meetings held from quarterly to monthly. Monthly meetings were then held between the Permanent Secretary and the NIHE Chief Executive, as Accounting Officers. However, following a review of oversight arrangements in June 2013, it was agreed that from October 2013 the Permanent Secretary would now hold a quarterly accountability meeting with the Chairman and the Chief Executive. Attendees from DSD include the Deputy Secretary and Director of Housing.
9. Discussions at the Accountability meetings include:
 - Financial management,

- Contract management issues,
- Reform of Social Housing.

Monthly Progress Meeting

10. Following a review of oversight arrangements in June 2013, it was agreed that Permanent Secretary would hold a monthly progress meeting with the NIHE Chief Executive, Director of Finance and Director of Housing and Regeneration. Attendees from DSD include the Deputy Secretary and Director of Housing.
11. Reporting at the monthly meeting includes:
- special measures workplan actions,
 - contract management issues,
 - updates on the actions taken to implement the NI Audit Office priority 1 recommendations from the Report to those Charged with Governance.

Operational Meetings

12. There are a number of formal meetings held at operational level between departmental and NIHE officials, for example:
13. Monthly Finance meeting;
- Joint Social Housing Development Programme meeting;
 - Warm Homes Monitoring meeting;
 - Supporting People Monitoring meeting;
 - Directors Housing Benefit meeting.
14. A list of meetings held is at **Annex I**.

Issues Log

Any significant issues identified through implementation of the oversight arrangements, which cannot be resolved, are logged and presented monthly to the Senior Management Team in Housing Division for consideration and possible escalation to the Permanent Secretary, if not resolved.

Other actions

15. The following are also actions taken by the departmental Sponsor Branch (Housing Division) in relation to the oversight role:
- NIHE Audit Committee Minutes

These are forwarded to the Department quarterly. An observer from Housing Division also attends the Audit Committee meetings. The minutes are checked and distributed to the Housing Division Senior Management Team (SMT) to review. Any issues identified can be recorded for follow up and escalation, if required, through the Issues Log process.
 - NIHE Board Minutes

The Board minutes are forwarded to the Department monthly. The minutes are checked and distributed to the Housing Division Senior Management Team to review. Any issues identified can be recorded for follow up and escalation, if required, through the Issues Log process.
 - NIHE Internal Audit Inspection Reports

These reports are submitted to the Department on an ad hoc basis as and when they are completed. The Reports are reviewed by the Head of Governance and Inspection and the relevant work area. Any issues identified can be recorded for follow up and escalation, if required, through the Issues Log process.

■ **Fraud/Whistle Blowing/Anonymous Letters**

Notifications are actioned immediately and updated fraud register is received from NIHE quarterly. Case Position and Issues are reported to the Housing Division Senior Management Team quarterly.

■ **NIAO/DSD Internal Audit Reports**

These reports are submitted to the Department on an ad hoc basis as and when they are completed. The Reports are reviewed by the Director of Housing, Head of Governance and Inspection and any relevant work area. Any issues identified can be recorded for follow up and escalation, if required, through the Issues Log process. There is a formal system for monitoring the implementation of PAC and Internal Audit recommendations.

■ **Annual Governance Statement**

This is submitted annually. The Statement is reviewed by the Grade 7 in the relevant business areas.

■ **Directors Meetings in relation to Housing Benefit Performance**

This is a Housing Benefit Performance monitoring meeting held quarterly.

■ **System of delegations**

Appendix 1 of the revised MS/FM sets out the delegations in line with circular DAO (DFP) 06/12. These have been agreed with DFP, DSD and NIHE.

■ **Approval of Terms of Reference for the NIHE Board**

These are reviewed as and when required by the Department. There are no set arrangements in the MS/FM outlining the Department's role in carrying out a review of the terms of reference. However, NIHE drew up new guidance (Board Operating Framework) in line with the new Corporate Governance in Central Government Departments : code of good practice NI. This now states that the Board should review its terms of reference every two years.

■ **Approval of Terms of Reference for NIHE Audit Committee**

These are reviewed as and when required by the Department. As per the MS/FM para 4.10.3, the sponsor Department is required to review the terms of reference though there is no specific timeframe. However, NIHE drew up new guidance (Board Operating Framework) in line with the new Corporate Governance in Central Government Departments : code of good practice NI. The new operating framework now specifies that the NIHE Board is required to review and approve the terms of reference annually.

■ **Approval of Business Cases**

Business cases are approved by the Department as appropriate.

Business cases are prepared by the NIHE. On receipt they are examined by the relevant branch in Housing Division and then reviewed by the Departmental Economist. Following approval of the economist they are then forwarded to DFP for approval (in line with the delegations limits).

■ **Approval of pay remits for NIHE staff and Directors**

The pay remits are reviewed annually by the departmental Finance and forwarded on to DFP for approval.

6. Actions by the Minister for Social Development and the Department to secure improvements

Review of Governance in the NIHE and Gateway Review 2010

1. From the Spring of 2010 there was a growing number of concerns in relation to the Northern Ireland Housing Executive's governance and contract management regime that culminated in the then Minister, Alex Attwood, commissioning in October 2010 a review of Governance in the Housing Executive. This followed a series of internal and external investigations into the Housing Executive which raised concerns that its governance systems were not sufficiently robust.
2. Therefore, the Permanent Secretary, in October 2010, asked the Department's Senior Internal Auditor to lead a team to examine and report on whether:
 - the information and structure was available to the Board to ensure that it did and could: effectively identify and manage risk; prevent and detect fraud and error; hold senior managers to account; and ensured that the organisation operated and would operate at the highest standards of Corporate Governance;
 - there were adequate controls used to manage risk, the prevention and detection of fraud and error, performance, procurement and asset disposal, including in relation to land and property, the procurement of repairs, maintenance, miscellaneous works and adaptations;
 - the organisation had, or had access to, appropriately skilled and trained staff to allow it to operate in its current form while preparing for and implementing both organisational and cultural change;
 - the seven principles of public life – selflessness, integrity, objectivity, accountability, openness, honesty and leadership – were being effectively implemented throughout the organisation.
3. A major part of the Review was carried out by a team of NI Civil Service specialists, headed by the Department's Senior Internal Auditor.
4. In addition, external specialist assistance was secured through the Central Procurement Directorate, Department of Finance and Personnel, for a Gateway Review (also known as a Healthcheck) of procedures for letting and managing EGAN contracts, including controls over the prevention and detection of fraud and error. The Gateway Review was carried out by independent experts in this field and the scope of the Gateway Review was:

Establishment of Contracts

- to review the procurement strategy for maintenance, repairs and support works;
- to review the method for letting of contracts including consistency of approach and best practice application;
- to assess if types of contracts used were appropriate for the services being delivered; and
- to determine if the contract terms provided adequate protection from poor performance.

Management of Contracts

- to review the framework under which contracts were managed to consider if management of contracts was in line with best practice;
- to consider whether or not a consistent method of contract management was applied to different types of procurement i.e. response maintenance versus adaptations or scheme works (e.g. kitchen replacement);
- to identify the key controls in place to manage contracts to ensure that quality of works undertaken was monitored and price variations were identified, valued and approved;

- to consider whether or not current management information on the delivery of contracts was adequate to support robust contract management and the degree to which this was used to inform management decision making processes and systems;
 - to establish what information was received by the Board and/or audit committee and if it was fit for purpose;
 - to assess whether staff have the required knowledge and skills and were supported by appropriate training processes in order to effectively manage contracts;
 - to make any recommendations on further actions to improve outcomes; and
 - to recommend further reviews considered necessary and the timescale.
5. An oversight panel chaired by the Permanent Secretary, which also included independent membership, was reported to by the audit review team on an ongoing basis. The purpose of this work was to provide a quick, robust, searching assessment of where the Housing Executive was on contracts and governance and, critically, where it needed to be.
 6. The Review of Governance in the Housing Executive was completed in December 2010 and both it and the Gateway Review were published in January 2011. The then Minister, Alex Attwood, on 25 January 2011, made an oral statement in the NI Assembly in relation to the findings.
 7. There were 75 recommendations in the Governance Review of which 16 related to critical control issues and 59 related to developing existing policies and procedures to embrace latest best practice. The report acknowledged “much evidence of good practice”, that “management are being challenged and held to account” and had “appropriate structures to effectively detail and manage risk”.
 8. However, the Review Team identified a range of critical control issues which weakened the Governance structures and their effective operation. Recommendations in relation to this included: formal Terms of Reference to be developed for the Board and all Management Committees; a comprehensive review of the Board's Standing Orders and Scheme of Delegations; and a review of Risk Management arrangements.
 9. In relation to land and property, the procurement of repairs, maintenance, miscellaneous works and adaptations, there were also a number of recommendations. For example, whilst the control framework established by the Housing Executive provided adequate controls over performance of maintenance works and the prevention and detection of fraud and error, there were a number of areas where controls could be strengthened. These included recommendations in relation to the level of information provided to both the Executive's Board and Chief Executive Business Committee; greater use of the work of the Repairs Inspection Unit; and a review of the Key Performance Indicators used to measure the performance of Contractors.
 10. In relation to Human Resources, the review found that the Housing Executive had a number of effective Human Resources systems and processes in place, but there was imbalance in the workforce, particularly in relation to the ageing profile of the organisation which, if not addressed, created a risk that the organisation would lose significant knowledge, skills and experience.
 11. In relation to the Gateway Review, the Specialist Team concluded that, whilst enthusiastically embracing the ‘partnership’ principles of Egan contracts, the Housing Executive did not give attention to the clear objectives set out in the Egan report or the nature of some of the maintenance contracts. The failure to deliver fully Egan objectives was also partly a consequence of the nature of contracts which were drafted to implement the change which meant that significant reliance was placed on mutual trust and cooperation between contractors and client.

12. A major change in management style was effected with the move to Egan contracts and the Team found that the day to day contract management of suppliers had been, and was, conducted in an appropriately non – adversarial manner, consistent with good practice. It appeared that contract management, over the ensuing years, had been localised to the point of service delivery and became reliant on the effectiveness of relationships with contractors, rather than having an underpinning contractually supported and enabled performance regime.
13. The Team concluded that the culture of non-adversarial management, as the primary technique for managing contractor behaviour, had created a weakness in the system which needed to be addressed. Fourteen recommendations were made which included:
- that the Housing Executive produced and adopted a new corporate procurement vision and strategy;
 - that all future contracts were drafted on the basis of the detail set out in the procurement strategies and that there was a report produced to confirm that they met the need and, insofar as can be determined, they would be enforceable;
 - that the contract manager ensured that processes were put in place to recognise and collect the evidence that may be needed to enforce any provision of the contract.
14. In line with the Minister’s statement on 25 January 2011, a number of oversight arrangements were then put in place to ensure the recommendations in both reviews were appropriately implemented. These were:
- Oversight Implementation Group, chaired by the Permanent Secretary;
 - Accountability Group, chaired by the Permanent Secretary; and
 - Performance Review Meetings, chaired by the Minister.
15. Following receipt of the Review of Governance in the Housing Executive and the Gateway Review Reports, the Housing Executive was tasked with the preparation of an Implementation Plan and with putting in place an oversight framework to ensure the recommendations were implemented.
- Housing Executive Framework**
16. The Housing Executive oversight arrangements included the Housing Executive Oversight Board to approve and oversee the implementation plans and to address any cross cutting issues that may arise. The Board met fortnightly, chaired by the Chief Executive and members included Housing Executive Directors, and Board members. The Board also reported on progress to the Department’s Oversight Implementation Group. (see para 23)
17. The Housing Executive also appointed a full time Programme Manager to oversee the implementation and three Housing Executive Project Boards were established on;
- Procurement and Contract Management;
 - Good Governance; and
 - Personnel Strategies;
- Housing Executive Implementation Plan**
18. The Permanent Secretary, in February 2011, then asked a Gateway Review team member to conduct a short review of the Housing Executive’s draft Implementation Plan. His report advised that the Plan did capture all of the recommendations made in the reviews with very high level target milestone dates for resolution. He was reasonably satisfied that there was an overall framework being put in place to deliver the recommendations and that the overarching Governance Structures for the change programme and its individual projects appeared fit for purpose, with significant management engagement and Senior Responsible Officers (SROs) identified for each individual project. However, more detailed planning work

was to be completed, for example, the development of the Project Implementation Documents (PIDs) which was to be achieved within the following three - four weeks.

19. The Housing Executive Board, at its meeting on 23 February 2011, approved the Implementation Plan which indicated that the overall framework was in place along with the appropriate oversight arrangements to ensure the recommendations from the Review of Governance and the Gateway Review were implemented appropriately.
20. The Implementation Plan was forwarded to the Department and the Permanent Secretary then submitted this to the then Minister, Alex Attwood, and also met with the Minister to discuss this.

DSD Oversight Arrangements

21. An Oversight Implementation Group was set up and chaired by the Permanent Secretary and included cross departmental and independent membership. The remit of the Oversight Implementation Group was to:
 - assess the realism of the implementation plan being put forward by the Housing Executive;
 - provide monthly examination of the implementation of the recommendations;
 - consider in-depth the Housing Executive's developing thinking in relation to key strategic issues,
 - confirm that the recommendations in relation to procurement and contract management were appropriately implemented; and
 - provide broad strategic advice and guidance.
 - Terms of reference, including membership are at **Annex J**
22. The Oversight Implementation Group first met on the 18 February 2011 and considered in detail the draft Implementation Plan provided by the Housing Executive. The Housing Executive was then advised of the views of the Group including:
 - The Housing Executive need to have a more strategic approach to procurement. The focus rather, than on 'Egan,' should be on Procurement and Contract Management.
 - The draft implementation plan should set out in more detail the reporting arrangements both in the Housing Executive and to the Department.
 - The Housing Executive should consider external input in relation to the review of Risk Management arrangements and how it aligns with the HM Treasury Orange Book: Management of Risk – Principles and Concepts.
 - The Housing Executive should consider how risk is dealt with and how the quality of data presented to the Board is interrogated.
 - The Procurement and Contract Management Board would benefit from external expertise and the Oversight Group will consider suitable nominees.
 - Recognition that the implementation of the Gateway Review is a major change exercise affecting a wide range of areas in the Housing Executive.
 - Monitoring and evaluation processes should be built in to the Plan to ensure recommendations are implemented and new processes are embedded
23. The Housing Executive was also advised that the reporting arrangements should include the provision of a monthly situation report to the Oversight Implementation Group and attendance at meetings, when required, to update on issues/progress.
24. It was also agreed that the DSD Director of Housing Division would become a member of the Housing Executive's Oversight Board and the Head of DSD Housing Director's Office would liaise regularly with the Housing Executive's Programme Manager.

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25. The DSD Oversight Group met regularly and the Housing Executive's then Acting Chief Executive attended the meetings to provide reports and an update on the implementation of the recommendations. Whilst acknowledging that the Housing Executive had set aside the resources to take this forward, the Oversight Group reinforced to the Housing Executive the need to take forward the recommendations proficiently and within the necessary timescales, particularly in relation to procurement and contract management.
 26. The Permanent Secretary also held an Accountability meeting with the Chairman, Vice Chairman and Chief Executive in April 2011 to discuss a number of key strategic issues, which included the Gateway Review. The then Minister, Alex Attwood, also held performance review meetings with the Chairman and Chief Executive on 23 February 2011 and 3 May 2011.
 27. A Gateway Review 3 was then carried out in October 2011 which made seven recommendations and confirmed that the project had made considerable progress and, subject to the recommendations from the review, it was considered that this would proceed to a successful conclusion.
 28. At its meeting in November 2011, taking account of the progress made, the Oversight Group agreed it was time to take stock in relation to the continued need for their oversight role and that the Housing Executive would take this forward, with monitoring of the implementation of the outstanding recommendations through the Accountability meetings.

Response Maintenance concerns

29. During this period, on taking up post in May 2011, Minister McCausland then expressed his concerns about the issue of contract management, both on foot of briefing on the governance review findings and implementation, and on the issues leading to the termination of the Red Sky contract in July 2011. In light of his continuing concerns that the issues which led to the termination of the Red Sky contract by the Housing Executive may be present in other contracts which had not been the subject of any full investigation, he asked that a forensic investigation was carried out of a sample of Housing Executive maintenance contracts to provide him with assurances in relation to the other contracts, the quality of services to tenants and the proper use of public funds. (The subsequent findings and the evidence in the ASM report demonstrated that there were considerable issues and shortcomings in relation to the Housing Executive's management of response maintenance contracts.)
30. The Permanent Secretary, who had chaired the Oversight Group, still had concerns in relation to the effective implementation of the recommendations made in the 2010 Governance Review in relation to the management of maintenance contracts. In particular, he had concerns that the Housing Executive was not making full use of its internal assurance regime to improve contract management. As part of its monitoring regime, the Department had received assurances from the NIHE Chief Executive that the recommendations were being implemented effectively.
31. The Permanent Secretary wrote to the Chief Executive, in January 2012, about contract management arrangements and wrote again in April 2012 to advise of his serious concerns in relation to the implementation of the governance arrangements in place, particularly in relation to contract management. He increased the Accountability meetings from twice yearly to quarterly and advised that the meetings should now be between Accounting Officers, instead of with the Chairman.
32. The Permanent Secretary also wrote to the Chief Executive on 8 May 2012 following a discussion he had with the NI Audit Office that morning where they provided him with a copy of a letter from the Audit Office to the NIHE Chief Executive on 26 April 2012. The letter was in relation to further information required on a number of areas relating to work in progress by the NIHE Corporate Assurance Unit and NIHE Internal Audit. The Audit Office in the letter advised that if this information was not available by the 1 June 2012 there was an increased risk that they would qualify or disclaim the audit opinion for 2011-12. The Permanent

Secretary asked the Chief Executive for all draft internal audit and draft inspection reports and a list of those outstanding by 10 May 2012.

33. The Permanent Secretary then wrote again on 14 May 2012 in relation to the reports on the inspection of kitchen schemes which identified a range of findings relating to work not being done to contract specifications and that the reports did not quantify the levels of overcharging. The Permanent Secretary also requested sight of the report on the kitchen replacement scheme in Ballynahinch.
34. The Permanent Secretary then wrote on 17 May 2012 to the then Chairman seeking a meeting to discuss his concerns. The Permanent Secretary subsequently met separately with both the Chief Executive and the Chairman to discuss his concerns in detail.
35. The Permanent Secretary then wrote again to the Chief Executive on 29 May 2012 in relation to his concerns about the information provided in the Stewardship Statements by the Chief Executive to the Department.
36. Therefore, the evidence gave the Department cause for concern about the effectiveness of the implementation especially with reference to maintenance contract management. As a result of these concerns, the Permanent Secretary instructed the Department's Senior Internal Auditor to conduct an independent review of the actions taken by NIHE to implement those particular recommendations relating to the operating of the independent inspection function. The review commenced on Wednesday 30 May 2012.
37. The Permanent Secretary also suggested, on 7 June 2012, that the Minister's scheduled performance review meeting with the then Chairman and the Chief Executive should be brought forward to 26 June 2012 where these issues were discussed in detail and the Minister asked the then Chairman to consider a number of issues. The then Chairman wrote to the Minister on 29 June 2012 in relation to the issues raised at the Performance Review meeting.
38. The Chairman submitted his resignation to the Minister on 29 June 2012. (the then Vice-Chairman was appointed by the Minister as Acting Chairman from 9 July 2012 to 4 November 2012).
39. The Minister then made an oral statement in the NI Assembly on 3 July 2012 in relation to the Housing Executive management of contracts, the outcome of the review by the DSD Internal Auditor and the introduction of his special accountability measures.

DSD Internal Audit independent review of the actions taken by NIHE to implement those particular recommendations relating to the operating of the independent inspection function

40. This review was completed in July 2012 and the scope of the investigation included the following:
 - Repairs Inspection Unit Reports;
 - Scheme Inspection Unit Reports; and
 - Implementation of related recommendations made in the 2010 Government Review.
41. The aim of the review was to establish the facts in relation to the following objectives:
 1. To consider the work undertaken by the Repairs Inspection Unit / Scheme Inspection Unit, their findings and the extent to which management had taken action to deal with issues identified in their reports;
 2. To identify what information the Board had received in relation to the work of the Repairs Inspection Unit/ Scheme Inspection Unit;

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3. To determine why Repairs Inspection Unit reports dating back to November 2011 had not been finalised;
 4. To identify if the Board was aware of any problems with clearance of Repairs Inspection Unit reports;
 5. As appropriate, to identify what action the Board had taken to deal with this issue;
 6. To determine the current methodology under which the Repairs Inspection Unit operated and reported and to clarify the nature of the issue identified by NIHE management with the methodology of the unit and what steps had been taken to resolve this issue in a timely manner;
 7. To determine if the current methodology for the agreement and finalisation of reports was fit for purpose; and
 8. With specific regard to the current draft NIAO report and the issue relating to the scheme inspection report for Ballynahinch, to determine what, if any, changes were made from draft to final report and how the revised figure for contractor error was arrived at.
42. In the opinion of the Review Team, Senior Management within the Northern Ireland Housing Executive had not acted quickly enough to resolve the issue of the agreement of the draft reports from the Repairs Inspection Unit. In expending so much effort in debating the methodology used in producing the reports NIHE had failed to focus on the significant findings in the reports. Time that could have been better spent addressing the issues identified had instead been lost in internal debate.
43. The Review Team welcomed an action plan which had been proposed by the then Chairman in a letter to the Permanent Secretary on 21 June 2012. However, the Review Team consider that it was only in response to the Permanent Secretary's letter of 8 May 2012, that the Chairman and the Chief Executive became aware of the scale of delay in agreeing reports and that a significant number of those draft reports contained a negative classification. In all, eleven of the twelve reports issued in the 8th round of inspections contained a negative rating and of these 10 remained in draft at the end of June 2012.
44. The Housing Executive advised that the creation of an Intervention Team would ensure that the findings of these reports were addressed within the Districts; however, the Review Team considered that the simplest action to take to send a message to staff on the importance of the independent Corporate Assurance Unit was to issue the reports, as agreed reports.
45. The Review Team was asked to consider the actions taken by the Northern Ireland Housing Executive to implement those recommendations in the 2010 Governance Review which related particularly to the operation of the independent inspection function. The key critical recommendation in the Governance Report relating to the Corporate Assurance Unit was;
- “The Housing Executive should ensure that the work and results of the Repairs Inspection Unit are utilised to the best effect, both as a source of management information for Housing and Regeneration Division but also allow the Chief Executive and the Board to challenge the effectiveness of the management of response maintenance”.*
- The recommendation went on to state that;
- “The Board will also wish to ensure, in establishing the Corporate Compliance Unit (Corporate Assurance Unit) that best use possible is made of the information generated by this unit to challenge management, identify areas of concern and direct the work of other review bodies such as internal audit”.*
46. Given the lack of concrete action taken to either ensure agreement of these reports or act on the findings of the reports, prior to May 2012, the Review Team advised that it was hard to
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avoid reaching the conclusion that the “best use possible” had not been made of this unit or of the information it provided.

47. Finally, with specific regard to objective 8, the Review Team noted that NIHE had yet to reach agreement on the quantum of the overpayment in relation to the Ballynahinch scheme. The Review Team had significant concerns over how this matter had been dealt with by NIHE and recommended that the Department sought confirmation from NIHE as to the total amount of overpayments and the total amount to be written off.
48. The review team considered that the financial implications would be significant if the issues in the Ballynahinch scheme were extrapolated over the potential population of 245 schemes. It was recommended that the Department ensured that NIHE expeditiously concluded its investigation into how this information had been brought to the attention of the Board.
49. The Report was forwarded to the Vice- Chairman on 5 July 2012 to consider any actions to take in line with the Minister’s special accountability measures workplan.

Special accountability measures

50. Following his oral statement in the NI Assembly on 3 July 2012, the Minister also introduced special accountability measures to bring about improvements efficiently and effectively. These measures took account of the recommendations in the DSD Internal Audit Review and were to enhance significantly the oversight arrangements between the Department and the Housing Executive. For example, in view of the fact that there were significant delays in the implementation of the recommendations in Internal Audit and Repairs Inspection Unit reports, the Department now has sight of all draft Internal Audit reports and Repairs Inspection Unit reports as soon as these are produced, along with a timetable to ensure that the reports and the recommendations are agreed and implemented immediately. There was also an increase in the accountability meetings from quarterly to monthly between the Department and the Housing Executive. The Housing Executive was also required to prepare a workplan for the implementation of the special accountability measures and to submit fortnightly reports to the Department.
51. The Permanent Secretary then met again with the Chief Executive in July 2012 to discuss the issues and the Chief Executive advised that a workplan was being prepared for the Board to take forward the recommendations.
52. The workplan was then submitted to the Minister by the then Acting Chairman on 27 July 2012. The Permanent Secretary discussed the workplan at an Accountability meeting on 1 August 2012 and the Minister then approved the workplan on 7 August 2012 on the basis that this would be monitored by the provision of fortnightly reports to the Permanent Secretary and discussion at the monthly accountability meetings.

NIAO Report and PAC

53. During this period, the Northern Ireland Audit Office, following significant concerns raised by whistleblowers, MLAs and the media, had also decided to examine the Housing Executive’s management of response maintenance contracts, in view of the seriousness of the problems identified in the management of specific contracts and the potential for important lessons to be learned across the public sector.
54. The Audit Office report was published in September 2012 and focussed on;
 - management of response maintenance contracts and termination of the Red Sky contracts;
 - inspection of repairs and maintenance work;
 - whistleblowing and complaints; and
 - contract management and governance in NIHE.

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55. This was then the subject of a PAC hearing on 5 September 2012 and the Committee's report was published on 20 March 2013 and the memorandum of reply was laid in the Assembly on 24 May 2013.
56. The Committee, in their report, stated that the management and oversight of the response maintenance service had been abjectly poor. Despite serious problems with the management of response maintenance contracts being evident to NIHE's senior management for many years, nothing was done to address them. The PAC felt that oversight by the Board of NIHE and DSD was also inadequate and significant failings within the organisation were not identified and left unchallenged. The Committee was also very concerned that the weaknesses and failings in the management of response maintenance contracts extend into other areas of NIHE activity, such as planned maintenance and land deals.
57. PAC made 10 recommendations and the implementation of the recommendations is monitored regularly by the Department.

NIHE - Reports to those charged with Governance – NIAO

58. During this period issues in relation to contract management in the Housing Executive have been identified by the NI Audit Office in their annual Report to those charged with Governance.
59. In 2010/11 the Report records that the audit was completed and resulted in a qualified audit opinion which included weaknesses in the control of expenditure on response maintenance. A number of significant weaknesses in relation to planned maintenance were also identified.
60. In 2011/12 the Report records that the Comptroller and Auditor General (C&AG) certified the 2011-12 financial statements with a clear financial audit opinion and a qualified regularity audit opinion. The latter included significant issues relating to contract management of response and planned maintenance.
61. In 2012/13, the Report records that the C & AG certified the 2012-13 financial statements with a clear financial audit opinion and a qualified regularity audit opinion. The latter included significant issues relating to contract management of response and planned maintenance.
62. Monitoring of the Housing Executive's implementation of the priority 1 recommendations from the Report to those charged with Governance is currently a standing agenda item on the monthly progress meeting between the Permanent Secretary and the NIHE Chief Executive.

PEDU

63. Minister McCausland also wrote to his Executive Colleagues in November 2012 setting out his concerns in relation to the Housing Executive management of contracts. He advised that the Department would be carrying out a further follow up review in relation to the implementation of the recommendations in the Governance Review 2010 and he sought support in asking the DFP's Performance and Efficiency Delivery Unit (PEDU) to assist the Governance Team.
64. However, when this was raised with DFP, as work to be considered by PEDU, the Department was advised that, as the DSD Internal Audit Unit was assessing the implementation of the recommendations from the previous governance review and DFP Central Procurement Directorate (CPD) was to review best practice in managing property and maintenance contracts with a view to formulating new policy, we should wait until these reviews were completed and their findings considered and then we would be better informed in deciding whether additional analysis was required and if PEDU was in the best position to provide that.
65. A Procurement Guidance Note (PGN) – Best Practice in the Management of Property Maintenance Contracts has now been developed as a result of work undertaken by a Task and Finish Group, led by Central Procurement Directorate (CPD), with representatives from key departments. The work of the Task and Finish Group was overseen by a Steering Group which

was chaired by the Director of CPD. Membership of the Steering Group included the Head of Properties Division and the Deputy Director of Housing within the Department.

66. These Procurement Guidance Notes are the administrative means by which the Northern Ireland Public Sector is advised of procurement policy and best practice developments. These Notes are developed by Central Procurement Directorate (CPD), in consultation with the Centres of Procurement Expertise (CoPEs), and are subject to the approval of the Procurement Board.
67. Once endorsed by the Procurement Board, these Notes are issued to Departments for implementation. They are also copied to CoPEs to enable them to develop, if necessary, procedures supporting the implementation of this guidance in their particular sector. It is anticipated that the PGN will issue shortly.
68. Minister McCausland also wrote to the new Chairman (appointed 5 November 2012) on his appointment in November 2012 setting out his concerns in relation to contract management; the background to all the issues; and about the request for the work by PEDU.

Planned Maintenance

69. Issues around the potential overpayments in planned maintenance were identified as far back as early 2010 when the NIHE Scheme Inspection Unit inspected five kitchen replacement schemes. As part of the inspection a review of the Price Product Lists (“PPLs”) was conducted on four of the schemes. This review identified a combined potential overcharging by the contractors of £196,422.
70. During July and August 2010 more work was conducted on potential overcharging. Five further schemes were considered and potential overcharging of £513,200 was identified. The Ballynahinch scheme was one of the schemes inspected during this time and the inspector identified potential overcharging amounting to £79,160.
71. On 7 December 2011 the NIHE Head of Internal Audit presented a paper to the NIHE Audit Committee. “Review of possible overcharging in Planned Scheme Contracts – Kitchen Scheme Replacement” and also on 7 March 2012 the Head of Internal Audit reported to the Audit Committee that he *“has used the Ballynahinch scheme as a worked example to gain an understanding of the process, the controls in place and to determine the likelihood of overpayment.”* Internal Audit recommended that an Independent Quantity Surveyor performed site visits to kitchens in the Ballynahinch scheme.
72. The Department became aware of this issue on receipt of copies of the relevant minutes of the NIHE Audit Committee.
73. On 24 May 2012 the Department received a draft copy of an NIHE Contract Claims Manager report which determined that the contractor had overcharged by approximately £27,000. However, at that time, the NIHE Scheme Inspection Unit disputed this finding and a final figure was not agreed. NIHE Internal Audit reviewed this again and the figure was identified in December 2012 as £61,124.
74. NIHE then appointed an external resource to carry out a further sampling review, which informed the current estimated £18m potential overpayment figure.
75. These issues were reported on and discussed regularly at the monthly Accountability meetings held by the Permanent Secretary with the NIHE Chief Executive. The new Chairman of NIHE also advised the Department that he had requested a report for the Board on the overpayments, and the Department had sought that the Board addresses the issues.
76. Following a Board meeting in May 2013, the Chairman of the Housing Executive advised the Minister that an internal report to the Board had indicated a potential £18m had been overpaid to planned maintenance contractors. Minister then made an oral statement in

the Assembly on 10 June in relation to this matter and his concerns about the Housing Executive's management of maintenance contracts.

77. In June 2013 the Board of the Housing Executive then commissioned an external independent review into how the organisation had been dealing with planned maintenance contracts over the last five years following this evidence of substantial over claiming by contractors. The Housing Executive commissioned Campbell Tickell to;
- review the information received by the Board;
 - confirm whether or not the information was accurate and complete;
 - consider the reliability of the Housing Executive's information on overcharging;
 - consider the suitability of actions taken to recover the overpayments;
 - consider whether management weaknesses led to this situation; and
 - make recommendation to deal with actions or identified weakness
78. At its Board meeting on 29 October 2013 the Board was advised that the Campbell Tickell report concluded that;
- shortcomings in management and governance within the Housing Executive have led to a situation where there have been substantial overpayments to contractors on planned maintenance contracts;
 - a lack of understanding and implementation of a new form of partnering contracts was the root causes of the failings;
 - the current situation appears to have improved but is not yet fully satisfactory;
 - they found no evidence of fraud or corruption;
 - the sum of over claiming was estimated to be within a range of £9m to £13m; and
 - in order to remedy the situation a wide-ranging programme of change and transformation is required.
79. The Chairman of the Board briefed the Minister on 13 November in relation to the findings and then briefed the Social Development Committee on 21 November and also published the report. The Board asked that a new business area is established to focus solely on maintenance contracts and that a separate task force is set up to deal with the overpayments.
80. At this time negotiations in relation to the potential overpayments to contractors are ongoing between the NIHE and the contractors.

Oversight arrangements review

81. In May 2013 the Department carried out a further review of its oversight arrangements. A number of additional actions were agreed which included;
- a. A central issues log should be developed;
 - b. The NIHE Corporate Plan should be submitted by the Board of the Housing Executive to the Department for the Minister's approval;
 - c. Accountability meetings should be from September on a quarterly basis and the Chairman will attend;
 - d. Monthly progress meetings will be held between the Permanent Secretary and the Chief Executive to follow up improvement in processes; and
 - e. Officials should consider developing a formal process of reviewing landlord processes, in a manner similar to that facing Housing Associations

In relation to a) to d), these actions have been implemented. In relation to e) Housing Division has determined that additional posts will be required to meet the inspection obligations and this is being taken forward

NIHE Structural Reform to Improve Contract Management

82. In addition to the Department's review of oversight arrangements, the Board of the Housing Executive has taken a number of actions to improve its oversight arrangements of contract management. This has included;
- the implementation of new contracts for response maintenance;
 - a internal restructuring to bring maintenance contract management within a new asset division; and
 - a transformation programme and a new transformation director appointed.

Review of Governance in NIHE - Follow-up Report

83. In September 2013 Permanent Secretary instigated a further governance review by the Department's Head of Internal Audit to assess the outcome of the implementation of the recommendations of the Housing Executive governance review in 2010, the special accountability measures and the ASM Report recommendations. It also looked at the lessons learned by the Housing Executive in respect of the management of response maintenance and the extent to which they have been applied to the management of planned maintenance contracts.
84. The objectives of the Follow-up Report were to establish the progress made in implementing the 75 recommendations in the 2010 report on the Review of Governance in the NIHE and the recommended actions in the Work Plan agreed with the NIHE Chief Executive in 2012. In addition, Internal Audit was asked to consider the extent to which lessons learned by NIHE in respect of Response Maintenance, had been applied to the management of Planned Maintenance Contracts.
85. The Report provides an overall summary and conclusion for each of the three objectives. The report also provides a one page summary for each recommendation and items in the Work Plan. These summaries state the original recommendation, the progress NIHE has made and the opinion of the Head of Internal Audit on whether or not sufficient progress has been made to consider the recommendation implemented. The conclusions are:

Conclusion on Objective 1 – Recommendations in 2010 Report

A total of 75 recommendations were made in the 2010 Review; of these 16 recommendations were considered as "Critical Control" recommendations and the remaining 59 were deemed "Good Practice" recommendations.

In the Follow-up report, the Head of Internal Audit concluded that "the Housing Executive has made progress in implementing the recommendations of the 2010 review. In particular, the NIHE has made progress in addressing issues relating to Governance, with training having been provided to the majority of staff and key actions relating to Standing Orders, Scheme of Delegations, Committee Structures and Assurance reporting having been completed."

However, he considered that one Critical Control Recommendation and 5 Good Practice Recommendations had not been implemented. He also considered that three Critical Control and 16 Good Practice Recommendations were only partially implemented. Overall, two thirds of the 75 recommendations had been implemented but work remains on fully implementing the final third.

Conclusion on Objective 2 – Implementation of Work Plan

The Work Plan comprised 19 actions agreed with NIHE in response to the Minister's letter dated 4 July 2012. In the report, the Head of Internal Audit concluded that "Housing Executive has made good progress in implementing the actions in the Ministerial Work Plan. However, the three actions not yet fully implemented are important and need to be finalised. In particular the work on actions 7 and 12 are necessary for an understanding of the quantum of overpayments on Planned Maintenance schemes". Action 7 related to closure of contractors accounts and Action 12 related to NIHE determining the total amount of overpayments and the total amount to be written off.

The Review Team had noted in 2010 that there were 469 schemes in the ECM/Revenue Replacement Programme where accounts needed to be reviewed and closed. NIHE established a dedicated team of Quantity Surveyors and created the Central Cost Group (CCG) to close out accounts. At the time of the Follow-up Review 96 accounts had been closed and 373 remained to be closed. The following extract from the report summarises the position at the time of the review:

"The Review Team understands that the Housing Executive has instructed Campbell Tickell to *"identify how substantial overpayments to NIHE planned maintenance contractors occurred"* and that the report, due at the end of September 2013, may inform future actions by the Housing Executive. The Review Team also notes that the implementation dates of both actions have been revised from March 2013 to March 2014."

"As final accounts are still awaiting closure for the majority of the schemes, and as Campbell Tickell has still to formally report, the Review Team considers that both actions are still works in progress and therefore these two actions are partially implemented."

The other partially implemented recommendation related to the need for the NIHE's Corporate Assurance Unit to formally report its performance, in particular the clearance of reports against agreed timescales. Internal Audit found that a process had been developed but not yet implemented.

Conclusion on Objective 3 – Had NIHE learned lessons from Response Maintenance and applied these to Planned Maintenance Contract?

Following the Gateway Healthcheck undertaken as part of the 2010 Review of Governance, NIHE set out to apply the lessons on contract management that had been identified in regard to Response Maintenance and build these into a Corporate Procurement Strategy. In this context NIHE can be said to have learnt proactively lessons from their experience with Response Maintenance and applied these to Planned Maintenance.

However, some of the more cultural issues, that could be seen in Response Maintenance, such as over reliance on contractors, skills and knowledge of staff, culture and structures are ones to which NIHE have taken time to understand. Having now come to an understanding of some of the underlying issues, the challenge to NIHE is seeing through the changes needed.

The Chief Executive, in a paper to the Board dated 29 May 2013, identified four generic issues which have contributed to the problems experienced by NIHE. These are:

- **Culture** – "It is recognised that for some time the prevailing culture of the Housing Executive was one where the desire to hit targets and spend budgets too often came at the expense of proper governance and compliance with rules";
- **Contracts** – "We got the management of contracts wrong. From the outset there was a flawed understanding of AEC (Achieving Excellence in Construction – often referred to as EGAN) contracts";
- **Skills and Knowledge** – "There is evidence that some staff working in Response and Planned Maintenance were insufficiently trained to perform their roles and did not fully understand what was required of them"; and

- **Structures** – “The External Gateway Review pointed to the lack of clarity over who was responsible for managing the maintenance contracts. Another issue was the master-servant relationship that existed between Housing and Regeneration and Design and Property Services.”

Overall Conclusion

In conclusion, there is still a considerable amount of work ahead for NIHE if they are to see through the necessary structural and cultural changes to ensure that the lessons learned from Response Maintenance are applied.

One third of the recommendations in the 2010 Governance Review are either partially implemented or not implemented three years after the original review. Some of these recommendations may no longer be as critical to NIHE as they were when first proposed in 2010, for example Recommendation 56, asking NIHE to develop a formal succession plan for all key posts.

Good progress has been made by NIHE in implementing the actions from the 2012 Work Plan. However, it is critical that the remaining recommendations are completed, and the Head of Internal Audit noted that the revised timescale for actions 7 and 12 is March 2014.

Next steps

86. The report has been issued to the Chairman and NIHE are to complete the following actions and report by 7 March 2014 on:
- Review the findings and conclusions in the Report;
 - Confirm revised timescales for the completion of all “partially implemented” or “not implemented” recommendations in the 2010 Governance Review and for the three partially completed actions in the 2012 Work Plan;
 - Provide details of any recommendations that they no longer deem relevant and provide the Board and the Department with a reasoned case for no further action; and
 - NIHE’s Internal Audit Unit should validate the completion of all outstanding recommendations / actions and this should be subject to Quality Assurance by the Department’s Internal Audit Unit.

7. Current position and future actions

There are a number of future actions and events including;

1. Gateway 5

In relation to the PAC report - Northern Ireland Housing Executive: Management of Response Maintenance Contracts, *PAC Recommendation 1* stated:

The Housing Executive let new contracts for response maintenance in August 2012. In the Committee’s opinion it is vitally important that both the Department and Housing Executive use the bedding-in period for these new contracts to critically evaluate how they are working in practice. The Committee recommends that emerging lessons are shared with the Housing Executive’s Board and the wider public sector through the Central Procurement Directorate within the Department of Finance and Personnel and the Northern Ireland Procurement Board.

The response to this recommendation in the Memorandum of Reply was that the new contracts will be critically evaluated through an Office of Government Commerce Gateway Review 5, operations review and benefits realisation, which is scheduled for August 2013, one year after the new contracts have been in operation. Any lessons learned will be reported

to the NIHE Board, shared with Department of Finance and Personnel's (DFP's) Central Procurement Directorate (CPD) and incorporated in the next round of procurements.

The position is that NIHE is carrying out a Post Project Evaluation (PPE) on the new contracts, the outcomes of this will help inform the Gateway 5 Review. Rather than run the two in parallel the Gateway 5 Review has been moved back to accommodate the PPE. The Housing Executive has advised that the independent Gateway Review is scheduled to take place on 1-3 April 2014 and any recommendations from the review will be available two or three weeks thereafter.

2. Inspection Team – Landlord

The Inspection Team, which is part of Housing Division's Governance and Inspection Unit, currently carries out Regulation and Inspections of Housing Associations within Northern Ireland. As the regulator, Housing Division is required, under Article 4(1c) of the Housing (NI) Order 1992 (Housing Order) to exercise supervision and control over registered housing associations. The Team is a dedicated Inspection body which works independently of the Housing Executive who are responsible for approving payment of grant to Registered Associations.

Recent NIAO and PAC reports on the workings of the Housing Executive have highlighted a number of significant and serious issues within the organisation, particularly around their governance arrangements. This has resulted in Minister making a number of high profile statements to the NI Assembly, the Permanent Secretary instigating several external reviews and DSD Senior Managers carrying out extensive monitoring of Housing Executive activities.

In response to the serious nature of all these findings, and concerns about the robustness of the current governance and assurance arrangements, the Permanent Secretary has asked the Inspection Team within the Governance and Inspection Unit to develop and implement an inspection regime for the Landlord Function within the Housing Executive, which would subject that organisation to the same degree of scrutiny as Housing Associations. The Team will provide an independent and objective opinion on risk management, control and governance, financial viability and property management by measuring and evaluating their effectiveness in achieving the Housing Executive's agreed objectives.

The Inspection Team will be supported in its role in carrying out inspections of the Housing Executive Landlord Function by other Inspection staff within Housing Division, namely Accountants, who will conduct the financial management area of the inspection as well as Technical colleagues from Housing Advisory Unit who carry out the property management area of the inspection.

It is expected that staff should be in post in early April. Terms of reference will also be developed which will establish the scope, objectives and modus operandi of the NIHE Inspection Team and establish the reporting lines.

3. Review of structures

The Department is currently reviewing the oversight arrangements in place between the Department and the Housing Executive with a view to ensuring that the appropriate oversight arrangements are in place from 1 April 2014.

Terms of reference and list of key documents Annex A

Terms of Reference – Social Development Committee Inquiry – Phase 2 Memorandum Framework

1. Background

The Committee for Social Development Terms of Reference for the Inquiry are:

- iv. *Decision making relating to the award, modification and cancellation of NIHE maintenance contracts to establish any impropriety or irregularity and, in particular, whether the actions of Ministers were appropriate.*
- v. *Allegations that the Committee was misled by the Minister for Social Development over his decision to seek a review of the specification for the supply and fitting of double glazing.*
- vi. *The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.*

Should the Committee identify any evidence of corruption in relation to the operation of NIHE maintenance contracts and/or any actions indicating possible breaches of relevant codes of conduct, these will be reported directly to the appropriate authorities.

Phase 2 of the Inquiry will consider:

“The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.”

2. Purpose

To develop and prepare a memorandum, in line with Phase 2 of the Committee’s terms of reference, which sets out the key governance and oversight structures and processes in place between the Department for Social Development and the Northern Ireland Housing Executive. This is to enable the Social Development Committee to interpret the key documents and information that will also be provided.

3. Scope

The memorandum will set out the governance and oversight structures and processes that are in place and will identify the key actions taken since the Review of Governance in the Northern Ireland Housing Executive in December 2010. This will incorporate details relating to the Department’s role in identifying areas of concern, for example relating to financial management, contract management and governance, and the actions taken thereafter to secure improvements. This will be supported by the provision of the appropriate documents to the Committee.

4. Objectives

In line with Phase 2 of the Committee’s terms of reference:

- To provide a contextual overview to the Committee by way of a memorandum setting out the governance and oversight structures and processes in place between the Department and the Housing Executive, including actions taken to secure improvements.
- To provide the Committee with the relevant documents associated with the memorandum.
- To assist the Committee to interpret the context of the key documents and information provided.

- To assist the Committee to identify any other key documents or information they require to be made available.
- To ensure the Committee have access to all appropriate information and documentation to enable Phase 2 of the Inquiry to be completed.

5. Methodology

- i. Agree the terms of reference.
- ii. Prepare the memorandum in line with the agreed terms of reference.
- iii. Provide a timeline of key events.
- iv. Provide a list of and thereafter copies of key documents prepared during the period December 2010 to date.
- v. Assist the Committee to identify any additional key information and documentation required to complete Phase 2.

6. Timescales

To be completed by 28 February 2014

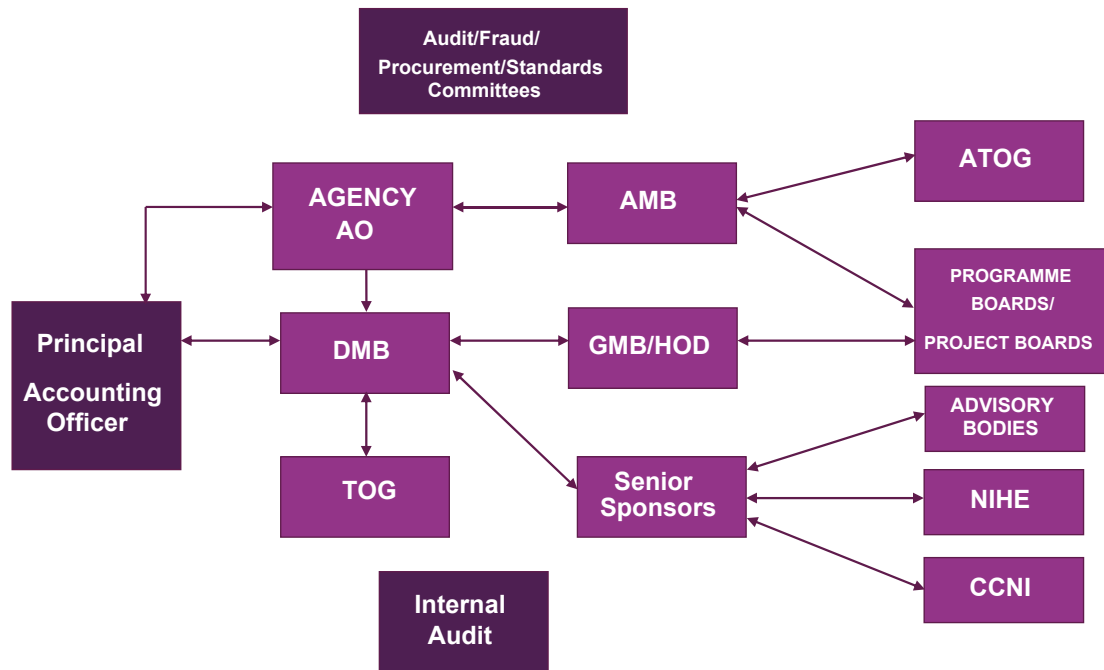
Phase 2 SDC Inquiry - List of key documents

| Title | Author | Date |
|--|---------------------------|---------------------|
| Managing Public Money Northern Ireland | DFP | |
| Management statement – Financial memorandum – Dossier of Controls with the Northern Ireland Housing Executive | DSD/NIHE | |
| DSD Arms Length Bodies - Sponsorship Manual | DSD | Revised August 2013 |
| A review of the process of sponsorship of the NIHE | DSD | 2009 |
| Review of Governance in the Northern Ireland Housing Executive | DSD | 8 Dec 2010 |
| Healthcheck Gateway Review of Egan Contracts 2010 | Independent Review | 10 Dec 2010 |
| Gateway Review 3 - Response Maintenance Contracts | Independent Review | 29 Sept 2011 |
| DSD Corporate Governance Framework | DSD | March 2012 |
| DSD Internal Audit Review of Arrangements for the operation of Independent Maintenance Inspection Function in NIHE | DSD | July 2012 |
| NIHE Special Accountability Measures | DSD | July 2012 |
| NIAO Report – NIHE management of response maintenance contracts | NIAO | September 2012 |
| NIHE Corporate Procurement Strategy | NIHE | Revised March 2013 |
| Public Accounts Committee- NIHE management of response maintenance contracts | Public Accounts Committee | March 2013 |
| ASM Report | DSD | April 2013 |
| DFP Memorandum of reply - NIHE management of response maintenance contracts | DFP | May 2013 |

| Title | Author | Date |
|---|-----------------------|-------------------------|
| NIHE Corporate Governance Manual | NIHE | November 2013 |
| Review of Governance in the Northern Ireland Housing Executive - follow up report | DSD Internal Audit | December 2013 |
| DSD - Report to those charged with Governance 2010; 2011; 2012 & 2013 | NIAO | 2010- 2013 |
| NIHE - Report to those charged with Governance 2010; 2011; 2012 & 2013 | NIAO | 2010 - 2013 |
| Procurement Strategy for the Social Housing Development Programme | DSD | |
| NIHE Planned Maintenance Contracts | NIHE/Campbell Tickell | October 2013 |
| NIHE Planned Maintenance | NIHE/Moore McDonald | |
| NIHE Annual reports – 2010 -2013 | NIHE | 2010 - 2013 |
| DSD Resource Account Reports March 2010 – March 2013 | DSD | March 2010 – March 2013 |
| Stewardship statement guidance | DSD | June 2012 |
| Departmental policy on Risk Management | DSD | Revised March 2013 |

Annex B

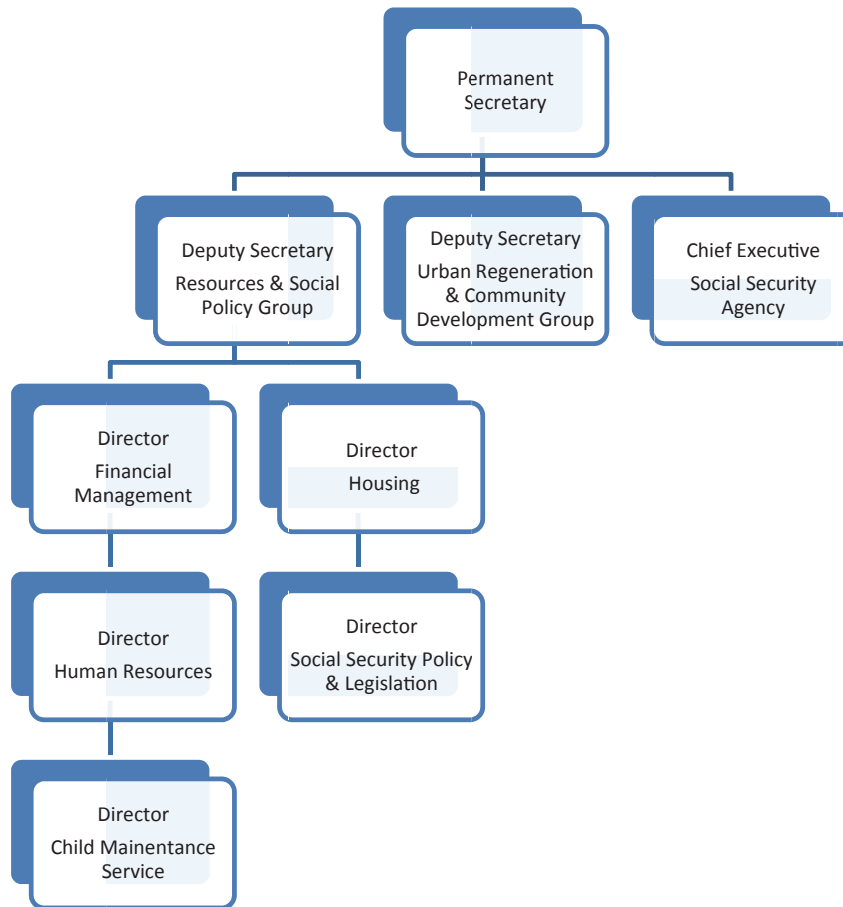
DSD Governance Framework²



2 DMB - Departmental Management Board/TOG - Top of the Group/ATOG - Agency Top of the Group/AMB - Agency Management Board/GMB - Group Management Board/HOD - Head of Division/NIHE - Northern Ireland Housing Executive/CCNI Charities Commission NI

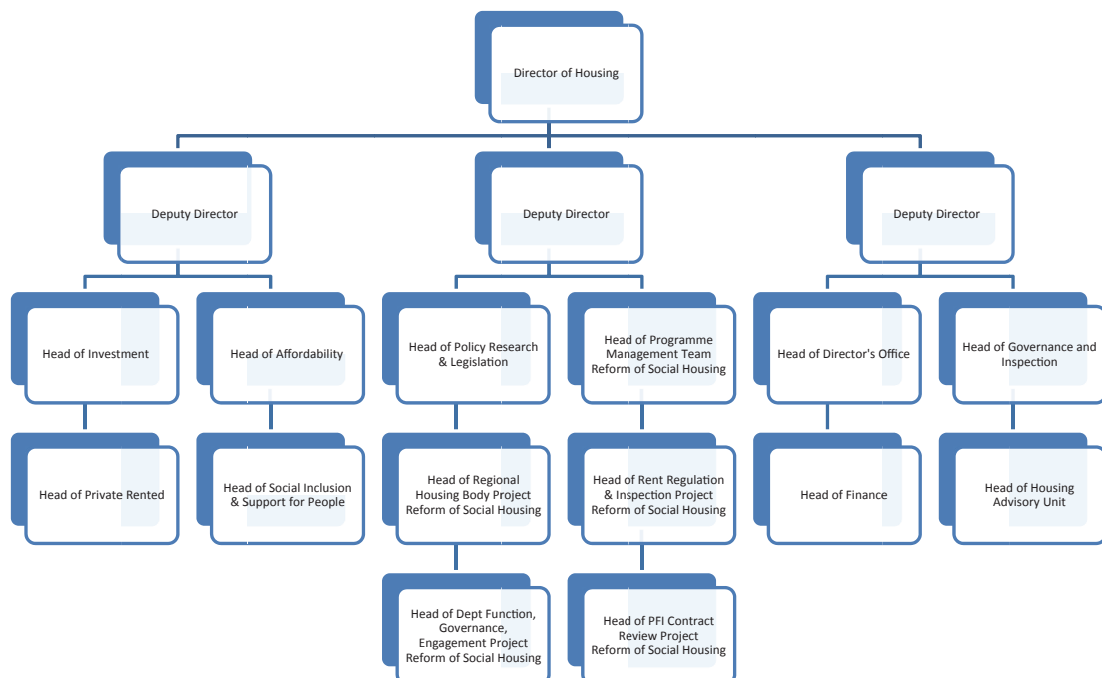
Annex C

DSD Organisational Chart to Director level



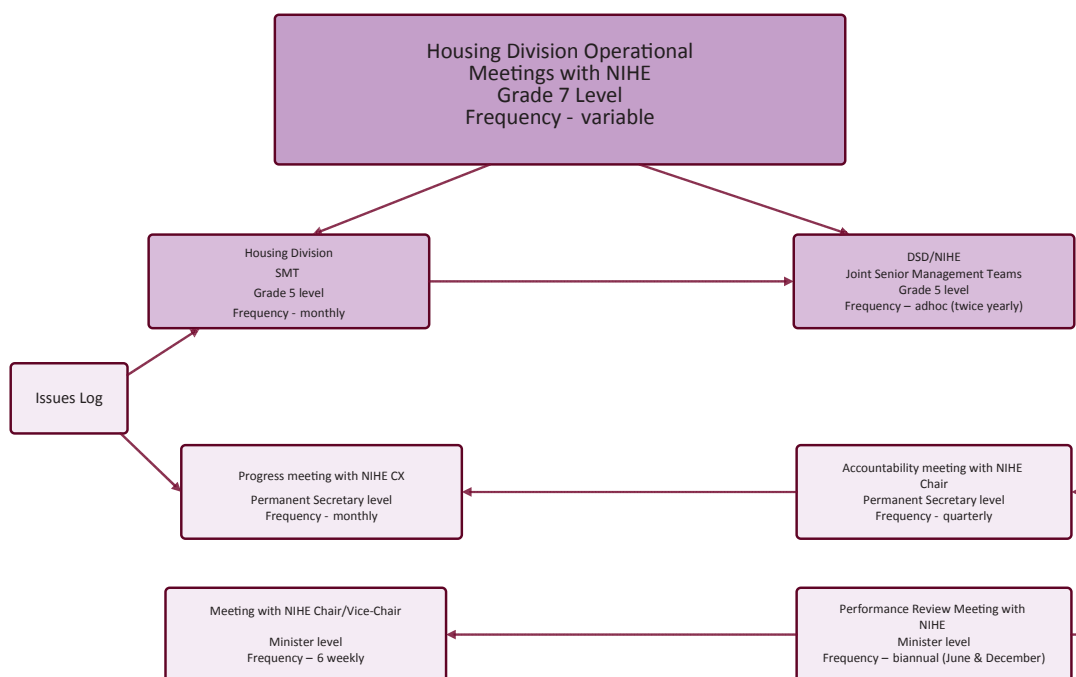
Annex D

DSD Housing Division Organisation Chart



Annex E DSD Oversight Structure

Current Oversight Arrangements



Annex F Governance Accountability Cycle

| Key Activities | Timeline | Attended By/Responsibility |
|--|---|--|
| Receive and Review Board Minutes | Depending on regularity of Board Meetings | Sponsor Branch |
| Performance/Liaison/Accountability Meeting | Monthly | Grade 5 – Grade 7 |
| Progress Meeting | Monthly | Secretary and Chief Executive Housing Executive |
| Accountability Meeting | Quarterly | Secretary and Board Chair of Housing Executive |
| Monitoring Round Returns | Quarterly | Sponsor Branch |
| Risk Management and Performance Reports to Departmental Management Board | Quarterly | Co-ordinated by Corporate Planning and Governance Unit |
| Attendance at Audit and Risk Committee and review of minutes | Quarterly | Usually by Sponsor Branch Deputy Principal/Grade 7 |
| Review Stewardship Statements/Risk Registers, Prepare Key Issues paper for Departmental Audit and Risk Committee | Quarterly | Sponsor Branch / Corporate Planning and Governance Unit. |
| Consultancy expenditure Returns | Quarterly | Sponsor Branch |

| Key Activities | Timeline | Attended By/Responsibility |
|--|---|--|
| Review of Information Assets Register | Quarterly | Sponsor Branch for Charity Commission Sponsor Branch to ensure that NIHE Internal Audit complies with Departmental requirements |
| Meeting between Sponsor Branches/ The Sponsor Team to share best practice | Biannually | Facilitated by Corporate Planning and Governance Unit- |
| Review of Hospitality and Conflicts of Interest Registers | Biannually | Sponsor Branch for Charity Commission Sponsor Branch to ensure NIHE Internal Audit complies with Departmental requirements |
| Review of NI Audit Office Interim and Final Reports to those Charged with Governance | Biannually | Grade 5/Sponsor Branch |
| Review of Annual Resource Accounts including Statement on Internal Control | Annually in advance of Departmental Audit Committee in June | Grade 5/Sponsor Branch |
| Submission of Annual Report and Accounts to Minister and Assembly | Annually | Grade 5 |
| Completion of Sponsor Branch Checklist | Annually (on a rotation basis) | Audit Office |
| Agree Business Plans and submission of Plans to Minister | Annually | Grade 5 |
| Consultancy forecast | Annually | Sponsor Branch |
| Procurement Expenditure | Annually | Sponsor Branch |
| Board Member and Chair Appraisals | Annually | Grade 3/5 / Chair of Board |
| Meeting between Departmental Accounting Officer, Chief Executive and Chair of Board | At least Annually or more often with larger Bodies. | Accounting Officer/Grade3/5 |
| Performance Review Meeting | Annually/ Biannually | Minister |
| Review of Management Statement and Financial Memorandum | Annually | Sponsor Branch |
| Submission of budget approval | Annually | Grade 5-Grade 7 |

Notes

Grade 3 is also known as Deputy Secretary

Grade 5 is also known as Director or as Head of Division

Grade 7 is also known as Head of Branch or as Principal Officer

Annex G

NIHE Accounting Officer responsibilities

From: The Permanent Secretary
Mr Will Haire

Lighthouse Building
1 Cromac Place
Gasworks Business Park
Ormeau Road
BELFAST
BT7 2JB

Telephone: 028 90 829002
Facsimile: 028 90 829560
E-mail: perm.sec@dsdni.gov.uk

Dr John McPeake
Chief Executive
Northern Ireland Housing Executive
The Housing Centre
2 Adelaide Street
BELFAST BT2 8PB

15 September 2011

1. Your current role of Chief Executive carries with it the responsibility of Accounting Officer of the NI Housing Executive. I am therefore writing to formally designate you as Accounting Officer, for the funds (including grant-in-aid) of that body, with effect from 1 September 2011 and to define the relationship between your responsibilities in that capacity and mine as Principal Accounting Officer for the Department for Social Development.
2. Chapter 3 of Managing Public Money Northern Ireland sets out the responsibilities of Accounting Officers and can be accessed using the link: www.afmdni.gov.uk/Accounting_Officer_Memorandum. For ease of reference I have attached the relevant extract as an Annex. This sets out your duties as Accounting Officer in which capacity you will be responsible for safeguarding public funds in your charge and ensuring that they are applied only to the purposes for which they were voted and, more generally, for efficient and economical administration.
3. In order to carry out your responsibilities as Accounting Officer, it is important that you have a thorough understanding of propriety and accountability issues – these are set out in the HM Treasury Handbook: “*Regularity and Propriety*” which can be obtained by accessing the link: http://www.hm-treasury.gov.uk/d/Reg_Prop_and_VfM-November04.pdf.
4. I should explain that your designation as Accounting Officer may be withdrawn if I conclude that you are no longer a fit person to carry out the responsibilities of an Accounting Officer or that it is otherwise in the public interest that your designation be withdrawn. I would not take such a decision without full and careful examination of the facts which you would have a suitable opportunity to contribute to and to add your viewpoint. Nor would I take such a decision without giving your Board a full account of my reasons as well as a chance to make representations. Withdrawal of Accounting Officer status would obviously bring into question your fitness for the position of Chief Executive generally.
5. As Principal Accounting Officer I have a duty to satisfy myself that the Housing Executive has adequate financial systems and procedures in place to promote the efficient and economical conduct of its business and to safeguard financial propriety and regularity. In addition, I am responsible among other things for advising my Minister on the allocation of Departmental resources, and, after consultation with you, the setting of appropriate financial and non-financial performance targets for the Northern Ireland Housing Executive.

6. As Accounting Officer for the Northern Ireland Housing Executive you are responsible to the Board and accountable to the Assembly for the Housing Executive's use of resources in carrying out its functions as set out in the Management Statement and Financial Memorandum. Subject to my responsibilities as described in paragraph 5 above, you are responsible for all the matters in the Memorandum in respect of the Housing Executive.
7. In relation to your role, there are several areas, in particular, where the Assembly expects Accounting Officers to take personal responsibility:
 - *regularity and propriety*, including seeking DFP approval for any expenditure outside the normal delegations or outside the subheads of Estimates, and carried through with appropriate disclosures in the resource accounts;
 - selection and *appraisal* of programmes and projects: using the *Green Book* (supported by additional DFP guidance) to evaluate alternatives, and good quality project and programme management techniques, such as Office of Government Commerce (OGC) Gateways™, to track and where necessary adjust progress;
 - *value for money*: ensuring that the organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste, judged for the public sector as a whole, not just for the Accounting Officer's organisation;
 - management of *opportunity and risk* to achieve the right balance commensurate with the institution's business and risk appetite;
 - *learning from experience*, both using internal feedback, and from right across the public sector; and
 - accounting accurately for the organisation's *financial position and transactions*: to ensure that the Government published financial information is transparent and up to date, and that the organisation's efficiency in the use of resources is tracked and recorded.
8. Your judgement as Accounting Officer on matters for which you are responsible may only be overridden by the Board, in which case I should be informed as soon as possible. Advice to the Board is covered in the Accounting Officer Memorandum but in general terms you are responsible, inter alia, for advising the Board on matters of financial propriety, regularity or of prudent and economical administration, efficiency and effectiveness. You are also responsible for taking formal action if the Board is contemplating a course that would infringe these requirements.
9. You are liable to be summoned to appear before the Public Accounts Committee (PAC) to give evidence on the discharge of your responsibilities as Accounting Officer for the Housing Executive. In such circumstances the Public Accounts Committee would probably wish to take evidence from both the Principal Accounting Officer and yourself. It will be for me to answer on those matters affecting the Housing Executive, which fall within my responsibility as Principal Accounting Officer. In giving evidence to the Committee you should be guided as appropriate by the Accounting Officer Memorandum.
10. I am sending copies of this letter to the Head of the Northern Ireland Civil Service, the Comptroller and Auditor General, the Clerk to the Northern Ireland Public Accounts Committee, the Treasury Officer of Accounts, the Chief Executive's Forum and to Bruce Vickers in DFP Supply.
11. I would be grateful if you would acknowledge receipt of this letter and its enclosures.

Will Haire

3. Accounting Officers

This chapter sets out the personal responsibilities of all Accounting Officers, both in government departments and in other parts of central government. Essentially Accounting Officers must be able to assure the Assembly and the public of high standards of probity in the management of public funds. This chapter is drawn to the attention of all Accounting Officers when they are appointed.

3.1 Role of the Accounting Officer

3.1.1 Each organisation in central government - department, agency, trading fund, HSC body, NDPB or significant arm's length body - must have an Accounting Officer. This person is usually the senior official in the organisation. In line with the Code of Good Practice on Corporate Governance in Central Government Departments, it is now usual for the Accounting Officer to be supported by a board whose structure should be agreed with the responsible minister(s) where it is not set in statute. Arrangements for leadership and accountability may be slightly different in other parts of the public sector.

3.1.2 Formally the Accounting Officer is someone who may be called to account in the Assembly for the stewardship of the resources within the organisation's control. The standards the Accounting Officer is expected to deliver in the organisation are summarised in box 3.1. The senior business managers of other public sector organisations are expected to deliver similar standards.

3.2 Appointment of Accounting Officers

3.2.1 DFP appoints the permanent head of each central government department to be its Accounting Officer. Where there are several Accounting Officers in a department, the permanent head is the Principal Accounting Officer.

3.2.2 Within departments, DFP also appoints the chief executive of each trading fund as its Accounting Officer; and may also appoint Additional Accounting Officers with responsibility for certain Requests for Resources.

3.2.3 In turn the Accounting Officer of each department normally appoints the permanent heads:

- of its executive agencies, as Agency Accounting Officers for their agencies; and
- of all its NDPBs³, and of most other significant arm's length bodies, as Accounting Officers for these bodies.

3 In certain NDPBs with small budgets, an Accounting Officer in the sponsor department may assume the role of the Accounting Officer for the NDPB, with the costs of the NDPB charged directly to the sponsor department's Estimate. This is the usual arrangement for advisory bodies and Royal Commissions.

box 3.1: standards expected of the Accounting Officer's organisation

Acting within the authority of the minister(s) to whom he or she is responsible, the Accounting Officer should ensure that the organisation, and any subsidiary to it or organisation sponsored by it, operates effectively and to a high standard of probity. The organisation should:

governance

- have a governance structure which transmits, delegates, implements and enforces decisions
- have trustworthy internal controls to safeguard, channel and record resources as intended
- operate with propriety and regularity in all its transactions
- treat its customers and business counterparties fairly and honestly
- offer redress for failure to meet agreed customer standards where appropriate
- give timely, transparent and realistic accounts of its business, underpinning public confidence;

decision-making

- support its ministers with clear, well reasoned, timely and impartial advice
- make all its decisions in line with the strategy, aims and objectives of the organisation set by ministers and/or in legislation
- meet DFP's requirements about limits on use of public resources
- manage its staff fairly, with inclusive policies designed to promote and integrate diversity having regard to Section 75 of the Northern Ireland Act
- communicate its decisions openly and transparently;

financial management

- use its resources efficiently, economically and effectively, avoiding waste and extravagance
- carry out procurement and project appraisal objectively and fairly, seeking good value for the public sector as a whole
- use management information systems to secure assurance about value for money and the quality of delivery and so make timely adjustments
- avoid overdefining detail and imposing undue compliance costs, either on its own staff or on its customers and stakeholders
- have practical documented arrangements for working in partnership with other organisations
- use internal and external audit to improve its internal controls and performance.

3.3 Special responsibilities of Accounting Officers

3.3.1 It is important that each Accounting Officer takes personal responsibility for ensuring that the organisation he or she manages delivers the standards in box 1.1. In particular, the Accounting Officer must personally sign:

- the organisation's accounts;
- the annual report;
- the statement on internal control (SIC);

and, having been satisfied that they have been properly prepared to reflect the business of the organisation, must personally approve any Request(s) for Resources.

3.3.2 In the case of Accounting Officers of corporate arm's length bodies, the Accounting Officer should also arrange for a board member to sign the accounts as well, if (unusually) he or she is not a member of the board.

3.3.3 There are several other areas where the Assembly expects Accounting Officers to take personal responsibility:

- *regularity and propriety* (see box 2.4), including seeking DFP approval for any expenditure outside the normal delegations or outside the subheads of Estimates, and carried through with appropriate disclosures in the resource accounts;

- selection and *appraisal* of programmes and projects: using the *Green Book* (supported by additional DFP Guidance) to evaluate alternatives, and good quality project and programme management techniques, such as Office of Government Commerce (OGC) Gateways™, to track and where necessary adjust progress;
- *value for money*: ensuring that the organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste, judged for the public sector as a whole, not just for the Accounting Officer's organisation;
- management of *opportunity and risk* to achieve the right balance commensurate with the institution's business and risk appetite;
- *learning from experience*, both using internal feedback, and from right across the public sector; and
- accounting accurately for the organisation's *financial position and transactions*: to ensure that the government published financial information is transparent and up to date and that the organisation's efficiency in the use of resources is tracked and recorded.

3.4 Advice to Ministers

- 3.4.1 Each departmental Accounting Officer should take care to bring to the attention of the Minister to whom he or she is responsible any conflict between the Minister's instructions and his or her duties as set out in this chapter. Examples of concerns where this procedure is appropriate are in box 3.2 but the ultimate judgement must lie with the Accounting Officer personally.
- 3.4.2 There is no set form for doing this, though the Accounting Officer should be specific about the nature of his or her objections and where possible set these out in writing. Before doing so it is good practice for an Accounting Officer to discuss the matter with DFP if time permits. It may also be necessary to discuss the issue with officials from the Office of First Minister and Deputy First Minister to determine if the matter needs to be brought to the Executive Committee under the terms of the Ministerial Code.
- 3.4.3 If, despite the Accounting Officer's advice, the Minister decides to continue with a course the Accounting Officer has advised against, the Accounting Officer should ask for a formal Ministerial Direction to proceed. This can be oral but, if so, should be confirmed in writing as soon as possible. Directions of this kind are rare but the acid test is whether the Accounting Officer could justify the proposed activity if asked to defend it.
- 3.4.4 Such a direction is likely to mean that the associated expenditure is novel or contentious and therefore outside of the departmental delegated expenditure. Having received a Direction from the Departmental Minister, in these circumstances, the Accounting Officer should seek DFP approval.
- 3.4.5 A Minister may decide, in these circumstances, that the issue should be discussed by the Executive. If this happens and a decision reached at the Executive is to agree to the course of action proposed by the Departmental Minister it will be recorded in the minutes which can be treated as formal approval. The DFP Minister, as part of the Executive, is bound by this decision and in these circumstances it is not envisaged that it will be necessary for the Accounting Officer to seek a formal written approval from DFP. If the Executive decides not to proceed the Accounting Officer should abide by the Executive's decision and not undertake any course of action which could be seen as contrary to the decision.
- 3.4.6 When a Ministerial Direction is confirmed by the DFP Minister or Executive Committee as appropriate, the Accounting Officer should:
- write to the C&AG with the relevant details of the issue. This correspondence should be copied to DFP. The C&AG will normally draw the matter to the attention of the PAC, who will attach no blame to the Accounting Officer;

- follow the direction without further ado; and
- if asked, explain the Ministers/Executive's course of action. This respects Ministers' rights to frank advice, while protecting the quality of internal debate.

box 3.2: examples when Accounting Officers should seek a direction reflecting previous cases

- **Irregularity:** if a proposal is outside the legal powers, Assembly consents, or DFP delegations.
- **Impropriety:** if a proposal would breach Assembly control procedures.
- **Poor value for money:** if an alternative proposal, or doing nothing, would deliver better value, e.g. a cheaper or higher quality outcome.

3.5 Public Accounts Committee

- 3.5.1 The PAC may hold public hearings on the accounts of central government organisations laid in the Assembly (see section 1.6). In practice most PAC hearings focus on NIAO value for money studies. The PAC expects that NIAO will agree the texts of these reports with the Accounting Officer(s) of the organisation(s) concerned so there is a clear evidence base for their scrutiny to proceed.
- 3.5.2 When a hearing is scheduled, the PAC normally invites the Accounting Officer(s) of the relevant institution(s) to attend as witness(es). An Accounting Officer may be accompanied by appropriate officials. Where it is appropriate, and the PAC agrees, the Accounting Officer may send a substitute. In answering questions, the Accounting Officer should take responsibility for the organisation's business, even if it was delegated or if the events in question happened before he or she was appointed Accounting Officer.
- 3.5.3 The PAC expects witnesses to give clear, accurate and complete evidence. If evidence is sensitive, witnesses may ask to give it in private. It is also acceptable to offer supplementary notes if a witness does not have the detail to hand at the hearing. Where such notes are offered, they should be provided within two weeks and with attention to the PAC's concerns in asking for the information. If the evidence might take longer to prepare, witnesses may seek an extension. They should do so without delay.
- 3.5.4 The Treasury Officer of Accounts (TOA) (a DFP official who answers questions on behalf of DFP as the central department concerned with financial matters) or his/her nominee attends all PAC hearings. This allows scope for the PAC to explore any issues of more general application arising out of the subject of the hearing. Other responsibilities of the TOA are listed in Box 3.3.

3.6 When the Accounting Officer is not available

- 3.6.1 Each organisation must have an Accounting Officer available for advice or decision as necessary at short notice.
- 3.6.2 When the Accounting Officer is absent and cannot readily be contacted, another senior official should deputise. If a significant absence of more than 4 weeks is planned, the Accounting Officer, should invite DFP (or the sponsor department, as the case may be) to appoint a temporary acting Accounting Officer.

box 3.3: Specific responsibilities of the TOA

To supply advice on:

- the principles underlying the resource accounting system;
 - the responsibilities and appointment of Accounting Officers;
 - the responsibilities of Finance Directors;
 - policy on internal audit and the prevention of fraud;
 - propriety, in terms consistent with the Assembly's requirements for the conduct of financial business and whether, and in what form, specific authority for expenditure is required;
 - financial provisions in Assembly Bills affecting public funds, accounting and audit arrangements, and acceptance of contingent liabilities;
 - contingent liabilities generally and on the use of commercial insurance;
 - fees and charges issues; and
 - the departmental use of banks
- In addition the TOA is also Head of Finance Profession for the Northern Ireland Civil Service.

3.7 Conflicts of interest

3.7.1 If an Accounting Officer faces an actual or potential conflict of interest, it is essential to find a way of eliminating it. There must be no doubt that the Accounting Officer meets the standards described in box 3.1 without divided loyalties. Possible ways of managing this issue include:

- for a significant but temporary conflict, inviting DFP (or sponsor department, as the case may be) to appoint an interim Accounting Officer for the period of the conflict of interest;
- for a minor conflict, arranging for someone other than the Accounting Officer to make the key decisions on the issue(s) in question; or
- for serious and lasting conflicts, resignation.

3.8 Arm's length bodies

3.8.1 The responsibilities of Accounting Officers in departments and in arm's length bodies (ALBs) are essentially very similar. But Accounting Officers in ALBs must also take account of their special responsibilities and powers. In particular, they must respect the legislation (or equivalent) establishing the organisation and the terms of the Management Statement/ Financial Memorandum (MS/FM) agreed with the sponsor department. The relationship between sponsor departments and their ALBs is discussed further in chapter 7.

3.8.2 The Accounting Officer of a department which sponsors an ALB should, in addition, make arrangements to satisfy himself or herself that the Accounting Officer of the ALB is carrying out his or her responsibilities. Similarly, the Accounting Officer of an ALB with a subsidiary should have some meaningful oversight of the subsidiary. This means taking steps to gain assurance that public resources in the ALB, or its subsidiary, are being managed to appropriate standards (see box 3.1). It is not acceptable to establish ALBs, or subsidiaries to ALBs, in order to avoid or weaken Assembly scrutiny.

3.8.3 The MS/FM agreed between an ALB and its sponsor always envisages the sponsor department exercising meaningful oversight of the ALB's strategy and performance, pay arrangements and/or major financial transactions, e.g. by monthly returns, standard delegations, exception reporting or other techniques. ALBs should refer to their sponsor departments any activities which appear novel, contentious or repercussive; in turn the sponsor department may need to seek DFP consent.

3.8.4 There are some sensitivities about the role of the Accounting Officer in an ALB which is governed by an independent board, e.g. a charity or a company. The Accounting Officer, who will normally be a member of the board, must take care that his or her personal responsibilities do not conflict with his or her duties as board member. In particular, the

Accounting Officer should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain.

3.8.5 Moreover, if the chair or board of such an ALB is minded to instruct the Accounting Officer to carry out some course which appears inconsistent with the standards in box 3.1, then the Accounting Officer should make his or her reservations clear, preferably in writing. If the board is minded nevertheless to proceed, the Accounting Officer should then:

- inform the Accounting Officer of the sponsor department without undue delay who will need to consider intervening to resolve the difference of view, preferably in writing;
- if the board's decision stands, seek its written direction to carry it out, asking the sponsor department to inform DFP;
- proceed to implement without delay; and
- inform the C&AG of what has happened.

3.8.6 This process is similar to what happens in departments (section 3.4), allowing for the special position of the organisation's board, which will often have been appointed under statute.

3.9 In the round

3.9.1 It is not realistic to set firm rules for every aspect of the business with which an Accounting Officer may deal. Sometimes the Accounting Officer may need to take a principled decision on the facts in circumstances where precedents are of limited value. Should that happen, the Accounting Officer should be guided by the standards in box 3.1, adapted if need be to suit the issue. Where time permits, DFP stands ready to help Accounting Officers think through and decide upon an appropriate course of action.

Annex H

NIHE Governance Structure

List of formal meetings between the Department and NIHE Annex I

| Title of meeting | Lead Party for meeting | Purpose | Frequency of meeting |
|---|-------------------------------|--|---|
| Performance Review Meeting (between the Department and the Housing Executive) | Minister | Minister holding the Housing Executive accountable for their performance against their key targets | Twice a year (June and December) |
| Ministerial Monthly meeting with Chair and Vice Chair NIHE | Minister | To provide the Minister with updates on issues | Monthly until January 2014 and thereafter every six weeks |
| Accountability Meeting | Permanent Secretary | To focus on a number of strategic and significant issues on-going within the Housing Executive as a link in the chain of accountability. | Quarterly |
| Monthly Progress meeting | Permanent Secretary | To provide a monthly update on key oversight and governance issues | Monthly |
| Monthly Performance Meeting (formerly Joint Pes Working Group) | Deputy Director | To discuss the Executive's physical and financial performance in the previous month | Monthly |
| Monthly Finance Meeting | Grade 7 | To discuss the Housing Executive's financial performance against budget. | Monthly |
| Performance Standards Meetings – Housing Benefit | Grade 7 | To report on and monitor Performance Standards | Quarterly |
| Joint Social Housing Development Programme Meeting | Deputy Director | To improve interface working in matters relating to the delivery of social housing | Bi-monthly |
| Warm Homes Monitoring Meeting + Boiler Replacement Pilot | Grade 7 | Discuss Scheme progress – Finance & Quality Receive updates on pilot scheme. | Every 2 Months |
| Supporting people monitoring meeting | Deputy Director | To discuss supporting people performance/issues inspection performance of Housing Associations | Quarterly |
| Private Housing Sector Grants/Loans Working Group | Deputy Principal | To steer policy and legislative change to statutory assistance schemes. | Monthly |
| Director Contributions Project Steering Board Meeting | Deputy Secretary | Progress Developer Contributions for social and affordable housing | Monthly |

| Title of meeting | Lead Party for meeting | Purpose | Frequency of meeting |
|---|-------------------------------|--|-----------------------------|
| Developer Contributions Project Working Group | Grade 7 | Progress Developer Contributions for social and affordable housing | Every 2 months |
| Private Rented Sector Research Steering Committee | Staff Officer | To steer the NI part of the DWP private rented sector welfare reform impacts | At milestones |
| Joint Senior Management Team (SMT) Housing Division/Housing Executive | Director/Chief Executive | General discussion on key business planning issues | Twice yearly |
| NIHE Research Committee | NIHE | Oversee Housing Executive research programme | Quarterly |
| Traveller Consultative forum | NIHE | To provide a mechanism for consultation on issues related to the provision of accommodation for members of the Traveller community | Quarterly |
| Older People Advisory Group | NIHE | To consider housing issues relating to older people | Quarterly |
| Stock Transfer Working Group | NIHE | To progress the Stock Transfer Programme | Monthly |

Annex J

Terms of Reference - Oversight Implementation Group

Context

1. In October 2010, the Minister requested that the Permanent Secretary should ask his Internal Auditor to carry out a governance audit of the Northern Ireland Housing Executive. On completion of this, the Minister made an Oral Statement to the Assembly on 25 January in relation to the findings and recommendations of the Review of Governance in the Housing Executive and the Gateway (Health Check) Review. The Governance report contains 75 recommendations, 16 of which relate to critical control issues, with 59 relating to developing existing policies and practices. There are 14 recommendations in the Gateway Review in relation to procurement and contract management.
2. In line with the Minister's statement on 25 January 2011, a number of oversight arrangements have been put in place to ensure the recommendations in both reviews are appropriately implemented. These are:
 - Oversight Implementation Group;
 - Accountability Group; and
 - Performance Review Meetings

Remit

3. The remit of the Oversight Implementation Group is to:
 - assess the realism of the implementation plan being put forward by the Housing Executive;
 - provide monthly examination of the implementation of the recommendations;
 - consider in-depth the Housing Executive's developing thinking in relation to key strategic issues,
 - confirm that the recommendations in relation to procurement and contract management are appropriately implemented; and
 - provide broad strategic advice and guidance.

Membership

4. The members of the Oversight Implementation Group are:
 - Will Haire (Chair)
 - Colin Lewis DETI
 - Des Armstrong CPD
 - Oliver Forde
 - Heather Cousins
 - Jim Wilkinson
 - Susan McCarty (Secretary)

Attendance of others

5. Members of the Housing Executive Oversight Board and the Programme Manager may be asked to attend meetings, where appropriate.

External relationships

6. Heather Cousins will represent the Oversight Implementation Group on the Housing Executive Oversight Board. Susan McCarty will liaise with the Housing Executive's Programme Manager.

This department's officials also attend the Accountability Group and the Performance Review meetings.

Frequency of Meetings

7. Monthly initially, subject to regular review

Reporting arrangements

8. Minutes are circulated to members and regular updates will be provided to Minister. The Housing Executive Oversight Board will provide monthly updates and may attend meetings when required. The Housing Executive Programme Manager will ensure the updates provided reflect the status of the recommendations and associated risks.

Timeline of events Annex K

| Date | Action |
|-------------------|--|
| 7 October 2010 | Review of Governance in the NIHE announced by the then Minister, Alex Attwood. |
| 25 January 2011 | Review of Governance in the NIHE Report and Gateway Review published by the then Minister, Alex Attwood. |
| 18 February 2011 | First meeting of the DSD Oversight Implementation Group, chaired by Permanent Secretary, set up in relation to the implementation of the recommendations in the Review of Governance and the Gateway Review. |
| 23 February 2011 | Minister's Performance Review meeting with NIHE. |
| 23 March 2011 | The then Minister, Alex Attwood, made an Oral Statement to the Assembly on Fundamental Review of NIHE and other matters. |
| 31 March 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary. |
| 1 April 2011 | Permanent Secretary bi-annual accountability meeting with Chairman NIHE. |
| 3 May 2011 | Minister's Performance Review meeting with NIHE. |
| 16 May 2011 | Minister McCausland appointed. |
| 23 May 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary. |
| 24 June 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary. |
| 1 July 2011 | Press Release: Minister McCausland advises of concerns about Maintenance Contracts |
| 4 August 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary |
| 30 August 2011 | Minister's Performance Review meeting with NIHE |
| 27 September 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary |
| 29 September 2011 | Gateway Review 3 – Response Maintenance Contracts |
| 5 October 2011 | Permanent Secretary biannual accountability meeting with Chairman NIHE |
| 17 October 2011 | ASM appointed by DSD to conduct forensic investigation into NIHE maintenance contracts |

| Date | Action |
|------------------|--|
| 16 November 2011 | Meeting of Governance Oversight Implementation Group chaired by Permanent Secretary |
| 8 December 2011 | Minister's Performance Review meeting with NIHE |
| 26 January 2012 | Permanent Secretary wrote to NIHE Chief Executive about contract managements arrangements |
| 13 April 2012 | Permanent Secretary wrote to NIHE Chief Executive about his concerns in relation to the implementation of the governance arrangements in place |
| 27 April 2012 | Permanent Secretary quarterly accountability meeting with Chief Executive NIHE |
| 8 May 2012 | Permanent Secretary wrote to NIHE Chief Executive in relation to the work by the NIHE Corporate Assurance Unit and Internal Audit. |
| 14 May 2012 | Permanent Secretary wrote to NIHE Chief Executive in relation to the reports on the inspection of kitchen schemes |
| 17 May 2012 | Permanent Secretary wrote to NIHE Chairman to seek a meeting |
| 17 May 2012 | Permanent Secretary met NIHE Chief Executive to discuss his concerns |
| 25 May 2012 | Permanent Secretary met NIHE Chairman to discuss his concerns |
| 29 May 2012 | Permanent Secretary wrote to NIHE Chief Executive in relation to the information in the Stewardship statements |
| 30 May 2012 | Review starts by DSD Internal Auditor of the actions taken by NIHE to implement those particular recommendations relating to the operating of the independent inspection function. |
| 26 June 2012 | Minister's Performance Review meeting with NIHE brought forward to this date. |
| 29 June 2012 | Previous Chairman, Brian Rowntree, resigns |
| 3 July 2012 | Minister McCausland makes Oral Statement to the Assembly on NIHE Management of Response Maintenance Contracts and outlines his Special Accountability Measures |
| 4 July 2012 | Minister writes to Vice Chairman, Anne Henderson, with the Special Accountability Measures |
| 5 July 2012 | DSD Internal Audit Review of Arrangements for the operation of the Independent Maintenance Inspection Function in NIHE forwarded to the Vice Chairman |
| 5 July 2012 | Draft ASM report forwarded to Vice Chairman for NIHE comment |
| 9 July 2012 | Vice Chairman appointed as Acting Chairman of NIHE Board |
| 24 July 2012 | Permanent Secretary met with NIHE Chief Executive to discuss issues. |
| 1 August 2012 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 7 August 2012 | Minister approves the NIHE special accountability measures workplan. |
| 4 September 2012 | NIAO report published on NIHE Management of Response Maintenance Contracts |
| 5 September 2012 | PAC Hearing on NIHE Management of Response Maintenance Contracts |

| Date | Action |
|------------------|---|
| 6 September 2012 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 16 October 2012 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 5 November 2012 | Donald Hoodless appointed as NIHE Chairman |
| 14 November 2012 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 17 December 2012 | Minister's Performance Review meeting with NIHE |
| 20 December 2012 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 22 January 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 30 January 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 26 February 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 20 February 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 19 March 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 20 March 2013 | PAC report published on the NIHE Management of Response maintenance contracts. |
| 17 April 2013 | NIHE accept the findings in the ASM report |
| 18 April 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 30 April 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 20 May 2013 | DFP Memorandum of Reply laid before Assembly re PAC report on NIHE Management of Response Maintenance Contracts |
| 23 May 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 24 May 2013 | Laying of the Memorandum of Reply |
| 29 May 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 14 June 2013 | Redacted ASM report deposited in Assembly Library. |
| 10 June 2013 | NIHE Board release statement and announce appointment of consultants |
| 10 June 2013 | Minister McCausland makes Oral Statement to the Assembly on Housing Executive Maintenance Contracts |
| 20 June 2013 | Minister's Performance Review meeting with NIHE |
| 2 July 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 3 July 2013 | Spotlight Programme |
| 4 July 2013 | Minister attends meeting of the Social Development Committee |
| 5 July 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |

| Date | Action |
|-------------------|---|
| 30 July 2013 | Permanent Secretary monthly accountability meeting with NIHE Chief Executive |
| 27 August 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 25 September 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 2 October 2013 | Permanent Secretary monthly progress meeting with NIHE Chief Executive |
| 2 October 2013 | Permanent Secretary quarterly accountability meeting with NIHE Chairman |
| 24 October 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 5 November 2013 | Permanent Secretary monthly progress meeting with NIHE Chief Executive |
| 21 November 2013 | NIHE publish the Campbell Tickell report |
| 26 November 2013 | Minister's monthly meeting with Chairman and Vice Chairman NIHE |
| 11 December 2013 | Minister's performance review meeting with NIHE |
| 13 December 2013 | Permanent Secretary monthly progress meeting with NIHE Chief Executive |
| 17 December 2013 | Permanent Secretary quarterly accountability meeting with NIHE Chairman |
| 24 January 2014 | Permanent Secretary monthly progress meeting with NIHE Chief Executive |
| 29 January 2014 | Minister's meeting with Chairman and Vice Chairman NIHE (now to be every 6 weeks) |
| 10 February 2014 | Review of Governance in NIHE – follow up report forwarded to NIHE Chairman for comments on next steps by 7 March 2014 |

Annex L

Abbreviations

| | |
|--------|---|
| ALBs | Arms Length Bodies |
| ATOG | Agency Top of the Group |
| CCNI | Charities Commission Northern Ireland |
| CPD | Central Procurement Directorate |
| DFP | Department of Finance and Personnel |
| DMB | Departmental Management Board |
| DSD | Department for Social Development |
| GIAS | Government Internal Audit Standards |
| GMB | Group Management Board |
| HOD | Head of Division (aka Director) |
| MPNI | Managing Public Money Northern Ireland |
| MS/FN | Management Statement: Financial Memorandum |
| NDPB | Non Departmental Public Body |
| NI | Northern Ireland |
| NIAO | Northern Ireland Audit Office |
| NIHE | Northern Ireland Housing Executive |
| OFMdFM | Office of the First Minister and deputy First Minister |
| PAC | Public Accounts Committee |
| PFG | Programme for Government |
| PIDs | Project Initiation Documents |
| PPE | Post Project Evaluation |
| PPLs | Price Product Lists |
| PSA | Public Service Agreement |
| SDC | Social Development Committee (Committee for Social Development) |
| SMT | Senior Management Team |
| SRO | Senior Responsible Owner |
| TOA | Treasury Officer of Accounts |
| TOG | Top of the Group |

NIAO Briefing Paper

Briefing document – Social Development Committee

Relating to:

- Strand 1 : Decision making relating to the award modification and cancellation of NIHE maintenance contracts to establish any impropriety or irregularity and, in particular, whether the actions of Ministers were appropriate;
- Strand 3: The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous well documented failings in relation to procurement and contract management.

Our role

The NIAO has two main roles:

- A statutory requirement to provide an audit opinion on the truth and fairness of the figures contained in the annual accounts of public spending bodies and the regularity of the expenditure contained in those accounts. The aim of these audits is to obtain enough evidence to provide assurance that the accounts are not materially misstated and monies are spent in line with Assembly intentions; and
- To carry out more detailed examinations and reports on specific issues to report on whether economy, effectiveness and efficiency has been achieved in the use of public funds.

Our 2012 report was a detailed VFM study which initially followed up on specific concerns relating to response maintenance raised by whistleblowers in respect of Red Sky. However, during our investigation we identified concerns across the whole area of response maintenance contract management. The detailed NIAO report was followed by a PAC session and report. A summary of our report is attached as Appendix A; Appendix B sets out the time line for our involvement with NIHE in relation to Red Sky.

In addition to one-off VFM reports, we carry out an audit annually on the accounts of all public sector bodies, including the NIHE. This includes giving an opinion on the regularity of the money spent in the year i.e. whether it has been spent properly in line with the intentions of the Assembly. For the year to 31 March 2011 we qualified our opinion on response maintenance and in 2012, 2013 and 2014 qualified our opinion on both planned and response maintenance. In each of these years we also produced a report, published along with the accounts, explaining the issues leading to the qualification. In addition, as is the case with all annual audits, a Report to those charged with governance has been produced each year with recommendations for improvement across all areas of internal control, including procurement and project management.

Background

Significant issues have been identified relating to NIHE's systems for managing its contractors involved in response and planned maintenance work and we have reported on these since 2011. The issues have arisen from a failure by NIHE to ensure that the work it was paying for has been carried out to the required standard and at the correct price.

There are numerous reasons why these problems were allowed to arise but they included:

- Poor contractor performance being allowed to go unchallenged;
- Key performance indicators set to manage the contracts not being objective;

- Inadequate action being taken to address potential overpayments when they were identified;
- The units set up to ensure that appropriate inspections of work were being carried out (Repairs Inspection Unit and Scheme Inspection Unit) were not independent of the part of NIHE managing the contracts. There were a number of areas where reports provided by these units either did not go to the audit committee and board or did not adequately highlight significant issues; and
- Poor governance arrangements – although the arrangements were in place, in practice they were not working. There was significant challenge by management to draft reports and opinions provided by RIU/SIU (now part of the Central Assurance Unit – CAU) and internal audit; insufficient information on contract management was provided to the Board and the Board/audit committee were inundated with large volumes of papers which didn't focus on strategic issues.

A summary of the specific issues and the degree to which they have been addressed are discussed in the sections below:

1 Response Maintenance

For response maintenance district offices are required to carry out on-site inspections of a sample of work done by contractors and ensure it is satisfactory before payments are made. If problems are identified they must be rectified prior to payment and the results of these inspections feed into key performance indicators. Under the latest contracts these results can be used to impose financial penalties and potentially, following escalation procedures, lead to contract termination.

Results of inspections since 2010-11

Assurance over the quality of the inspection processes applied by the district offices is provided through targeted inspections carried out by the CAU who give an overall rating. In the last number of years the results of these inspections have been:

Table 1 – Results of response maintenance district office inspections since 2010-11

| | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|--------------|----------------|----------------|----------------|----------------|
| | % | % | % | % |
| Substantial | 70 | - | - | 14 |
| Satisfactory | 30 | 50 | 8 | 46 |
| Limited | - | 29 | 25 | 31 |
| Unacceptable | - | 21 | 67 | 9 |
| | <i>Note 1</i> | <i>Note 2</i> | <i>Note 2</i> | |

Note 1 – this is under a new methodology which has changed scoring performance and moved to statistical sampling. We reviewed this new methodology and were content that it had been properly reviewed and considered by NIHE senior management. We also noted that when NIHE applied the new methodology to inspections in previous years the results would not have changed significantly.

Note 2 – in both 2012-13 and 2011-12 CAU did not carry out a full range of inspections in all the district offices – in each year only about half the offices were visited and inspected due to resource issues.

We have reviewed the work done by CAU so that we can rely on it for the purposes of our audit. This involved a review of the qualifications and experience of the people in CAU, a review of their working papers and shadowing of their inspection visits. While we are not technical experts, our review did not identify any significant issues relating to CAU's work on response maintenance.

Explanations for the improvement

The substantial improvement over the last few years is explained by a number of steps undertaken within the NIHE, including:

- Increased awareness of contract management issues at all levels within NIHE following the well publicised issues over the previous years;
- Establishment of an intervention team during 2012-13 to visit offices with poor performance to develop improvement plans. This team focussed on the reasons behind the poor performance to ensure that they were addressed and improvements made;
- Improved training to all staff;
- Appointment of contract managers and monthly reporting of contract performance;
- Increased disciplinary action for non-compliance with inspection procedures;
- The CAU is now independent of the part of NIHE which carries out response and planned maintenance work. There is also evidence that its reports are being cleared more quickly and that there is less challenge from senior management to their findings; and
- CAU is merging with Internal Audit and this will add to the independence of the unit and remove the possibility of duplication of work.

2013-14 audit opinion remains qualified

Despite this improvement in response maintenance we have again qualified our audit opinion for 2013-14 on the expenditure in this area because:

- For many years there has not been a review by CAU of heating response maintenance work carried out because they did not have the expertise within the unit to carry out the work. For 2013-14 CAU completed audits on two out of twelve areas and in each of these their opinion was limited. NIHE have told us that they expect to carry out a full inspection programme in 2014-15;
- This is the first year that CAU's work has identified a substantial improvement in the general response maintenance contract management and we would wish to see this sustained before removing our qualification; and
- As discussed below, NIHE has some concerns regarding the ratings that have been given to the inspection of some planned maintenance inspections and as a result have instituted a due diligence review of the CAU work by the Head of Internal Audit. While this work does not directly impact on response maintenance it does inevitably cast some doubt on CAU's work in this area also and has contributed to our decision to continue to qualify.

Gateway 5 review

The recent Gateway 5 review by the Office of Government Commerce has also confirmed the evidence of improved contractor performance. It did however point out that the KPI administration was onerous for both the contractors and NIHE and needed to be simplified and that the current assurance process needed to be reviewed as the contract progresses.

We accept that the current system could be simplified to reflect the key issues of importance to NIHE (the right quality, price and timeliness). In addition we have been advised that there have been instances where the pressure on district offices to manage contracts properly

has led them to inflexibly follow the letter of the law rather than the spirit of the contract. However we do feel however that in general the current level of assurance is appropriate at present and can be reassessed when new procedures and inspection results are bedded in completely.

Summary – response maintenance

We are satisfied that there has been a significant degree of improvement evident in the management of response maintenance contracts over the last few years. We have indicated that if the improvements identified so far continue and heating maintenance is included within the programme of inspections then we could remove the qualification in this area in 2014-15.

2 Planned Maintenance

Planned maintenance expenditure relates to larger schemes of maintenance which maintain the housing stock over time such as painting, boiler replacement, kitchens and double glazing. As with response maintenance there have been significant concerns relating to the management of these schemes for some time. The inspection process for these schemes is carried out at district level and then in order to get assurance over the quality of the district's inspection CAU review and report on a proportion of this work. The results of this work over the last few years has been:

Table 2 - Results of planned maintenance scheme inspections since 2011-12

| | 2013-14 % | 2012-13 % | 2011-12 % |
|--------------------------|---------------------|---------------------|---------------------|
| Substantial/Satisfactory | 86 | 39 | 45 |
| Limited | 5 | 31 | 45 |
| Unacceptable | 9 | 30 | 10 |

As with response maintenance, we reviewed the work done by CAU so that we could rely on it for the purposes of our audit. This involved review of the qualifications and experience of the people in CAU, a review of their working papers and shadowing of their inspection visits. While we are not technical experts, we found that the work carried out in relation to planned maintenance was in line with CAU's methodology. However we did have some significant concerns:

- CAU has not had a quantity surveyor available for its inspections over the last few years. Therefore the work that they are able to provide an opinion on relates to the quality of the work done and not the financial position i.e. they do not provide an assessment of the inspection to ensure that only work that has been properly completed is paid for. Therefore we feel the results of the CAU work do not give a full picture;
- A recent issue has emerged following concerns raised by a whistleblower in relation to planned maintenance schemes in one area. These were investigated and as a result two employees were dismissed. NIHE identified that these issues had not been identified by CAU who had in fact given the area a satisfactory rating. As a result NIHE have commenced a due diligence exercise into the appropriateness of the methodology and the reporting of planned maintenance inspection results in 2013-14. This exercise has placed some doubt over the results reported by CAU in relation to planned maintenance; and
- Heating maintenance makes up 28% of planned maintenance expenditure but this year the CAU planned work in this area had to be suspended because staff were needed to follow up a separate investigation. Therefore there was no assurance in this area.

New planned maintenance contracts

New contracts have been established for planned maintenance and have been in place since the middle of this year. It is anticipated that the new contracts will help ensure that the issues that have arisen in the past do not recur.

Under the new contracts consultants will be employed as scheme managers to design schemes, agree costs and approve work done. This is then subject to monitoring by Housing Executive staff. The Housing Executive have told us that they expect that these new processes will reduce the risk of contractors inflating work content and also transfer some of the risks with scheme design to consultants who will have to meet KPIs or else suffer financial consequences.

As the contract had not commenced during our last audit year (2013-14) we have not yet looked at the new planned maintenance contracts but they will be examined in detail as part of our audit next year.

Summary- planned maintenance

There has been some progress in dealing with issues in planned maintenance but the work is not as far progressed as in response maintenance. In particular there are significant concerns relating to the assurance provided by CAU given the lack of a quantity surveyor in the team and the ongoing internal due diligence review. In addition heating maintenance which has made up a large proportion of planned maintenance expenditure has not been subject to review at all this year. We have therefore continued to qualify our audit opinion on planned maintenance as we have done for several years now.

3 Other issues**The overpayment in relation to planned maintenance**

We have reported on this in some detail in part 3 of our report on the accounts for 2013-14 (included with this briefing). This report has provided the background to the overpayment, how the £18 million figure was estimated by NIHE in June 2013 and how the eventual settlement with the contractors was reached. The report also includes a detailed timeline.

Procurement

There have been issues in the past in relation to how NIHE has procured its work. In particular an issue has been that contractors have often sought to price their tenders very keenly in order to win the contracts and then seek to gain additional add-ons once they are appointed. In some cases the prices charged by contractors has been unrealistically low and contractors have gone into administration. Where this has happened their work has had to be taken on by the NIHE's direct labour organisation.

We reviewed NIHE's procurement process for the new response maintenance contract and were satisfied that it had been properly carried out. In relation to the new planned maintenance contracts we have not yet subjected them to audit as they fell outside the current period.

The role of the Department

The Department has played an important role in ensuring that the issues that have arisen are being dealt with. In particular:

- The regular accountability meetings between DSD and NIHE have ensured that a focus has been kept on dealing with very important issues. In particular DSD has had a close involvement in monitoring the implementation and achievement of the recommendations in the 2012 VFM report, the PAC report and our reports to those charged with governance;

- The requirement for DSD to get draft copies of internal audit and CAU draft reports has helped reduce the possibility of internal management pressure on those units; and
- DSD representatives attend the NIHE audit committee

Appendix A

Brief for the Social Development Committee

Summary of NIAO Report: NIHE Management of Response Maintenance Contracts (4 September 2012)

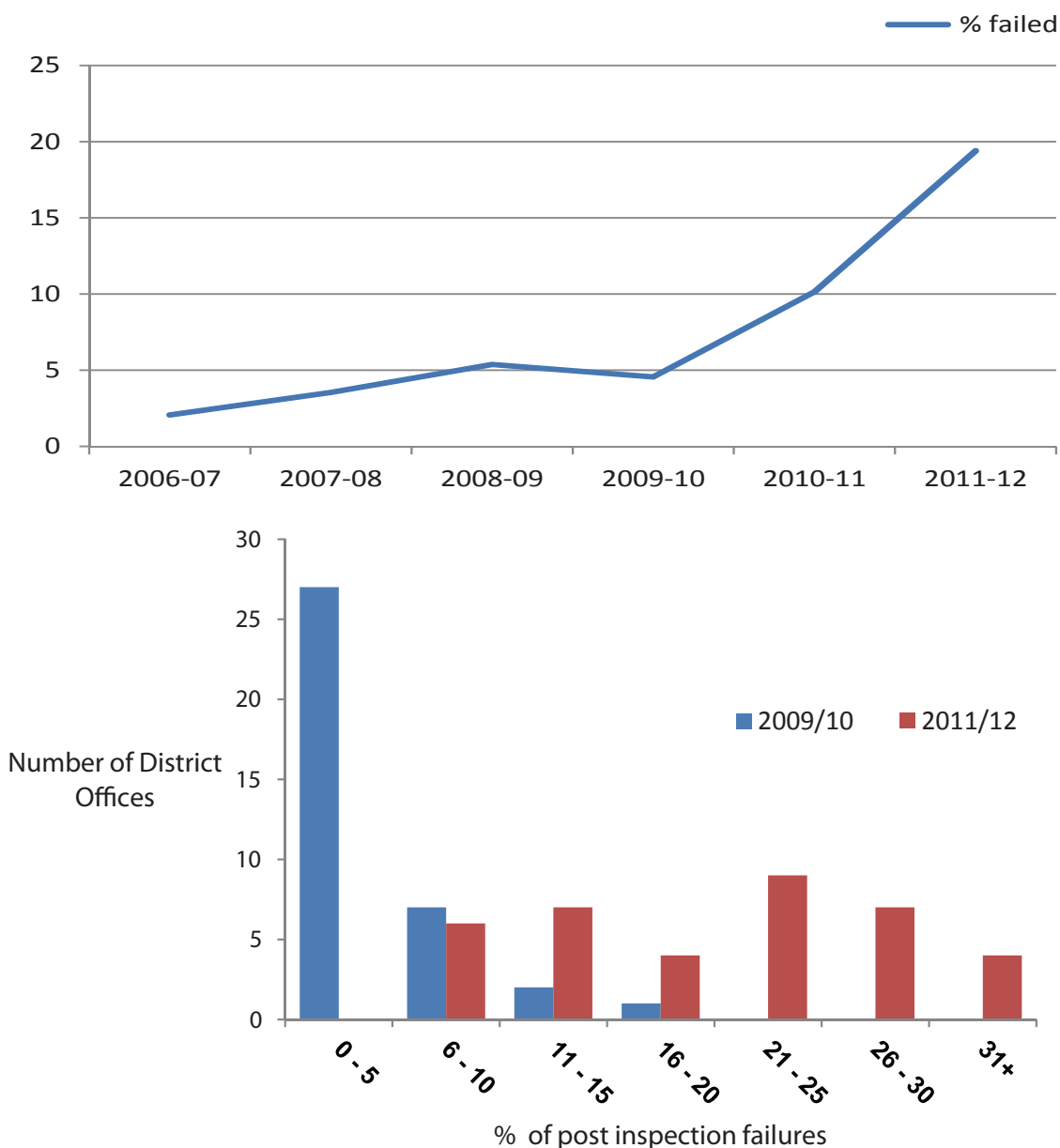
1. The Northern Ireland Housing Executive (NIHE) is the largest landlord in Northern Ireland and is responsible for the management and maintenance of some 90,000 homes. It has an annual budget of some £750 million of which around £50 million relates to response maintenance. It is also one of eight public bodies designated as Centres of Procurement Expertise.
2. Since 2009, significant concerns had been raised by whistleblowers, MLAs and the media in relation to the governance of NIHE and in particular its procurement processes and the management of contracts. In the period 2009 to 2011, NIHE and the Department for Social Development carried out a number of reviews. These found a range of failings and weaknesses in the governance of NIHE and in the management of contracts. In July 2011, following lengthy investigation, NIHE terminated its response maintenance contracts with Red Sky. These contracts were worth some £7 million a year.
3. The problems identified in Red Sky were indicative of much wider and systemic problems across all maintenance contracts and of wider governance deficiencies. These had been evident to NIHE senior management for many years having been identified in previous investigations and through the work of NIHE's Repairs Inspection Unit (RIU) and Internal Audit. However, NIHE senior management failed to effectively address the problems that had been identified.
4. The result has been a loss of public funds and poor standard of work carried out for tenants. Furthermore, the weaknesses in assessment, reporting and management oversight, particularly at a high level within NIHE, left the organisation exposed to impropriety and fraud.
5. On paper the governance arrangements in place in NIHE were reasonably good. However, the nature and scope of the failings identified in the NIAO and other reviews have demonstrated that, in practice, these did not work. In addition, a culture of accountability was absent in NIHE and indeed there was evidence to suggest that some members of senior management actively undermined the system of checks and balances that had been put in place. For example, while summarised reports of RIU findings were provided to the NIHE Audit Committee and Board, significant issues were glossed over or not adequately highlighted or addressed. In addition, Internal Audit experienced difficulties in agreeing reports which gave less than a satisfactory audit opinion.
6. Furthermore, NIHE Board business had not always ensured there was adequate scrutiny of contract management. In the 5 years prior to 2010-11, there was limited specific reference to contract expenditure monitoring or reporting in Board papers. In addition, NIHE Board and Audit Committee meetings generally covered a wide range of issues. However, the agenda for meetings included large numbers of papers which did not necessarily focus on key strategic issues; it is possible that the large volume of papers and lengthy agenda meant that important business and scrutiny of performance did not get due attention.
7. Our report highlighted that the investigation and subsequent reporting of serious concerns within NIHE was poor and there appeared to be inconsistencies in the application of disciplinary procedures. In addition, there was a perception that whistleblowers and staff who raised concerns about the performance of contractors in the course of their work had not always received the support they deserved.
8. Reporting fraud to the Department of Finance and Personnel and the C&AG is an integral part of the overall process for managing the risk of fraud in the public sector. However, in 2010-

11, only 2 out of 22 ongoing fraud investigations in NIHE, had been formally notified to C&AG by DSD.

Overview of Part 1 – Management of Response Maintenance Contracts

1. Before 2001, repairs work for NIHE was undertaken by a large number of single trade contractors. In 2001, NIHE adopted the Egan principles for contracting; this approach included partnering concepts and use of Key Performance Indicators (KPIs) which NIHE believed would lead to improvements in the performance of contractors and in the prevention of fraud. However, NIHE's application of the Egan partnership approach had inherent weaknesses. A review by Internal Audit in 2010 found that:
 - KPIs had not been objective;
 - measures for KPIs had not been independently validated;
 - because of the subjectivity of KPIs and lack of validation process poor performance has been difficult to pursue against contractors – this was evident in NIHE's handling of the Red Sky contract (see paragraph 5 below).
2. In our opinion this, combined with laxity of organisational culture, contributed to a range of problems which impacted on the delivery of services for tenants and value for money:
 - duplicate orders approved despite alerts being raised by NIHE's management systems;
 - post-completion inspections not carried out by District staff but recorded as having been done;
 - poor work not challenged yet approved for payment;
 - excessive hospitality accepted; and
 - maintenance staff who have challenged contractors' performance have, in some cases, not received adequate support from NIHE management.
3. Following the commencement of our investigation NIHE reviewed the performance of the 16 contractors providing response maintenance over the period April 2011 to March 2012:
 - 1 in 5 inspections recorded a failure;
 - for 13 contractors, the fail rate was greater than NIHE's target of 10 percent ranging from 14.8 percent to 32 percent;
 - this contrasted with overall rates of 2 percent to 5 percent in the period 2006-07 to 2009-10 (see Figure 1);
 - the significant increase in failures was due to accuracy of contractor invoices now being recorded – such errors had not previously been recorded as they were not used as a measure of contractor performance.
4. New contracting processes, which are intended to address weaknesses, were introduced by NIHE following the letting of new response maintenance contracts let from August 2012. Under these new arrangements, performance is assessed on a monthly basis with an annual review of each contract to monitor overall performance. KPI failures may be considered as a breach of contract and damages applied if a cost has been incurred by NIHE.

Figure 1: The percentage of failed post-inspections of response maintenance jobs recorded by NIHE maintenance officers increased significantly in 2010-11 and 2011-12



5. **Red Sky:** in July 2011, NIHE terminated its response maintenance contract with Red Sky. This followed lengthy and detailed investigations into its performance. The contractual relationships between NIHE and Red Sky, including its previous related trading entities, dates back to the mid 1990s. At that time NIHE had concerns about alleged continual overcharging and claiming for additional works. Since then, there have been a series of concerns and investigations involving the company, including NIHE staff accepting excessive hospitality, overcharging, disputes over outstanding payments, and additional unnecessary work being undertaken:
- A 2006 investigation, prompted by an anonymous allegation, identified overpayments totalling £264,000 – settled, following negotiation, for £20,000.
 - A 2009 investigation, prompted by concerns raised by a whistleblower, identified around £10,000 of overpayments across all five Districts in which Red Sky worked.
 - However, as a result of continuing concerns NIAO pressed NIHE to carry out a further forensic investigation (undertaken by ASM Horwath). Based on a sample of jobs examined over the period May 2008 to October 2009, ASM Horwath estimated the total level of

overpayments to be £924,000. However, based on legal advice, NIHE could only recover the specific actual overpayments identified which amounted to £35,000.

- In response to the Horwath report, NIHE carried out seven further in-depth investigations of the Red Sky maintenance contracts. These uncovered significant over-claims to the value of £573,000 for a 30-month period (January 2009 to July 2011).
 - In April 2011, NIHE gave Red Sky three months' notice that it intended to terminate all its contracts. Red Sky went into administration after this announcement and the contracts were terminated in July 2011.
 - At March 2012, additional problems with the quality of electrical work undertaken by Red Sky were identified by NIHE. It anticipated that testing for these defects would cost at least £150,000 with further expenditure required to remedy the defects.
6. The Red Sky case also raised concerns about the role of NIHE Maintenance Officers in inspecting work and, in some cases, failing to challenge poor work or identifying work claimed for but which had not been carried out. This is dealt with in more detail in Part 2. In addition, it also raised questions about the role of Constructionline, a company which assesses a contractor's ability to undertake public sector contracts; in the case of Red Sky it made its assessment on the basis unaudited management accounts.

Overview of Part Two: Inspection of Repairs and Maintenance Work

1. At the time of our report NIHE employed some 150 District maintenance and agency staff to carry out pre-inspection of work requests and post-inspection of work carried out by contractors. The results of post-inspection work feed directly into Key Performance Indicators which are used to assess contractor performance. The KPIs showed that, with a few exceptions, contractors were performing well. Total costs for these staff were in excess of £5 million a year.
2. In addition to the District inspection process, NIHE's Repairs Inspection Unit (RIU) carried out annual technical and management inspections of the maintenance functions across all 35 District Offices. These inspections assessed District maintenance performance under four key headings:
 - Contract Management;
 - Probity;
 - Inspections (on-site); and
 - Procedures.
3. The Contract Management, Probity and Procedures assessments were essentially concerned with compliance with controls, processes and procedures and generally accounted for 80 percent of the overall inspection score.
4. The on-site element of the assessment included inspection of a sample of maintenance jobs, including jobs that had been post-inspected by District maintenance staff and other jobs which had not required post-inspection. In this respect the RIU inspection also provided another perspective on contractor performance from that provided by the KPIs.
5. Based on RIU assessment criteria Districts could, and did, achieve a '**satisfactory**' overall assessment despite scoring poorly (in some cases zero) for the on-site inspection element. This fundamental flaw in RIU's methodology became more stark when the on-site inspection scores were considered separately – in 2009-10, **21** Districts out of **35** would have achieved an **Unacceptable** rating with a further **2** being assessed as **Limited**. Applying these assessments to 2009-10 response maintenance expenditure showed that out of £41.6 million, some £25 million was covered by an unacceptable classification.

6. The outcome of RIU inspections were considered by the Performance Review Group within NIHE's Housing and Regeneration Division. This Group also considered the Key Performance Indicator reports on contractor performance. However, no one appears to have made the connection, never mind challenged the inconsistencies, between the KPI reports and RIU's assessments.
7. Despite the serious nature of the RIU findings and the significant range of performance issues identified over a number of years, these were not adequately highlighted or addressed. For example, the minutes of Housing and Regeneration Performance Review Group meetings provided only a brief summary of discussions; these minutes, and not the RIU reports, were provided to the Chief Executive's Business Committee meeting.
8. Information on the details of the inspection programmes were not requested by this Committee and consequently, it did not see details of the outcome of inspections. Furthermore, no information was provided directly by RIU to the NIHE Board or Audit Committee; reports that were provided by NIHE senior management were also structured in a way which failed to highlight important issues.

Overview of Part 3 – Reporting of Fraud, Whistleblowing and Complaints

1. We found that NIHE had a robust whistleblowing policy which included an assurance that a whistleblower would not be at risk of losing their job or suffering any form of retribution.
2. However, we also found evidence of practices that were at odds with this policy which, at the very least, created a perception that staff who raised concerns about the performance of contractors would not be supported. For example, a full time member of staff was transferred from their post while in another a contract of employment of an agency worker was terminated. In one case we examined NIHE initiated a search of its IT system for words and phrases in an anonymous letter from a whistleblower to try to trace the writer; the line manager in the relevant district was asked which staff might have written the letter.
3. There were also inconsistencies in terms of disciplinary action taken against members of staff. For example, disciplinary actions issued for breach of the NIHE Code of Conduct ranged from a verbal warning to dismissal. The NIHE Fraud Policy Statement and Fraud Response Plan state that 'the Housing Executive will not accept any level of fraud or corruption from within or outside the organisation'. However, one member of staff found to have used NIHE time and resources to carry out work of a private nature received only a written warning.
4. Information obtained from complaints can provide an opportunity to improve services. However, only formal complaints, primarily those where letters had been addressed to the Chief Executive or Area Manager, were recorded on NIHE's Complaints Management System – there are approximately 500 formal complaints a year. We found that complaints made to local offices or through NIHE's Customer Service Unit were classified as informal complaints; there were a total of 9418 recorded informal complaints in 2011-12, with a further 8932 "recalls" made to contractors i.e. this is where a similar defect at a property is reported within 6 months of a repair being carried out.
5. Reporting fraud to the Department of Finance and Personnel and the C&AG is an integral part of the overall process for managing the risk of fraud in the public sector. Departments are required to report immediately to DFP and C&AG, all proven or suspected frauds, including attempted fraud, which affect their Department or sponsored Agencies and NDPBs However, in 2010-11, only 2 out of 22 ongoing fraud investigations in NIHE, had been formally notified to C&AG by DSD.

Overview of Part Four - Governance in NIHE

6. While there was evidence of systematic and well-documented governance arrangements in NIHE, the nature and scope of the failings identified by the various reviews, including NIAO's, has shown that these were not working in practice.
7. A December 2010 report commissioned by the Department on NIHE governance identified a range of critical control issues which weakened the structures of governance and their effective operation:
 - breaches of Standing Orders;
 - significant issues which should have been drawn to the attention of the Board were not highlighted in Board papers;
 - Internal Audit had difficulty in clearing with management any reports which had limited or unsatisfactory ratings; this was particularly prevalent in relation to the Housing and Regeneration Division which covered much of NIHE's core business; and
 - relying on the integrity of individuals and dependent on all relevant matters being properly routed through governance structures; within NIHE there has been a culture of no blame and important issues had not always been highlighted.
8. Having the right organisational structure is a critical element to achieving good governance. A key concern within NIHE was that the organisational structure created the circumstances where a single Director may have had excessive influence and control. Within NIHE, the Housing and Regeneration Division encompassed a large area of NIHE core business and it is likely that the Director of that Division held significant control in comparison to other Directors. While some steps were taken to mitigate this risk, for example, the establishment of the Corporate Assurance Unit and a Risk and Performance sub-committee of the Board, structural problems still existed – the Housing and Regeneration division dwarfed the other Divisions within the organisation.
9. In addition, good governance is dependent on having a culture which recognises and accepts accountability. This was absent in NIHE and indeed there was evidence to suggest that some members of senior management actively undermined the system of checks and balances that had been put in place. For example, while summarised reports of RIU findings were provided to the NIHE Audit Committee and Board, significant issues were glossed over or not adequately highlighted or addressed by NIHE management.
10. Another key issue was the independence of internal audit and inspection functions from the operational side of the business and their reporting lines to the Audit Committee and the Board. There is evidence that Internal Audit was put under significant pressure by senior management to change adverse audit opinions and in one case a critical audit report was suppressed.
11. At the time of our investigation Board business did not provide adequate scrutiny of contract management. In the five years up to 2010-11 there was limited reference in Board papers to contract expenditure monitoring or reporting. In addition, we found that Board and Audit Committee agendas were long, included large numbers of papers and did not focus on strategic objectives. It is likely that the regular large volume of papers and lengthy agenda meant that important business and scrutiny of performance did not get due attention.
12. Board members have a responsibility to exercise effective challenge on management. The Board must ensure that it is fully informed and it must receive timely and accurate information from management. In addition it is essential that Board members have a clear understanding and knowledge of the organisation's business activity. NIHE Board members did undertake site visits to observe specific areas of the business. However, it was not clear to us how the knowledge gained on such visits was applied at Board or Audit Committee meetings. For example, as happened within NIHE, where information was withheld or cursory in nature, members must have sufficient knowledge and understanding of the business to challenge management.

Appendix B

Requested Briefing: Role of NIAO in advising NIHE with regards to the Red Sky contract from 2006-11.

The following time line sets out our involvement with NIHE in relation to Red Sky (a detailed case study and chronology of events in relation to Red Sky can be found in pages 16-23 of our 4 September 2012 report):

- November 2008: The Public Accounts Committee contacted by a whistleblower with concerns about work being done by Red Sky. Concerns passed on to NIAO by PAC.
- NIAO write to whistleblower advising that we were already aware of contract difficulties with Red Sky and that these, together with issues raised by whistleblower, would be looked at as part of our audit of 2008-09 accounts. accounts.
- December 2008-March 2009: Issues discussed with NIHE Chief Executive
- April 2009: NIHE advise NIAO of intention to carry out detailed investigation of the Red Sky contract and associated work.
- NIAO confirm that it is content with proposal and that if any fraud identified the established arrangements for notifying the C&AG should apply.
- NIHE senior management ask NIHE's Repairs Inspection Unit (RIU) to investigate all Red Sky maintenance contracts.
- June 2009: RIU report back identifying around £10,000 of overpayments across all five Districts in which the company worked. RIU concluded that, "performance across contracts is variable and particular attention needs to be paid to East Belfast."
- Another whistleblower raises concerns with NIAO about Red Sky contracts.
- As a result of continuing concerns NIAO ask that NIHE carry out further forensic investigation of the work done by Red Sky.
- NIHE Audit Committee agrees that an independent examination should be carried out.
- August 2009: ASM Horwath provide proposal for forensic accounting service.
- NIAO raises concerns with NIHE scope of proposal.
- September 2009: NIHE write to NIAO addressing concerns.
- October 2009: NIAO briefs NIHE Internal Audit and ASM Horwath re concerns raised by whistleblowers in relation to Red Sky and need for these to be taken on board in proposed investigation.
- November 2009: Final Terms of Reference provided to NIAO.
- March 2010: ASM Howarth present draft report to NIHE Chief Executive: findings based on review of all work undertaken by Red Sky in period May 2008 to October 2009; based on sample of jobs examined, the extrapolated level of overpayments was estimated at £924,000.

Copy of draft report passed to NIAO.

| | |
|-----------------|--|
| March 2011: | NIAO advise NIHE Audit Committee of intention to carry out a review of response maintenance contracts. |
| April 2011: | NIHE give Red Sky three months' notice that it intended to terminate all its contracts |
| May 2011: | Copy of ASM Howarth report provided to NIAO. NIAO formally write and advise NIHE of value for money review and intention to present a report to N I Assembly. |
| July 2011: | Red Sky contracts terminated. |
| March 2012: | NIAO draft report forwarded to NIHE Chief Executive. |
| September 2012: | NIAO report published (4 Sept) PAC Evidence Session (12 Sept) |



Northern Ireland
Assembly

Appendix 4

Correspondence from the Department for Social Development

DSD Letter 31.01.14

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Dr Kevin Pelan
Committee Clerk
Committee for Social Development
Room 412
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Ballymiscaw
Belfast BT4 3XX

31 January 2014

Dear Kevin

Social Development Committee Inquiry – Phase 2

Thank you for your letter dated 27 January 2014 in relation to Phase 2 of the Inquiry.

Please find attached the final version of the terms of reference for the memorandum framework for Phase 2.

Yours sincerely



Susan McCarty

Terms of Reference – Social Development Committee Inquiry – Phase 2 Memorandum Framework

1. Background

The Committee for Social Development Terms of Reference for the Inquiry are:

- i. Decision making relating to the award, modification and cancellation of NIHE maintenance contracts to establish any impropriety or irregularity and, in particular, whether the actions of Ministers were appropriate.*
- ii. Allegations that the Committee was misled by the Minister for Social Development over his decision to seek a review of the specification for the supply and fitting of double glazing.*
- iii. The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.*

Should the Committee identify any evidence of corruption in relation to the operation of NIHE maintenance contracts and/or any actions indicating possible breaches of relevant codes of conduct, these will be reported directly to the appropriate authorities.

Phase 2 of the Inquiry will consider:

“The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.”

2. Purpose

To develop and prepare a memorandum, in line with Phase 2 of the Committee’s terms of reference, which sets out the key governance and oversight structures and processes in place between the Department for Social Development and the Northern Ireland Housing Executive. This is to enable the Social Development Committee to interpret the key documents and information that will also be provided.

3. Scope

The memorandum will set out the governance and oversight structures and processes that are in place and will identify the key actions taken since the Review of Governance in the Northern Ireland Housing Executive in December 2010. This will incorporate details relating to the Department’s role in identifying areas of concern, for example relating to financial management, contract management and governance, and the actions taken thereafter to secure improvements. This will be supported by the provision of the appropriate documents to the Committee.

4. Objectives

In line with Phase 2 of the Committee’s terms of reference:

- To provide a contextual overview to the Committee by way of a memorandum setting out the governance and oversight structures and processes in place between the Department and the Housing Executive, including actions taken to secure improvements.
- To provide the Committee with the relevant documents associated with the memorandum.
- To assist the Committee to interpret the context of the key documents and information provided.
- To assist the Committee to identify any other key documents or information they require to be made available.
- To ensure the Committee have access to all appropriate information and documentation to enable Phase 2 of the Inquiry to be completed.

5. Methodology

- i. Agree the terms of reference.
- ii. Prepare the memorandum in line with the agreed terms of reference.
- iii. Provide a timeline of key events.
- iv. Provide a list of and thereafter copies of key documents prepared during the period December 2010 to date.
- v. Assist the Committee to identify any additional key information and documentation required to complete Phase 2.

6. Timescales

To be completed by 24 February 2014

Phase 2 SDC Inquiry - List of key documents

| Title | Author | Date |
|--|---------------------------|---------------------|
| Managing Public Money Northern Ireland | DFP | |
| Management statement – Financial memorandum – Dossier of Controls with the Northern Ireland Housing Executive | DSD/NIHE | |
| DSD Arms Length Bodies - Sponsorship Manual | DSD | Revised August 2013 |
| A review of the process of sponsorship of the NIHE | DSD | 2009 |
| Review of Governance in the Northern Ireland Housing Executive | DSD | 8 Dec 2010 |
| Healthcheck Gateway Review of Egan Contracts 2010 | Independent Review | 10 Dec 2010 |
| Gateway Review 3 - Response Maintenance Contracts | Independent Review | 29 Sept 2011 |
| DSD Corporate Governance Framework | DSD | March 2012 |
| DSD Internal Audit Review of Arrangements for the operation of Independent Maintenance Inspection Function in NIHE | DSD | July 2012 |
| NIHE Special Accountability Measures | DSD | July 2012 |
| NIAO Report – NIHE management of response maintenance contracts | NIAO | September 2012 |
| NIHE Corporate Procurement Strategy | NIHE | Revised March 2013 |
| Public Accounts Committee- NIHE management of response maintenance contracts | Public Accounts Committee | March 2013 |
| ASM Report | DSD | April 2013 |
| DFP Memorandum of reply - NIHE management of response maintenance contracts | DFP | May 2013 |
| NIHE Corporate Governance Manual | NIHE | November 2013 |
| Review of Governance in the Northern Ireland Housing Executive - follow up report | DSD Internal Audit | December 2013 |

| Title | Author | Date |
|--|------------------------------|----------------------------|
| DSD - Report to those charged with Governance 2010; 2011; 2012 & 2013 | NIAO | 2010- 2013 |
| NIHE - Report to those charged with Governance 2010; 2011; 2012 & 2013 | NIAO | 2010 - 2013 |
| Procurement Strategy for the Social Housing Development Programme | DSD | |
| NIHE Planned Maintenance Contracts | NIHE/ Campbell Tickell | October 2013 |
| NIHE Planned Maintenance | NIHE/Moore McDonald | |
| NIHE Annual reports – 2010 -2013 | NIHE | 2010 - 2013 |
| DSD Resource Account Reports March 2010 – March 2013 | DSD | March 2010 – March 2013 |
| Stewardship statement guidance | DSD | June 2012 |
| Departmental policy on Risk Management | DSD | Revised March 2013 |

Letter to DSD 27.1.14

Committee for Social Development

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27 January 2014

Our Ref:CSD/ 022/2013/CMcC

Mr Billy Crawford
Department for Social Development
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1 Cromac Place
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Dear Billy,

Phase 2 Committee Inquiry

At the Committee meeting of 23 January 2014, the Committee considered the Department's draft Terms of Reference for the Memorandum Framework for Phase of the Inquiry.

The Committee agreed it was content for the Department to proceed with drafting a memorandum for consideration by the Committee as part of Phase 2 of the Inquiry.

The Committee also agreed a paper outlining the Committee's approach to Phase 2 of the Inquiry. A copy of this paper is enclosed for your information.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development

Enc.

Suggested Approach for Phase Two of Committee Inquiry

Introduction

Phase two of the Inquiry will address:

“The adequacy of actions proposed by the Minister, DSD and the NIHE to address previous, well documented failings in relation to procurement and contract management.”

Background

At its Committee meeting of 24 October 2013, the Committee considered the scoping paper for Phase 2 of the Inquiry. The Committee agreed that they were content with the proposed timetable and methodology for Phase 2 of the Inquiry. The approach agreed by the Committee at its meeting of 24 October 2013 was to begin with consideration of the current situation and then review reports and subsequent actions from previous years.

At the Committee meeting of 9 January 2014, the Permanent Secretary Will Haire gave an undertaking to improve the system for sending the Committee information during the course of the Inquiry. In his evidence Mr Haire acknowledged that Phase 2 could potentially be a huge task given the vast amount of documentation available.

The Department has therefore undertaken to develop and prepare a memorandum, in line with the Terms of Reference for Phase 2 of the Committee’s Inquiry, which will set the governance and oversight structures and processes that are in place and will identify the key actions taken since the Review of Governance in the NIHE in 2010.

Since 2009, significant concerns have been raised by whistleblowers, MLAs and the media in relation to the governance of the NIHE and in particular its procurement processes and the management of contracts.

The Department has provided the Committee with a list of 26 suggested key documents and undertaken to assist the Committee to identify any other key documents or information that the Committee may require throughout the course of the Inquiry.

Methodology

In Phase 2 of the Inquiry the Committee are required to assess the adequacy of actions proposed by the Minister, DSD and the NIHE to address previous well documented failings in relation to procurement and contract management.

As this list of failings in respect of procurement and contract management were compiled following extensive research and analysis by Internal Audit within DSD and NIHE, DFP, NIAO and external consultants, the Committee may wish to consider inviting these bodies to provide the Committee with an assessment as to how well these failings have been addressed.

It is anticipated that these bodies will have better knowledge of how the failings arose and will also have the necessary expertise and knowledge of best practice guidelines in respect of procurement and contract management in public bodies.

Therefore, it is envisaged that these bodies will be better positioned to provide the Committee with a more detailed and accurate analysis of the adequacy and sustainability of the actions undertaken by the Minister, DSD and the NIHE.

Should the Committee indicate its approval of the above approach, it is proposed that Phase 2 of the Inquiry will proceed as follows:

- the Committee will write to the Department to indicate if it is content with the Department's draft Terms of Reference for the Memorandum Framework for Phase Two and request copies of all 26 key reports suggested by the Department;
- the Committee will write to the Public Accounts Committee to request copies of all material used to compile their "Report on the NIHE: Management of Response Maintenance Contracts" 20 February 2013;
- the Committee staff will review the key reports carried out in respect of procurement and contract management since 2010 and summarise the key well documented failings;
- the Committee will then review the Department's memorandum which will set out the actions taken by the Minister, DSD and the NIHE to address these failings;
- evidence sessions with relevant officials to brief the Committee and answer questions in respect of the actions detailed in the memorandum;
- the Committee will invite the authors of the key reports to brief the Committee on their assessment of the adequacy of the actions undertaken by the Minister, DSD and the NIHE; and
- The Committee will carry out an initial review of evidence and consider further written or oral briefings are required.

List of Potential Witnesses¹:

The Committee may wish to consider inviting the following list of witnesses to give evidence to the Committee:

- Minister McCausland
- Will Haire – Permanent Secretary, Accounting Officer and Chair of the Oversight Group responsible for ensuring the effective implementation of the recommendations from the 2010 Governance Review.
- Senior Officials from DSD Housing Division
- Senior Officials from NIHE
- Chairman of NIHE Board
- Head of DSD Internal Audit
- Head of NIHE Internal Audit
- Senior Officials from the NIAO who had responsibility for the NIAO Report on NIHE Management of Response Maintenance Contracts
- Senior Officials from the DFP Performance and Efficiency Delivery Unit
- Senior Management external consultants appointed to carry out reviews
- Contractors engaged in maintenance work in the NIHE

This is not an exhaustive list of witnesses, and it is expected that following the initial review of evidence, the Committee may wish to invite further witnesses.

¹ See Appendix One for list of officials the Committee agreed it would call after its consideration of scoping paper 2 on 24 October 2013

Appendix One

Week One

- Will Haire (Feb 2010 – present) Permanent Secretary
- Jim Wilkinson (May 2011 – present) Director of Housing
- John McPeake (Sept 2011 – present) Chief Executive
- Gerry Flynn (present) Director of Housing and Regeneration Division
- Siobhan McCauley (April 2012 – present) Director of Design and Property Services Division

The Committee may wish to ascertain the current status of developments including the internal audit carried out over the summer and autumn.

Week Two

DSD Ministers:

- Nelson McCausland(16 May 2011 - present)

The Committee will wish to decide if it is to call the current Minister only or previous Ministers also. This may depend on its approach to hearing other witnesses.

DSD Letter 03.07.14

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Dr Kevin Pelan
Committee Clerk
Committee for Social Development
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3 July 2014

Dear Kevin

Thank you for your letter dated 11 June 2014 in which the Committee has asked the Housing Executive to provide indicative figures of what the cost will be to the Housing Executive of taking on additional employees as a result of contractors going into administration.

The Housing Executive has advised as follows;-

In 2012/13, the salary bill for the Housing Executive's Direct Labour Organisation (DLO) was £4.4 million. At that time the workforce numbered about 180 employees. During 2013/14, as a result of the transfer of work previously undertaken by the former contractors in administration, the workforce increased to 436 by year end. This increase, some 140%, was due mainly to staff transferred under TUPE regulations but there was also an increase in agency staff as one of the contractors had made extensive use of sub-contractors rather than direct employees. As a result of these changes, the salary bill for the DLO is expected to be around £11.1 million in 2014/15, an increase of some £6.7 million, or 150%, on the DLO baseline before expansion.

The increase in salary costs is due primarily to the significantly increased workforce. This also has an impact on employer's pension costs as DLO employees are eligible, in common with other Housing Executive employees, to join the NILGOSC pension scheme. The employer's contribution is currently 20% of salary costs.

However, the DLO has ensured that the Housing Executive continues to provide a full response maintenance service to tenants in North Belfast, South Belfast, West Belfast, Shankill, and Portadown despite the contractors being unable to stay in business.

The initial priority for the Housing Executive was to ensure that the quality and range of service to tenants was acceptable but now that this has been achieved efforts are being concentrated around the provision of a safe working environment, risk management and the financial costs of the expanded workforce. To this end, the Housing Executive has established a DLO Progress and Development Committee to assist the Board to scrutinise and oversee the in-house resource to ensure that risks are managed and that it delivers a quality competitive service which provides value for money. This Committee is responsible for providing assurance to the Board on the effectiveness and efficiency of management, performance, governance, and compliance control in the Direct Labour Organisation.

I hope this information is helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read "Susan McCarty". The signature is fluid and cursive, with a large loop at the end of the last name.

Susan McCarty

Letter to DSD 11.06.2014

Committee for Social Development

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Our Ref: CSD/022/2013/2/SK

Mr Billy Crawford
Department for Social Development
Lighthouse Building
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Belfast BT7 2JB

11 June 2014

Dear Billy,

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.

At its meeting on 5 June 2014, the Committee for Social Development received oral evidence from the Chair of the NIHE and the Chair of the NIHE Audit Committee in respect of Phase 2 of the Committee's inquiry.

The Committee has asked that the officials provide indicative figures of what the cost will be to the NIHE of taking on additional employees as a result of contractors going into administration.

I would be grateful if you could provide a response within 10 working days of receipt of this letter.

On behalf of the Committee I would like to convey my thanks to Mr Hoodless and Professor Roberts particularly for giving evidence vital to the Committee's Inquiry.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan
Clerk, Committee for Social Development

DSD Letter 21.08.14

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Dr Kevin Pelan
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21 August 2014

Dear Kevin

SDC Inquiry Phase 2 – Follow-Up Information Request

I refer to your letter dated 9 July 2014 in which you advised that the Committee have requested further information on a number of issues in relation to Phase 2 that were not covered during the evidence session attended by Mags Lightbody, Siobhan McCauley and Gerry Flynn on 8 May 2014.

Responses from the NIHE to the questions asked are attached at Annex A.

Yours sincerely



Susan McCarty

Annex A

- 1 You have provided an overview of what steps the Housing Executive has taken to address the well documented failings in procurement and contract management, yet the Comptroller and Auditor General qualified his opinion on the NIHE 2012-13 accounts for the second consecutive year because significant weaknesses continue to be identified in the Housing Executive's control over work done by contractors on its response and planned maintenance contracts.**

a. What steps has the Housing Executive taken to address the issues identified by the NI Audit Office?

The Committee will be aware that a new senior management team has been in place from April 2014 and one of its priorities has been to conclude all the issues relating to contract management. We have recently concluded a settlement with our planned maintenance contractors regarding the dispute over alleged overpayments.

Importantly, we are implementing improvement plans for Planned and Response Maintenance which will strengthen contract management. We are also devising our own excellence strategy for our asset management function as part of our Journey to Excellence programme to transform this function into what we need going forward to become an exemplar in asset management.

The senior management team is regularly provided with a reporting schedule of Audit and Assurance reports in contracts and this enables effective monitoring and reporting. Progress is also reported to the Audit and Risk Assurance Committee (ARAC) on a quarterly basis.

Going forward, the new Audit and Assurance Department will continue to deliver an independent inspection programme designed to provide assurance on the delivery of response and planned maintenance contracts. The unit will review its inspection methodologies to ensure alignment with the contracts and contract delivery processes as these evolve within the new Asset Management Division.

b. What assurances can NIHE Senior Management give us that the critical NIAO recommendations are being given due consideration and priority within the NIHE?

Senior management can give assurance that critical recommendations from NIAO are being given due consideration and priority. The Audit and Assurance Department maintains a 'Recommendations Monitor' for all internal and external recommendations. This monitor allocates an 'owner' to each recommendation and monitors progress against implementation deadline. The monitor is updated and presented to the ARAC on a quarterly basis.

The Finance Division also maintains a monitor for the purpose of tracking the implementation of all NIAO accounting recommendations.

At the request of the Chief Executive, the Head of Audit and Assurance is overseeing a review of all outstanding priority 1 recommendations (including those made by NIAO) to ensure these are implemented by the end of 2014/15.

c. Can we expect a number of these recommendations to be ongoing in the 2013-14 Report?

NIAO have indicated in the draft report for 2013-14 that they are content there has been considerable progress in our management of response and planned maintenance contracts. However, these improvements need further time to bed in so it is, therefore, likely there may be on-going recommendations in the 2013-14 report.

2 In the 2012-13 NIAO Report to Those Charged with Governance the C&AG expressed concern about the number of inspections being carried out by the CAU- only 26 out of the 35 Districts inspected over a two year period. The C&AG indicated that management have insufficient assurance that the improvements they are trying to implement are working if sufficient CAU inspections are not happening on a regular basis. The C&AG warned that until the CAU are able to fully complete their programme of work it is likely that he will continue to qualify his opinion on the regularity of maintenance expenditure. In light of this significant implication, what steps are the Housing Executive taking to ensure that best use is made of the Corporate Assurance Unit as recommended in the 2010 Review of Governance in the NIHE?

There has been considerable restructuring of the Corporate Assurance Unit (CAU) aimed at strengthening its skills set and improving inspection methodologies including:

- The merging of both the CAU and Internal Audit Department as a result of the recommendations made in the Campbell Tickell review.
- Progress in recruitment of appropriate staff and developments in reporting.
- Results of inspection programmes completed by the CAU are reported at the quarterly ARAC meetings and the Board is presented with Annual Statement of CAU findings at year end.
- The recruitment of a Performance Measurement Officer to identify areas of potential concern to direct the work of inspection teams.

The merging of Internal Audit and CAU will ensure the work of the audit and technical inspection teams are aligned to each other and co-ordinated to provide adequate coverage of organisational risks to ensure management have sufficient levels of assurance.

3 In its report, the Public Accounts Committee (PAC) recommended that detailed information on the results and timeliness of inspections carried out by the CAU is reported to the NIHE Board and Audit Committee who must assure themselves that payments are being made promptly to all contractors. However, in the 2012-13 NIAO Report to Those Charged with Governance the C&AG expressed concern about the delay by the CAU in producing draft reports following inspection units as a result of resource pressures on the Unit. What steps are NIHE senior management taking to ensure that this Unit is properly resourced and supported in the future in line with both PAC and NIAO recommendations?

While delays occurred in the clearance of CAU reports in 2012/13, a robust reporting protocol was introduced to prevent delays in the reporting process. This sets out the requirements for CAU and operational management in the production and response to CAU reports.

KPIs, including report clearance targets, have been developed and have been reported to the ARAC since April 2014. Having reviewed the reporting timelines for completed CAU inspections in 2013/14, we would confirm that these had been actioned within the appropriate timescales.

Following the merger of the Audit and Assurance Department, a key component of the implementation project is currently looking at the resource and skills requirements of the new service to enable delivery of its programmes. This will ensure that the new unit meets the assurance needs of the business, whilst continuing to address external NIAO/ PAC recommendations.

- 4 We understand that new criteria based Key Performance Indicators have been introduced into the new response maintenance contracts let in August 2012. However, it is also understood that these new indicators have been challenged by contractors with one of the new response contractors and another voluntarily withdrawing from a contract. In their report 2013, the PAC expressed concern about contractors' ability to deliver a good quality response maintenance service at the prices tendered. What steps are the NIHE taking to ensure that all future NIHE contracts are tendered at sustainable prices for contractors to prevent the risk that contractors may cut corners, or has happened in the past run into financial difficulty and go out of business?**

The Housing Executive ensures that it is up to date with all legislative and good practice guidance with regards to procurement practice. The Housing Executive applies the processes in DFP's Procurement Guidance Note (PGN) 03/13 – Abnormally Low Tenders - to seek reassurance in accordance with the regulations and to satisfy itself there is reasonable justification for the price tendered.

From August 2014, any variance from OGC guidance in relation to a tender award that falls below parameters on abnormally low tenders will require approval by the Chief Executive's Business Committee where clear rationale and business assurance would be required to support any approval.

Arising out of the OGC Gateway 5 Review, the Housing Executive is reviewing all contract KPIs to ensure a robust performance management regime is in place to allow for effective management and delivery of the contracts.

- 5 In its report, on NIHE Management of Response Contracts and the subsequent PAC report in March 2013, concern was expressed that the significant failings found in the management of response maintenance contracts may extend into other areas of NIHE work including planned maintenance, kitchen replacement, heating schemes, window replacement and land deals. Can the NIHE confirm whether investigations are being carried out in other areas of the Housing Executive work activities in respect of procurement and contract management?**

A review has been completed of all live response maintenance contracts.

With regard to planned maintenance contracts, with the contractors settlement now approved, work is underway to ensure appropriate scrutiny and close out of all contracts under the old contract arrangements.

The old form of contract has been replaced by new contract arrangements with contracts now awarded and programmes of work commencing on site.

- 6 The NIAO report on the management of response maintenance contracts within the NIHE, highlighted serious concerns in respect of NIHE treatment of whistle-blowers. The PAC in its subsequent report recommended that senior management in the Housing Executive must send out a clear message to staff that organisation is not a cold place for whistle-blowers and demonstrate that concerns raised will be taken seriously and properly investigated. To what extent do senior management consider that the culture within the NIHE has changed in respect of its treatment of whistle-blowers?**

As a result of deficiencies being identified in the Housing Executive's Whistleblowing Policy, the policy was immediately reviewed, adjusted and reissued to all staff. Senior management and the Board are now satisfied that a sound Whistleblowing Policy is in operation and is in line with best practice and current DFP guidance.

The policy has also been further enhanced by steps taken recently by the Vice-Chair to have 'Whistleblowing and other expressions of concern' included as a standing item on the agendas for ARAC meetings and to be available as a contact for anyone wishing to make concerns known which they feel cannot be taken through normal channels.

In addition, the Housing Executive is currently developing a website facility, which will allow Whistleblowing complaints to be submitted online and anonymously.

7 The NIAO Report on NIHE Management of Response Maintenance Contracts highlighted that many of the failings in respect of response maintenance contracts had been flagged up to senior management within the NIHE on a number of occasions and that NIHE Board business did not provide adequate scrutiny of contract management. The Audit Office found that in the five years up to 2010-11 there was limited reference in Board papers to contract expenditure, monitoring or reporting. What steps are the NIHE taking to ensure that the Board and Audit Committee are supplied with the necessary information, presented in appropriate format, to facilitate effective scrutiny by the Board?

Response Maintenance performance reports on individual contracts are considered at Board on a bi-monthly basis together with a detailed explanatory narrative. These reports have been redesigned to be more readily informative. These enable the Board to exercise effective scrutiny over this key business area.

The Audit and Assurance Department also has within its annual work plan audit and risk assurance assignments in respect of response maintenance contracts. These reports are provided quarterly on an independent basis to the ARAC.

8 The DSD 2014 Follow-Up Report on the Review of Governance in the NIHE concluded that there is still a considerable amount of work ahead for NIHE if they are to see through the necessary structural and cultural changes. As the interim Chief Executive, coming new to the Housing Executive, what would you consider to be the key challenges facing the organisation in implementing the necessary cultural and structural changes?

It is acknowledged that the Housing Executive has come through some difficult years of challenge and scrutiny, particularly in relation to contract management. We still have some considerable work to do to ensure we get back on top in everything we do. There are a number of key challenges we must consider in our journey back to excellence.

A major challenge for the Housing Executive continues to be the requirement for capital investment in the existing housing stock. There is an increasing and significant build-up of life cycle planned work to maintain our homes to decent homes standards and protect our assets for the future.

For many stakeholders, and in particular tenants, the landlord role is still seen as the organisation's primary focus. This has meant, especially with some of the challenges that the landlord side of the organisation has faced over the past years, that attention, effort and resources inevitably have been pulled towards our landlord function, potentially to the cost of our regional housing role. The modernisation of our structures, functions and how we deliver our services is now overdue. We need to consider how we can best structure our front line services and what will set every part of the Housing Executive apart from the competition, allowing us to build relationships with our customers based on trust that attracts, retains and delights them.

Housing Executive staff continue to have confidence in their abilities and believe they can make a valuable contribution to organisational success. However, recent staff surveys show staff morale has been negatively affected over the past years with staff concerned both about their own roles and the future role of the Housing Executive. Staff do not currently feel empowered to do what is best for their customers. They seek and are now seeing clear vision and leadership from our Board and senior team to take the Housing Executive forward.

Our workforce profile also highlights some immediate challenges in terms of resourcing our organisation to deliver our plans for major transformation. We have an ageing workforce, with almost 32% of staff over 55 years old, highlighting the need to ensure we have succession plans in place for the future operation of our services. However, it is not just about ensuring the retention of corporate knowledge in the immediate and longer term but also about

resourcing for excellence with the development of the new skills, talents and competences required to ensure that we deliver excellence in order to meet the housing needs of existing and future generations.

We also need to restore the confidence of our people, remove the fear of decision making and create the environment where our people understand their role, their accountability for agreed outcomes and recognise the commitment required from them. A key requirement will be to create a control environment which provides proportionate and risk based assurance both internally and externally, while empowering staff to manage themselves and take responsibility for delivering on our promises to customers and stakeholders.

Against the backdrop of major change, our staff and partners will also be critical in ensuring that we not only maintain our current service standards but seek to continuously improve our performance. We are seeking to develop positive stakeholder engagement arrangements in order to inform and gain commitment to our transformation programme. We are working in partnership with the Department for Social Development (DSD) in considering options and future delivery mechanisms for any future reform of social housing in Northern Ireland. We are also taking the lead in the engagement with our tenants, residents and staff in terms of the Social Housing Reform Programme. We need to work effectively with our contractors and suppliers in the delivery of our key functions and ensure these partners are mobilised to deliver our plans on scale quickly, effectively and in accordance with the needs of our customers.

We have already made significant inroads to address some of these challenges. In March 2014, we launched our Journey to Excellence Programme to transform the Housing Executive. The vision for our Journey to Excellence is to ensure that we deliver top class regeneration and housing solutions, meeting the needs of our communities and partners now and in the future, providing value for money, delivered by high performing, skilled and motivated staff across the organisation. By 2017 we want to be recognised as an organisation which is best in class in all that we do, delivering excellent results across our services with high levels of customer satisfaction and business structures and processes which are customer focused, streamlined and demonstrate value for money.

We have launched the programme internally through a significant engagement process including a series of leadership and staff forums. I have now outlined the vision for our Journey to Excellence directly to over 3,000 of our staff to date and have personally met with a number of our staff teams across our services to ensure they understand the commitment and drive needed from them to achieve our vision. Staff are overwhelmingly in support of the programme and the majority of our staff already feel more positive about their own role and the future role of the Housing Executive as a result. We have created the compelling platform for change with staff and will continue to build on this commitment from our staff to deliver the necessary structural and cultural changes moving forward.

In June 2014, our Board considered our strategic statements for the three pillars of excellence – Business, Customer and People, in addition to our vision for the enabling technology platform which will underpin all of our work.

Another key area of challenge is developing the capacity and capability to deliver a modern asset management service to our 88,000 homes and other physical assets. We are currently completing a review of our asset management capabilities and what we will want to do over the coming years to transform this service into a best practice model. In addition, in conjunction with the DSD and linked to their Social Housing Reform Programme, in the autumn we will conduct a major stock condition survey of over 20,000 of our properties. This work will complete at the end of 2014. From these two pieces of activity, we will develop an Asset Management Strategy for the Housing Executive and produce our five year investment plan. Undoubtedly, new skills will be required if we are to mobilise and manage the delivery of major programmes of investment work again as well as having the right contracts that support this delivery environment.

A major programme of transformational change is required to deliver the vision for the Housing Executive's Journey to Excellence. Detailed plans are being formed, significant work is well underway and resource requirements are being established to deliver what is needed. We are confident that we will deliver what is required, but the scale of change and the aspiration to become an exemplar of organisational excellence means that the changes will take time to achieve the full transformation. However, I believe with the commitment and drive which has already been demonstrated by both our management teams and especially our staff delivering our services, the organisation will achieve the vision of our Journey to Excellence.

9 In its response to the PAC Inquiry on NIHE Management of Response Maintenance Contracts – the Department and the NIHE assured the PAC that lessons have been learned and incorporated into the new response maintenance contracts which were let in August 2012. Can the NIHE assure this Committee that following the OGC Gateway 5 Review of the new contracts that the previous failings have not been repeated and that lessons have been learned?

This can be demonstrated by the key findings of the Gateway 5 Review which documented:

- Improved performance from the contractor was apparent, both in comparison to the previous contract arrangements as well as progressive improvement through the first 18 months.
- Evidence of positive tenant satisfaction.

It also highlighted the need to ensure the assurance processes in place, around the contracts, reflect the needs of the organisation and are subject to continual review.

DSD Letter 21.08.14

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21 August 2014

Dear Kevin

SDC Inquiry Phase 2 – Follow-up Information Request

I refer to your letter dated 9 July 2014 in which you advised that the Committee have requested further information on a number of issues in relation to Phase 2 that were not covered during the evidence session attended by Donald Hoodless and Professor Peter Roberts on 5 June 2014.

Responses to the questions asked are attached at Annex A.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan McCarty', with a large, stylized flourish at the end.

Susan McCarty

Annex A

- 1. In its 2012 report, the Audit Office stated that it is essential that Board members have a clear understanding and knowledge of the organisation's business activity to enable them to exercise effective challenge to management. What steps has the Board and the Audit taken to ensure that its members have the necessary knowledge and skills to provide an effective challenge function within the Housing Executive?**

The Board assesses the membership skills/experience through the Board's annual effectiveness reviews and identifies areas where skills may require enhancement.

Such areas will inform the recruitment process for new members. New Board members are offered in-house 'Financial training for Board Members' alongside formal external governance and Board training. Members are encouraged to identify any gaps in their skills and particularly at annual appraisal with the Chairman. It is proposed to develop a programme of 'specialist speakers' for Board meetings on areas which the Board feels it lacks key knowledge and experience.

A workshop scheduled for September 2014 will provide Board members with interactive training and discussion on corporate planning and risk management.

The Board's challenge function has been re-emphasised in the latest review of the Board Member Code of Practice in accordance with DFP guidance issued in April 2014.

- 2. The 2012 NIAO Report on Response Maintenance and the subsequent PAC report raised concern about the quality, quantity and timeliness of the papers going to the Board and the Audit Committee and the ability of its members to scrutinise these papers. Can the Board and the Audit Committee provide assurances on what steps they have taken to address these concerns in respect of the quality of the information provided to the Board and the Audit Committee and the ability of its members to use their skills and knowledge to effectively scrutinise the work of the Housing Executive?**

The Chairman has led out a fundamental review of the Board agenda and the format and timelines of submission of papers. The Board is now more content with the agenda, format, volume and nature of papers submitted and will review this on an ongoing basis.

The review of Standing Orders and the Board Scheme of Delegations has ensured that the Board focuses only on appropriate business and that appropriate levels of authority are now in place throughout the various levels of governance in the organisation. At the Board's request papers have been re-formatted to ensure clarity of information and appropriate training is being provided to those involved in report/paper writing.

The Chair of the Audit & Risk Assurance Committee (ARAC) has also led a review of Committee business and papers submitted. The Committee has agreed changes to reporting formats and the Committee agendas. The recent appointment of a new independent member has enhanced the challenge and scrutiny skills of the Committee and members continue to be informed of training opportunities to enhance existing skills and expertise. In addition, the Chair and members are able to attend the DSD Audit and Risk Chairs Forum and to benefit from the training and updates provided by the forum.

While further work is required the Board is satisfied that the concerns identified have or will be addressed effectively.

- 3. From December 2010 until present, there have been four different Chief Executives of the Housing Executive with a number of senior management team also leaving. The Follow-up Report on the 2010 Review of Governance found that despite there being no formal succession plan in place, the Board does not see succession planning as being as critical a risk as it was previously. Can the Board advise why they do not consider this to be a risk?**

The new Director of Corporate Services has reviewed the organisation's People and Manpower Strategies which identify succession planning as a critical risk to be addressed. Work is underway to develop a plan for the management of this risk. This will be developed within a broader Manpower Plan.

- 4. The 2013 Follow-Up Report on the 2010 Governance Review indicated that although there is a greater level of support for and scrutiny of the work of the Corporate Assurance Unit (CAU), it expressed concern about the high number of agency staff. The NIAO has also expressed concern about the resourcing of this Unit and its ability to carry out its programme of inspections. Given that the CAU provide a key control function in the management of risks associated with procurement and contract management, how satisfied are the Board and the Audit Committee about the ability of the CAU to provide assurance to senior management and the Board?**

In April 2014 the Board approved the merger of the former Internal Audit and Corporate Assurance Unit (CAU) to form a new Audit and Assurance Department.

This unit will continue to deliver an independent inspection programme designed to provide assurance on the delivery of planned, response and heating maintenance contracts. The unit will review its inspection methodologies to ensure alignment with the contracts and contract delivery processes as these evolve within the new Asset Management Division. This will be more closely linked to the work of Audit and Assurance Department to provide greater, seamless assurance over these key business areas.

This alignment will enable NIHE's work to be delivered in an informed and efficient manner through active cross-functional participation between professional audit staff and expert maintenance technicians as well as with staff and suppliers. Thus enabling intelligence-led governance of reporting of business areas and providing strong assurance in that area going forward.

- 5. In its report, the Public Accounts Committee recommended that detailed information on the results and timeliness of inspections carried out by the CAU is reported to the NIHE Board and Audit Committee who must assure themselves that payments are being made promptly to all contractors. However in the 2012-13 NIAO Report to those charged with Governance the Comptroller and Auditor General expressed concern about the delay by the CAU in producing draft reports following inspection units as a result of resource pressures on the Unit. What steps is the NIHE Board taking to ensure that this Unit is properly resourced and supported in the future in line with both PAC and NIAO recommendations?**

A key issue for the CAU in the 2010 review of governance was performance measurement. In line with recommendations made in the DSD governance review, the Board approved that the role of the performance measurement be transferred from landlord services to the independent CAU.

The Board have also approved a range of steps taken to ensure that the CAU is properly resourced. In September 2012 the Board approved the re-grading and re-trawl of the technical inspection posts to ensure that the unit had adequate technical skills to deliver the assurance programmes.

The review also recommended that CAU inspection programmes cover heating contracts. Following Board approval, 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.

Continuing the pattern set previously, the Chair of ARAC meets with the Head of Audit and Assurance on a regular basis so as to provide continuity between meetings and to deal with other exceptional matters.

- 6. The 2010 Review on Governance made a number of recommendations in respect of the oversight arrangements in place for Economic Appraisals and the transfer and disposal of undeveloped land sites. The Follow-Up Review found that these recommendations were still only partially recommended or not implemented. Given the high value involved and that this issue has been the subject of extensive media scrutiny – how satisfied are the Board and the Audit Committee that senior management within the Housing Executive are taking the appropriate steps to ensure that the necessary safeguards are in place to prevent previous high profile errors in this area from reoccurring ?**

Economic Appraisals are being produced to Green Book Standards. Any land over £500k or, contentious or novel in nature, is brought to the Board for approval.

The Board is content that a robust governance approach is in place for land disposal.

- 7. The Public Accounts Committee and the NI Audit Office have all raised concerns in respect of the treatment of whistle-blowers. Are the Board satisfied that the NIHE has implemented whistleblowing policies and procedures that are aligned with best practice and in spirit with the legislation? Has the Board considered these in any detail? To what extent do the Board consider that the culture within the NIHE has changed in respect of its treatment for whistle-blowers?**

The Board is satisfied that a sound Whistleblowing Policy is in operation and is in line with best practice and current DFP guidance. The policy has also been further enhanced by steps taken recently by the Vice-Chair to have 'Whistleblowing and other expressions of concern', included as a standing item on the agendas for ARAC Committee meetings and to be available as a contact for anyone wishing to make concerns known which they feel cannot be taken through normal channels. This will be formalised within the appropriate Policy and launched to staff.

In addition, the Housing Executive is currently developing a website facility, which will allow Whistleblowing complaints to be submitted online and anonymously.

- 8. Another outstanding recommendation from the 2010 Review of Governance concerns the review of the effectiveness of the Board and the appraisals of Board Members. Can the Board advise what steps it has taken to ensure that future appraisals of Board Members are sent to the Board in a timely fashion to ensure that this forms part of future reviews into Board effectiveness? Is the Board content that the Terms of Reference, annual evaluations and appraisals of members of the Audit Committee are in line with best practice?**

The Board has agreed that following member appraisals a summary report should be prepared and submitted to the next available Board meeting. Appraisals for the 2013/14 year were completed in July 2014 and a summary paper was presented at the July 2014 Board meeting. The appraisal process presents the opportunity for members to identify any skills gaps and/or training needs.

A Board Effectiveness Health Check was undertaken in April 2014 and a further update is planned for the Board Away Day in October 2014. Full reviews are to be undertaken every three years with annual health checks.

The Board approved revised Audit & Risk Assurance Committee Terms of Reference in October 2013 which acknowledged changes in the HMT Audit & Risk Assurance Committee

Handbook published in April 2013 and also took on Board recommendations from the DSD Chairs Forum workshop held in March 2013.

The appraisal process now follows that of the Board and the Annual Effectiveness Assessment tool is that used by DSD. The Terms of Reference (TOR) are also in compliance with the subsequent DFP guidance issued in March 2014 but as standard practice the Committee will review the TOR again at the annual effectiveness review in September 2014.

- 9. The 2010 Governance Review made a number of recommendations in respect of risk management arrangements within the NIHE. The 2013 Follow-Up Review found that the Chair of the Board considered that the “Corporate Risks Register did not reflect the risks from the Board’s perspective and that there was further work to do on risk registers” and that this recommendation was therefore considered partially implemented. The NIHE advised in their response that the necessary action has been taken to enable this recommendation to be considered implemented. Is the Board satisfied that the NIHE risk register now reflects the risks from the Board’s perspective? Do the Board and the Audit Committee consider that they can place assurance on the current risk management arrangements in place within NIHE?**

The Board has approved the current Risk Register and a workshop is planned for September at which the Board will reconsider the current risks.

The Board is satisfied that assurance can be placed on the current risk management arrangements in place but will continue to review and improve the processes in place on a regular basis.

- 10. The NIAO Report on NIHE Management of Response Maintenance Contracts highlighted that many of the failings in respect of response maintenance contracts had been flagged up to senior management within the NIHE on a number of occasions and that NIHE Board business did not provide adequate scrutiny of contract management. The Audit Office found that in the five years up to 2010-11 there was limited reference in Board papers to contract expenditure, monitoring or reporting. What steps are the NIHE taking to ensure that the Board and Audit Committee are supplied with the necessary information, presented in appropriate format, to facilitate effective scrutiny by the Board?**

In future, all Key Performance Indicators (KPIs) performance on maintenance contracts will be reported through the monthly “Covalent” report to the Board. This report will provide the Board with overall KPI average scores, an indication of trends and narrative in cases of poor performance. This report includes response maintenance KPIs, heating and grounds KPIs. The planned schemes will be added once the schemes go live on site in the next two months.

A summary report on general performance and issues will be submitted to the Landlord Board on a bi-monthly basis.

- 11. In its report, the Public Accounts Committee raised a number of very serious concerns about the capability and competence of management within the Housing Executive over a number of years, particularly at a senior level. Are you satisfied that the current NIHE senior management and corporate governance structure is equipped with the necessary skills to address the risks facing the organisation?**

The Board considers that with the review of the senior management team and the changes in corporate governance structures, skills are in place to address any risks facing the organisation but will continue to consider strengthening the management team as necessary.

- 12. In its most recent Report to those charged with Governance (2012) the NIAO made a number of recommendations in respect of the NIHE Audit Committee. The report raised the implication that the current governance arrangements within the NIHE may not be adequate to allow sufficient consideration of key issues. Is the Board satisfied that the current governance arrangements are sufficient to provide the Department with the appropriate level of assurance?**

The Board has recently received a more detailed report from the ARAC to ensure Members are aware of the level of business and the workload of audits and other matters reported at Committee, together with details of any limited or unacceptable opinions. The Board was content to note the first such report at the June 2014 Board and is satisfied that the reporting arrangements are appropriate.

- 13. One of the outstanding recommendations from the 2010 Governance Review is the greater involvement of the Audit Committee in the strategic analysis of lessons learned from the investigations conducted by the counter fraud unit (Rec 65). What steps is the Audit Committee taking to increase their involvement in this work?**

A report on all live investigations is presented to the ARAC at every meeting.

When an investigation is considered complete, the details are provided to the committee and their agreement sought before the investigation is removed from the list of live investigations.

All queries raised by the committee members are fully and promptly answered. In addition, members are keen to ensure that the lessons from all the investigations are noted and acted upon by management, staff and any other relevant parties.

- 14. In its 2012-13 Report to those charged with Governance, the NI Audit Office has made a series aimed at strengthening the operation of the Audit Committee which include:**

- a. Establishment of a forward work programme**
- b. Evaluating the number of Audit Committee meetings per annum**
- c. Evaluation of the skills and training requirements of Audit Committee members**
- d. Lesson learning from comparative organisations to ensure adherence to best practice**
- e. Management of Audit Committee meetings – including preparation and delivery of papers and the time allocated to agenda items to allow significant issues to be fully addressed.**

What steps has the Audit Committee taken to implement these recommendations?

Following the NIAO recommendation a formal work plan was drawn up and approved by the Committee. The formal work plan for the session commencing September 2014 has been prepared in accordance with best practice as outlined in the DFP 'Audit & Risk Assurance Committee Handbook', March 2014, and will be considered at the September 2014 ARAC meeting.

The Committee has agreed that, in accordance with best practice it should meet at least four times each year with an optional additional meeting in June to consider the annual accounts.

Continuing the existing practice of appraisal and skills development, members have been asked to complete a skills assessment to identify the current skills base and to address any skills gaps. A skills audit will be undertaken and reported back to the Committee as part of the appraisals summary paper. Training needs are discussed and addressed through the annual appraisal process and throughout the year as training opportunities arise. The skills of the Committee have been enhanced with two external members bringing their wider range of skills and expertise.

The meetings of the DSD Chairs Forum enhance the dissemination of best practice and lessons learned. At a workshop organised by the DSD Chairs Forum in March 2013, attended by three ARAC Members, a number of additional best practice issues were identified which were then incorporated into the ARAC Terms of Reference, 2013.

The Committee agenda is timed to ensure sufficient time is allocated to significant issues. Papers are despatched at least one week in advance of meetings to allow sufficient time for members to consider the business.

As with the Board, a review has been undertaken of the format, content and timelines for submission of committee papers. The new format (put in place in 2013) is considered to have engendered greater strategic clarity and operational scrutiny to the work of the committee.

Letter to DSD 09.07.14

Committee for Social Development

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9 July 2014

Our Ref: CSD/022/2013/2/CMcC

Mr Billy Crawford
Department for Social Development
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1 Cromac Place
Gasworks Business Park
Ormeau Road
Belfast BT7 2JB

Dear Billy,

**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**

The Committee heard evidence at its meeting on 5 June 2014 from the Chair of the NIHE Board and Chair of the NIHE Audit Committee. As a result of the evidence heard at this meeting, the Committee requested I write to you to follow-up on a number of outstanding issues that were not covered during the evidence session.

The Committee has asked for a response on the following:

1. In its 2012 report, the Audit Office stated that it is essential that Board members have a clear understanding and knowledge of the organisation's business activity to enable them to exercise effective challenge to management. What steps has the Board and the Audit taken to ensure that its members have the necessary knowledge and skills to provide an effective challenge function within the Housing Executive?
2. The 2012 NIAO Report on Response Maintenance and the subsequent PAC report raised concern about the quality, quantity and timeliness of the papers going to the Board and the Audit Committee and the ability of its members to scrutinise these papers. Can the Board and the Audit Committee provide assurances on what steps they have taken to address these concerns in respect of the quality of the information provided to the Board and the Audit Committee and the ability of its members to use their skills and knowledge to effectively scrutinise the work of the Housing Executive?
3. From December 2010 until present, there have been four different Chief Executives of the Housing Executive with a number of senior management team also leaving. The Follow-up Report on the 2010 Review of Governance found that despite there being no formal succession plan in place, the Board does not see succession planning as being as critical a risk as it was previously. Can the Board advise why they do not consider this to be a risk?

4. The 2013 Follow-Up Report on the 2010 Governance Review indicated that although there is a greater level of support for and scrutiny of the work of the Corporate Assurance Unit (CAU), it expressed concern about the high number of agency staff. The NIAO has also expressed concern about the resourcing of this Unit and its ability to carry out its programme of inspections. Given that the CAU provide a key control function in the management of risks associated with procurement and contract management, how satisfied are the Board and the Audit Committee about the ability of the CAU to provide assurance to senior management and the Board?
5. In its report, the Public Accounts Committee recommended that detailed information on the results and timeliness of inspections carried out by the CAU is reported to the NIHE Board and Audit Committee who must assure themselves that payments are being made promptly to all contractors. However in the 2012-13 NIAO Report to those charged with Governance the Comptroller and Auditor General expressed concern about the delay by the CAU in producing draft reports following inspection units as a result of resource pressures on the Unit. What steps is the NIHE Board taking to ensure that this Unit is properly resourced and supported in the future in line with both PAC and NIAO recommendations?
6. The 2010 Review on Governance made a number of recommendations in respect of the oversight arrangements in place for Economic Appraisals and the transfer and disposal of undeveloped land sites. The Follow-Up Review found that these recommendations were still only partially recommended or not implemented. Given the high value involved and that this issue has been the subject of extensive media scrutiny – how satisfied are the Board and the Audit Committee that senior management within the Housing Executive are taking the appropriate steps to ensure that the necessary safeguards are in place to prevent previous high profile errors in this area from reoccurring ?
7. The Public Accounts Committee and the NI Audit Office have all raised concerns in respect of the treatment of whistle-blowers. Are the Board satisfied that the NIHE has implemented whistleblowing policies and procedures that are aligned with best practice and in spirit with the legislation? Has the Board considered these in any detail? To what extent do the Board consider that the culture within the NIHE has changed in respect of its treatment for whistle-blowers?
8. Another outstanding recommendation from the 2010 Review of Governance concerns the review of the effectiveness of the Board and the appraisals of Board Members. Can the Board advise what steps it has taken to ensure that future appraisals of Board Members are sent to the Board in a timely fashion to ensure that this forms part of future reviews into Board effectiveness? Is the Board content that the Terms of Reference, annual evaluations and appraisals of members of the Audit Committee are in line with best practice?
9. The 2010 Governance Review made a number of recommendations in respect of risk management arrangements within the NIHE. The 2013 Follow-Up Review found that the Chair of the Board considered that the “Corporate Risks Register did not reflect the risks from the Board’s perspective and that there was further work to do on risk registers” and that this recommendation was therefore considered partially implemented. The NIHE advised in their response that the necessary action has been taken to enable this recommendation to be considered implemented. Is the Board satisfied that the NIHE risk register now reflects the risks from the Board’s perspective? Do the Board and the Audit Committee consider that they can place assurance on the current risk management arrangements in place within NIHE?
10. The NIAO Report on NIHE Management of Response Maintenance Contracts highlighted that many of the failings in respect of response maintenance contracts had been flagged up to senior management within the NIHE on a number of occasions and that NIHE Board business did not provide adequate scrutiny of contract management. The Audit Office found that in the five years up to 2010-11 there was limited reference in Board papers to contract expenditure, monitoring or reporting. What steps are the NIHE taking to ensure that the Board and Audit

Committee are supplied with the necessary information, presented in appropriate format, to facilitate effective scrutiny by the Board?

11. In its report, the Public Accounts Committee raised a number of very serious concerns about the capability and competence of management within the Housing Executive over a number of years, particularly at a senior level. Are you satisfied that the current NIHE senior management and corporate governance structure is equipped with the necessary skills to address the risks facing the organisation?
12. In its most recent Report to those charged with Governance (2012) the NIAO made a number of recommendations in respect of the NIHE Audit Committee. The report raised the implication that the current governance arrangements within the NIHE may not be adequate to allow sufficient consideration of key issues. Is the Board satisfied that the current governance arrangements are sufficient to provide the Department with the appropriate level of assurance?
13. One of the outstanding recommendations from the 2010 Governance Review is the greater involvement of the Audit Committee in the strategic analysis of lessons learned from the investigations conducted by the counter fraud unit (Rec 65). What steps is the Audit Committee taking to increase their involvement in this work?
14. In its 2012-13 Report to those charged with Governance, the NI Audit Office has made a series aimed at strengthening the operation of the Audit Committee which include:
 - a. Establishment of a forward work programme
 - b. Evaluating the number of Audit Committee meetings per annum
 - c. Evaluation of the skills and training requirements of Audit Committee members
 - d. Lesson learning from comparative organisations to ensure adherence to best practice
 - e. Management of Audit Committee meetings – including preparation and delivery of papers and the time allocated to agenda items to allow significant issues to be fully addressed.

What steps has the Audit Committee taken to implement these recommendations?

I request that you forward to me the above within 10 working days of receipt of this letter.

I very much appreciate your assistance in this matter.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development

DSD Letter 21.08.14

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21 August 2014

Dear Kevin

SDC Inquiry Phase 2 – Follow-up Information Request

I refer to your letter dated 9 July 2014 in which you advised that the Committee have requested further information on a number of issues in relation to Phase 2 that were not covered during the evidence session attended by Trevor McCartney, Gay Ireland and John McVeigh's on 29 May 2014.

Responses from NIHE to the questions asked are attached at Annex A.

Yours sincerely



Susan McCarty

Annex A

1. **Can the Housing Executive explain why so many districts had positive ratings in 2013/14 (100% of those reported on for response maintenance and 86% for planned maintenance) when in 2012/13 62% of districts inspected were given limited or unacceptable ratings?**

The Corporate Assurance Unit (CAU) carries out area/district inspections for response maintenance and scheme inspections for response maintenance.

Following the negative finding of inspection in 2012/13 we identified four root causes (sources, structures, systems and skills) and implemented a comprehensive improvement plan to address around these issues.

In addition we devised a Chartered Institute of Housing accredited training plan for staff which has contributed to improvements in Response and Planned Maintenance.

Response Maintenance Inspection

Over this period, our housing management structure changed from 35 district offices to 12 area offices. The CAU inspection regime for response maintenance was amended to reflect this structure; however the unit still examined a sample of work from each of the former district offices to make up the area inspection.

The inspection regime for response maintenance was also reviewed to ensure that it was robust. The revised methodology in operation in 2013/14 had a much greater focus on the two key aspects of quality and cost i.e. was the quality of contractor work in line with our specifications and was the cost accurate and reflecting the work carried out. This made up 60% of the overall inspection, whereas in previous years this only made up 10% of the overall inspection.

CAU continue to fully engage with operational management and staff to assist in driving improvements on the delivery side. For example, CAU have provided a number of seminars to maintenance staff to highlight lessons learned and recurring issues from their inspections.

The structure and management of our response maintenance contracts have been radically overhauled. At local level, management arrangements have been strengthened. We have appointed new dedicated contract managers. The new contracts have updated key performance indicators and robust contract management arrangements that allow us to hold contractors to account properly where there are any issues coming from customers or assurance arrangements. That includes the application of low-performance damages.

We established a response maintenance intervention team to go directly into areas where performance is not as it should be. It was created in 2012 and deployed to offices with less than satisfactory results in our corporate assurance team inspections. In addition, we have a new statistical inspection regime that has been instigated to let us find the real issues.

The new regime provides a robust and structured contract management arrangement in the organisation. We now see clear lines of responsibility and accountability, both in the organisation and among our contractors; the support arrangements that come through that, and very clearly defined escalation arrangements to deal with any disputes or performance issues

The results of the 2013/14 inspections are encouraging and reflect the improvement actions put in place by operational management and the considerable work of maintenance staff on the ground.

Planned Maintenance Inspection

During 2013/14, CAU completed 18 inspections of planned maintenance schemes with 14 being provided a Substantial Assurance level, one Satisfactory, one Limited and two Unacceptable.

The assurances provided by CAU are based on the quality of work carried out by the contractor, health and safety issues and non-compliance identified with our specifications.

The improved inspection results reflect the significant improvements in the quality of work being delivered by planned maintenance contractors and the additional controls put in place by the business. These include:

- Monthly meetings held with contractors at which they were advised of inspection failings identified and the need for improvements.
- The establishment of a quarterly forum for clerks of works where any trends / issues were outlined and reported on.
- A policy and standards advisor was appointed and worked on any issues identified within CAU reports.
- The relevant director signed off on CAU reports and noted the findings raising these with Housing Executive Project Scheme Managers.

As with response maintenance future planned maintenance schemes will be delivered under new contractual arrangements. One aspect of these new contractual arrangements is the use of consultants with responsibility for delivering the design and supervision of the planned schemes contracts (including kitchen replacements) to strengthen assurance through segregation of duties. Both contracts have extensive controls in place and performance is directly related to the KPIs and associated damages.

2. Can the Housing Executive explain the previously high rate of limited/unacceptable performance across the districts?

Over the period 2012/13, the CAU completed inspections of 26 districts in relation to response maintenance and 41 inspections of planned maintenance schemes with the following results:

| | Response Maintenance | Planned Maintenance |
|--------------|-----------------------------|----------------------------|
| Substantial | - | 11 |
| Satisfactory | 10 | 10 |
| Limited | 5 | 10 |
| Unacceptable | 11 | 10 |
| Total | 26 | 41 |

These inspections highlighted issues in relation to non-compliance with key controls for both planned maintenance and response maintenance.

As a result we carried out an analysis to identify the root causes of the limited and unacceptable performance. From this analysis we identified four key areas of control: sources, structures, systems and skills and have in place a Board approved action plan to address the issues and strengthen control in these areas

3. One of the concerns raised by the C&AG in his 2012/13 Report related to the delay in the production of the Corporate Assurance Unit (CAU) reports. Is the CAU satisfied that all Inspections Reports by both the response and planned maintenance teams are completed in a timely fashion? Can the CAU explain the delays in the completion of final reports in 2013/14?

Following concerns raised by the C&AG in his 2012/13 report a review of the cause of the delays in CAU reporting was completed and as a consequence a robust reporting protocol was introduced.

This sets out the requirements for CAU and operational management in the production and response to CAU reports. All draft and final CAU reports are provided to the Chief Executive and DSD along with a reporting schedule to enable effective monitoring of reporting. Progress is also reported to the Audit and Risk Assurance Committee (ARAC) on a quarterly basis.

KPIs, including report clearance targets have been developed and have been reported to the ARAC since April 2014. Having reviewed the reporting timelines for completed CAU inspections in 2013/14, we would confirm that these had been actioned timeously.

4. The C&AG also expressed concern that whilst overpayments in the kitchen replacement schemes had been identified and raised by the CAU in 2010 and 2011, the findings were challenged and the required remedial action was delayed. Can the CAU provide this Committee with assurance that this will not re-occur?

We have taken steps to strengthen the independence of the unit to ensure that while management challenge can occur legitimately as part of the normal audit process, this is no longer excessive.

In the past CAU reports were presented to a pre-Audit Committee meeting of senior management team before being presented to the ARAC. In terms of Corporate Governance arrangements, CAU now form part of the Audit and Assurance Department reporting on a quarterly basis to the committee.

The Head of Audit and Assurance will now sign off all CAU reports and report them directly to the committee. As an additional assurance measure the head of Audit and Assurance meets regularly with the CX and Chair of the ARAC to discuss risk and assurance issues.

We have a recommendations monitor in place to track and monitor the implementation of their recommendations. This monitor and any slippage is reported to the ARAC on a quarterly basis.

5. The C&AG has also repeated expressed concern about the delay in producing inspection reports on the new heating response maintenance contracts. The C&AG highlighted this as an area of concern in 2004 and reiterated in his most recent reports the need for senior management to seek assurance in this area. Can the Directors provide assurance that the C&AG's concerns in respect of the new heating response maintenance contracts are now being addressed?

In 2013/14, CAU put in place an annual programme of inspection for heating maintenance contracts. CAU appointed a technically qualified (Gas Safe / OFTEC) resource to deliver this programme.

The new heating contract combines heating installations, servicing and maintenance.

The contract commenced in June 2012 and since then monthly reports have been submitted covering servicing and response maintenance and shortly afterwards on an integrated Key Performance Indicator (KPI) covering all three aspects of the contract.

The KPI covers quality, cost, timeliness and customer satisfaction and any failures result in low performance damages. There has been no reason to collect damages to date.

KPIs are reported to both the Board and management on a monthly basis.

A review of the resource and skills requirements of the new Audit and Assurance Department is being completed as part of the project to implement the merger of Internal Audit and CAU. This review will ensure the timely delivery of audit and risk assurance programmes. In addition a call off contract is now in place whereby specialist auditor skills can be accessed when required.

- 6. We understand that the OGC Gateway 5 Review is now complete and although a final report is not yet available, we understand that the Review team did consider that the contract management assurance regime appears to be restricting the ability of the maintenance officers and contractors to act within the spirit of the contract. Do you agree with this assessment and if so, what steps is the Housing Executive taking to address this concern without exposing the organisation to the potential mismanagement of public funds as occurred in the past?**

The OGC Gateway 5 review concluded in its assessment that:

“We found an assurance process in place but it appeared to reflect the needs of the organisation during a phase of extensive scrutiny. However, as the needs of the organisation and, in particular this contract move forward this is a function that needs reviewing and adjusting proportionally to the needs of an established contract management arrangement in steady state. The overall assurance regime appears to be restricting the ability of the maintenance officers to act within the spirit of the contract.....The SRO should review and consider reducing the number of KPIs, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties”.

In response to this assessment we have created an action plan to review the KPIs with the key criteria being those which bring added value to the contracts in terms of:

- a) Quality Control – to ensure work is carried out to specification and the customer is getting a better end product.
- b) Cost Control – to ensure the Housing Executive is invoiced accurately.
- c) Timely Delivery – to provide a better service to the customer.
- d) Customer Satisfaction

This action plan is being quality assured by a member of the OGC gateway review team.

- 7. The 2013 PAC Report recommended that senior management within the NIHE, together with the Board, recognise and uphold the CAU’s independence from the operational divisions and ensures that it continues to be protected and its work not undermined. To what extent do you believe the current corporate governance arrangements in the NIHE support this recommendation?**

In previous years, CAU reports were presented to a pre-Audit Committee meeting of senior management team before being presented to the Audit Committee. As a result of a recommendation made in the Campbell Tickell report, approval was obtained in April 2014 to merge the Internal Audit and Corporate assurance units. The current governance arrangements for Internal Audit reporting are in place to support this recommendation.

All audit and assurance reports will be signed off by the Head of Audit and Assurance and reported directly to the committee. The Head of Audit and Assurance meets regularly with the CX and Chair of the committee to discuss risk and assurance issues.

- 8. The NIAO report has highlighted that in 2012-2013, Internal Audit Department (IAD) failed to complete 22 of its audit assignments planned for 2012-13. Did the NIHE’s Internal Audit Unit complete its full audit programme in 2013/14?**

For 2013/14 Internal Audit completed 51 audit assignments compared to its original approved plan of 45 audit assignments. Going forward within the newly structured Audit and Assurance department, work plans for CAU and Internal Audit will be closely linked. This will enable our work to be delivered in an even more informed and efficient manner and should contribute to a more efficient delivery of planned work programmes and avoidance of any slippage

9. As IAD reports constitute an important assurance tool for the Chief Executive and senior management, what steps is the Head of Internal Audit taken to ensure that Internal Audit are able to complete their Audit programme in future years?

Recruitment exercises have taken place during 2013/14 and continue in 2014/15 to fill trainee auditor posts. One trainee auditor has been appointed and interviews will be held in July/ August 2014 to appoint a second trainee.

A call-off contract has been developed in conjunction with the Procurement Department which will enable the provision of specialist audit services.

The merger of the internal audit and CAU will allow for a more integrated risk mapped work plan. This will ensure resource is utilised more efficiently and reduce duplication in assurance from the two units.

10. The NIAO also highlighted the delays in obtaining clearance for Internal Audit Reports. In light of the importance of these reports, what steps are the Head of Internal Audit and senior management within NIHE taking to ensure that these reports are cleared in the appropriate timescales? Can the NIHE explain what contributed to the delays in obtaining clearance for these reports?

Delays in reporting occurred as a result of a lack of clearly defined protocols for management responses to audit reports. Since the beginning of 2012 a clear protocol has been in place to ensure the timely return of management responses to internal audit report recommendations.

Following the audit close down meeting a draft audit report with recommendations will be issued to management for response. Management have ten working days in which to provide a response. The Audit and Assurance Department will issue a reminder to management in advance of the ten day deadline. If no response is received the issue will be escalated to CX for action.

The Head of Audit and Assurance also meets regularly with the CX and Chair of the ARAC to discuss risk and assurance issues.

11. We understand from your briefing that Internal Audit and Corporate Assurance Unit are now to merge into a single unit. Can the NIHE explain how this new single unit will work with the new Asset Management Division which was recently established?

The new Audit and Assurance department will continue to deliver an independent inspection programme designed to provide assurance on the delivery of planned, response and heating maintenance contracts. The unit will review its inspection methodologies to ensure alignment with the contracts and contract delivery processes as these evolve within the new Asset Management Division. This will be more closely linked to the work of Internal Audit to provide greater, seamless assurance over these key business areas.

This alignment will focus and strengthen assurance to through active cross-functional participation between professional audit staff and expert maintenance technicians as well as with staff and suppliers. This will enable better intelligence-led governance of reporting business areas and provide strong assurance in that area.

12. Given that the NIAO has already expressed concern about the resourcing of these units, what measures are being taken to ensure that the new unit will be adequately resourced with the appropriate skilled staff to allow them to complete their programme on time?

The project set up to implement the merger between Internal Audit and CAU includes a review of the assurance requirements of the organisation whilst also taking account of the previous recommendations made by external stakeholders.

A key work stream within the project is the identification of the resource and skills requirements for the new Audit and Assurance Department and a development of a delivery structure. A call off contract is also now in place to enable the new unit to access specialist resources as required to facilitate timely completion of the work programmes.

A technically qualified QS resource has been in place from August 2014, which will enable the newly formed Audit and Assurance Department to deliver a comprehensive assurance programme over the management of planned maintenance contracts in 2014/15.

Letter to DSD 09.07.14

Committee for Social Development

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9 July 2014

Our Ref: CSD/022/2013/2/CMcC

Mr Billy Crawford
Department for Social Development
Lighthouse Building
1 Cromac Place
Gasworks Business Park
Ormeau Road
Belfast BT7 2JB

Dear Billy,

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

The Committee heard evidence at its meeting on 29 May 2014 from senior officials in the NIHE. As a result of the evidence heard at this meeting, the Committee requested I write to you to follow-up on a number of outstanding issues that were not covered during the evidence session.

The Committee has asked for a response on the following:

1. Can the Housing Executive explain why so many districts had positive ratings in 2013/14 (100% of those reported on for response maintenance and 86% for planned maintenance) when in 2012/13 62% of districts inspected were given limited or unacceptable ratings?
2. Can the Housing Executive explain the previously high rate of limited/unacceptable performance across the districts?
3. One of the concerns raised by the C&AG in his 2012/13 Report related to the delay in the production of the Corporate Assurance Unit (CAU) reports. Is the CAU satisfied that all Inspections Reports by both the response and planned maintenance teams are completed in a timely fashion? Can the CAU explain the delays in the completion of final reports in 2013/14?
4. The C&AG also expressed concern that whilst overpayments in the kitchen replacement schemes had been identified and raised by the CAU in 2010 and 2011, the findings were challenged and the required remedial action was delayed. Can the CAU provide this Committee with assurance that this will not re-occur?
5. The C&AG has also repeated expressed concern about the delay in producing inspection reports on the new heating response maintenance contracts. The C&AG highlighted this as an area of concern in 2004 and reiterated in his most recent reports the need for senior

management to seek assurance in this area. Can the Directors provide assurance that the C&AG's concerns in respect of the new heating response maintenance contracts are now being addressed?

6. We understand that the OGC Gateway 5 Review is now complete and although a final report is not yet available, we understand that the Review team did consider that the contract management assurance regime appears to be restricting the ability of the maintenance officers and contractors to act within the spirit of the contract. Do you agree with this assessment and if so, what steps is the Housing Executive taking to address this concern without exposing the organisation to the potential mismanagement of public funds as occurred in the past?
7. The 2013 PAC Report recommended that senior management within the NIHE, together with the Board, recognise and uphold the CAU's independence from the operational divisions and ensures that it continues to be protected and its work not undermined. To what extent do you believe the current corporate governance arrangements in the NIHE support this recommendation?
8. The NIAO report has highlighted that in 2012-2013, Internal Audit Department (IAD) failed to complete 22 of its audit assignments planned for 2012-13. Did the NIHE's Internal Audit Unit complete its full audit programme in 2013/14?
9. As IAD reports constitute an important assurance tool for the Chief Executive and senior management, what steps is the Head of Internal Audit taken to ensure that Internal Audit are able to complete their Audit programme in future years?
10. The NIAO also highlighted the delays in obtaining clearance for Internal Audit Reports. In light of the importance of these reports, what steps are the Head of Internal Audit and senior management within NIHE taking to ensure that these reports are cleared in the appropriate timescales? Can the NIHE explain what contributed to the delays in obtaining clearance for these reports?
11. We understand from your briefing that Internal Audit and Corporate Assurance Unit are now to merge into a single unit. Can the NIHE explain how this new single unit will work with the new Asset Management Division which was recently established?
12. Given that the NIAO has already expressed concern about the resourcing of these units, what measures are being taken to ensure that the new unit will be adequately resourced with the appropriate skilled staff to allow them to complete their programme on time?

I request that you forward to me the above within 10 working days of receipt of this letter.

I very much appreciate your assistance in this matter.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development

DSD Letter 22.08.08

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August 2014

Dear Kevin

SDC Inquiry Phase 2 – OGC Gateway Review 5 Report

I refer to the recent request for an update on the position of the OGC Gateway Review 5: Operations review and benefits realisation report in relation to the NIHE's response maintenance contracts.

Please find attached a copy of the Gateway 5 Review and the NIHE's Action Plan for the Committee's information.

Yours sincerely



Susan McCarty

Appendix A

For Audit & Risk Assurance Committee

For Information

Action Plan No.2 from Gateway 5 (Operations Review & Benefits Realisation) Response Maintenance New Engineering Contracts (NEC)

1.0 Background

- 1.1 The aim of this project was to deliver an overall Procurement Vision & Strategy that delivers the Corporate Objectives, delivers the health check recommendations, relevant governance recommendations and provides the organisation with appropriate compliance.
- 1.2 The Project was required to develop individual contracts that:
- are governed by the new Procurement Strategy
 - can be used effectively to manage the delivery of the end product/service
 - incorporate the operational recommendations of the Health Check and Governance Review
 - are appropriately managed
 - incorporate continual competition
 - provide flexibility for the business

2.0 The Gateway Review

- 2.1 The Review was based on the OGC Gateway 5 'Operations Review & benefits realisation'. The Review was conducted at the Housing Centre from 01/04/14 to 04/04/14.

3.0 Findings and Recommendations

- 3.1 The Review Team has completed its final report for the Director of Landlord Services and Senior Responsible Owner (SRO) of the project. The Review Team has provided 8 key recommendations.
- 3.2 The Head of Centre of Expertise, Central Procurement Directorate, DoFP, met with Central Maintenance and recommended that one of the Review Team members return for 2 days work to interpret and embed the Gateway 5 Recommendations. He recommends this as a more constructive and effective alternative to an Assurance of Action Plan. He also agrees that some key dates need to be extended. This will be explored at the August Workshop.
- 3.3 An Action Plan has been developed from the Review. The current status for each action will be reviewed by the Landlord Services Board until all are closed. (See table below).
- 3.4 The Workshop is confirmed for 14-15 August 2014 at The Housing Centre and will be coordinated by the Programme Management Office. The purpose of the workshop is to assist the project team to interpret and embed each of the recommendations listed below.

Action Plan from Gate 5 Recommendations

| Recommendation (Critical/ Essential/ Recommended) | | Action | Owner | Status | Details of Action |
|--|---|--|--------------|---------------|---|
| 1. Undertake a contract resource review to clearly define what roles, skills and training needs are required, and specifically give consideration to reducing the dependency on agency staff. | E | SRO to undertake analysis of skills and resources required and meet with HR to agree resources, training needs and potential for reducing dependency on agency staff. To be completed by June 2014. | SRO | Ongoing | The organisation is currently developing the Workforce Plan 2015 which will address the issue of contracts for Agency Workers. Estimated completion date is 2014/15. A review is being conducting of Asset Management structures, contracts and business packages. The Review started in June 2014 in line with action requirement and will complete in Aug 2014 |
| 2. Produce a Contract Management (operational) Guide on how the contracts should be managed. This should be available online. | E | SRO to allocate resource to ensure Contract Management Guide is produced aligned to best practice to support existing and new staff. This should be made available on line to staff. Essential by September 2014 | SRO | Ongoing | Estimated completion date September 2014. |
| 3. Establish a properly constituted Contractors Forum to ensure decision makers from both sides have the ability to air concerns and consider changes that will assist in the overall objective of improving maintenance services to tenants. | C | SRO to progress establishment of Contractors Forum that will meet quarterly chaired by Contract Managers. Critical | SRO | Completed | The first Contractors Forum took place on 24 June. Terms of Reference have been agreed with all parties. The next meeting is scheduled for 17 September 2014 in Craigavon. |
| 4. Review the flow of data within the project and assess how effectively it is processed and its value in delivering concise information and reports appropriate to its audience, concluding in a single dashboard for SRO and Board scrutiny. | E | To produce a dashboard for reporting on project performance to ensure issues and risks are highlighted and managed. To be completed by June 2014 | SRO | Ongoing | Corporate Planning is supporting the development of an improved and refined Dashboard to report in single page format including risks and issues. Draft Dashboard was used for presentation of information for June Board with final format to be in place by September 2014. |

| Recommendation (Critical/ Essential/ Recommended) | | Action | Owner | Status | Details of Action |
|--|---|--|--------------|---------------|---|
| 6. Review and consider reducing the number of KPI's, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties. | C | SRO to review all Key Performance Indicator's (KPI) and consider potential for reducing the number of KPIs; their ability to measure appropriately and assessment of application of damages. Critical | SRO | Ongoing | Draft proposals are being developed and once completed will be submitted to CXBC and Board for approval. Estimated completion date September 2014. |
| 7. Confirm the formal acceptance of the PPE Report issued in January 2014 and ensure governance is in place to oversee its implementation. | E | SRO to allocate resource to oversee implementation of recommendations from PPE. SRO to ensure appropriate governance in place for reporting and monitoring purposes. To be completed by May 2014 | SRO | Ongoing | From May 2014 updated Action Plan was completed and provided to Landlord Services Programme Board for monthly reporting and monitoring. DoLS will also monitor at the new Procurement Governance Board. |
| 8. Produce a Vision and Strategy for the management and maintenance of the assets prior to the commencement of the next procurement exercise. | R | SRO to deliver a new Vision and Strategy to provide overarching direction and guidance for future delivery of the contracts. SRO to consider range of possible maintenance delivery options including integrating responsive maintenance with overall stock maintenance. | SRO | Open | DoLS to discuss with Asset Management Assistant Directors and communication strategy with Head of Information. The 13 week review of Asset Management started in June will inform this process. Estimated completion date October 2014 subject to Asset Management review. |



Central Procurement Directorate
'helping maximise the benefits of effective procurement'

OGC Gateway™ Review 5: Operations review & benefits realisation

Project Title: Response Maintenance Contracts (2&3)

OGC Gateway™ ID: GWY/000/233

Privacy Marking: UNCLASSIFIED



Office of Government Commerce

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OGC Gateway™ Process

Review 5: Operations review & benefits realisation

Version number: Final Issued

Date of issue to SRO: 4th April 2014

SRO: Gerry Flynn

Department: Department of Social Development

Agency or NDPB: Northern Ireland Housing Executive

OGC Gateway™ Review dates: 1st April 2014 – 4th April 2014

OGC Gateway™ Review Team Leader:

Ian Brown

OGC Gateway™ Review Team Members:

Peter Besley

Paul McMurray

OGC Gateway Delivery Confidence Assessment

This report is an evidence-based snapshot of the project's status at the time of the review. It reflects the views of the independent review team, based on information evaluated over a three to four day period, and is delivered to the SRO immediately at the conclusion of the review.

| Delivery Confidence Assessment | AMBER/RED |
|--|-----------|
| <p>We found that the Response Maintenance Contracts (RMC) 2 and 3 (operational from August 2012) are delivering improvements against the previous arrangements. These include better contract management, and supplier/contractor performance against KPIs throughout the period of the contract. Individual office performance has notably improved. These improvements we consider to be, in part, a result of the training and changes which have been achieved to date.</p> <p>These improvements have been delivered against the continuing backdrop of scrutiny and external pressure which has affected NIHE, and in particular their approach to contract management and delivering greater benefits from these contracts. This pressure has to be managed however and the opportunity needs to be taken for the contracts to achieve their full potential benefits for both contractors and NIHE.</p> <p>NIHE has commenced an organisational review which we understand will impact on the overall approach to asset management and the delivery of maintenance support. This will result in an opportunity to refresh the overall Vision for the delivery of asset management and the strategy for the procurement of maintenance. We consider this to be a positive approach.</p> <p>In the meantime, there remains an opportunity for significant benefit to both NIHE and their contractors to review and improve the operation of the current contract arrangements and, in particular, the current KPIs. These should aim to –</p> <ul style="list-style-type: none"> • reduce the administrative burden of contract management; • improve overall performance; • provide the opportunity for innovation, <p>It is essential that this is done quickly if the NIHE is to realise the opportunity of including findings in time for inclusion in the 1st September 2014 (RMC 1 - 'go live') and subsequent procurements.</p> <p>In line with the original Business case a reconfirmation of the benefits resulting from this work it will be essential that the Benefits Realisation Plan is updated (ensuring SMART objectives) and its delivery is regular reviewed.</p> <p>A number of the issues raised in previous reports remain along with new items highlighted in this report. These include issues such as contractor administration, contractor sustainability, contract administration costs, performance and supplier management, and TUPE. Based on this situation and the organisational change process within NIHE we consider the delivery confidence to be Amber Red. Prompt key actions by the team, when successfully completed will give opportunity for this status to be reviewed by an AAP (Assurance of Action Plan).</p> | |

The Delivery Confidence assessment RAG status should use the definitions below.

| RAG | Criteria Description |
|-------------|--|
| Green | Successful delivery of the project/programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly |
| Amber/Green | Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery |
| Amber | Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun |
| Amber/Red | Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible |
| Red | Successful delivery of the project/programme appears to be unachievable. There are major issues on project/programme definition, schedule, budget required quality or benefits delivery, which at this stage do not appear to be manageable or resolvable. The project/programme may need re-baselining and/or overall viability re-assessed |

Summary of Report Recommendations

The Review Team makes the following recommendations which are prioritized using the definitions below.

| Ref. No. | Recommendation | Critical/ Essential/ Recommended |
|----------|--|--|
| 1. | The SRO should undertake a contract resource review to clearly define what roles, skills, and training needs are required, and specifically give consideration to reducing dependency on agency staff. | Essential by June 2014 |
| 2. | The SRO should ensure the production of a (preferably online) Contract Management (operational) Guide on how the contracts should be managed. | Essential by September 2014 |
| 3. | The SRO should establish a properly constituted Contractors forum to ensure decision makers from both sides have the ability to air concerns and consider changes that will assist in the overall objective of improving maintenance services to tenants. | Critical |
| 4. | The SRO should review the flow of data within the project and assess how effectively it is processed, and its value in delivering concise information and reports appropriate to its audience, concluding in a single dashboard for SRO and Board scrutiny. | Essential by June 2014 |
| 5. | The SRO should ensure that an updated Benefits Realisation Plan (with SMART objectives) is produced, agreed, and monitored regularly. | Critical |
| 6. | The SRO should review and consider reducing the number of KPIs, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties. | Critical |
| 7. | The SRO should confirm the formal acceptance of the PPE Report issued January 2014 and ensure governance is in place to oversee its implementation. | Essential by May 2014 |
| 8. | The SRO should produce a Vision and Strategy for the management and maintenance of the assets prior to the commencement of the next procurement exercise. | Recommended |

Critical (Do Now) – To increase the likelihood of a successful outcome it is of the greatest importance that the programme/project should take action immediately

Essential (Do By) – To increase the likelihood of a successful outcome the programme/project should take action in the near future. [Note to review teams – whenever possible Essential recommendations should be linked to project milestones e.g. before contract signature and/or a specified timeframe e.g. within the next three months.]

Recommended – The programme/project should benefit from the uptake of this recommendation. [Note to review teams – if possible Recommended recommendations should be linked to project milestones e.g. before contract signature and/or a specified timeframe e.g. within the next three months.]

Background

The aims of the project:

The aims of the project were primarily to:

- a. Deliver an overall Procurement Vision and Strategy that:
 - Delivers the Corporate Objectives
 - Delivers the Health Check Recommendations
 - Delivers relevant Governance Recommendations
 - Provides the Organisation with appropriate compliance
- b. Develop individual contracts that:
 - Are governed by the new Procurement Strategy
 - Can be used effectively to manage the delivery of the end product/service
 - Incorporate the operational recommendations of the Health Check and Governance Review
 - Are appropriately managed
 - Incorporate continual competition
 - Provide flexibility for the business
- c. To deliver the Response 2&3 Response Maintenance Contract by November 2011

The driving force for the project:

The driving force for the project was initially the recommendations made by the Health Check Review 2010 but given that the previous Response 2 and 3 Contracts were coming to the end of their term, it was an appropriate time to ensure that the replacement frameworks / contracts incorporated the recommendations.

The previous Response 2&3 Contracts have been extended in order to facilitate the development and procurement of the new contract.

The key themes / recommendations driving improvement were:

- a. That the current Corporate Procurement Strategy is updated and this would serve to guide how future procurements within the organisation should be run.
- b. Those contracts are properly managed and appropriate governance structures are put in place.
- c. Those contracts provide for effective and enforceable management.
- d. Those KPIs are developed and included in the contract and that KPIs provide effective measurement for the Business.
- e. That a statistical approach to inspection be taken.
- f. That appropriate reports are produced to measure performance and enable trend analysis.

The procurement/delivery status:

The Contracts for RM 2 and 3 went operational from August 2012. Given the issues resulting from two contractors going into administration (during 2013) the work has been absorbed into the Direct Labour Organisation (DLO) and other suppliers. The NIHE is undertaking a series of unintended secondary competitions to capture this work some of which is not

planned to remain within the DLO. In addition, there is a planned competition to incorporate the RM 1 contract out of Joint Contracts Tribunal (JCT) into the New Engineering Contract 3 (NEC) contract due to commence 1st September 2014.

Current position regarding OGC Gateway™ Reviews:

The last Gateway Review undertaken was the Gateway 3 in September 2011.

It is two and a half years since the previous Gateway but where possible we have made comment on the Gateway 3 recommendations.

A summary of recommendations, progress and status from the previous OGC Gateway Review can be found in Appendix C.

Purposes and conduct of the OGC Gateway™ Review

Purposes of the OGC Gateway™ Review

The primary purposes of an OGC Gateway Review 5: Operations review & benefits realisation, are to assess whether the anticipated benefits are being delivered and that the ongoing contractual arrangements meet the business need.

Appendix A gives the full purposes statement for an OGC Gateway Review 5.

Conduct of the OGC Gateway™ Review

This OGC Gateway Review 5 was carried out from 1st April 2014 to 4th April 2014 at NIHE Head Office, Adelaide Street, Belfast. The team members are listed on the front cover.

The people interviewed are listed in Appendix B.

We would like to thank the Project Team for their support and openness, which contributed to our understanding of the project and the outcome of this Review.

Findings and recommendations

1: Review of operating phase

We found that a number of areas of the contract were working well. Improved performance from the contractor was apparent both in comparison to the previous contract arrangements as well as a progressive improvement through the first 18 months or so of this current contract. We found evidence of positive tenant satisfaction.

Whilst there are signs of improvement the continuing backdrop of scrutiny and external pressure has left its mark on the organisation as a whole, and in particular on the organisation's approach to contract management. The change from JCT to NEC as a contract form was in line with NI Procurement Board policy and aimed to redress the historic lack of contract management. We found evidence that the current approach has had the effect of stifling the contracts objectives leading to an inflexible approach. This is leading to significant frustration from both the NIHE staff and the contractors resulting in excessive time and cost spent on contract interpretation and administration.

There is a growing appreciation within NIHE that this approach is not sustainable and concern that continuation will lead to future difficulties. These difficulties could impact both on the day to day running of existing contracts and the NIHE ability to achieve successful secondary competitions as well as the future incorporation of RMC 1 due to be let from 1st September 2014.

NIHE is in the process of internal change. A Director of Transformation has been appointed by the organisation, and has begun a 'Journey to Excellence' programme (this Director is currently the acting CEO until a permanent appointment is made). Internal changes have brought together a new department of Internal Landlord Services with the Director of Landlord Services taking responsibility for all asset management including all maintenance in January 2014. The Director has retained the SRO role for this contract since 2012. In line with previous recommendations the SRO recognises that he is the contract owner. There is also recognition of the imperative that change in the application of the contract is vital for future success.

We found an assurance process in place but it appeared to reflect the needs of the organisation during a phase of extensive scrutiny. However, as the needs of the organisation and, in particular, this contract move forward this is a function that needs reviewing and adjusting proportionally to the needs of an established contract management arrangement in steady state. The overall assurance regime appears to be restricting the ability of the maintenance officers to act within the spirit of the contract.

We found an overall level of complexity and lack of clarity within the roles and responsibilities for those involved in the running of this contract, in the Centre generally and in particular, within the Central Maintenance Unit. The test of 'added value' should be applied to all the functions carried out in contract delivery and failure to demonstrate this should be recognised as adding to the administrative burden. It also dilutes the effectiveness and efficiency of decision making. This needs to be considered in line with our comments in Section 3, general governance, and the Recommendation 1 below. It is also recognised that this may form part of the overall review of Landlord services that is being carried out, but it is important that it is not unduly delayed if the overall department review has a longer timescale.

A comprehensive Post Project Evaluation was carried out during autumn 2013. We would generally endorse the findings of this report which has 34 recommendations. Of significant note is the following –

'I understand that there are 127 No permanent Maintenance Officers, 5No Temporary Maintenance Officers and 25 No agency staff employed as Maintenance Officers. In my opinion it would be more beneficial to the organisation to determine the number of posts required and to make permanent appointments as soon as possible.' PPE Report January 2014

This continuous ‘flux’ and turnover of staff is impacting on consistency and effectiveness of contract management and is requiring continual re training of front line maintenance staff.

Recommendation 1: The SRO should undertake a contract resource review to clearly define what roles, skills, and training needs are required, and specifically give consideration to reducing dependency on agency staff.

We found evidence of a steady improvement in the training arrangement as well as a spread of good practice across the contract management function. However we did not see evidence of a Contract Management (operational) Guide to support staff (existing and new) in undertaking their contract management duties. This will be particularly important as a means of identifying and communicating any outcomes from the review in Recommendation 1.

Recommendation 2: The SRO should ensure the production of a (preferably online) Contract Management (operational) Guide on how the contracts should be managed.

We note the failure of two contractors who went into administration during the first year of the contract. Whilst not a direct factor the administration of the contract and in particular KPIs, have not helped this situation. In addition administrative issues may have impacted on the enthusiasm of existing contractors to take over the work, and/or to propose improvements in the overall running of the contract.

We understand that a Contractors forum was held in November 2013 to try and address some of these issues with limited success. Whilst we support such a forum it is likely to be more successful if it is formally constituted with clear Terms of Reference and an overall objective of constructive improvement rather than ‘reasons not to change’. However it is decided to constitute this and the frequency of its meetings, its overall objective should be to ensure that decision makers are present with a constructive remit to continually improve delivery of objectives. To ensure that this forum doesn’t become ‘bogged down’ with detailed issues, it may be appropriate for NIHE to aim to empower individuals within the organisation to implement improvements at this and other forums that both parties agree are essential.

Recommendation 3: The SRO should establish a properly constituted Contractors forum to ensure decision makers from both sides have the ability to air concerns and consider changes that will assist in the overall objective of improving maintenance services to tenants.

There are clear lessons from the original contract award in relation to ‘under pricing’, and it is essential these are noted and rectified for future procurements. Mechanisms and agreements for handling of such situations need to be addressed and documented in advance of tender Issue. In support of future decisions it may be of assistance to reflect on the following wording from government strategy.

Too many clients are indiscriminating and still equate price with cost, selecting designers and constructors almost exclusively on the basis of tendered price. This tendency is widely seen as one of the greatest barriers to improvement. The public sector, because of its need to interpret accountability in a rather narrow sense, is often viewed as a major culprit in this respect. The industry needs to educate and help its clients to differentiate between best value and lowest price. (Source – 1999 - Rethinking Construction)

It is a requirement of this procurement to improve reporting arrangements. Whilst we found significant availability of KPI data, the processing and analysis of this, whilst an improvement on previous, still requires further refinement. As a note of guidance each level of reporting should add value, and highlight issues. As the hierarchy of reporting progresses through the organisation there should be continual refinement of the key points leading to the presentation of a ‘single dashboard’ by the time it reaches the SRO. In addition the collation, coverage and management of risk and issues need to be improved and then included within the dashboard.

Recommendation 4: The SRO should review the flow of data within the project and assess how effectively it is processed, and its value in delivering concise information and reports appropriate to its audience, concluding in a single dashboard for SRO and Board scrutiny.

2: Business Case and benefits management

The Business case dated March 2011 highlighted the following key objectives covered in the body of this report cover.–

- **Deliver a sustainable procurement by introducing framework contracts, maximising the number of framework members and introducing flexibility into the contracts.**

Partially achieved

- **Provide clear guidance on the roles and responsibilities of the individual officers involved in the procurement as required under the Corporate Procurement Strategy and provides for better governance reporting at both pre and post contract stages.**

Partially achieved – needs reviewing

- **Provide for better measurement of contractor performance with the introduction of a new robust suite of KPIs, driving behavioural change and maintaining quality. It also details clear guidance on the management of poor performance or breaches of contract on how to escalate if necessary through the governance structure.**

Partially achieved – needs reviewing

- **Provide for regular reporting on performance so that issues can be addressed early.**

Partially achieved – needs reviewing

- **Provide a contract that is more robust, will drive behavioural change from both in-house staff and contractors, have clear governance controls in place and address past failures and the issues identified in the Health Check and Governance Reviews carried out in 2010.**

Partially achieved – needs reviewing.

A Benefits Realisation Plan (BRP) was agreed by the Procurement and Contract Management Project Board on the 23rd November 2011, and the measures were agreed later in 2012. We were advised that the monitoring of this plan has not been carried forward. It is essential that this is revisited and reinstated at the heart of the project and responsibility for their realisation is owned by the SRO. Clear and frequent reference to such a document will provide direction for the project and will provoke earlier intervention for improvements such as the current administrative issues.

Recommendation 5: – The SRO should ensure that an updated Benefits Realisation Plan (with SMART objectives) is produced, agreed, and monitored regularly.

We found that the Project itself had ‘closed’ and had been absorbed into Business as Usual (BAU). As a result of this the overall project governance has become unclear, impacting on the ability to make decisions, changes and improvements.

3: Plans for ongoing improvements in value for money

We found that the ongoing contract administration is particularly burdensome and therefore costs are likely to be significantly higher than they should be after 20 months operation. These costs are also being born by the contractor on top of ‘very competitive’ tendered rates. We note that this is recognised, although there is very little evidence of a proactive approach to address this to the mutual benefit of both parties (See Recommendation 6 on KPIs in Section 4). In addition to this there are contentions with the costing of the Schedule of Rates (SoR's) and the means for an impartial resolution is required to ensure that the contractors are not unfairly treated.

As a result of particularly low tender prices (noted in Section 1) two contractors have gone into administration, with the potential of others struggling to deliver the contract. The resulting districts have been covered both by the DLO and existing contractors on a temporary basis. The result of this is that TUPE has occurred back to the DLO adding a minimum of 20% increase in labour costs (due to pension contributions), as well as costs for investment in (but not limited to) plant, storage and IT. This is in addition to the cost and quality issues of the 'temporary' contractor operating to the 'spirit' of the contract and KPI's only in shadow form. The net result of all this is an impact on the originally envisaged VfM and an increase in the size and cost of the DLO organisation, which was not quantified at the time of the review.

4: Plans for ongoing improvements in performance and innovation

The clear cost and administrative burden caused by the management of this contract and in particular the KPI is a continuing theme within this review. The need for KPI flexibility and a willingness and ability to resolve issues promptly is a key component in successfully managed contracts. Coupled with this is the flexibility to ensure that the contract has the correct KPI's measuring the right things.

This issue was highlighted in the November 2011 Gateway 3 review as highlighted below.

'We believe however that careful monitoring of the KPI regime will need to be undertaken to assess its effectiveness. The Project Team could usefully prepare a contingency plan to consider the recalibration of the KPIs in the unlikely event that the new suppliers are simply not able to satisfy the KPI thresholds for reasons outside of their control.....' (Source – Gateway 3 Report 20/09/11)

In summary, whilst it is clear the project recognised these issues; we found a lack of clarity as to how NIHE would resolve them. It is essential that this is considered as a matter of priority for the benefit of both Contractor and NIHE and appropriate changes made, and not least because plans are in place for the secondary competition to replace RMC 1 (due September 2014). Issues exist both in the number and relevance of the KPIs and in terms of their application. There seems to be little financial recourse for contractor when time and money is being expended to overturn incorrect applications of KPIs or indeed where they are applied without regard to proportionality or common sense.

Recommendation 6: - The SRO should review and consider reducing the number of KPIs, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties.

5: Review of organisational learning and maturity targets

A PPE was conducted autumn 2013 and published January 2014 (This report is noted in Section 1). The report made 34 recommendations and it is understood they have been accepted as an action plan has been created. However, governance arrangements are unclear should be put in place.

Recommendation 7- The SRO should confirm the formal acceptance of the PPE Report issued January 2014 and ensure governance is in place to oversee its implementation.

6: Readiness for the future – Plans for future service provision

At this stage of the project and given the significant issues that have arisen the SRO should undertake a review of the organisations objectives and how they are being met (or not as the case may be) by the current contracts. This review will form the basis of an Asset management strategy to maintain the future assets of the organisation (a housing stock of nearly 90,000 units). We understand that a process is in place to recruit consultants to assist in the production of this work. When this is complete the organisation will be in a position to update their procurement strategy to underpin delivery of future maintenance contracts. Our concern is that this work could be out of sequence with the needs of the

refresh of these contracts. This should be undertaken within the next 12 months to meet the renewal of the next round of framework agreements.

As part of this exercise the project may benefit from a refreshed understanding of the principles of Rethinking Construction which remains the prevailing Government objective in relation to Construction procurement. The following provides a link to this report.

http://www.constructingexcellence.org.uk/pdf/rethinking%20construction/rethinking_construction_report.pdf

When undertaking this scoping review a full range of options should be considered as highlighted in the September 2011 Gateway 3.

Looking further ahead to the next contract renewal, we would also suggest that consideration might be given to a range of possible maintenance delivery options including integrating responsive maintenance with overall stock maintenance and possibly with wider housing management responsibilities. (Source – Gateway 3 Report 20/09/11)

In summary and in line with many of the points raised in this Review, it is essential that any improvements in contracting arrangements for the future are set within the context and timeframe for organisational change. We found that there are plans underway to deliver this. That said there were divisional plans back in 2011 noted by the Gateway 3 report (see below) and so it is essential that these actually happen.

The Project Team acknowledges that in order for the new contracts to work effectively, behaviours and attitudes of staff involved in maintenance need also to change - a cultural as well as a structural and procedural change is needed. We understand that initial work is underway to establish a change management plan but this should now be prioritised so that change plans can be in place ready for implementation when the new contracts begin. (Source – Gateway 3 Report 20/09/11)

Recommendation 8 – The SRO should produce a Vision and Strategy for the management and maintenance of the assets prior to the commencement of the next procurement exercise.

The next OGC Gateway™ Review is expected no later than 12 months and should consider a newly constituted Programme to review and update the procurement of the maintenance of assets and their management.

The Project Team are keen to move the confidence rating from Amber/Red back to Amber. Whilst this can be done internally by completion of the actions, the project may consider the more formal AAP (say in 3 months), and can speak to the NI Gateway Team about this.

Appendix A

Purposes of OGC Gateway™ Review 5: Operations review & benefits realisation

- Assess whether the Business Case justification for the project at OGC Gateway Review 3: Investment decision was realistic.
- Confirm that there is still a business need for the investment
- Assess whether the benefits anticipated at this stage are actually being delivered.
- Assess the effectiveness of the ongoing contract management processes.
- Confirm that the client side continues to have the necessary resources to manage the contract successfully.
- Confirm continuity of key personnel involved in contract management/‘intelligent customer’ roles.
- Where changes have been agreed, check that they do not compromise the original delivery strategy.
- Assess the ongoing requirement for the contract to meet business need. Ensure that if circumstances have changed, the service delivery and contract are adapting to the new situation. Changing circumstances could affect: partner management; relationship management; service management; change management; contract management; benefits management; performance management.
- Check that there is ongoing contract development to improve value for money.
- Confirm that there are plans to manage the contract to its conclusion.
- Where applicable, confirm the validity of exit strategy and arrangements for re-competition.

Appendix B

Interviewees

| Name | Role |
|-------------------|---|
| Gerry Flynn | Director of Landlord Services and SRO |
| Tim Gough | Assistant Director Business Support, Landlord Services |
| Charlie Walker | Quantity Surveyor Central Policy and Standards, Landlord Services |
| Harry Dornan | Assistant Director Policy, Landlord Services |
| John McCartan | Senior Principal Officer, Central Maintenance Unit, Landlord Services |
| Graham Houston | Principal Officer, Central Maintenance Unit, Landlord Services |
| Frances Gallagher | Head of Legal Services, Corporate Services |
| John Gracey | Senior Principal Officer, Landlord Services |
| Ian McCrickard | Regional Director Belfast, Landlord Services |
| Drew McMath | Maintenance Manager South, Landlord Services |
| Owen Brady | Area Manager South Landlord Services |
| Arthur Crowe | Contracts Manager North, Landlord Services |
| Stuart Hill | PK Murphy Contractors |
| Paul Murphy | PK Murphy Contractors |
| Paul Cunningham | Bayview Contractors |
| David Lamb | Assistant Director Finance |
| Raymond Kitson | Response Maintenance Manager, Corporate Assurance Unit |
| Declan Allen | Assistant Director Procurement, Corporate Services |
| Jonny Blease | Head of Corporate Communications and Secretariat |
| Michael Kavanagh | Acting Assistant Director DLO Services |
| Valerie Rooney | Tenant and Supporting Communities NI representative |
| Mags Lightbody | Acting Chief Executive |

Appendix C

Recommendations from previous NI Gateway Review 3

| Ref. No. | Recommendation | Progress/ Status | Gateway 5 –Comments |
|-----------------|--|---------------------------------|--|
| 1. | The Project Manager should prepare a comprehensive Contract Management handbook. | Policy and Procedures completed | This is updated by a Recommendation in this report to produce a Contract Operational Guide. |
| 2. | The Project Manager should implement an effective benefits realisation process and management plan to capture, baseline, measure and quantify benefits over time. | Complete | Plan Signed off in Nov 2011. No evidence that this is being actively managed and benefits realised. |
| 3. | The Project Manager should introduce a comprehensive risk management process that embraces the operational phase and wider corporate risk management processes. | Complete | Superseded by Rec on risk management process for Business as Usual. |
| 4. | The Project Manager should further consider the inflation component of the ITT and as a minimum introduce visibility into the inflation allowances included in bidders' offers. | Complete | Due to be reviewed 2 years from Contract Commencement (Aug/ Sept 2014). |
| 5. | The Project Manager must prepare a detailed activity programme for the remaining actions in the procurement phase with a critical path analysis in order to determine and agree the service commencement date. | Complete | No Additional Comment |
| 6. | The SRO should ensure that an assurance report is prepared for sign off by the Project Board at key procurement milestones including ITT, frameworks award and contracts award. | Complete | No Additional Comment |
| 7. | The SRO should ensure that plans to finalise change management are in place ready for implementation when the new contracts begin. | Complete | Limited success due to delays in implementing training. |
| 8. | The SRO maintains the Project Board governance into service delivery and benefits realisation phase. | Agreed | Taken on by the Procurement and Contract Management Board, and latterly the Works Procurement Board. |

DSD Letter 26.08.14

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Dr Kevin Pelan
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Dear Kevin

SDC Inquiry Phase 2 – Follow-up Information Request

I refer to your letter dated 9 July 2014 in which you advised that the Committee has requested further information on a number of issues in relation to Phase 2 that were not covered during the evidence session attended by Will Haire and Jim Wilkinson on 8 May 2014.

Responses to the questions asked are attached at Annex A.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan McCarty', with a large, stylized flourish at the end.

Susan McCarty

Annex A

- 1. In the 2011-2012 Report to those Charged with Governance, the Comptroller and Auditor General made 14 Recommendations, 6 of which related to procurement and contract management within NIHE. In the 2012-13 Report, 4 of these recommendations had still not been fully implemented. As principal Accounting Officer and Sponsor Branch, is the Department satisfied that the NIHE are giving due importance and consideration to the ongoing failings in procurement and contract management within the NIHE as raised by the Audit Office in their annual reports?**

Will Haire and Jim Wilkinson, at the evidence session on 8 May 2014, advised the Committee of the issues relating to the NIHE's management of contracts and the departmental oversight arrangements in place. These are also set out in the comprehensive memorandum, in relation to Phase 2, that has been provided to the Committee by the Department.

The Housing Executive's implementation of recommendations from the Comptroller & Auditor General Reports to those Charged with Governance are regularly monitored at the monthly progress meeting held between the Permanent Secretary and the Acting Chief Executive of the Housing Executive.

Will Haire also advised the Committee on 8 May 2014 that he believed progress was being made by the NIHE and he saw significant progress from the Board and the Senior Management Team in dealing with these issues. He also advised that "we have a journey to go but I see positive signs of movement".

- 2. In its most recent Report to those charged with Governance (2012) the NI Audit Office (NIAO) made a number of recommendations in respect of the NIHE Audit Committee. The report raised the implication that the current governance arrangements within the NIHE may not be adequate to allow sufficient consideration of key issues. Is the Department satisfied that the current governance arrangements – in particular the operation of the NIHE Board and Audit Committee are sufficient to provide the Department with the appropriate level of assurance?**

The recommendations have been implemented. The Department routinely receives copies of the Audit Committee papers in advance of each meeting and is content that the proposals contained within the NIAO recommendation have been actioned appropriately.

- 3. The Department has provided the Committee with details of the introduction of the new landlord inspection function within the Housing Executive. When do you expect to see the first reports from this new Inspection team?**

The Inspection Team has been established and will shortly be commencing discussions with NIHE senior management regarding the protocols for engagement and determining a rolling programme of inspections. It is hoped that the first inspection report should be produced circa December 2014.

- 4. In its recommendations the Public Accounts Committee reiterated that it is the responsibility of a sponsor department to regularly review its processes for gaining assurance on sponsored bodies' management of risks to ensure that effective controls are in place. What steps has the Department taken to address this recommendation?**

The Department has established a comprehensive set of monitoring arrangements ranging from quarterly Accountability meetings between the Departmental Accounting Officer and Chairman of the NIHE and monthly progress meetings between the Departmental Accounting Officer and the Acting Chief Executive of the NIHE. These meetings are supported by a series of quarterly/monthly review meetings between operational managers from NIHE and Housing Division who are charged with monitoring progress in the individual areas, highlight any issues/concerns of substance and agree on action to be taken and an appropriate timetable. Any issues which are

unresolved are reported to the Housing Division's Issues Log where they will be considered for escalation to the next Accountability meeting.

In addition, the establishment of the NIHE Inspection Team will, in due course, give the Department direct assurance on the application of controls and risk management within the NIHE.

The Department is committed to ongoing reviews of its monitoring arrangements and regularly reviews its sponsorship arrangements.

- 5. The NIAO report on the management of response maintenance contracts within the NIHE, highlighted serious concerns in respect of NIHE treatment of whistle-blowers. The PAC in its subsequent report recommended that senior management in the Housing Executive must send out a clear message to staff that the organisation is not a cold place for whistle-blowers and demonstrate that concerns raised will be taken seriously and properly investigated. As the Sponsor Branch which has responsibility for reviewing the fraud register, including those notified by whistle-blowers, to what extent does the Department consider that the culture within the NIHE has changed in respect of its treatment of whistle-blowers?**

The Department ensures that the NIHE's implementation of the recommendations in the NIAO/PAC Reports are regularly monitored. Whistleblowing cases are also monitored as the Management Statement/ Financial Memorandum between the Department and the NIHE requires the NIHE to notify the Department of all suspected or proven frauds and all whistleblowing correspondence received in NIHE.

The Housing Executive has reviewed its Whistleblowing Policy in line with DFP policy and incorporating best practice advice from external organisations – CIPD, LRA, Public Concern at Work. This Policy was published by way of the issue of a Personnel Information Bulletin to all staff in May 2013. NIHE reviewed its processes for dealing with concerns raised by staff, ensuring those staff are supported and protected. The reviewed processes are incorporated in section 25 of the NIHE revised staff code of conduct issued in March 2012 and the NIHE Whistleblowing Procedure revised in February 2013.

The NIHE has advised staff that they are committed to making whistleblowing work and have assured staff that if they raise a genuine concern they will not be at risk of losing their job or suffering any form of detriment as a result. They have also stated that they will not tolerate the harassment or victimisation of anyone who raises a genuine concern and will not take any steps to identify an individual who raises concerns on an anonymous basis.

The Department believes these actions demonstrate a clear determination on behalf of the NIHE to ensure effective whistleblowing systems are in place and that individuals are supported. The Department regularly monitors the notifications received from NIHE to ensure that they are accurate and that all cases are being progressed.

- 6. In its report, the PAC raised a number of very serious concerns about the capability and competence of management within the Housing Executive over a number of years, particularly at a senior level. As the Sponsor Branch, is the Department satisfied that the current NIHE senior management structure is equipped with the necessary skills to address the risks facing the organisation?**

There have been a number of changes to the Senior Management Team in the Housing Executive since the publication of the PAC report. Changes include a new Director of Corporate Services, the appointment of a Director of Transformation and, following the retirement of the Chief Executive, an Acting Chief Executive has been appointed (formerly the Director of Transformation).

The Housing and Regeneration / Design and Property Services Divisions were restructured into Landlord and Regional Services respectively. The new divisional structures are intended to

ensure that there is a more balanced distribution of roles and responsibilities, which will lead to better delivery of core services within a more robust governance framework.

The Committee is also aware that, at the beginning of 2014, NIHE embarked on a “Journey to Excellence” programme to improve all aspects of their business and to ensure that NIHE delivers top class regeneration and housing solutions, meeting the needs of communities and partners now and in the future, providing value for money, delivered by high performing, skilled and motivated staff across the organisation.

The skills and expertise required to take the NIHE forward are regularly reviewed and the Department continues to work with the NIHE to ensure that the organisation has the right skills in place to deliver its challenging Agenda.

7. The DSD 2014 Follow-Up Report on the Review of Governance in the NIHE concluded that there is still a considerable amount of work ahead for NIHE if they are to see through the necessary structural and cultural changes. Can the Department expand on what further work will be required and when this is expected to be completed?

In March 2014, the Committee was provided with a copy of the Department’s report “2010 Review of Governance in the NIHE – Follow up Report”. This review was carried out by the Department’s Head of Internal Audit. The Committee were also provided with a copy of the NIHE’s Internal Audit Validation Report which sets out the actions to be taken by the NIHE in relation to any outstanding recommendations and their timescales for completion.

The NIHE provided a briefing to the Committee on 22 May 2014 in relation to the NIHE’s structural changes and its Journey to Excellence Programme. In 2013 the NIHE Board took steps to review and align the existing structures to provide equal focus on both regional and landlord services. The new divisional structures are intended to ensure that there is a more balanced distribution of roles and responsibilities, which will lead to better delivery of core services within a more robust governance framework.

At the beginning of 2014, the NIHE embarked on the Journey to Excellence programme to improve all aspects of their business to ensure that they deliver top class regeneration and housing solutions, meeting the needs of communities and partners now and in the future, providing value for money, delivered by high performing, skilled and motivated staff across the organisation.

Journey to Excellence has the full commitment of the NIHE’s senior management team and staff, customers and partners will play a key role in the major business review programmes planned in order to improve the quality of service, performance and achieve greater value for money for customers and citizens.

8. Can the Department provide any clarity on what steps are being taken to appoint a permanent Chief Executive to the Housing Executive and when this recruitment exercise will be completed?

This is currently under consideration and the Committee will be updated in due course.

9. In its 2014 Report, the DSD Review Team considered that the Housing Executive has learned the lessons from its experience on the management of Response Maintenance Contracts. Following the outcome of the OGC Gateway 5 Review and the award of the new Planned Maintenance Contracts does the Department share the conclusion of the Review Team?

In March 2014, the Committee were provided with a copy of the Department’s report “2010 Review of Governance in the NIHE – Follow up Report”. This review was carried out by the Department’s Head of Internal Audit. One of the three objectives of the Review was:

“To consider the extent to which lessons learned by the Northern Ireland Housing Executive in respect of the management of Response Maintenance have been applied to the management of planned maintenance contracts”.

The Department's Review Team concluded that NIHE set out to apply the lessons on contract management that had been identified in regard to Response Maintenance and build these into a Corporate Procurement Strategy. NIHE could be said to have learnt proactively lessons from their experience with Response Maintenance and applied these to Planned Maintenance. However, some of the more cultural issues, that could be seen in Response Maintenance, such as over reliance on contractors, skills and knowledge of staff, culture and structures were ones to which NIHE had taken time to understand.

Having now come to an understanding of some of the underlying issues, the challenge to NIHE is seeing through the changes needed. The Report recognises that there is still a considerable amount of work ahead for NIHE to see through the necessary structural and cultural changes.

The structural changes and its Journey to Excellence programme referred to above are key aspects for the delivery of this change programme.

10. In May 2013, the previous Chief Executive identified four generic issues which have contributed to the problems experienced by the NIHE. These include:

- a. Culture – desire to hit targets and spend budgets at the expense of compliance with rules and proper governance.**
- b. Contracts – flawed understanding of Egan contracts by staff.**
- c. Skills and Knowledge – lack of appropriate training for staff working in response and planned maintenance.**
- d. Structures – lack of clarity as to who was responsible for managing the maintenance contracts in addition to an imbalance of power between NIHE Directorates.**

In light of the ongoing oversight arrangements with the NIHE which the Department outlined in the Memorandum to the Committee, to what extent does the Department consider that the Housing Executive have addressed these four issues?

In March 2014, the Committee were provided with a copy of the Department's report "2010 Review of Governance in the NIHE – Follow up Report". This review was carried out by the Department's Head of Internal Audit. The Committee were also provided with a copy of the NIHE's Internal Audit Validation Report which sets out the actions to be taken by NIHE in relation to any outstanding recommendations and their timescales for completion.

In relation to the four generic issues the Department's report advises that;

"the steps NIHE has taken and needs still to take to address these issues, in respect of Planned Maintenance includes:

- *Resolving the overpayments issue and determining a final figure (the Committee was informed on 5 August that the Department and the Department of Finance and Personnel have now given their approval to progress the proposed settlement);*
- *Ensuring the progress made in the results from CAU inspections is maintained and with respect to kitchens improved;*
- *Technical training/re training programme has been completed;*
- *Strengthen management of live schemes, minimising any overpayment through re-measuring;*
- *Establish new Asset Management Division;*
- *Bring the new Planned Maintenance Contracts into operation; and*
- *Conduct a root and branch review of how procurement should be structured and managed, particularly in light of Social Housing Reform Programme."*

The structural changes and its Journey to Excellence programme referred to above will contribute to progressing these issues and the Department will regularly monitor progress.

Finally, much progress has been made and, as indicated above, further work remains to be completed to see through the necessary structural and cultural changes

Letter to DSD 09.07.14

Committee for Social Development

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9 July 2014

Our Ref: CSD/022/2013/2/CMcC

Mr Billy Crawford
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Dear Billy,

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

The Committee heard evidence at its meeting on 8 May 2014 from Mr Will Haire and Mr Jim Wilkinson. As a result of the evidence heard at this meeting, the Committee requested that I write to you to follow-up on a number of outstanding issues that were not covered during the evidence session.

The Committee has asked for a response on the following:

1. In the 2011-2012 Report to those Charged with Governance, the Comptroller and Auditor General made 14 Recommendations, 6 of which related to procurement and contract management within NIHE. In the 2012-13 Report, 4 of these recommendations had still not been fully implemented. As principal Accounting Officer and Sponsor Branch, is the Department satisfied that the NIHE are giving due importance and consideration to the ongoing failings in procurement and contract management within the NIHE as raised by the Audit Office in their annual reports?
2. In its most recent Report to those charged with Governance (2012) the NI Audit Office (NIAO) made a number of recommendations in respect of the NIHE Audit Committee. The report raised the implication that the current governance arrangements within the NIHE may not be adequate to allow sufficient consideration of key issues. Is the Department satisfied that the current governance arrangements – in particular the operation of the NIHE Board and Audit Committee are sufficient to provide the Department with the appropriate level of assurance?
3. The Department has provided the Committee with details of the introduction of the new landlord inspection function within the Housing Executive. When do you expect to see the first reports from this new Inspection team?
4. In its recommendations the Public Accounts Committee reiterated that it is the responsibility of a sponsor department to regularly review its processes for gaining assurance on

sponsored bodies' management of risks to ensure that effective controls are in place. What steps has the Department taken to address this recommendation?

5. The NIAO report on the management of response maintenance contracts within the NIHE, highlighted serious concerns in respect of NIHE treatment of whistle-blowers. The PAC in its subsequent report recommended that senior management in the Housing Executive must send out a clear message to staff that the organisation is not a cold place for whistle-blowers and demonstrate that concerns raised will be taken seriously and properly investigated. As the Sponsor Branch which has responsibility for reviewing the fraud register, including those notified by whistle-blowers, to what extent does the Department consider that the culture within the NIHE has changed in respect of its treatment of whistle-blowers?
6. In its report, the PAC raised a number of very serious concerns about the capability and competence of management within the Housing Executive over a number of years, particularly at a senior level. As the Sponsor Branch, is the Department satisfied that the current NIHE senior management structure is equipped with the necessary skills to address the risks facing the organisation?
7. The DSD 2014 Follow-Up Report on the Review of Governance in the NIHE concluded that there is still a considerable amount of work ahead for NIHE if they are to see through the necessary structural and cultural changes. Can the Department expand on what further work will be required and when this is expected to be completed?
8. Can the Department provide any clarity on what steps are being taken to appoint a permanent Chief Executive to the Housing Executive and when this recruitment exercise will be completed?
9. In its 2014 Report, the DSD Review Team considered that the Housing Executive has learned the lessons from its experience on the management of Response Maintenance Contracts. Following the outcome of the OGC Gateway 5 Review and the award of the new Planned Maintenance Contracts does the Department share the conclusion of the Review Team?
10. In May 2013, the previous Chief Executive identified four generic issues which have contributed to the problems experienced by the NIHE. These include:
 - a. Culture – desire to hit targets and spend budgets at the expense of compliance with rules and proper governance
 - b. Contracts – flawed understanding of Egan contracts by staff
 - c. Skills and Knowledge – lack of appropriate training for staff working in response and planned maintenance.
 - d. Structures – lack of clarity as to who was responsible for managing the maintenance contracts in addition to an imbalance of power between NIHE Directorates.

In light of the ongoing oversight arrangements with the NIHE which the Department outlined in the Memorandum to the Committee, to what extent does the Department consider that the Housing Executive have addressed these four issues?

I request that you forward to me the above within 10 working days of receipt of this letter.

I very much appreciate your assistance in this matter.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development

DSD letter 21.10.14

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21 October 2014

Dr Kevin Pelan
Committee Clerk
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Dear Kevin

SDC Inquiry Phase 2 – Follow-Up Information Request

I refer to your letter dated 17 September 2014 in which you advise that, following the evidence from officials from the NI Audit Office on 11 September, the Committee has requested further information in respect of a number of issues.

The Housing Executive's responses to the issues raised are attached at Annex A.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan McCarty', with a large, stylized flourish at the end.

Susan McCarty

Response from the Northern Ireland Housing Executive

Clarification on the outcome of the whistle-blowing exercise.

The Housing Executive has advised that the whistle-blowing case referred to by the Northern Ireland Audit Office relates to planned maintenance in one specific area. This related to contracts out with those contractors included in the recent negotiated settlement. In line with their current approach to managing whistleblowing, a full investigation was initiated which has led to disciplinary action. As result, one member of staff was dismissed and an agency worker's contract was terminated. The investigation is ongoing.

The Housing Executive's Audit and Risk Assurance Committee (ARAC) receive a report at each meeting from the internal Investigations Strategy Group that includes whistleblowing cases affecting staff. This is in addition to a report on any fraud investigation. The Housing Executive would like to reassure Committee members that the issues raised by the whistleblower were taken very seriously and continue to be investigated fully. The Housing Executive also takes great care to support staff who raise any such concerns.

The Housing Executive were pleased to note the positive view given by the Auditor General on their current approach to whistleblowing when he recently attended the Social Development Committee (SDC).

Clarification on the ongoing due diligence exercise into the work of the Corporate Assurance Unit.

The Housing Executive has advised that earlier this year they conducted a review of how their Internal Audit and separate Corporate Assurance Unit (CAU) operated. The outcome was to bring the two Units together into the new Audit and Assurance Unit. This will allow the new team to remove the previous duplication, be deployed across the Housing Executive functions on a much more focused way based on risk and intelligent data but still retaining a strong and distinct focus on quality and cost assurance on our works programme. The Housing Executive reported to SDC on 8th May, that as part of the structure change, they wanted to conduct a review of the work of the CAU to ensure the approach going forward was appropriate.

They expect the exercise to be completed and reported to the NIHE Board/ ARAC before the end of this calendar year.

Confirm whether the CAU team now have a permanent quantity surveyor at central level to review the work carried out by quantity surveyors at district level.

The Housing Executive has advised there are currently two temporary quantity surveyor resources in post. The permanent quantity surveyor post was advertised and shortlisted in September 2014 and they hope to have the recruitment process completed in early October.

Clarification in respect of the exact status of the DLO within the NIHE and how the Housing Executive expects to manage what is now an enlarged unit within the organisation.

The Housing Executive's Direct Labour Organisation (DLO) is currently engaged in six Response Maintenance Repair Services contracts, Belfast West; Belfast South; Belfast North; Belfast Shankill; Portadown/Lurgan; Coleraine.

The Coleraine contract and part of the Belfast North contract were already being covered by DLO prior to any TUPE transfers.

DLO is also engaged in grounds maintenance in the North Region, void property maintenance in various locations and electrical inspection province-wide. All of these services were already

being covered by DLO prior to any TUPE transfers and have not been affected by the TUPE transfers.

In terms of the increased activity resulting from the DLO expansion in response maintenance contracts, the NIHE Board recently established a new arm of governance, namely, the DLO Performance and Development Committee. The Committee has a member from the Board as well as co-opted expertise in this area. The Committee is responsible for providing assurance to the Board on the effectiveness and efficiency of management, performance, governance, and compliance control in the Direct Labour Organisation. This Committee will report to the Board and will meet every two months to scrutinise and oversee the in-house resource to ensure that risks are managed and that it delivers a quality competitive service which provides value for money. The Housing Executive will also be recruiting a senior manager with the requisite business expertise to lead this service. An early task will be the development of a business plan.

More information in respect of the third contractor which is now in administration.

The contractor responsible for response maintenance in Strabane, Robinson Ferry Construction, went into administration on 30th July. The initial contract for the Strabane District began on 6th August 2012 for a four year duration. However, performance issues became apparent in November 2013 and contract escalation procedures were immediately triggered. Senior Housing Executive management met with the contractor in February 2014 and a detailed improvement action plan was submitted. Weekly monitoring of this indicated a failure on the contractor's part to achieve pre-set targets and the decision was made to terminate the contract. A three month termination notice was issued on 13th June with an expiry date of 15th September.

During this period Robinson Ferry went into administration and procedures to ensure emergency cover arrangements were immediately put in place. A contractor has been appointed from the 16th September and a detailed plan has been agreed that should ensure that the backlog situation which has subsequently developed will be addressed over the next four to six week period.

Confirmation as to whether staff had ever been disciplined as a result of investigations into the maintenance contracts.

Disciplinary action has been taken against a number of staff, while others have been the subject of investigations. Actions have included dismissals, final written warnings, written warnings and verbal warnings.

Letter to DSD 17.09.14

Committee for Social Development

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17 September 2014

Our Ref: CSD/022/2013/3/CMcC

Mr Billy Crawford
Department for Social Development
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Dear Billy,

**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**

The Committee heard evidence at its meeting on 11 September 2014 from officials from the NI Audit Office. As a result of the evidence heard at this meeting, the Committee requested that I write to you in respect of a number of issues which were covered during the briefing.

The Committee expressed concern that the Housing Executive had not previously advised the Committee of an ongoing due diligence exercise on the work of the Corporate Assurance Unit following the outcome of a whistleblowing investigation. The Committee noted that it had specifically addressed the issue of whistleblowing and lessons learned and the results of the Corporate Assurance Unit during the NIHE briefings in May and June 2014.

The Committee has therefore requested clarification on the outcome of the whistleblowing exercise and the ongoing due diligence exercise into the work of the Corporate Assurance Unit.

The Committee also noted that the NIAO evidence that the issues involved in the whistleblowing case may have arose as the Corporate Assurance Unit did not have a quantity surveyor in its team.

Can the NIHE now confirm whether the CAU team now have a permanent quantity surveyor at central level to review the work carried out by quantity surveyors at district level?

The Committee noted that a third response maintenance contractor has now gone into administration. The Committee also considered the findings of the Gateway 5 review and correspondence from the Department in respect of the costs for the NIHE arising from increased use of the Direct Labour Organisation.

The Committee sought clarification in respect of the exact status of the DLO within the NIHE and how the Housing Executive expects to manage what is now an enlarged unit within the

organisation. The Committee also sought more information in respect of the third contractor which is now in administration.

Finally in respect of previous investigations into the management of response maintenance contracts, the Committee requested confirmation as to whether staff had ever been disciplined as a result of these investigations.

I request that you forward to me the above within 10 working days of receipt of this letter. I have provided a link to the Hansard transcript of the evidence session on 11 September 2014 for your information.

<http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Committee-Minutes-of-Evidence/Session-2014-2015/September-2014/Spotlight-Inquiry-Phase-2-Northern-Ireland-Audit-Office/>

I very much appreciate your assistance in this matter.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development

DSD Letter 08.01.15

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8 January 2015

Dr Kevin Pelan
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Dear Kevin

SDC Inquiry Phase 2 – Request for update on a number of issues

Thank you for your letter dated 28 November 2014 in which you requested further information in relation to Phase 2 of the Inquiry.

The information requested was an update on the following:

1. November 2013 Gateway Review;
2. Gateway 5 Review of new response maintenance contracts;
3. Benchmarking of all NIHE services;
4. Achieving balance in assurance regime; and
5. Monitoring and testing of new processes.

Updates from the Housing Executive are attached at Annex A.

I hope this information is helpful.

Yours sincerely



Susan McCarty

Annex A

1 November 2013 Gateway review

A November 2013 DSD review of the implementation of the 75 recommendations made in this report noted that two thirds had been fully implemented. Of four critical control recommendations, three were partially complete. These were to be fully complete by summer 2014.

Also, of 21 good practice recommendations outstanding, 10 have subsequently been implemented and 10 partially implemented, with one outstanding. It is anticipated that these will be completed by the end of the year (2014).

The Committee seeks an update on progress relating to the above recommendations.

The Review of Governance in the Northern Ireland Housing Executive (NIHE) - Follow Up Report in November 2013 was carried out by the Department for Social Development's (DSD) Head of Internal Audit to review the implementation of the recommendations made in the Review of Governance in the NIHE that reported in December 2010.

As at 9th December 2014, the NIHE's update on the implementation of the DSD recommendations is as follows:

- All of the outstanding 'critical' control recommendations and Ministerial work plan actions have been implemented in full.
- Of the 11 outstanding good practice recommendations, nine have now been implemented in full, with good practice recommendations numbers 37 and 54 outstanding.

Good Practice Recommendation 37:

NIHE has a Land Disposal Programme of 45 sites. 38 of these sites are on the Undeveloped Land Schedule (ULS). Of the 38 ULS sites, 23 have now been completed within the Economic Appraisal (EA) Programme, 13 are no longer required and the remaining two sites are on schedule for EA completion January 2015.

Good practice recommendation 54:

In August 2014, DFP approved the settlement NIHE had reached with the contractors on the closure of the January 2008 to July 2012 Egan Planned Maintenance Contracts. It is anticipated that these contracts will be closed by the end of the financial year.

2 Gateway 5 Review of new response maintenance contracts

The latest OGC Gateway Review (Gateway 5), which considered response maintenance contracts, gave an amber/red assessment in respect of delivery confidence. The report indicates that there are a number of issues referred to in previous reports that remain outstanding. These include issues relating to contractor administration, contractor sustainability, contract administration costs, performance and supplier management, and TUPE.

Of the 8 recommendations, 3 are defined as 'critical' i.e. 'do now'. A further 4 are classified as essential ('do by') and one is 'recommended'. All eight recommendations were accepted by the NIHE and action plans are being developed to implement these.

The Committee requests an update on the progress made in the development of these actions plans.

The NIHE developed an action plan in May 2014 to implement the recommendations for the Gateway 5 review. At December 9th:

- Three 'critical' are now complete.

- Two of the four ‘essential’ are now complete with two ongoing.
- One ‘recommended’ is ongoing.

It is anticipated that the remaining will be completed by April 2015 and an NIHE assurance review will be conducted at that date.

| Recommendation | Criteria | Status |
|---|-------------|----------|
| (1) The Senior Responsible Officer (SRO) should undertake a contract resource review to clearly define what roles, skills, and training needs are required, and specifically give consideration to reducing dependency on agency staff. | Essential | Ongoing |
| (2) The SRO should ensure the production of a (preferably online) Contract Management (operational) Guide on how the contracts should be managed. | Essential | Complete |
| (3) The SRO should establish a properly constituted Contractors Forum to ensure decision makers from both sides have the ability to air concerns and consider changes that will assist in the overall objective of improving maintenance services to tenants. | Critical | Complete |
| (4) The SRO should review the flow of data within the project and assess how effectively it is processed, and its value in delivering concise information and reports appropriate to its audience, concluding in a single dashboard for SRO and Board scrutiny. | Essential | Ongoing |
| (5) The SRO should ensure that an updated Benefits Realisation Plan (with SMART objectives) is produced, agreed, and monitored regularly. | Critical | Complete |
| (6) The SRO should review and consider reducing the number of KPIs, to ensure delivery of the projects current objectives and benefits, with clear direction on the application of penalties. | Critical | Complete |
| 7 The SRO should confirm the formal acceptance of the PPE Report issued January 2014 and ensure governance is in place to oversee its implementation. | Essential | Complete |
| (8) The SRO should produce a Vision and Strategy for the management and maintenance of the assets prior to the commencement of the next procurement exercise. | Recommended | Ongoing |

3 Benchmarking of all NIHE services

The Committee requests an update on a report on services that was due to be presented to the NIHE Board in June 2014.

The benchmarking report covering all NIHE core activities including response maintenance was submitted to the Chief Executive’s Business Committee in June 2014.

In addition to presenting comparison results the report outlined planned and ongoing service improvements covering systems, processes, structures and skills.

As part of the NIHE’s Journey to Excellence Programme, all services will be subject to review over the coming year, with new measures being developed to reflect best how the business is going forward.

4 Achieving balance in assurance regime

A key point, and one acknowledged by the Acting Chief Executive of NIHE in her evidence, is that the overall assurance regime has been identified as restricting the ability of maintenance officers to act within the spirit of the contract. The Committee has noted that if this is not addressed then NIHE tenants may not be provided with necessary maintenance to their properties in a timely fashion. A better balance needs to be struck between the assurance regime and service delivery.

The Committee requests further information on how the NIHE intends to achieve this balance.

Audit and Assurance is now provided through a single Audit and Assurance Department following the merger of the Internal Audit and Corporate Assurance Units.

A key focus of the implementation of the merger is a review of how assurance is provided around all of NIHE maintenance contracts. NIHE are currently reviewing the methodologies for the inspection of its planned, response and heating contracts with a view to ensuring that, while robust, these are more risk based, proportionate and in line with the contracts. From this review a new structure for the delivery of assurance is being developed to ensure a better balance moving forward into 2015.

In addition, stress tests were carried out on the Planned and Response Maintenance delivery processes to determine their robustness in terms of checks and balances to ensure proper governance is in place. Resulting from the stress tests improvement action plans were developed which look at improving and streamlining governance and reporting arrangements.

5 Monitoring and testing of new processes

The Committee requests further information on how the new processes are tested to ensure they are appropriate and fit-for-purpose.

Stress testing for each of the key maintenance contracts is being carried out. This has included ensuring alignment of the revised inspection and audit processes and methodologies with the contracts and contract management arrangements.

Updates on the progress and the outcomes of the review of the audit and inspection process are being reported to the Audit Risk and Assurance Committee to ensure effective independent oversight.

Audit and assurance will be testing on consultant led Planned Maintenance Contracts in the first quarter of 2015.

Letter to DSD 28.11.14

Committee for Social Development

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28 November 2014

Our Ref: CSD/022/2013/3/SK

Mr Billy Crawford
Department for Social Development
Lighthouse Building
1 Cromac Place
Gasworks Business Park
Ormeau Road
Belfast BT7 2JB

Dear Billy,

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

At its meeting on 27 November 2014, the Committee reviewed the evidence received to date in relation to Phase 2 and Phase 3 of its Inquiry. The Committee requested that I write to you to seek an update on a number of issues relating to Phase 2.

The Committee has asked for an update on the following:

1. **November 2013 Gateway Review** - a November 2013 DSD review of the implementation of the 75 recommendations made in this report noted that two thirds had been fully implemented. Of four critical control recommendations, three were partially complete. These were to be fully complete by summer 2014.

Also, of 21 good practice recommendations outstanding, 10 have subsequently been implemented and 10 partially implemented, with one outstanding. It is anticipated that these will be completed by the end of the year (2014).

The Committee seeks an update on progress relating to the above recommendations.

2. **Gateway 5 Review of new response maintenance contracts** - the latest OGC Gateway Review (Gateway 5), which considered response maintenance contracts, gave an amber/red assessment in respect of delivery confidence. The report indicates that there are a number of issues referred to in previous reports that remain outstanding. These include issues relating to contractor administration, contractor sustainability, contract administration costs, performance and supplier management, and TUPE.

Of the 8 recommendations, 3 are defined as 'critical' i.e. 'do now'. A further 4 are classified as essential ('do by') and one is 'recommended'. All eight recommendations were accepted by the NIHE and action plans are being developed to implement these.

The Committee requests an update on the progress made in the development of these actions plans.

3. **Benchmarking of all NIHE services** - the Committee requests an update on a report on services that was due to be presented to the NIHE board in June 2014.
4. **Achieving balance in assurance regime** - A key point, and one acknowledged by the Acting Chief Executive of NIHE in her evidence, is that the overall assurance regime has been identified as restricting the ability of maintenance officers to act within the spirit of the contract. The Committee has noted that if this is not addressed then NIHE tenants may not be provided with necessary maintenance to their properties in a timely fashion. A better balance needs to be struck between the assurance regime and service delivery.

The Committee requests further information on how the NIHE intends to achieve this balance.

5. **Monitoring and testing of new processes** – the Committee requests further information on how the new processes are tested to ensure they are appropriate and fit-for-purpose.

I request that you forward to me the above within 10 working days of receipt of this letter.

I very much appreciate your assistance in this matter.

Yours sincerely

Kevin Pelan

Dr Kevin Pelan

Clerk, Committee for Social Development



Northern Ireland
Assembly

Appendix 5

List of Witnesses

List of Witnesses

Mr Will Haire, Permanent Secretary, Department for Social Development

Mr Jim Wilkinson, Director of Housing, Department for Social Development

Mr Gerry Flynn, Director of Landlord Service, Northern Ireland Housing Executive

Mr Donald Hoodless, Chairperson, Northern Ireland Housing Executive

Ms Gay Ireland, Head of Corporate Assurance Unit, Northern Ireland Housing Executive

Ms Mags Lightbody, Chief Executive, Northern Ireland Housing Executive

Mr Trevor McCartney, Director of Corporate Services, Northern Ireland Housing Executive

Ms Siobhan McCauley, Director of Regional Services, Northern Ireland Housing Executive

Mr John McVeigh, Head of Internal Audit, Northern Ireland Housing Executive

Professor Peter Roberts, Vice Chairperson, Northern Ireland Housing Executive

Mr Kieran Donnelly, Comptroller and Auditor General, Northern Ireland Audit Office

Ms Anu Kane, Audit Manager, Northern Ireland Audit Office

Mr Brandon McMaster, Director, Northern Ireland Audit Office

Mr Tomas Wilkinson, Director, Northern Ireland Audit Office



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