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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.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Susan McCarty". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

SUSAN MCCARTY

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.