

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 Two**

Supplementary Evidence

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

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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



Northern Ireland
Assembly

Appendix 6

Supplementary Evidence

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Review of Governance in the Northern Ireland Housing Executive

Follow-up Report

November 2013

1. Introduction

The Department for Social Development's Head of Internal Audit has undertaken a review of the implementation of the recommendations made in the Review of Governance in the Northern Ireland Housing Executive that reported in December 2010.

2. Background

- 2.1 In October 2010, the Department instigated a review of the governance arrangements within the Northern Ireland Housing Executive. As a result of that review 75 recommendations were made to strengthen those governance arrangements and these were accepted by the NIHE Board and management. As part of its monitoring regime, the Department has received assurances from both the current and previous Acting NIHE Chief Executive that the recommendations were being implemented effectively.
- 2.2 In May 2012 the Department raised concerns about the effectiveness of the implementation of the recommendations especially with reference to response maintenance contract management. As a result of these concerns, the Permanent Secretary instructed his Head of Internal Audit to conduct an independent review of the actions taken by NIHE to implement those particular recommendations relating to the operation of the independent inspection function (Corporate Assurance Unit).
- 2.3 As a result of the review a range of special accountability measures were put in place and a work plan was agreed with the NIHE Chief Executive. Progress on delivering the work plan is measured through the provision of reports to the Permanent Secretary and discussion at the monthly accountability meetings between the NIHE Chief Executive and the Permanent Secretary.
- 2.4 The Assembly's Public Accounts Committee met on 12 September 2012 to consider the Comptroller and Auditor General's report on 'NIHE Management of Response Maintenance Contracts'. In February 2013 the Committee published its report titled "Report on the Northern Ireland Housing Executive: Management of Response Maintenance Contracts". It was the Committee's view that *"a culmination of basic failures in governance and management exposed the Housing Executive to a very significant risk of fraud, impropriety and poor value for money over many years in relation to its response maintenance expenditure"*. The Committee was also *"very concerned that the weaknesses and failings in the management of response maintenance contracts extend into other areas of Housing Executive activity, such as planned maintenance....."*. The Committee also recommended *"that the Department publicly reports on the outcome of its review of the progress being made to implement the recommendations from its governance review as soon as it is completed. The Committee also expects the Department to continue to monitor progress and report annually on this"*.

3. Objectives of Follow-up Review

3.1 The Follow-up review sought to establish the progress made in implementing the recommendations and actions outlined in the 2010 report and Work Plan referred to above:

1. To consider the actions taken in relation to the implementation of recommendations made in the Review of Governance in the Northern Ireland Housing Executive that reported in December 2010 and to determine the progress made in implementing those recommendations;
2. To consider the actions taken in relation to the implementation of the actions outlined in the Work Plan relating to the special accountability measures developed in response to the Minister's letter dated 4th July 2012 and to determine the progress made in progressing the actions; and
3. 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.
4. Objective 1

Follow-up of recommendations in 2010 Governance Report

“To consider the actions taken in relation to the implementation of recommendations made in the Review of Governance in the Northern Ireland Housing Executive that reported in December 2010 and to determine the progress made in implementing those recommendations”.

- 4.1 A total of 75 recommendations were made in the 2010 Governance Review. Sixteen of the recommendations were considered “Critical Control” recommendations and the remaining 59 were considered as “Good Practice” recommendations. The specific findings in relation to each recommendation can be found at Annex A.
- 4.2 Of the 16 Critical Control recommendations the Review Team found that 12 had been implemented, three were partially implemented and the one recommendation had not been implemented.

Completed Critical Control Recommendations

- 4.3 The Review Team concluded that the following Critical Control Recommendations had been implemented, more detail on each is provided in Annex A:

- **Recommendation 1** – NIHE has developed a Terms of Reference for the Board;
- **Recommendation 2** - NIHE undertook a review of its Standing Orders and Scheme of Delegations in 2011 and further review was undertaken in 2013;
- **Recommendation 23** – NIHE reviewed its committee structure and associated Terms of Reference in 2011, a further review initiated by the new Chair was undertaken in 2013;
- **Recommendation 24** – NIHE has established an assurance reporting process, with quarterly assurance statements being completed by Assistant Director, Director and Chief Executive;
- **Recommendation 26** – Of the 288 schemes in breach of Standing Orders identified in the 2010 review, only 7 are currently outstanding;
- **Recommendation 32** – NIHE completed a review of the specific Land Disposal Cases identified in the original report;
- **Recommendation 33** – NIHE Internal Audit undertook a review of Land sales as recommended in 2011, it concluded that “it was not operating completely effectively”.

NIHE Internal Audit completed a follow-up review in 2013 and now consider controls to be operating effectively;

- **Recommendation 41** – The Review Team now considers that NIHE is making effective use of the Repairs Inspection Unit;
- **Recommendation 42** – NIHE has developed a new statistical response maintenance inspection regime;
- **Recommendation 50** - NIHE have identified a number of generic issues that contributed to its deficiencies in Response and Planned Maintenance, these were articulated by the Chief Executive in his 29 May 2013 paper to the Board;
- **Recommendation 51** – The Corporate Assurance Unit has recently appointed a qualified Gas Safe Engineer and inspections of Heating Response Maintenance and Heating Planned Maintenance is now included in the current plan of inspections; and
- **Recommendation 69** – NIHE has developed a Governance Training Programme to some 2451 staff with the remaining 506 staff to receive training in 2013.

Partially Completed Critical Control Recommendations

4.4 The Review Team considers that three of the Critical Control Recommendations have been partially implemented. The three recommendations are

- **Recommendation 30** – Review of NIHE Risk Management arrangements

The Review Team noted that NIHE Risk Management arrangements had been subject to review and Corporate Governance training which included Risk Management had been provided throughout the organisation. However, the recommendation is deemed partially implemented as NIHE have not fully adopted the Departments Risk Management template and continue to transcribe information from their Register into the format used by the Department when sending quarterly returns to the Department.

NIHE have commented that the “Corporate Risk Register has been produced both internally for the NIHE Board and externally for DSD in DSD format since early 2012. We do acknowledge that the Divisional and operational Risk Registers are in a slightly different template. NIHE Risk registers are designed with a view to enable stakeholders and risk owners to better understand and manage the risks at this level”;

- **Recommendation 56** – Succession Planning

NIHE have not yet developed a formal succession plan for all key post and agreed this with the Board as recommended. This recommendation is deemed partially implemented as we note that the Director Of Housing and Regeneration has taken steps to address the succession planning risk in his business area but we note that work on a overall plan for NIHE has not been completed; and

- **Recommendation 70** – Learning Lessons from Counter Fraud Work

A paper on lessons learned from the work of the Counter Fraud Unit did issue to the Audit Committee in October 2011 but there remains no formal process for lessons learned from individual investigations to be shared within the organisation. The Review Team did note, however, that the work of the Counter Fraud Unit is reported to and discussed at each Audit Committee meeting.

NIHE have commented that “they do share information as and when required but accept further work is needed to put in place a formal process”.

Critical Control Recommendations Not Implemented

4.5 The Review Team considers that only one Critical Control Recommendation has not been implemented, **recommendation 25**. This recommendation related to a 2007 draft Internal

Audit report on Land Disposal. The original review noted that the particular report had never been finalised or brought to the NIHE Audit Committees attention. The 2010 report recommended that NIHE Board should seek clarification on why the 2007 Internal Audit report was not issued. The Review Team found no evidence of a formal review having been undertaken into the handling of this Internal Audit report.

- 4.6 NIHE has commented that the matter was discussed at “Senior Management Team and at the NIHE Audit Committee in December 2010. At the Audit Committee in December 2010 the then CX was asked for an explanation why this was not brought to committee in 2007.”
- 4.7 NIHE have also stated that the current protocols for draft Internal Audit reports should ensure that this does not happen again and that Land Disposal procedures have been overhauled and their confidence around the control environment is high.

Conclusion

- 4.6 The Review Team considers 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.
- 4.7 However, we note that one **Critical Control Recommendation** and 5 **Good Practice Recommendations** have not been implemented. The Review Team also noted that three **Critical Control Recommendations** are only partially implemented and that 16 **Good Practice Recommendations** are only partially implemented. Overall, two thirds of the 75 recommendations have been implemented but work remains on fully implementing one third.

5. Objective 2

“To consider the actions taken in relation to the implementation of the actions outlined in the Work Plan relating to the special accountability measures developed in response to the Minister’s letter dated 4th July 2012 and to determine the progress made in progressing the actions.”

- 5.1 The Work Plan comprised of 19 actions in response to the Minister’s letter. The Review Team found that 16 actions were fully complete and 3 actions were partially complete. The specific findings in relation to each action are detailed in Appendix B.
- 5.2 The three actions that are not yet fully completed are:
 - 5.2.1 **Action 7** – Contractors Closure of Accounts -*“There is an urgent need for NIHE to determine the financial consequences to NIHE. DODPS tasked with identifying the extent of this issue”.*
 - Action 12** – Overpayments -*“NIHE has yet to determine the quantum of overpayment in relation to the Ballynahinch scheme. It important to determine the total amount of overpayments and the total amount to be written off.”*
 - 5.2.2 The Review Team noted in 2010 that there were 469 schemes in the ECM/Revenue Replacement Programme were 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. To date 96 accounts have been closed and 373 remain to be closed.
 - 5.2.3 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.

- 5.2.4 As final accounts are still awaiting closure for the majority of the schemes, and as Campbell Tickell have still to formally report, the Review Team considers that both actions are still works in progress and therefore these two actions are partially implemented.
- 5.3.1 **Action 11** – “The new reporting protocols are welcomed, however, in order to ensure that the target timescales are fully complied with, CAU should develop report clearance targets and report performance against the target to each Risk and Performance Committee meeting. Further, the Schemes Inspection Unit should define timeframes for each stage of the inspection process and address these with Design and Property Services”.
- 5.3.2 The Review Team noted that the reporting process for Response Maintenance Inspections, Planned Scheme Inspections and Heating Response Maintenance Inspections has been developed. However, will we are content that CAU has developed report clearance targets we noted that they do not currently formally report performance against these targets. The Review Team considers that it is important that the CAU in reporting quarterly to the Audit Committee should report their performance for agreeing and clearing their reports. This will ensure that the Audit Committee has early visibility of any repeat of the delays in clearing SIU reports that were highlighted in our June 2012 report.

Conclusion

- 5.4 The 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 key to understanding the quantum of overpayments on Planned Maintenance schemes.

6. Objective 3

“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”.

- 6.1 In addition, to the Governance Review in 2010, the Department also commissioned a Gateway Healthcheck of the Northern Ireland Housing Executive Response Maintenance Contract Management arrangements. The Gateway Healthcheck made recommendations as to how future procurement and contract management processes should be carried out.
- 6.2 The 2010 Gateway Healthcheck made 14 recommendations, all of which were accepted by NIHE. The Gateway Healthcheck resulted in 14 critical recommendations that NIHE identified as also being pertinent to “Planned Maintenance”. In response to the issues raised in the report NIHE established a Works Procurement Board which oversaw the development of a Corporate Procurement Strategy. NIHE identified a number of key issues that the Gateway Healthcheck had identified with how NIHE managed Response Maintenance and these were to be addressed through the new Procurement Strategies. The issues specifically identified that related to Planned Maintenance were:
- Need for Individual procurements with named owner;
 - Need for objective Key Performance Indicators;
 - Incentives for contractors;
 - Improved Contract management;
 - Use of analytical Reports/trend analysis.
- 6.4 The Head of Central Procurement Unit in NIHE has confirmed that all major procurements are carried out in accordance with the Corporate Procurement Strategy and, in turn, every major procurement has its own individual procurement strategy. NIHE have now completed several major procurement processes under the new strategy.

- 6.5 On 29 February 2012 the NIHE Board approved the “Planned Schemes Procurement Strategy”. The Chief Executive appointed the Director of Design and Property Services as Senior Responsible Officer.
- 6.6 The new contract management arrangements included performance measurement in the form of a new set of Key Performance Indicators (KPIs), a full escalation process and Low Performance Damages. It is also proposed that all staff and contractors accessing and undertaking work under these contracts will receive training. This follows on from the approach taken when the new Response Maintenance Contracts were let.
- 6.7 The Review Team considers that NIHE has learned lessons from its experience on the management of Response Maintenance Contracts. In particular it has taken the recommendations from the 2010 Gateway Healthcheck and applied these to an overarching Corporate Procurement Strategy and specifically in developing the new Planned Maintenance Contracts and contract management arrangements. We note, however, that the new Planned Maintenance Contracts have not yet been awarded.
- 6.6 In more general terms, the paper by the Director of Finance to the NIHE Board dated 27 March 2013 and the paper from the Chief Executive to the Board dated 29 May 2013 both address the issue of the deficiencies in Planned maintenance.
- 6.7 The Chief Executive, in his paper, 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.”
- 6.8 The paper outlines the steps NIHE has taken and needs still to take to address these issues, in respect of Planned Maintenance this includes:
- Resolving the overpayments issue and determining a final figure;
 - 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.

Conclusion

- 6.9 Following the Gateway Healthcheck 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 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 done now come to an understanding of some of the underlying issues, the challenge to NIHE is seeing through the changes needed.
- 6.10 There is still a considerable amount of work ahead for NIHE if they are to see through the necessary structural and cultural changes.

Appendix A

2010 Review of Governance in NIHE Follow-up Detailed Findings by Recommendation

Recommendation 1 (Critical Control Recommendation)

The Board should develop a formal Terms of Reference which should include who attends Board meetings, the regularity of meetings, how it will conduct its business, including how it will promote the values of the organisation, how specifically conflicts of interest will be handled, the management of Board Papers, how and where it will publish the minutes of meetings, details of its sub-committee structure, the arrangements for evaluation of the Board's performance and review of the Board's remit and operating procedures. This should be reviewed at least every two years or sooner if changes are necessary in the interim.

Summary of Findings

The Draft Terms of Reference was reviewed by the DSD Permanent Secretary on 22 April 2011 and was submitted to the NIHE Board on 27 April 2011 and again on 25 May 2011 where it was approved as per the minutes. The Final version can be found in the NIHE Corporate Governance Manual.

The Terms of Reference was reviewed and the Review Team confirmed that all the areas outlined in the original recommendation have been addressed.

The Terms of Reference should be subject to review at least every two years, however, the Review Team noted that this review has not yet taken place. The Head of Secretariat has advised that this has been due to staff absence and competing work priorities. Changes to Board membership also impacted. A review of the Terms of Reference has been included in NIHE programme of work to be completed this financial year.

Conclusion

The Review Team Consider that the recommendation has been implemented. The Review Team noted that the Terms of Reference is going to be subject to a further review by NIHE and we consider that given the recent changes in Board membership, that this would be opportune. The Review Team also recognise that the Chairman has commissioned a review of Board effectiveness and that the Board met for a two day session in April 2013 to consider the results of this review. We also noted that a further "away day" session is planned for October 2013.

Recommendation 2 (Critical Control Recommendation)

The Chief Executive and the Management Team should facilitate a comprehensive review by the Board of its Standing Orders, and in particular the Scheme of Delegations to consider the extent to which Revenue Schemes should be submitted to the Board for individual approval. The Board may also wish to consider if there are other matters on which it wishes to enhance the current Standing Orders, for example, its role in policy and strategy development.

Summary of Findings

A Working Group was set up, chaired by the Chief Executive (acting), to review the Standing Orders. A paper went to the Board on 29 June 2011 outlining the proposed changes to the Standing Orders and Scheme of Delegations, the minutes show the Board approved the amendments and the paper was resubmitted to the 27 July 2011 Board for final approval. In respect of Revenue Schemes those schemes over £500k now require Board Approval.

The Head of Secretariat advised that the Board had recently decided to delegate more operational decisions to Chief Executive at Chief Executive's Business Committee and Central Clearing House Committee. The Scheme of Delegations was required to be amended to accommodate these changes and the opportunity was taken for a further review of Standing Orders. The NIHE Board approved in June 2013 a revised Standing Orders /Scheme of Delegations, a number of changes giving further delegated authority to Management were made including:

- For all expenditure, Board approval must be obtained if amount greater than £1 Million (previously £500k);
- For building contracts and planned schemes Chief Executive's Business Committee approval required where expenditure is greater than £500k;
- The Central Clearing House Committee has been given authority to approve all expenditure on building contracts and planned schemes where amounts involved are greater than £100K and less than or equal to £500k (previously this Committee has had no powers and made recommendations for approval to Chief Executive's Business Committee); and
- The scheme manager's authority has been simplified by standardising the variation at up to 10% for small value schemes (i.e. less than £100k) and 10% or £50k (whichever is lesser) for schemes greater than £100k.

Conclusion

The Review Team considers that this recommendation has been implemented. A review of Standing Orders and the scheme of Delegations were conducted in 2011. We also noted that the new Chair initiated a further review of Standing Orders and that the Scheme of Delegation has been amended.

Recommendation 3 (Good Practice Recommendation)

The Board should be more closely involved in the initial planning process so that it can formally provide strategic input and direction during the development of the Corporate Plan. It may also be appropriate, given the comment on the appropriateness of the current set of Key Performance Indicators that Management is asked to review these and report to the Board on the outcome of its deliberations.

Summary of Findings

A workshop was held after the Board Meeting on 26 October 2011 to discuss the development of the Corporate Plan with Board Members and staff from Corporate Planning attending. A record of the meeting confirmed that items discussed by the Board included the Core Values, Key Performance Indicators, and Business Objectives. The Board were advised that a new performance reporting system was still being developed. A further paper was to be brought to the 25 January 2012 Board meeting along with the draft Corporate Plan. The final draft of the Corporate and Business Plan was presented to the Board on 30 May 2012. (appendix of changes to KPIs was also attached)

The Head of Secretariat has advised that no similar Away Day/Workshop was held in 2012, stating that this was "due to changes in Board Membership". They also confirmed that "following DSD governance review 2010 the Board has asked for more information to be included when performance was being reported to the Board each month", for example that more financial information was included alongside KPI's progress.

A Board Away Day was held on 23 & 24 April 2013 and this included time set aside to discuss a number of key issues including the independent review of Board effectiveness; the working of the board; matters reserved for the Board; delegated limits; roles and operation

of committees; forward workplan and Board requirements; as well as Board papers. Day two was set aside for the Social Housing Reform Programme.

Conclusion

The Review Team considers that the recommendation has been implemented. The Review Team also noted that the New Chair commissioned a Review of Board Effectiveness which informed the discussions at the April 2013 “Away Day” session. The Chair considered that the Review of Effectiveness had allowed the Board to focus on its role and in identifying its’ strategic priorities.

Recommendation 4 (Good Practice Recommendation)

The Board should consider their requirements in terms of detail, range of options and rationale to support the recommendations made in papers that are presented to them in future and this should be formally discussed and agreed with the Management Team.

Summary of Findings

In September 2011 Board members completed a questionnaire where they were asked to give an opinion on the format and content of Board papers. The content and format of information and papers submitted to the Board was considered at the subsequent Board Away Day in December 2011.

However, the Review Team also noted that since the new Chair was appointed in 2012, the agenda and format of Board papers has been further reviewed. Minutes of Board meeting on 30 January 2013 recorded that the “Chairman commented that the volume of Board papers was excessive”. He also commented on the content; that there was insufficient context and asked for reports on the basis of what was agreed before and clear proposals. The Chairman requested a review of the Board Scheme of Delegations. The Chairman requested that Board papers are presented in portrait format.”

The quality of Board papers was also discussed at the Board Away day in April 2013.

Conclusion

The Review Team considers that the recommendation has been implemented. The Board undertook a review of Board papers in 2011; however, the new Chair has taken further steps to improve the quality of papers coming to the Board. The review of Board effectiveness also informed changes that the Board has made to the volume of papers submitted to Board meetings.

Recommendation 5 (Good Practice Recommendation)

The Housing Executive’s Good Governance Booklet should be revised in consultation with the Board to ensure that it complies with good practice and consolidates all the organisations Governance Structures, the Board’s Standing Orders and Scheme of Delegations as well as the Terms of Reference for the Board and its Sub-Committees (currently the Audit Committee). This should be published internally and externally and Management should facilitate a formal review by the Board at least every two years or sooner if changes are necessary in the interim.

Summary of Findings

The Northern Ireland Housing Executive Corporate Governance Manual was published in May 2012 and is published on the Northern Ireland Housing Executive website. The revised manual was formally approved by the Board in June 2012.

The Review Team examined the manual and confirmed that the manual includes the following key documents;

- DSD Management Statement and Financial Memorandum Dossier (MSFM);
- Terms of Reference for the Board and Audit Committee;
- Fraud policy,
- Procurement Strategy; and
- Board Standing Orders and Scheme of Delegations.

Conclusion

The Review Team considers that this recommendation has been implemented. The Good Governance Booklet has been revised and consolidated into the Corporate Governance Manual. The Manual also included other key governance documents and has been published both internally and externally.

Recommendation 6 (Good Practice Recommendation)

The Board should agree a schedule which sets out when all current policies and strategies should be reviewed, including monitoring arrangements to ensure that this happens at the appropriate time.

Summary of Findings

An approach to be used for policy development was discussed at the Board Away day Dec 2011. A Policy Development Framework was presented to the Board for their approval on 27 April 2011. The Head of Secretariat has confirmed that each division was emailed a base copy of policies and strategies and asked to provide scheduled review dates and details of any policies and strategies. Responses are held on the corporate database.

A paper went to the Board on 30 May 2012 which outlined the key policies in each division and the dates for their review. The Board approved the paper which also states that progress on the review schedule would be monitored monthly by each division to ensure dates are adhered to. The dates would also be incorporated into the Board forward workplan.

The May 2012 Board Paper stated that “a record of policy reviews undertaken and details of the policy aspects affected will be submitted annually to the Board for information”. The paper also stated that “the schedule will be updated annually and a report on proposed policy reviews for the coming year will be brought to the Board for approval”. However, the Review Team has established that this annual update has not been completed; Secretariat has advised it is due to be completed in this quarter of 2013. An update from the Corporate database was requested, however, this could not be provided as the database had not been updated.

Conclusion

The Review Team considers that the recommendation has been partially implemented as the Board has not yet been informed on progress against the Schedule since its introduction in May 2012.

Recommendation 7 (Good Practice Recommendation)

A formal induction checklist should be developed and tailored to the needs of all new Board Members. For example this might usefully include over a period of time, visits to business areas and meetings with key staff, Internal Audit, Risk Managers and Personnel. An annual development plan for individual Board Members should also be developed to ensure that

members can continue to provide an effective challenge to management on critical issues. Both documents should be held and monitored by the Secretariat to enable effective analysis of skills gaps and ongoing training needs.

Summary of Findings

An induction process is in place with the most recent induction undertaken in November 2012. The Review Team have examined the induction documentation which included a copy of the PowerPoint slides and related speaking note; and the induction letter provided to new members. A draft checklist has been developed but is still subject to review and approval by the Board. The Review Team notes that whilst the draft checklist ensures that all relevant documentation and training is provided for new members it could allow for greater input from the new Board member on their specific needs, particularly around visits to business areas and meetings with key staff.

The Head of Secretariat has confirmed that there are no formal development plans in place, instead any skills gaps are identified as part of the annual appraisal of Board members.

Recently Board members have been provided with some training, this included Finance training and Risk Management training which were delivered in May and June 2013 respectively. Equality training is planned but has not yet been delivered.

There is evidence of a formal approach to the induction of new Board members and evidence that some training has been provided to recent new appointees; the specific requirements of the recommendation including a formal induction checklist have now been addressed with the production of a draft checklist to be approved/used for future inductions to the Board.

Conclusion

The Review Team considers that the recommendation has been implemented. From discussions with the new Chair, the Review Team confirmed that he was content with the structure and content of his induction.

Recommendation 8 (Good Practice Recommendation)

Management should ensure that all future minutes of Board Meetings are prepared with sufficient detail and published internally and externally to ensure that the principles of openness and transparency are observed.

Summary of Findings

The Review Team was advised by the Head of Secretariat that it had been agreed with the Board that non-protected minutes should be published on the website and portal once approved by the Board. The Board also agreed that decisions taken should be recorded and highlighted more prominently as such in the minutes.

The Review Team obtained the Board minutes for March and April 2013 as a test sample. The Review Team confirmed that the Board minutes are published on the NIHE Portal and the NIHE Website. Confidential items have been removed from the minutes. The minutes of the March and April 2013 Board Meetings were obtained from the Secretariat and compared against the version published on the Portal and Website to ensure openness and transparency. The examination revealed that the unprotected minutes of the meetings were published in full. The only portions of the minutes not publically available referred to protected and restricted matters.

Conclusion

The Review Team considers that this recommendation has been implemented. The new Chair confirmed that he is content with the level of detail and the transparency of the Board minutes.

Recommendation 9 (Good Practice Recommendation)

Management should ensure that all Board Members are made aware of the rules on acceptance of gifts and hospitality and the requirement to declare these in a register. Management should also ensure that the Board Secretariat puts the necessary arrangements in place for maintaining these records.

Summary of Findings

The induction documents previously reviewed make specific mention of gifts and hospitality requirements within NIHE although no specific checklist for induction is completed to provide assurance that all members have been made aware of this.

At the Board meeting on 28 March 2012 the Chair advised all Board Members of the requirement to record all gifts and hospitality in the register even if declined and return them to the Secretariat on a monthly basis. The Review Team examined the NIHE Website and noted that Hospitality Registers for Board Members have only been published since October 2012.

The Head of Secretariat has confirmed that members receive a declaration of hospitality form with their papers each month for completion and return to secretariat. Each member is required to bring the completed declaration, nil return or otherwise, to the Board meeting but this is not always complied with. Secretariat makes the assumption that the failure to return the form is a nil return.

The Review Team obtained the Hospitality Registers from Secretariat, these have been reviewed and the Review Team confirmed that the information published on the internet matched the information in the registers.

The Review Team considers that the reliance on the assumption that no reply is the same as a Nil return is a weakness in the process. It should be made explicitly clear to members that a return must be made nil or otherwise.

Conclusion

The Review Team considers that the recommendation has been implemented; however this could be further enhanced by ensuring that all Board members comply with the requirement to provide a monthly return.

Recommendation 10 (Good Practice Recommendation)

Board Members' Appraisals for 2009/2010 should be referred to the Secretariat to compile an overall summary of Board Members' responses for presentation to the Board for discussion in order to discharge the requirement for an annual review of Board performance. In terms of the review of Board Effectiveness, Management may wish to explore with the Board the use of a good practice framework such as the one contained in the HM Government Publication '*Doing the Business Managing Performance in the Public Sector- An External Perspective*' to facilitate a structured approach for discussions amongst the Board as a whole.

Results

The Review Team obtained a copy of the summary of NIHE Board member's appraisals for the period April 2009 to March 2010. Despite request copies of the actual appraisal forms completed have not been provided. The Secretariat confirmed that the Summary paper was presented to the Board in March 2011; however, this is not reflected in the minutes of the Board meeting for March 2011. There is no evidence that the Board discussed the summary of appraisals as specified in the recommendation.

The summary of Appraisals for 2010/2011 was also obtained and copies of the completed appraisal forms for this period were obtained as supporting evidence. The Review Team noted that a summary paper was presented to the Board on 27 July 2011. Minutes from the July 2011 Board meeting do not reflect any evidence of this paper that any discussion took place in line with the recommendation. The 2011/2012 completed appraisals were also obtained; however, a summary of these did not go to the Board due to a member of staff falling ill. Head of Secretariat confirmed that whilst a replacement stepped into the role they needed time to get to grips with the post. Head of Secretariat confirmed that Board appraisals have recently been completed for 2012/2013 and a summary paper on these was reported to the Board in August 2013.

The Board approved the use of the good practice framework contained in the HM Government Publication *'Doing the Business Managing Performance in the Public Sector- An External Perspective'*. The first Board effectiveness exercise was undertaken as part of the Board Away Day on 14th and 15th December 2011. In 2013 Deloitte were commissioned to complete an independent assessment on Board Effectiveness. The 2013 Board Away Day also included a workshop with Deloitte to consider the results.

Conclusion

The Review Team considers that the recommendation has been partially implemented. It is clear that reviews of Board effectiveness have taken place most recently in April 2013, However, the audit trail for the submission and discussion of the annual summary of Board appraisals in 2009/2010 – 2010/2011 is weak with no formal record maintained in the Board minutes and in the case of 2011/2012 there was no record of the summary going to the Board.

Recommendation 11 (Good Practice Recommendation)

The Board may wish to consider in consultation with the Senior Management Team, a broader role for the Board Secretariat.

Summary of Findings

The Role of a Board Secretariat is outlined in Section 4.9 of Corporate Governance in Central Government Departments: Code of Good Practice (NI) 2013. Following a request from the Chair, the NIHE Head of Internal Audit completed a governance review of the Secretariat and Board Administrative Support. The Internal Audit report, recommended that "given the importance of independence for the role has been highlighted by contributors to this report, the best fit option appears to be a Board Secretary other than the Chief Executive, but at Executive Management level."

Subsequently, the role of the NIHE Board Secretary has been considered in a paper to the Housing Executive Oversight Board in April 2012. A number of actions including self assessment of Board effectiveness, development of formal induction checklist and other activities have broadened the proposed role of the Board Secretary. It is also suggested that an alternative member of the Secretariat will take the minutes of the Housing Council meetings in order to avoid any conflict of interest. .

A paper went to the Chief Executives Business Committee on 18 June 2012 outlining the proposals to change the structure of the Secretariat and the services it offers to the Board. It also took into account the review carried out by NIHE Internal Audit. A paper outlining the new structure and role of the Secretariat went to the Board Meeting in June 2012.

The Review Team notes that whilst the role of the Secretariat has been reviewed and proposals developed for the re-structuring of the secretariat function these have not yet been acted upon.

Conclusion

The Review Team considers that this recommendation has only been partially implemented. The role of the Secretariat has been reviewed but the proposals submitted to the June 2012 meeting of the Chief Executive Business Committee have not been implemented. The Review Team however, takes assurance from the current Chairs view that the secretariat is doing what he asks and expects it to do.

Recommendation 12 (Good Practice Recommendation)

The Board may wish to consider in consultation with the Secretariat the development of a formal, comprehensive forward work plan to inform its future agenda.

Summary of Findings

The Head of Secretariat has advised that the workplan is developed in consultation with the Chair and Board members. Issues are identified through corporate objectives, emerging/ key issues, organisational changes and government policy. The Chair and Secretary drafted the forward workplan which was submitted to the Board for member's comments/ amendments and approval on 26 September 2012. The Review Team confirmed that a paper was submitted to the Board on 26 September 2012 (Board Forward Workplan 2012/2013 – 2013/2014). The paper outlines the forward work plan for the Board and includes details of the main reports to be presented and when. The paper states that the forward work plan will be reviewed in May and November each year and Board minutes indicate that the paper detailing the forward workplan for 2012/2013 – 2013/2014 was approved

Board papers examined demonstrate that the workplan was reviewed in September 2012 and that the workplan was also discussed at the Board away day in April 2013. This review informed the Board paper dated 29 May 2013, "Report on Board Effectiveness and Forward Work Plan".

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 13 (Good Practice Recommendation)

The Board should review the membership of the Audit Committee to bring it into line with the requirements on tenure set out in the Management Statement and Financial Memorandum (MSFM).

Summary of Findings

The Review Team confirmed that the Audit Committee is made up of 5 members, 3 Board Members and 2 external independent members. The Audit Committee is currently chaired by the Vice-Chair of the Board. A second independent member was appointed and attended their first Audit Committee meeting in October 2011 as per the minutes. The length of tenure of the current members of the Audit Committee is in line with the requirements of the MSFM.

The Head of Secretariat has stated that all members have been provided with Finance and Risk Management training and that both independent members are professionally qualified accountants.

Conclusion

The Review Team considers that this recommendation has been implemented.

Recommendation 14 (Good Practice Recommendation)

The current Audit Committee Terms of Reference should be reviewed with specific consideration given to publication on the Intranet and Internet; determining a definitive time frame for review of the Terms of Reference and documenting this; inclusion of names of Audit Committee Members, their role and date of appointment; reformatting the layout of the Terms of Reference to bring it into line with the Audit Committee Handbook; and include a requirement for the Audit Committee to advise the Board and the Accounting Officer on Anti-Fraud policies, Whistle blowing procedures and arrangements for special investigations.

Summary of Findings

A revised Terms of Reference was submitted to the Audit Committee meeting on 6 September 2012 for approval. The revised Terms of Reference included all the issues specifically recommended by the Governance review including;

- annual review arrangement;
- a list of Audit Committee members including their role and date appointed; and
- The requirement for the Audit Committee to advise the Board on Anti-Fraud policies, Whistle blowing procedures and arrangements for special investigations.

The Review Team noted that the layout of the Terms of Reference has not been reformatted to bring it into line with the Audit Committee Handbook. However, it does cover all areas recommended by the Handbook.

The Audit Committee Terms of Reference is published in the Corporate Governance Manual and on the NIHE website. However, the version published in the Corporate Governance Manual is the old version and not the current version approved by the Audit Committee at their meeting in September 2012. The Review Team found no evidence of the Terms of Reference being published on the Internal network.

Conclusion

The Review Team considers that the recommendation has been partially implemented. While the Terms of Reference of the Audit Committee was subject to review we noted that the versions published are out of date and need to be updated. NIHE have advised that the version on the website will be updated following the current review of the Audit and Risk Assurance Committee Terms of reference.

Recommendation 15 (Good Practice Recommendation)

Formal performance appraisal arrangements for (Audit) Committee Members should be developed and implemented as soon as possible.

Summary of Findings

The Head of Secretariat has stated that secretariat holds completed appraisal forms for 2010/2011 reporting year for 1 external member and 1 Board member. Head of Secretariat also advised that the appraisal documentation has changed recently and arrangements for

appraisals for current audit committee members are underway for the period April 2012 – March 2013. The Head of Secretariat confirmed that appraisals were not completed for September 2012 (Apr 2011 – Mar 2012) due to unavailability of key staff.

The Review Team queried with the Head of Secretariat as to whether consideration for allocation of additional resources was considered within Secretariat, however, the Head of Secretariat advised that staff skills and confidentiality were an issue but confirmed that secretariat function was now fully staffed.

Having only been provided with the two appraisals covering 2010/11 reporting year, the Review Team confirmed that both are positive with no skills gaps or issues identified. A summary of the Audit Committee member appraisals was presented to the Board September 2011 by the Chair of the Audit Committee where both were recommended for future re-appointment.

The Review Team considers that the failure to conduct appraisals in 2011/12 is considered a significant issue. At the time of the review 2012/13 reports were at a draft stage.

Conclusion

The Review Team considers that this recommendation has only been partially implemented. While evidence examined supports that appraisal arrangements are in place, we noted that these have not been applied consistently across the last three years. The failure to complete the review process in 2011/2012 is of concern.

Recommendation 16 (Good Practice Recommendation)

The (Audit) Committee should consider the development of a formal comprehensive Forward Work Plan to inform future Agendas. This will provide an ongoing focus for the Committee in challenging the information it receives and for considering any additional information it may require from Management during the annual Committee cycle.

Summary of Findings

A forward work plan has been developed by the Secretariat, which is in line with the HM Treasury Audit Committee Handbook. The work plan outlines the standing agenda items for each meeting and also those items which will be provided at the various meetings throughout the year including the Internal Audit Strategy, Northern Ireland Audit Office report to “Those Charged With Governance”; Final accounts and Statement on Internal Control; Report on Audit Committee self assessment; Head of Internal Audit annual opinion; Audit Committee Annual Report and in-committee meetings with Internal Audit and Northern Ireland Audit Office.

The forward work plan was reviewed and approved by the Audit Committee at their meeting on 15 June 2011. The NIHE Internal Audit work plan for 2014-2016 was submitted to the Audit Committee on 25 June 2013.

Conclusion

The Review Team considered that the recommendation has been implemented.

Recommendation 17 (Good Practice Recommendation)

The Committee should also consider in consultation with the management team, the provision of Secretariat services for the Audit Committee given the potential risk of a perception of bias towards internal audit interests

Summary of findings

At the time of the Governance Review it was the role of NIHE Internal Audit to agree the agenda of the Audit committee meetings with the Chair of the Audit Committee. We confirmed during our follow-up review that this function is now undertaken by a separate secretariat. The Head of Secretariat confirmed that;

“Secretariat agrees agenda with Audit Committee Chair processes all papers and distributes to Audit Committee members etc. Secretariat attends meetings, takes minutes, prepares reports on appraisals and Audit Committee self assessment. Prepares forward workplan with chair and drafts Audit Committee annual report to board with chair.”

Conclusion

The Review Team considers that this recommendation has been implemented.

Recommendation 18 (Good Practice Recommendation)

The Chair of the Audit Committee should ensure that conflict of interest is a standing item at all future committee meetings.

Summary of findings

The Review Team confirmed that declarations of conflicts of interest are now a standing item at each Audit Committee meeting. A review of the minutes of the meetings confirmed that this is recorded. The Head of Secretariat has advised that “only existing “standing” conflicts have been raised to date, details of which are included in Board members declarations of interest registers.”

The Review Team obtained copies of the Audit Committee minutes for the previous 12 month period and confirmed that declaration and consideration of conflict of interest was a standing item at each meeting. The Review Team noted that only one potential conflict was report in the period.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 19 (Good Practice Recommendation)

The Audit Committee should conduct an annual evaluation of its performance using the National Audit Office Committee self assessment checklist.

Summary of findings

The Head of the Secretariat confirmed that the NAO self assessment checklist was used as the basis of the self assessment exercise. However, the checklist was used as a guide as opposed all of the questions in the checklist being formally answered. A subsequent self assessment report was produced dated 25 June 2012 but this too does not mirror the self assessment template and does not contain the same level of detail that a completed assessment checklist would. The Review Team did obtain the minutes of the meeting on 18 April 2012 at which the assessment exercise was undertaken, this confirms the members in attendance and that the Chair elected to work through the checklist on an exception basis.

The Secretariat has advised that they had “spoken with the Head of Internal Audit in relation to preparation for the 2013 exercise. It is planned to send out the necessary documentation to Members for completion and return and to arrange a suitable date after the holiday period to hold a special meeting to undertake the assessment. A draft paper will then be prepared

for the next Audit Committee in October following which it will submit to the October Board for information. This is later than usual due to other work priorities and staffing issue.”

Conclusion

The Review Team considers that the recommendation is only partially implemented; while there is evidence that the NAO self assessment checklist has been used to inform the review of the Audit Committee, it is our opinion that this has not been undertaken in a structured manner and that the failure to formally complete the checklist has weakened the overall process. The Secretariat should ensure that the self assessment checklist is fully completed and retained as part of the current years review.

Recommendation 20 (Good Practice Recommendation)

The annual Audit Committee report should include: a summary of the findings of the Audit Committee; details of membership and attendance of members at meetings; confirmation of any conflicts of interest; an opinion on the quality of the audit service; details of the outcome of the review of the effectiveness of the committee; training plans and / or training completed by members; a comment on the effectiveness of the relationship between internal and external audit and details of any changes to terms of reference.

Summary of findings

The Review Team obtained a copy of the Audit Committee report to the Board dated 6 September 2012 and confirmed that this contained the key components outlined in the original recommendation, with the exception of an explicit reference to any conflict of interest. The Review Team also noted that while the Northern Ireland Audit Office report conclusion is referred to, there is no specific mention made of the relationship between internal and external audit. It is noted that the DSD Audit Committee annual report does contain more detail.

In respect of the 2013 Audit Committee Annual report, we were advised by the Secretariat that this would be going to the NIHE Audit Committee in September 2013.

Conclusion

The Review Team considers that the recommendation has been partially implemented as not all aspects of the recommendation have been included in the Annual Report. In particular it is important that the report includes a reference to the declaration of any conflicts of interest.

Recommendation 21 (Good Practice Recommendation)

The results of future work by the Corporate Compliance Unit should be reported and reviewed by the Audit Committee (and the Board).

Summary of findings

Corporate Compliance Unit is now known as Corporate Assurance Unit (CAU). The Review Team confirmed that the result of CAU's various inspection programmes is reported to the quarterly meetings of the Audit Committee.

An analytical paper on themes arising from CAU's work is provided to the Audit Committee and Board quarterly and the Board is presented with Annual Statement of CAU findings at year end.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 22 (Good Governance Recommendation)

A formal induction checklist should be developed for all new committee members, tailored to their specific needs. An annual development plan should also be developed to enhance performance.

Summary of findings

The Review Team met with the Head of Secretariat on 3 July 2013 and he confirmed that the drafting of a formal induction checklist is a work in progress. Consultation on the provision of such checklist had begun between Head of Internal Audit and Secretariat function; but that this had been delayed by the absence of a staff member from work on ill health grounds. Resourcing issues meant that this was not further followed up upon. Head of Secretariat has further clarified that progress towards this means that it will be presented to the next meeting of the audit committee (October 2013).

However, evidence supports that Audit Committee members have received an induction - Board minutes (28 September 2011) item 7(v).

Conclusion

The Review Team considers that this recommendation is only partially implemented. It is noted that NIHE do provide induction training and audit specific training as required to audit committee members. However, the recommendation specifically cites that an induction checklist and annual development plan should be developed and NIHE have now advised that this will be tabled to the Audit and Risk Committee for approval.

Recommendation 23 (Critical Control Recommendation)

The chief executive should lead on an early review of the organisation's committee arrangements to ensure that a proper understanding of the timing and types of papers they consider; and to ensure that the committee structures remains fit for purpose, that there are mechanisms in place for ensuring that all relevant business comes to the committees at the appropriate time and that the key documents are subject to review and challenge by the management team as an entity. In particular, the chief executive should provide assurance to the board that early steps are being taken to ensure that all schemes approved by the housing and regeneration clearing house committee are referred to the chief executive's business committee for subsequent approval. The chief executive should ensure that a formal Terms of Reference is developed for all committees so that there is clarity around the purpose of these committees, what papers should be presented to each committee and how the committees will conduct business, including, where appropriate, how conflicts of interest will be handled. All terms of reference should be reviewed on a regular basis and clearly communicated to all staff.

Summary of findings

The committee Terms of Reference were reviewed in 2011 and it is noted steps were taken to ensure that schemes approved by the Clearing House Committee (CHC) (defined in 2011 as the Central Clearing House Committee) are referred to the Chief Executive's Business Committee (CXBC) for subsequent approval. The 2011 review was approved by the Board in July 2011. Formal Terms of Reference for all committees covering their business, papers submitted to each committee and dealing with potential conflicts of interest are now published in the NIHE Governance Manual.

The Review Team also noted that the new Chair had initiated a further review in 2013, this review considered the powers of delegated authority for the various Committees. It is noted that in relation to the 2013 review the Central Clearing House Committee has been granted approval authority which does not satisfy the component of the original recommendation

outlining that “all schemes approved by the Housing and Regeneration Clearing House Committee are referred to the Chief Executive’s Business Committee for subsequent approval”.

The New Chair advised that as part of the review of Board effectiveness and the discussions at the April 2013 Board away Day that the delegation of more responsibility for approval to the committees was seen as part of a process to move the Board into a more strategic role.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 24 (Critical Control Recommendation)

The Chief Executive and management team should develop and implement a robust system of quarterly assurance statement reporting without delay, mapping fully all assurance needs from across the organisation. This should be co-ordinated centrally and an overall assurance report should be provided to the accounting officer, the board and the departmental management board, aligning with current arrangements for reporting quarterly to the departmental management board on risk and performance. We would also suggest, that in view of the fact that assurance chains have not previously been used in the organisation that there will be a need to communicate to managers and staff the importance of reporting issues that might impact the system of internal control as and when these might arise.

Summary of findings

An assurance chain has been set up which covers the Chief Executive, Directors and Assistant Directors. Assurance statements are completed on a quarterly basis and a review of same shows consistency in the identification of matters upon which assurance is required coupled with the identification of responsible officers. Matters which could be currently articulated as risks to the organisation appear in the assurance chain under requisite directorates. Corporate Assurance Unit co-ordinate this quarterly process. Training on Risk Management was developed by Learning & Development in partnership with Corporate Assurance Unit and rolled out across the organisation.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 25 (Critical Control Recommendation)

The Board should seek clarification as to why the draft audit report in 2007 raising issues on land disposal, and particularly the need for economic appraisals was never finalised or brought to the audit committee’s attention. This is despite the risk of this happening in the future being lower now that the audit committee is monitoring the progress of all draft reports through to their final stage and the assurance reportedly provided to the chair of the audit committee that the responsible division is now in the process of developing and implementing economic appraisals proportionate to the scale of each land sale.

Summary of findings

The NIHE Head of Internal Audit has stated that a report was brought to the Audit Committee in December 2010 as part of wider report on Land disposal issues. However, this report was not a review of what happened to the original report but rather a new review informed by the issues highlighted in the 2007 report.

The Review Team have been unable to find any evidence that a formal review into the handling of the 2007 report was completed as recommended.

Conclusion

The Review Team considers that this recommendation has not been implemented.

NIHE has commented that the matter was discussed at “Senior Management Team and at the NIHE Audit Committee in December 2010. At the Audit Committee in December 2010 the then CX was asked for an explanation why this was not brought to committee in 2007.” NIHE have also stated that the current protocols for draft Internal Audit reports should ensure that this does not happen again and Land Disposal procedures have been overhauled and their confidence around the control environment is high.

Recommendation 26 (Critical Control Recommendation)

The Chief Executive should ensure that all schemes currently in breach of standing orders identified by the contract payments system are addressed by management as a matter of urgency and the necessary approvals sought. The chief executive should also arrange for an update on clearing these breaches of standing orders to be presented to the chief executive’s business committee and the board as well as the audit committee and assurances given that the action is being taken to rectify the approvals. The chief executive should ensure that any further breaches of standing orders are clearly highlighted and notified to the board and that timely action is being taken to identify and resolve any underlying problems. The chief executive should also arrange for an analysis of the management of the contracts where breaches of standing orders have occurred to establish why so many have required additional funding and if better management would have prevented the breaches occurring in the first place.

Summary of findings

Progress on the resolution of the 288 schemes where breaches of Standing Orders were identified has been regularly reported to Chief Executives Business Committee (CXBC) and to the Board. A Closure Report for this recommendation went to CXBC on 26 November 2012. The paper advised that the majority of breaches had been resolved but a number were still outstanding as follows:

- Largest Breaches MEI And grounds maintenance - 19 outstanding value £5.29m
- Schemes combination of H&R and DPS - 36 outstanding value £0.55m
- Claims (schemes were claims are being pursued - 5 outstanding value £0.36m

The current position is that there are a total of 7 schemes outstanding:

1. 5 breaches to be delivered by Design & Property Services amounting to a total breach of £173,639.42. Four of these (£80,192.92) are being actioned and 1 (£93,446.50) is in a claims situation and will take longer to resolve.
2. 2 breaches to be delivered by Housing & Regeneration amounting to a total breach of £4,969.56. These are being actioned.

The paper to CXBC also provides analysis of why the breaches had occurred, it states “the breaches have occurred for varying reasons ranging from a few pounds up to the “Largest Breaches” at £1.7m.... With such a wide variety of schemes the additional expenditure incurred is attributable to many factors.” The paper goes on to recognise that “better contract management would have greatly reduced the number of breaches at the time but as stated the culture tended to leave the breach to be explained and approved in the final account report”. The paper notes that this practice is no longer acceptable and action point 3 of the paper sets out the steps taken by NIHE to prevent a contract payment being processed if the payment means breaching standing orders

The Director of Finance has provided papers from 6 August 2012 through 1 July 2013 detailing the breaches of standing orders (historically) and treatment of same. The Review

Team noted that breaches 15-20 yrs old and over 20 yrs old were recommended for write-off based upon “files not being able to be located, consultants no longer in business and staff having left”

The Director of Finance advised the Review Team that “In my opinion, the main reason for breaches is that the scheme or project manager did not make a formal application at the appropriate time for an adjustment to be made to the approved budget for that particular scheme. Over the course of any scheme or project, the budget may require adjustment for approved additions and deletions which could relate to changes in the design of the scheme, changes in the number of dwellings, unforeseen abnormal conditions etc. The payments system is based on reliable inspection of work which allows claims for payment to be certified and processed for payment. If this is not carried out correctly then overpayments can occur but the overpayments may not necessarily lead to an overspend. This could happen if the budget was not determined correctly in the first place. We amended our finance system to prevent payments being made in excess of the approved budget. However, instructions issued to the contractor could create an unavoidable commitment which, if the budget is not adjusted, could lead to a breach”.

The Review Team also noted the Director of Finance’s paper of 27 March 2013 to the Board and the Chief Executive’s paper of 29 May 2013 to the Board, both of which discuss, at detail the weaknesses that existed in the management of both Response and Planned maintenance contracts. While no direct correlation is made with the breaches of standing orders, it is clear that the NIHE has considered, reflected and understood the key weaknesses in their Contract Management controls and have started to address these through improved contracts and contract management arrangements.

Conclusion

The Review Team considers that this recommendation is implemented. We noted that there are still 7 breaches to be actioned but that is from a population of 288.

Recommendation 27 (Good Governance Recommendation)

The Board should consider the appropriateness of holding a pre-board meeting on finance in view of the assumptions that can be made around this.

Summary of findings

Head of Secretariat has confirmed that no such meeting takes place and that a full finance paper is discussed by all members at Board meetings.

Conclusion

The Review Team considers that this recommendation has been implemented.

Recommendation 28 (Good Governance Recommendation)

As Economic Appraisal is a critical control, the Chief Executive and the management team should also consider the oversight arrangements in place for Economic Appraisals and factor this into their development of assurance reporting arrangements.

Summary of findings

The Director of Finance has advised that “The Housing Executive complies with the ‘Green Book’ on economic appraisals and is subject to annual review by Department for Social Development / Department of Finance and Personnel. We are currently reviewing our arrangements for the production and supervision of economic appraisals, including the maintenance of our central database and how this information is used to monitor the

economic appraisal process. At this point there is no specific document regarding the reporting of economic appraisals.”

We also note that, NIHE Head of Internal Audit has stated that no audits have carried out in the organisation relating to economic appraisals.

Conclusion

The Review Team considers that this recommendation has not been implemented. Northern Ireland Housing Executive is currently reviewing their arrangements in relation to production and supervision of economic appraisals but have no specific requirement exist to provide assurance in regard to appraisals. The Review Team noted that NIHE Internal Audit had not undertaken a specific review of Economic Appraisals.

Recommendation 29 (Good Governance Recommendation)

We would recommend that internal audit adopt the framework approach currently used by the department’s internal audit service to ensure comprehensive coverage of governance areas.

Summary of findings

The Head of Internal Audit in NIHE has confirmed that they have received a copy of the template used by DSD Internal Audit when conducting audits of Governance. However, he also advised that this template has been adopted although it has not yet been used in an assignment.

Conclusion

The Review Team consider that this recommendation has not been implemented as although the NIHE Internal Audit has adopted the framework developed by the Department for audits of governance this has not yet been used.

Recommendation 30 (Critical Control Recommendation)

The Housing Executive should also undertake a complete review of its risk management arrangements, this review should: bring the current risk management arrangements into line with the department’s policy and risk register format; ensure that all significant risks have been escalated to the corporate risk register; ensure that the current documented risks are still relevant and appropriate and if any new risks need to be added to risk registers; ensure compliance with the HM treasury orange book on articulation of cause and consequence / impact and managers should be assisted to understand the process; introduce a regular assurance reporting process on the management of risks, aligning this with the earlier recommendation on developing a formal quarterly assurance reporting system; ensure that risk registers record the name and role of the risk owner; and include a timetable for reviewing corporate and divisional risk registers, ensuring that the evidence of reviews are recorded and maintained with the register.

Summary of findings

The risk management arrangements have been reviewed within the organisation and the corporate risk register has been brought into line with the Departmental approach. It is noted that corporate risk register presented to the Department is in line with the HM Treasury Orange book specified layout utilised by the Department. However, the actual Corporate and Divisional risk registers utilised by NIHE are in a format that differs from this but do articulate cause and consequence as well as scoring and escalating risk. The risk registers also contain the inherent and residual risk ratings.

The Review Team noted that Corporate Governance training has been delivered throughout the organisation. An assurance chain is in place which runs in tandem with the updating and reporting of the risk registers wherein risk owners are identified.

Conclusion

The Review Team considers that the actions taken are broadly in line with the recommendation. However, we noted that NIHE still transcribe the information in their Corporate Risk Register into the format used by the Department before sending this each quarter. The Review Team also notes that the new Chair of the Board considers that “the Corporate Risks Registers did not reflect the risks from the Boards perspective and that there was further work to do on risk registers”, this recommendation is therefore considered partially implemented.

NIHE have commented that the “Corporate Risk Register has been produced both internally and for the NIHE Board and externally for DSD in DSD format since early 2012. We do acknowledge that the Divisional and operational Risk Registers are in a slightly different template. NIHE Risk registers are designed with a view to enable stakeholders and risk owners to better understand and manage the risks at this level”.

Recommendation 31 (Good Practice Recommendation)

A timetable for completing reviews of the risk management framework should be developed and approved to ensure that it is up-to-date and compliant with good practice.

Summary of findings

The Review Team confirmed that best practice is for risk management to be reviewed on a quarterly basis. The Review Team subsequently confirmed that Assurance statements, Corporate and Divisional Risk Registers are in place which supports a system of quarterly review of Risk Management.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 32 (Critical Control Recommendation)

The Board should carry out a further analysis of the specific land disposal cases identified by the Review Team at paragraphs 4.5.13 and 4.5.15. The Board should seek assurance that appropriate procedures have been followed.

Summary of Findings

Land & Property Section completed a review of the disposal of sites identified in the Governance review as requested in June 2011. The findings noted that the “land sales were ongoing during a period of significant economic downturn and great uncertainty in the market which was reflected in some instances in rapidly reducing site values and lower than expected offers”; a number of lessons to be learned were detailed in the report to the Audit Committee on 15 June 2011 and this was reported to the Board in a paper dated 29 June 2011 from the Director of Corporate Services.

Management have taken forward the lessons learned incorporating these into their Policy and Procedure review of Land and Property which is still on-going.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 33 (Critical Control Recommendation)

The Housing Executive's Internal Audit Unit should look to test whether the control now in place to obtain Board or Chief Executive Business Committee Approval (depending on value) for the Sale of Land recorded on the Undeveloped Land Schedule is operating effectively. As part of this the Board may wish to ask Internal Audit to examine a sample of those disposals completed prior to introduction of this change in procedure to ensure there are no issues with the disposal where specific approval had not been sought.

Summary of Findings

NIHE Internal Audit completed a special exercise to review land sales in line with the recommendation in June 2011. The report concluded that the control as defined in the recommendation "was not operating completely effectively". The Head of Internal Audit further clarified that of 13 cases reviewed:

- 4 were found to be approved as expected;
- 3 were completed prior to introduction of new controls and therefore practice at that time was followed; and
- 6 were completed after new control introduced and whilst sale agreed prior to introduction of the control approval should have been sought but this did not happen

A number of sites were identified as not having been appropriately approved and the Director of Corporate Services presented a paper to the Board on 26 October 2011 recommending retrospective approval for these disposals. The Board were also asked to "note the new governance arrangements introduced by Land & Property requiring that all future land sales from the Undeveloped Land Schedule be individually submitted to Chief Executive's Business Committee or Board for appropriate approval based on land value."

NIHE Internal Audit has confirmed that a further follow-up Audit of Land and Property Unit has been carried out in August 2013 and is currently at draft report stage. The follow-up included a further test of the effectiveness of these controls to establish whether improvements had been made in this area. NIHE Internal Audit has advised that they now consider controls to be operating effectively.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 34 (Good Practice Recommendation)

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

Summary of Findings

NIHE management advised the Department that the recommendation was completed September 2011 when it was agreed that Land & Property inspections was now within Corporate Assurance Unit approach.

Corporate Assurance Unit has advised that an inspection of Land and Property had been included on the 2012/13 programme; however, this inspection was not completed and has been deferred to the 2013/14 programme. Corporate Assurance Unit has confirmed this was due to a lack of resources within the unit.

In an update provided to the Risk and Performance Committee Corporate Assurance Unit advised that "Given the additional work being completed in year by Corporate Assurance Unit, resource issues and the current restructuring required to demonstrate 'best use of the CAU'

in response to the Minister's letter a number of the planned inspections for 2012/13 will be carried forward into the 2013/14 programme”.

Corporate Assurance Manager has stated that “In relation to the resource issues, we identified the need for assurance staff to have greater professional audit qualifications and are currently undertaking a recruitment exercise to address the number of vacancies to enable the unit to deliver the programme”.

Conclusion

The Review Team considers that this recommendation has not been implemented as CAU has not yet undertaken reviews of Land & Property. NIHE has advised that deferred work from the 2012/13 programme on House sales and SPED re-sales has now commenced.

Recommendation 35 (Good Practice Recommendation)

The Board may wish to consider an amendment to their current approval lines for Transfers of Undeveloped Land Sites to Housing Associations so that any transfers of High Value sites require their approval

Summary of Findings

Revised Governance Arrangements impacting on the Undeveloped Land Schedule presented to the Board on 26 October 2011 stated that the revised NIHE standing orders published July 2011 (Part B2 Section 3) states that “the disposal of any land or buildings with a current value of more than £100K requires the approval of the Board. This will now include lands transferred to Housing Associations.”

This review examined all Transfers to Housing Associations of sites held on the Undeveloped Land Schedule completed during 2012/13. We noted that 10 of 13 sites were valued by Land and Property Services at over £100k. In each case the Board approved these transfers in line with the delegated limits contained in the standing orders. The Board papers were considered to contain sufficient detail of the transfer to allow the Board to make an informed decision.

In June 2013 the Board approved amendments to the Standing Orders and Scheme of Delegations which included changes to the approval thresholds where “for disposal of assets (land and property), Board approval is required if the amount involved is greater than £500k (previously £100k)”. We note, therefore, that under the amended thresholds none of the transfers to housing associations examined would now require Board approval.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 36 (Good Practice Recommendation)

Board Approval Papers relating to the sale of land should include the valuation given to the site by Land and Property Services. The Chief Executive's Business Committee's Approval papers relating to the approval of a sale should include all the details relevant to the transactions so that the Chief Executive's Business Committee can make an informed decision in whether to approve.

Summary of Findings

There were 4 land sales of sites held on the Undeveloped Land Schedules completed during 2012/13. This review examined all 4 sales to ensure that appropriate approval had been obtained and that the approval papers contained sufficient detail of the sale history. 1 of

the 4 sites sold was valued at £275k and had been approved by the Board along delegated limits.

The other 3 sites were below the £100k delegated limit and had been approved by the Chief Executive's Business Committee as expected. It was also found that the approval paper presented to either the Board or Chief Executive's Business Committee fully detailed the action taken by management and the approval of sale including the valuation given to the site by Land and Property Services.

In June 2013 the Board approved amendments to the Standing Orders and Scheme of Delegations which included changes to the approval thresholds where "for disposal of assets (land and property), Board approval is required if the amount involved is greater than £500k (previously £100k)". We note, therefore, that under the amended thresholds none of the land sales examined would have needed Board approval.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 37 (Good Practice Recommendation)

The rationale for the classification given to each site on the Undeveloped Land Schedule should be formally documented detailing the decision making process used. Land and Property Centre should look to establish a robust challenge function to the information provided to support the classification given to sites. As part of this management should consider looking again at the issue of Economic Appraisals raised by the Housing Executives Internal Audit Function.

Summary of Findings

Testing identified that an appropriate classification process was used in March/April 2011 which clearly recorded the decision making process including a central review of each classification. However, this process has not been completed since 2011 and management have amended their procedures to make this classification obsolete and introduced an Economic Appraisal for each site which is considered in line with the second part of the recommendation.

Land & Property have advised that a "In a paper presented to the Board on 28 March 2012, the process for classifying sites on the Undeveloped Land Schedule was revised with the requirement that all sites classified as either surplus or retain for future use should be classified on the basis of an economic appraisal rather than Form 5B. The economic appraisals will be revisited in the event of any material change removing the requirement to review the classification of sites annually".

Of the 144 sites classified as retain for future use on the 2011/12 Undeveloped Land Schedule (which includes those reclassified pending the completion of an economic appraisal) 9 have been completed and approved. A further 10 are substantially complete and will be submitted for approval by the end August 2013. The consultation process for a further 30 has been initiated.

NIHE Internal Audit advised the Audit Committee in March 2011 that the introduction of Economic Appraisals for property transactions would "largely address the residual risks of land disposals", NIHE Internal Audit has stated they will review the Economic Appraisal process as part of their follow-up to recommendations made in the January 2007 Land Disposal Audit we understand this is currently at draft stage.

Conclusion

The Review Team considers that the recommendation has been partially implemented, given that the completion of Economic Appraisals for all sites held on the Undeveloped Land Schedule is still on-going.

Recommendation 38 (Good Practice Recommendation)

Performance against the Managing Public Money (NI) requirement to dispose of surplus land within three years should be reported to management and the Board. A formal strategy for ensuring that assets are disposed within three year period as stated in Managing Public Money (NI) should be considered.

Summary of Findings

Management have advised they have made a commitment to provide an update to the Board bi-annually on the status of the sites held on the Undeveloped Land Schedule for longer than the Managing Public Money (NI) three year rule. The first report was presented to the Board in February 2013 with the next bi-annual report has not yet been presented to the Board.

The Board were advised in February 2013 that there were “34 surplus sites recorded on the 2011/12 Undeveloped Land Schedule that had not been sold within the recommended 3 year period”.

Management have also advised that the disposal strategy for each site is to be reviewed in the overall review of economic appraisal for each site and there are none completed at this stage. The February 2013 Board paper also contained proposals for the review of the site disposal strategies and advised that “the outcome of the disposal strategy would be submitted to the Chief Executive’s Business Committee on an individual site basis with an appropriate recommendation for disposal”.

Conclusion

The Review Team considers that this recommendation is partially implemented given that reporting against the Managing Public Money (NI) 3 year rule only commenced during 2013 and that the review of disposal strategies for each site is still a work in progress.

Recommendation 39 (Good Practice Recommendation)

A Service Level Agreement should be established with Land & Property Services in order to establish clearly defined roles and responsibilities

Summary of Findings

This review has confirmed that Land & Property have put in place a Service Level Agreement with Land and Property Service in line with the recommendation. This has been in operation since 1 April 2012 and is due to end August 2013. The Board approved the Service Level Agreement in May 2012 to run until 31 March 2013. This review examined the Service Level Agreement and confirmed that it has met the requirements of the recommendation.

An extension to the Service Level Agreement until 31 August 2013 was approved by Chief Executive’s Business Committee on 20 May 2013. The Chief Executive’s Business Committee paper also advised that “Following a substantial internal review it has been found that the public contract regulations do apply to the range of services currently provided by Land and Property Services as there is no apparent special or exclusive right by virtue of any published “law, regulation or administrative provision” and therefore the requirement to procure these services would exist. Relevant legislation and the Dossier of Controls only requires NIHE to seek the services of a suitably “professionally qualified valuer”. However there is a long

standing professional relationship with Land and Property Services for a wide range of valuation services (which extend outside of Land & Property) and there is a policy emphasis on the use of Land and Property Services due to its independence and ability to act as an honest broker between the NIHE and other public sector organisations.”

The paper also stated that “the NIHE is currently preparing a procurement exercise for the provision of valuation services on an annual basis in relation to the preparation of the end of year financial statements for both NIHE owned land and its housing stock. The land elements linked to this area of responsibility will therefore be removed from the current service level agreement with Land and Property Services. The issuing of this tender has been approved by the Board in readiness for the preparation for the 2013/2014 accounts.”

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 40 (Good Practice Recommendation)

A review of Demolition Procedures should be added to the upcoming Internal Audit Plan.

Summary of Findings

NIHE Internal Audit completed a review of the Demolitions process in March 2012 where a limited classification was given due to weaknesses identified. A further follow-up was completed March 2013 where improvements made by management had been reviewed by Internal Audit and the classification was lifted to satisfactory.

Audit Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 41 (Critical Control Recommendation)

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. Further consideration should be given to the results of the recent round of inspections and in particular, the results of onsite inspections. The Board should investigate the reasons why one of the Districts has been rated unacceptable for the last three years and what actions management has taken to address this. The Board will also wish to ensure, in establishing the Corporate Compliance Unit that the 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.

Summary of findings

NIHE established a Corporate Assurance Unit (CAU) in 2011 that included amongst other assurance functions Repairs Inspections and Scheme Inspections.

Since the completion of the 2010 Governance Report and DSD's 2012 review of the specific delays in the finalisation of Round 8 Repairs Inspection reports there has been a significant restructuring of CAU aimed at strengthening its skills set and improving the inspection methodologies used by its various assurance work areas. CAU have been implementing a strategic development plan that was approved by the NIHE Board in September 2012. This has involved recruitment to a number of revised and new posts to ensure that the unit had the right people with the right skills to deliver the Unit's service.

The Review Team confirmed that quarterly update reports on work of the Unit were supplied to the Risk and Performance Committee. Following the demise of this committee in Spring 2013 the updates, and an annual summary of the key issues and themes identified, are now presented to the NIHE Audit Committee. In relation to the District that had been rated unacceptable for a number of years, action was taken to address the poor performance and this was reported to, and monitored, by the Board, this include an investigation by NIHE. The Head of Corporate Assurance Unit confirmed that she meets monthly with the Chief Executive to update him on the results of the work of the Unit.

New management structures based upon three Regions delivering housing services through 12 Areas under the command of Area Managers have replaced the District management framework.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 42 (Critical Control Recommendation)

The Housing Executive should review its current procedures for post-inspection of Response Maintenance jobs. Consideration should be given to whether the current sampling of jobs for post inspection provides sufficient onsite inspection of those jobs whose value is less than £100.

Summary of findings

A statistical response maintenance inspection regime was approved by the Chief Executives Business Committee in July 2012 and is now in operation. The objective of the inspection regime is to reliably estimate the contractor failure rate in relation to contractor compliance with the contractual requirements in terms of “coding, invoicing and work quality” and by doing so indicate where further inspection activity should be directed. The new statistical inspection regime inspects;

- a 50% sample of jobs >£750;
- 20% sample of jobs £100 - £750; and
- 5% sample of jobs <£100.

This statistical regime is being used now and relates directly to KPI 2 Quality of Work and KPI 3 Cost Predictability. Revised KPI's are included in the new contracts and performance of contractors against these KPI's is used to determine when low performance damages are applied to a contractor. Performance against the KPIs is reported to each Board Meeting.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 43 (Good Practice Recommendation)

The results of the monthly audits undertaken by the District Managers should serve as the basis of an assurance from the district to the Area Manager and from the Area Manager to the Director of Housing and Regeneration that management inspections of completed jobs are being undertaken and that the results of these audits provide assurance on the quality of works delivered.

Summary of findings

District managers and District maintenance managers check a sample of jobs on a monthly basis to ensure that policies and procedures have been adhered to and that high value jobs

provide value for money. The Reporting programme monitoring repairs feeds into the Annual Statement of Internal Control and the Assurance reporting process.

The Review Team considers that, in hindsight, the work of the Corporate Assurance Unit in sampling repairs provides a more direct assurance. The Review Team notes that when undertaking reviews the Corporate Assurance Unit considers the District reporting programme as part of its scoring methodology.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 44 (Good Practice Recommendation)

The Housing Executive should consider the current Key Performance Indicators used to measure all of its “EGAN” type contracts not just the ones for Response Maintenance. The Housing Executive should also give consideration to greater involvement of the Central Procurement Team in the oversight of contracts and monitoring of Contractor performance.

Summary of findings

The Gateway Review in December 2010 and the follow-up in September 2011 made recommendations as to how procurement and contract management should be carried out. The original Gateway Review made 14 recommendations including further recommendations on Key Performance Indicators.

In response NIHE developed a new Corporate Procurement Strategy which emphasised the importance of robust contract management. The contract management aspects included performance measurement in the form of a new set of Key Performance Indicators (KPIs) and a full escalation process leading to Low Performance Damages being imposed on contractors.

The Review Team noted that all major procurements have been carried out in accordance with the Corporate Procurement Strategy and that individual strategies are further developed for each major procurement exercise. The Review Team obtained the KPIs for the Response Maintenance contracts and also the proposed KPI's for the Planned Schemes and noted that specific contractor performance management documents setting out the revised KPIs, how they would be measured and how performance of KPIs would be used to score for Low Performance Damages had all been established and that previous more subjective KPIs were no longer included.

The Head of Procurement also stated that whilst the Procurement Unit does have a role in the dispute process that is initiated when there is a contract dispute between the NIHE and a contractor the Unit does not presently have a significant role in the ongoing oversight of contracts and the monitoring of Contractor performance. However, he considers that the central Procurement Unit has a greater prominence in Commercial Contract Management. The Review Team also understands that a new Directorate of Asset Management is envisaged by NIHE which would in theory bring together all aspects of contractor management and property related activity, The Review Team welcomes this as it will allow a holistic view of the performance and management of maintenance contracts.

Conclusion

The Review Team considers that this recommendation has been implemented, revised KPI's are in place for Response Maintenance and notes that work continues as contracts for further services are let under the new Corporate Procurement Strategy.

Recommendation 45 (Good Practice Recommendation)

The Housing Executive should consider how the work of the Repairs Inspection Unit can be further enhanced, for example, by the greater use of data analysis to identify patterns and areas of potential concern that could direct the work of the Unit.

Summary of findings

A Performance Measurement officer is in post within CAU from June 2013. Their role is to interrogate NIHE systems including Housing Management System to identify possible trends for direct further onsite Tier 2 inspection work. The Head of CAU confirmed that where issues are identified on site these are passed to the Performance Measurement officer who in turn will run a series of reports on these issues to identify if these is a recurring trend.

The Review Team were advised, for example, that early work had identified a potential issue with a contractor, which was when examined province-wide by analysis of the system and the Contractor has been asked to make good on a number of jobs.

Conclusion

The Review Team considers that the recommendation has been implemented but notes that the Performance Measurement Officer has only been in post from June 2013.

Recommendation 46 (Good Practice Recommendation)

The Housing Executive should ensure that all the recommendations made by the Repairs Inspection Unit are effectively implemented in a timely manner.

Summary of findings

CAU monitor and report on progress towards the implementation of recommendations through the recommendations monitor which is updated and reported to the Audit Committee on a quarterly basis. Recommendations made during the 8th Round of RIU Inspections identified a number of thematic issues relating to the management of response maintenance contracts. Management implemented a four point maintenance improvement plan aimed at identifying the source of failure, providing revised guidance and training to maintenance staff, structural reform of the delivery of landlord services, and investing in new ICT technology to support maintenance staff in carrying out their work.

For the 9th Round of RIU inspections the Unit will offer post review support to maintenance managers to help address any issues that may be identified and in the implementation of any recommendations that may be made.

The Head of Corporate Assurance Unit confirmed that she meets monthly with the Chief Executive to update him on the results of the work of the Unit, and an annual summary of the key issues and themes identified by the Unit is presented to the Audit Committee.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 47 (Good Practice Recommendation)

The Housing Executive should also consider, when retendering contracts, whether the practice of including an annual uplift to contract costs based on the Buildings Trade Cost Index is still sustainable.

Summary of findings

This is no longer practice. The Head of Procurement confirmed that any annual uplift to contract costs is now based upon the Consumer Price Index.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 48 (Good Practice Recommendation)

The Housing Executive should ensure that a printout is obtained from the Housing Management System showing all “Emergency” and “Urgent” jobs that are greater than one month overdue and all Routine Jobs that are greater than two months overdue. At the monthly divisional performance meeting the director of Housing and Regeneration should seek an explanation for why specific jobs have not been completed. An overview of maintenance jobs overdue should be provided to the Performance Review Committee, chaired by the Director of Corporate Services Division.

Summary of Findings

The Review Team has examined the monthly printouts provided to the Performance Review Group and produced by the Housing Management System which identifies the jobs outstanding. Outstanding jobs are identified in the report but no prioritisation is given to these and no indication which jobs are outstanding the longest.

This review can confirm a printout is supplied outlining outstanding jobs however given that there is no categorisation of these as to how long specific jobs are outstanding (merely a report of jobs which are outstanding) the recommendation cannot be considered to be implemented

Conclusion

The Review Team considers that the recommendation has not been implemented.

Recommendation 49 (Good Practice Recommendation)

The Housing Executive should explore the potential of the trend analysis undertaken by the “risk” based inspections to highlight areas of concern, improve the delivery of response maintenance to tenants and provide a source of information to challenge the quality of controls. In particular, consideration should be given to analysis of potential duplicate payments

Summary of findings

The Review Team was advised that District Maintenance Managers (DMMs) are required to perform a weekly check on potential duplicate payments. This check is subject to review by the Repairs Inspection Unit of CAU and is scored under probity.

The Performance Measurement Officer in CAU identifies trends based on information drawn from the Housing Maintenance System. These reports are used to help identify DMMs who do not comply with policy on duplicate payments.

In more general terms the work of the CAU Performance Measurement Officer, appointed in June 2013, will include using the analysis of trend information drawn from the Housing Maintenance Systems to improve the challenge function of CAU.

Conclusion

The Review Team considers the recommendation has been implemented.

Recommendation 50 (Critical Control Recommendation)

The Housing Executive should examine the reasons behind the increase in unacceptable ratings in 2009/2010 and should report on this to the Audit Committee and Board. Management has advised that work is currently ongoing to review the robustness of the current Key Performance Indicators used to measure the performance of Contractors. The Board should ensure that this work is completed as soon as possible and that all future contracts make use of more objective and robust Performance Indicators

Summary of findings

The issue relating to the increase in unacceptable ratings in 2009/10 was superseded by the issues relating to the Round 8 RIU inspection programme that came to light in 2012. The delivery of the Ministers Action Plan ensured that the underlying reasons for the increase in unacceptable ratings was established, understood and addressed in a systematic way. Further detail on the underlying issues relating to overpayments on Planned Maintenance/Schemes was reported by the Chief Executive in his paper “Addressing the Deficiencies in Response and Planned Maintenance”, 29 May 2013. This paper identifies four “generic issues that have contributed to our problems” these were;

- **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.”

The paper set out the steps NIHE have taken and those still to be taken to address these underlying issues. The Review Team confirmed that NIHE have developed a new Corporate Procurement Strategy which emphasises the importance of robust contract management. The contract management aspects included performance measurement in the form of a new set of Key Performance Indicators (KPIs) and a full escalation process leading to Low Performance Damages being imposed on contractors.

The Review Team noted that all major procurements have been carried out in accordance with the Corporate Procurement Strategy and that individual strategies are further developed for major procurements. The Review Team obtained the KPIs for the Response Maintenance contracts and also the proposed KPI's for the Planned Schemes and noted that specific contractor performance management documents setting out the revised KPIs, how they would be measured and how performance of KPIs would be used to score for Low Performance Damages had all been established and that previous more subjective KPIs were no longer included.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 51 (Critical Control Recommendation)

The Housing Executive should consider, as part of the establishment of the proposed Corporate Compliance Unit how this unit will provide an independent assurance on the adequacy of management controls over Heating Contracts. The Housing Executive should also confirm the reason why the Installation, Servicing and Maintenance of heating systems is not undertaken as part of the current functions of the Repairs Inspection Unit or the Scheme Inspection Unit. Finally, the Audit Committee, which now receives reports from both the Repairs Inspection Unit and the Scheme Inspection Unit, should consider how it currently obtains assurance in relation to Heating.

Summary of findings

The Review Team were advised by the Head of Corporate Assurance Unit that the Unit now has responsibility for providing assurance in relation to Heating Contracts and has developed a programme for completing inspections on Heating Response Maintenance and Planned Heating Schemes. A methodology has been developed and agreed for the inspections and a qualified Gas Safe engineer is in post and the programmes are underway. Progress on the delivery of the programme is to be reported to the Audit Committee on a quarterly basis.

Conclusion

The Review Team considers that the recommendation is now implemented but note that the programme of inspections began this year. The Review Team notes that it has taken NIHE some time to implement this recommendation and in the interim Heating has remained outside the scope of CAUs work.

Recommendation 52 (Good Practice Recommendation)

The Board of the Housing Executive should consider whether the current Standing Orders and Scheme of Delegations should be amended to ensure that Revenue Schemes over a given value should receive specific consideration and approval by the Board.

Summary of Findings

As detailed in our findings for Recommendation 2, a Working Group was set up, Chaired by the Chief Executive (acting) to review the Standing Orders. A paper went to the Board on 27 July 2011 and was approved which required that all Revenue Schemes exceeding £500k needed Board Approval. The Review Team notes that following the subsequent review Standing orders and Scheme of Delegations in June 2013, Standing Orders now only require the Board to approve Revenue Schemes exceeding £1 Million. The Review Team confirmed that all schemes have to go through the Central Clearing House Committee and then to either Chief Executive's Business Committee or the Board for approval along delegated limits.

As part of this review the Review Team examined the Central Clearing House Committee minutes for 21 January 2013 and 4 February 2013 and selected a sample of revenue schemes over £500k. The Review Team confirmed that these Schemes had been appropriately approved by the Board in line with the delegated authority in place at the time.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 53 (Good Practice Recommendation)

The Review Team found a lack of consistency in how files were structured, while we confirmed that key documentation was on file it was not always easy to find the relevant paper work quickly. The Housing Executive should review the layout of project files, files should have

a consistent layout, this should not differ between Areas and duplication of papers should be avoided. The Board may wish to ask their Internal Audit Unit to conduct a more detailed review of the consistency of project files.

Results

NIHE Central Design Services have advised that a new file structure has been developed and is operational. The Admin Managers in the area teams met and agreed a 10 point file structure for the project files. This was agreed at the Area and Headquarters' Admin Teams Meeting October 2012.

Each Area Manager issued the new file structure to their Technical Teams and confirmed the new file structure had been implemented. Each of the 5 area teams confirmed by email to Central Design Services in November 2012 that they are using the new file structure. NIHE have not carried out any review of the project files as the process was only implemented in November 2012 and was not retrospectively applied, it was felt that there would be insufficient information in the files to carry out a review at this stage. There are still no plans to review the structure of the project files.

The NIHE Head of Internal Audit advised that Internal Audit has not carried out any specific review work on the structure of project files. However, they would examine project files as part of any audit assignments carried out. Corporate Assurance Unit has confirmed that they do not look at the quality of file layout as part of their inspection process. This review considers that a review of the new file structure may be beneficial and provide assurance that the file structure is being complied with.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 54 (Good Practice Recommendation)

In the case of two of the large Revenue Replacement schemes selected, the Review Team noted that the Final Reconciliation report was not on file. The Review Team was advised that Final Reconciliations were due, pending the resolution of an outstanding issue with the contractors regarding payment for the disposal of "gypsum". The Housing Executive should ensure that this issue is resolved as quickly as possible and that Final Reconciliations are completed.

Summary of findings

The Review Team was advised that the Acting Assistant Director in Design and Property Services agreed to pay additional gypsum disposal costs upon receipt of the appropriate documentation.

The current Assistant Director has stated, "These schemes have not been finally reconciled as they have been caught up in the bigger picture. The contractors are very slow to engage to reconcile schemes until a number of principles have been resolved between our experts and theirs. It is hoped that the experts should complete the kitchens schemes by the end of August 2013 which will allow us to close out on all kitchen schemes that are complete on site."

Conclusion

The Review Team considers that this recommendation is not implemented, but note that action has been taken to try to resolve the issue.

Recommendation 55 (Good Practice Recommendation)

The Housing Executive should ensure that the all recommendations made by the Scheme Inspection Unit are effectively implemented in a timely manner.

Summary of findings

A new CAU Scheme Inspection Methodology was approved by the Board on 31 October 2012. This included a time-bound reporting process to help to ensure that Final reports were issued in a timely manner. The methodology was “road-tested” and refined in collaboration with Design and Property Services (DPS). The Review Team notes that site reports are signed off by Assistant Director DPS with issues and defects agreed at Exit Meetings and draft inspection reports are signed off by DPS. SIU recommendations are monitored quarterly and reported to the Audit Committee.

The Review Team notes that whilst the majority of recommendations are implemented in a timely manner a small number of issues have remained outstanding for a long period of time.

Conclusion

The Review Team considers the recommendation has been implemented.

Recommendation 56 (Critical Control Recommendation)

The Review Team recommends that the housing executive's manpower plan should be broadened to include strategic workforce planning; a formal succession plan for all key posts should be developed and agreed with the board.

Summary of findings

Workforce plans have been developed and supplied covering 2011/2012, an outline plan covering 2012/2013 – 2014/2015 and a workforce plan covering 2013/2014 – 2016/2017. The papers reflect staffing requirements based around financial and other implications. It has been confirmed with Director of Personnel Management Service that while the succession planning process has begun it is a work in progress and not complete. Copies of draft reports from directorates relating to succession planning have been provided.

The Director of Housing and Regeneration provided more detail on the specific steps he had taken to address succession planning:

“I have restructured our division in last 12 months. Created a pool of 12 new middle managers who could create the base from whom senior managers will come. All these managers have recently been through a leadership development programme. We also have a pool of graduate trainees who follow an intensive and comprehensive programme of Housing Management experience. Another example has been the recruitment of a number of Grounds Maintenance staff to prepare for the future of that service. In terms of the Maintenance service we developed an accredited Training programme with the CIOH and put all our Maintenance staff through a comprehensive programme which will help professionalise the service and provide a wider base of suitable staff from which future promotions can be made.”

The Chair confirmed that the question of succession planning is no longer as critical as it was in 2010 and that the “risk has been overtaken by transformation agenda”.

Conclusion

The Review Team considers that the recommendation has been partially implemented, succession planning is not complete and the Board has not agreed a formal succession plan,

however, the strategic context has also changed and the Board does not see succession planning as being as critical a risk as it was previously.

Recommendation 57 (Good Practice Recommendation)

All key human resources strategies, (the people strategy, the learning and development strategy, the workforce plan, the succession plan and the change management strategy etc) should be developed in line with the timescales for the corporate and business planning cycle and be agreed by the board. There should be clear and consistent linkages between the corporate and business plan and proposals in the supporting human resources strategies which should be explicit on how they will lead to improvement in outputs from staff.

Summary of findings

The Review Team was provided with copies of updated policies. Evidence supports that the people strategy has been updated in 2011 and 2012 and that these papers went to the board. Board schedule indicates that these policies should go to the Board annually in March; these were actually presented in April and May but we consider this is broadly in line with schedule. The schedule dictates that the workforce plan should go to the board in March; we noted that the 2011 review was presented to the board in March, the 2012 review in April and the 2013 workforce plan went to the board in July 2013. Evidence was supplied demonstrating that the learning and development strategy has been updated and reported to the Board. An updated whistle-blowing policy has also been provided.

Papers have been provided relating to the areas of succession and rotation planning and change management. It has been established from discussion with the Director of Personnel Management Service that formal strategies do not currently exist in these areas, however, work on these has commenced.

A paper on discussion topics for the coming months has been supplied. This was accepted by the Board on 31 July 2013. The paper details a forward look of emerging issues for the organisation and identifies specific topics, resourcing for dealing with same, the board contact for each and target board meetings. In this regard the paper offers evidence of a strategy being in place to address specific change management issues which will impact on the organisation.

Conclusion

The Review Team considers that the recommendation has been partially implemented. However it is noted that some strategies and plans remain at the planning phase and have not been finalised.

Recommendation 58 (Good Practice Recommendation)

The Housing Executive should commit to reviewing and updating competence frameworks to underpin key human resources process to support management and staff development and contribute to organisational and cultural change. A skills audit against revised competence frameworks should be developed for workforce planning, learning and development, managing change and governance.

Summary of findings

Director of Personnel Management Service has informed the Review Team that “the ‘skills audit’ for the Housing Executive is in effect the development needs discussion between the line manager and his/her direct reports. The needs emerging are collated by our learning and development group and inform our learning and development programmes (NB we would

however welcome examples of the deployment of the skills audit which have been undertaken in the NICS)”

The Review Team confirmed that a revised core competency framework has been developed and rolled out across organisation. The make-up of the competency framework supports good practice and organisational core values. Training in the usage of this and the adjoined online appraisal process is taking place. The Review Team notes that Corporate Governance training has also been developed and rolled out across the organisation.

The Review Team noted that Housing & Regeneration division undertook a programme of specific training aimed at specific skills and competences need by staff. The documentation supplied in relation to the Housing & Regeneration prospectus outlines targeted learning for specific roles and grades within Housing & Regeneration function. This taken together with the Housing & Regeneration competency framework provides evidence to support that work has been undertaken to understand the needs and requirements of role and function and as such a skills audit has by mission of action been undertaken. In addition, the Review Team has been advised that when the new Response Maintenance contracts came into effect, that specific training was provided to staff and that similar training will be provided when the new Planned Maintenance contracts come into effect.

Conclusion

The Review Team considers that the recommendation has been implemented. Evidence supports that a revised competency framework is in place and is being supported by an online appraisals process. While a formal skills audit has not been conducted, evidence has been provided that the specific training needs of staff working on Maintenance Contracts has been identified and training provided.

Recommendation 59 (Good Practice Recommendation)

Management should agree with the board key strategic human resources issues on which members would welcome timely engagement, this to include consideration of the adequacy of the key performance indicators identified for the human resources and whether indicators should be developed for workforce planning, learning and development, managing change and governance.

Summary of findings

The Director of Personnel Management Service has advised that the sole Human Resources Key Performance Indicator which is escalated to the Board covers absence rates in the organisation. The Director further advised that “Human Resources Strategies are consulted on with management and approved by the senior team at the Chief Executive Business Committee. Key Human Resources strategies are also submitted for Board approval.”

The Review Team confirmed that key Human Resources strategies are submitted to the Board and receive approval. Human Resources strategies which have gone to the Board for approval include competency revision, workforce plan, people strategy, appointments and promotions, reward and recognition, stress in the workplace, managing attendance.

Conclusion

The Review Team considers that the recommendation has been implemented

Recommendation 60 (Good Practice Recommendation)

The Housing Executive should ensure that the assurance of human resources systems is strengthened. Personnel and management service division should review risks relating to human resources to ensure all risks are identified, assessed and escalated as appropriate

to the corporate risk register, such risks to include learning and development, leadership development, key competencies, workforce and succession planning and managing governance.

Summary of findings

An assurance reporting chain has been established within the organisation and risk registers are completed at divisional and corporate level on a quarterly basis. Human Resources specific assurance statements and divisional risk registers have been provided. Matters including succession planning are articulated in this process.

The NIHE Head of Internal Audit has advised that “we have carried out a number of Human Resources related audits. These audits reported a satisfactory opinion”

Conclusion

The Review Team considers that the recommendation has been partially implemented. We noted that an Assurance reporting process is in place, it is however, noted that succession planning appears on both the Corporate and Divisional Risk Registers but that no codified succession plans are in place.

Recommendation 61 (Good Practice Recommendation)

The Housing Executive should review and agree its priorities for employee resourcing and review its policy for appointments and promotions to consider extending the use of external recruitment. It should review and update arrangements to support organisational and cultural development. It should also agree a policy on staff rotation and maintain records on the rationale and decisions for appointments, transfers and movement of staff.

Summary of findings

The Review Team were advised by the Director of Personnel Management Service that :

“The present policy position is that the Housing Executive will trawl externally for posts at entry level, level 4 and 6 and at director level –subject to there being no implications in regard to organisational development or change which may give rise to redundancy situations. The current situation is that the Housing Executive believes there are implications in any large scale external trawl in regard to the efficiency savings required going forward and in particular the anticipated reduction in housing benefit staffing associated with the introduction of universal credit (some 490 posts currently). In this regard it is anticipated that it is unlikely that we conduct large scale recruitment exercises. Rather external trawling of posts will in the main be confined to entry level posts and specialist posts primarily at level 4 and level 6.”

The Review Team noted that Paper 599/7(4) presented to the Board advised that NIHE maintain the status quo with regard to recruitment. The Review Team obtained a breakdown of internal vs. external appointments at senior level over the period since the 2010 review. At Assistant Director and Director level there have been six internal and two external appointments. Five of these competitions were internal trawls and three were advertised externally. Two further director level competitions are ongoing, these have been advertised externally.

No formal staff rotation policy exists. Personnel Management Service confirmed that records on appointments, transfers are on file.

Conclusion

The Review Team considers that the recommendation has been partially implemented as NIHE has reviewed its recruitment policy and has opted to continue with their current policy

with regard internal v external appointments. We also note that formal rotation plans have not been developed.

Recommendation 62 (Good Practice Recommendation)

The Housing Executive's learning and development strategy should be explicit on how development will impact on individuals' capability, business area improvement and organisational development. It should demonstrate how the investment in training represents value for money. Consideration should be given to updating and refreshing manager's knowledge and skills to support succession planning.

Summary of findings

Northern Ireland Housing Executive has a learning and development strategy which is supported by a yearly training plan which is approved by Chief Executive Business Committee. Both documents outline strategic and divisional priorities, and whilst this could be strengthened in terms of explicit linkages being cited it is possible to see the connection between training proposed and delivered and individual, business and organisational development.

Learning & Development have confirmed that value for money in regards to training is not quantified on current programs but will be put in place to assess the value of e-learning which is to be implemented in the coming year. Learning & Development have stated that:

"Whilst Learning & Development Service does not undertake Return On Investment's on current programmes, we do work to the Investor in People Standard (Plan-Do-Review) which NIHE have held since approx 1998. The Investors In People standard has been very important in raising and maintaining learning's profile and places learning within a corporate planning and strategic context. Working to the Investors In People Standard, highlights and ties together the different strands of the organisation such as systems, processes, and people and ensures a flow of dialogue between respective functions so that there is as much synergy as possible between corporate/business objectives and training outcomes."

Succession planning is however a work in progress within Personnel Management Service.

Conclusion

The Review Team considers that the recommendation has been partially implemented. Learning & Development strategies do make connections with the improvement of individual, business and organisational development. The explicit nature of such links could be articulated in a more transparent fashion. A Value For Money quantum is not in place currently however added value can be construed from the achievement of accreditation and certifications. Again the explicit nature of such links could be more clearly articulated.

Recommendation 63 (Good Practice Recommendation)

The Housing Executive should review, evaluate and update as appropriate the following human resources strategies: the performance review system, to include action to increase participation in the online appraisal system and identification of training needs; the managing attendance strategy, to ensure it complies with good practice in managing absenteeism; the health promotion strategy, to include consideration of any further action required to manage work related stress on staff and its implications for absenteeism; the change management strategy, to include evaluation of previous change strategies, in preparation for managing future change; the reward and recognition strategy, to include consideration of how staff contribution to organisation and cultural change can be recognised; and personnel policies should have review dates and staff should be reminded of key policies.

Summary of findings

Northern Ireland Housing Executive have reviewed and updated the specific strategies cited in the recommendation, with the exception of the change management strategy which is an approach rather than a specific strategy. As regards performance review NIHE has rolled out a revised competency framework providing training workshops on the operation of same. A paper has been provided showing screen grabs of the application of the appraisal system with specific regard to training courses. The Review Team noted that the managing attendance strategy makes explicit reference to reporting, management, trigger points, Keeping In Touch meetings and the role of Occupational Health Service. Stress in the workplace has been addressed. The reward and recognition strategy has been reviewed and was approved by the board 28 March 2012, was re-assessed in light of budgetary restrictions and the conclusion was to strengthen recognition of positive input from staff and emphasize management recognition of positive behaviors.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 64 (Good Practice Recommendation)

All outstanding work on counter fraud, including agreement to a revised fraud risk assessment, should be expedited. Consideration should be given to the adequacy of staff resources in the counter fraud unit. The accounting officer should review the adequacy of assurances provided on fraud risks which informs and underpins statements of internal control.

Summary of findings

A fraud risk assessment has been developed and supplied, an update of which was presented to the NIHE Audit Committee on 25 June 2013.

Acting Counter Fraud and Security Advisor has detailed the current position with regard to caseloads within Counter Fraud Unit. Of the caseload at December 2010, 2 are still open. It is advised that these cases are awaiting court proceedings to take place and require no further investigation from Counter Fraud, and that all have been with PSNI for two years or more.

The Director of Finance has reported that “The staffing of the Counter Fraud Unit is kept under regular review and resources are provided to meet the case workload at any particular time. Resourcing is therefore not an issue and, to the best of my knowledge, has not been an issue.” However, we noted that Counter Fraud Unit is currently staffed by one member who is on a temporary contract, one seconded employee and the rest of the complement being comprised of agency workers. Therefore, given the level of experience offered by the present staff on the unit, a risk to Northern Ireland Housing Executive exists in terms of loss of capacity should agency staff be re-deployed or leave of their own accord.

Formal assurances are in place relating to NIHE’s risk of fraud and these are articulated through both assurance statements and fraud risk registers.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 65 (Good Practice Recommendation)

The Audit Committee should be involved with strategic analysis of lessons learned from the investigations conducted by the counter fraud unit. The Review Team recommend that the board arranges for the effectiveness of the new investigations committee to be evaluated against its terms of reference and reported on during 2011. As part of the evaluation

consideration should be given to existing guidance on referring cases to Police Service of Northern Ireland, the department, the audit committee, the counter fraud unit and the Northern Ireland audit office.

Summary of findings

A paper was prepared by Director of Finance which outlined strategic lessons learned from Counter Fraud Unit and Investigations. This paper identified contract management, verification processes, fraud awareness, and money laundering as areas of note and provided an action plan against which deliverables could be measured. This paper was brought before the Audit Committee on 5 October 2011. However, we noted that there is no formal mechanism by which lessons learned from investigations are routinely shared within the organisation.

Audit Committee minutes dated 5 December 2012 detail that Director of Personnel Management Service “gave a presentation to the committee on the work of the investigation strategy”. The Director of Personnel Management Service advised that grievance, whistle-blowing and complaints procedure have been reviewed in the previous twelve months.

Conclusion

The Review Team considers that the recommendation has been partially implemented given the absence of a formal medium for the learning of lessons from Investigations.

Recommendation 66 (Good Practice Recommendation)

Consideration should be given to publicising all Gifts and Hospitality Registers on the Northern Ireland Housing Executive website.

See also Para 6.5.6 Seven principles.

Summary of Findings

Gifts and hospitality registers for NIHE Directors, Chief Executive and the Chair of NIHE Board are published on a quarterly basis on the NIHE website. Board Members have now been included from October 2012. The last publication is for the register covering the period October to December 2012. January to March 2013 is outstanding. The Head of Secretariat has confirmed that the March 2013 return was submitted to the Audit and Risk committee on 25 June 2013 and will be placed on the website this month.

The minutes of the NIHE oversight meeting dated 2 April 2012 states that the Gifts and Hospitality registers for Board Members, Directors and Assistant Directors has been published on the internet. Board members weren't published until October 2012 and Assistant Directors still aren't published. The Review Team queried the issue of Assistant director level returns for gifts and hospitality and the Head of Secretariat has stated that the non-publishing of assistant director returns was cited as a volume issue. Chief Executive Secretary's office does not maintain a register of assistant director returns – this is done purely through the staff declaration register online.

This review requested the registers from Secretariat and confirmed that the content of the registers reflects the content published on the internet.

Conclusion

The Review Team considers that the recommendation has been implemented but consideration should be given on whether or not to publish details of Gifts and Hospitality for Assistant Directors.

Recommendation 67 (Good Practice Recommendation)

An audit of Health and Safety procedures for staff should be completed within the 2010/2011 Internal Audit programme.

Summary of Findings

NIHE Internal Audit presented a report to the Audit Committee on 15 June 2011 on the outcome of a Health and Safety Audit which received an overall satisfactory classification. There were 2 scope limitations in this review Asbestos and Construction Design & Management (CDM) Health & Safety. The Head of NIHE Internal Audit has confirmed both these areas were included elsewhere on the audit Plan.

A separate audit of Asbestos was carried out in September 2012 which was given a limited classification. Objectives reviewed included. NIHE Internal Audit has confirmed that no follow-up action of this audit has been carried out and that the recommendations are monitored through the recommendations monitor. An further Audit of Asbestos Management is planned for 2014

An audit of Warm Homes covered in objective three - the CDM Health and Safety aspects of project management and was given a satisfactory classification. Work undertaken by NIHE Internal Audit in relation to objective three included an examination of Health and Safety files for both Scheme Managers; risk assessments of specific health and safety issues by the Scheme Managers; an examination of the Scheme Managers health and safety inspection and audit reports and records of qualifications held by various members of the Scheme Managers team. NIHE Internal Audit also carried out observational testing of Warm Homes Unit Inspectors work on-site over a two day period. They also carried out a review of Warm Homes Unit Inspectors qualifications

Conclusion

The Review Team consider that the recommendation has been implemented.

Recommendation 68 (Good Practice Recommendation)

The Board and the Chief Executive should be provided with assurance on the implementation of Health and Safety policies and procedures for staff.

Summary of Findings

As per paper to the Board 18 August 2012 (which defined the organisational framework for managing health & safety issues) The Director of Personnel and Management Services, acting on behalf of the Chief Executive, has responsibility for providing strategic leadership and for championing health and safety issues within the organisation. The Director is also responsible for ensuring that policies and procedures are in place to protect staff in carrying out their day to day activities.

The Health & Safety Management Committee is chaired by the Director of Personnel & Management Services and has representatives from all Divisions and from the Trade Unions. The committee meets quarterly and the minutes go to the Chief Executive's Business Committee.

The Review Team notes, as per recommendation 67 above, that NIHE Internal Audit informed the Audit Committee of the outcome of the Health & Safety Audit in 2011.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 69 (Critical Control Recommendation)

We recommend that clear objectives and outcomes be agreed for the proposed Corporate Governance training, against which the exercise will be subsequently evaluated and reported to the Audit Committee and Board. Management should use this exercise to assess both before and after the training, the level of understanding demonstrated by staff of; the seven Principles of Public life, the importance of these ethical standards and the extent to which they impact on their day-to-day work. In preparation for this exercise the Board of the Housing Executive should consider its current Core Values and how these link to the seven Principals of Public Life and whether as a result there is a need to update the organisational Core Values, the Responsible Officer guidance, the Management Charter and induction and management training.

Results

A Governance training programme was developed with input from CIPFA which was delivered to all staff down to Level 5 grade during the period June 2011 and February 2012. The programme covered the 7 Nolan Principles, Conflicts of Interest, Gifts & Hospitality and Sponsorship, Spending Public Money, Role of Board, Chief Executive and Directors and the Framework of Control. The training also included case studies and consolidation exercises.

The Course objectives were:

- Understand and apply the Code of Conduct and best practice in handling conflicts of interest;
- Understand and apply best practice and Housing Executive policies and procedures in relation to Gifts, Hospitality, Sponsorship, handling public money etc;
- Understand the roles and responsibilities of key players (Board, Chief Executive, Chief Executive Business Committee) and the framework of control within which the Housing Executive operates; and
- Identify ways in which the Housing Executive and teams/staff can further embed good governance.

Figures provided by the Learning and Development Manager state that training has been provided to 2451 staff within NIHE with a total 506 staff yet to receive training. Those yet to be trained include relief staff on shift patterns and those on either career break or long-term sick leave. Further training to be completed in September 2013.

A Governance Training evaluation paper was presented to the Chief Executives' Business Committee on 27 February 2012 which advised that end of course consolidation tests were considered to have been successful in getting groups to discuss governance principles in practice, consolidate and apply the learning to their working environment. Scores measured at the beginning of the roll out of the programme and were averaging 85%+.

The NIHE Staff Attitude Survey completed January 2012 with a 75% response rate. The survey included a section on staff's awareness of the Housing Executive's policy and procedures for the first time. Those listed included the Code of Conduct and Acceptance of Gifts and Hospitality. The survey's key findings noted that there were high levels of awareness for the majority of policies and procedures listed with the vast majority of respondents noting they are aware of the 'Acceptance of Gifts and Hospitality' (97%) and the 'Code of Conduct' (96%).

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 70 (Critical Control Recommendation)

There are a number of internal investigations ongoing with the housing executive. On the conclusion of these investigations the board should consider any lessons learned from these investigations that can be used to enhance the control framework of the housing executive. The board should also consider the degree to which results of these investigations provide an insight into the extent to which staff fully understand the seven principles of public life and how they apply to them.

Summary of findings

A paper was prepared by Director of Finance which outlined strategic lessons learned from Counter Fraud Unit and Investigations. This paper identified contract management, verification processes, fraud awareness, and money laundering as areas of note and provided an action plan against which deliverables could be measured. This paper was brought before the NIHE Audit Committee on 5 October 2011. It is noted that there remains no formal process for lessons learned to be advanced from individual investigations.

Conclusion

The Review Team considers that this recommendation has been partially implemented.

Recommendation 71 (Good Practice Recommendation)

The Housing Executive should consider reviewing the current Code of Conduct, to take into consideration issues arising from ongoing investigations and to ensure that the seven Principles of Public Life and the Housing Executive's Core Values are included. Management should ensure that the Code of Conduct makes clear the linkages between the seven Principles of Public Life, the Core Values of the Housing Executive and the guidance contained in the code. Management should conduct qualitative analysis to determine the extent to which staff found the guidance in the Code of Conduct clear and easy to follow and whether staff consider there are other ethical situations that should be covered in the Code of Conduct.

Summary of Findings

A review of the Staff Code of Conduct was undertaken by Management in early 2012 in conjunction with staff and trade unions. A revised Code of Conduct was brought to the Board in April 2012 which was subsequently approved. The Code of Conduct has been published in the Corporate Governance Manual. The Code now outlines the 7 Nolan Principles and the Core values of the NIHE and outlines the requirement for NIHE Officers to abide by the principles and values in the course of their employment.

NIHE Staff were made aware of the revised Code of Conduct in a Personnel Bulletin issued on 3 September 2012. The bulletin draws staff attention to the requirement to adhere to the 7 Nolan Principles and the core values of the NIHE. The Bulletin also outlines the changes made to the earlier version of the code. Each member of staff was also provided with a hard copy of the revised code. The Code of Conduct is available on the Personnel Homepage of the NIHE Portal.

The CIPFA Governance training provided to staff specifically included Code of Conduct and Nolan principles. Staff feedback from the training reflected an increased knowledge of the Code of Conduct and what is expected from staff. Group consolidation exercises completed at the end of training session examined staff knowledge of the Nolan principles and how to assess conflicts of interest. The Staff Attitude Survey completed January 2012 included a section on staff's awareness of the Housing Executive's policy and procedures.

A single unified register for the purposes of recording hospitality, and conflicts of interest has been developed and Personnel Bulletin advised all NIHE staff that this Staff Declaration

Register would be available from the week commencing 17 September 2012. The Review Team confirmed this register is now in place on the NIHE portal and in use by staff.

Conclusion

The Review Team considers that the recommendation has been implemented.

Recommendation 72 (Good Practice Recommendation)

The Housing Executive Internal Audit unit should consider as part of its review of the declaration of interests by Directors, the adequacy of the process by which interests are declared and recorded and to whom this information is currently communicated. Internal Audit should also consider declarations that were previously made by Directors and how this information was used to prevent actual conflicts of interest or the perception of conflicts of interest. The Board and Audit Committee will want assurance that the current process for the declaration of potential or actual conflicts of interest provides a robust framework for the management of potential risks. Consideration should also be given to reviewing the current arrangements by which members of staff make declarations to the appropriate "Designated Officer".

Summary of Findings

NIHE Internal Audit produced a final report on Directors and Board members interests in March 2011. A limited assurance classification overall was given with 11 recommendations for improvement. The Review Team has confirmed that no follow up audit was carried out by the NIHE Internal Audit Unit. The Head of Internal Audit has stated that NIHE Internal Audit does not have a policy of automatically returning to an area of limited assurance within 12 months of reporting previously. He also advised that he "felt that management should be given a period of time to implement these recommendations and that this would be tracked through the routine recommendation monitor process".

The NIHE Recommendations Monitor which is used to track management's implementation of recommendations and is reported on to the Audit Committee was obtained to ensure the recommendations made in the report were being implemented by management. The monitor shows that all but one recommendation has been reported as completed by management.

Given that Internal Audit consider that controls were not operating effectively and have failed to complete any follow-up action in this area to assess whether improvements have been made; this review considers that there is still action outstanding in relation to the recommendation.

Conclusion

The Review Team consider that the recommendation is partially implemented, given that the 2011 audit received a Limited Audit opinion but a follow-up review has not been undertaken. NIHE have advised that an audit of Directors and Board Members interests is underway and will be reported on in January 2014.

Recommendation 73 (Good Practice Recommendation)

In considering the introduction of quarterly assurance reporting the Board of the Housing Executive should ensure that the form of these assurances should serve to demonstrate that managers are held accountable for their decisions and actions, that Directors are held accountable to the Chief Executive and that the Chief Executive is in turn accountable to the Board.

Summary of Findings

An assurance reporting chain has been put in place whereby quarterly assurance statements are completed by Assistant Directors, Directors and the Chief Executive. There is no requirement for grades below Assistant Directors to complete assurance certificates.

Assurance certificates for the quarters ending January and March 2013 were obtained and examined to establish if issues were being appropriately escalated to the Chief Executive. The examination found that there were linkages evident between the matters highlighted in assurance documentation at Assistant Director level, through Director level and to Chief Executive. There is also evidence of linkages from the assurance documents to the key risks in the Divisional and Corporate risk registers.

Conclusion

The Review Team consider that the recommendation has been implemented.

Recommendation 74 (Good Practice Recommendation)

The Housing Executive should ensure that up-to-date information on Customer Complaints is maintained on its Website. The Housing Executive should periodically conduct an audit of the information on its Website to ensure that it contains the most up-to-date information and that information is included on key decisions and actions taken by the Housing Executive.

Summary of Findings

The Head of Secretariat has confirmed that he has a dedicated team of content managers / web editors in place to manage the content of the website

Head of Secretariat has overall responsibility for the updating of web material; web editors are required to liaise with the relevant staff regarding the information on the internet and update information accordingly on a rolling review format

The NIHE website was reviewed to establish if the information on customer complaints was up to date. Under the section headed Complaints the NIHE outline their performance in relation to dealing with complaints. This page was updated on 18th June 2013.

Information is provided on the number and type of complaints received during the period 2011/12 with comparisons made with the period 2010/11 and 2009/10.

Conclusion

The Review Team considers that the recommendation is implemented but noted that the most recent data relates to 2011/12.

Recommendation 75 (Good Practice Recommendation)

Any future training or guidance on good governance or ethical standards should include a description of the seven Principles of Public Life and how these relate to the Core Values of the Housing Executive, and the work of staff. Management should conduct a survey of staff to determine the current level of understanding on the seven principles. The Board should also consider, as part of its annual self assessment process, how both the Board and the Housing Executive as an organisation can demonstrate its commitment to these principles.

Summary of Findings

As per findings of Recommendation 69 the CIPFA governance training provided to staff covered the Nolan principles and how they linked to the Core values of the NIHE. This training

also included an assessment of staff's knowledge of the Nolan principles through the completion of a consolidation exercise.

The Staff Attitude Survey completed January 2012 included a section on staff's awareness of the Housing Executive's policy and procedures. Those listed included the Code of Conduct and Acceptance of Gifts and Hospitality

The Board carried out their first Board Effectiveness review on 14th December 2011. (See Recommendation 10). The Board used the framework recommended by the Governance Review to carry out their effectiveness exercise. The Board Effectiveness questionnaire used to carry out the review asks the Board to consider leadership, culture and behaviour. The Board's response cited the review undertaken of Board and committee governance structures and documents, greater controls around payments and contract management and the provision of governance training for staff putting a greater emphasis generally on good governance throughout the organisation.

The new Chair commissioned an external review of Board Effectiveness and the Board met for a two day "Away Day" session in April 2013 to consider the results and develop a way forward on a number of areas. Another "Away Day" session is scheduled for October 2013.

Conclusion

The Review Team considers that the recommendation has been implemented

Ministerial Work Plan Reference 1

NIHE were asked to consider the ASM Report and provide a detailed response to the Minister on how the issues in the report were being addressed.

Summary of findings

The Review Team notes that the NIHE Chief Executive wrote to the DSD Accounting Officer on 17th April 2013 agreeing to finalise the ASM Report and accepting all the findings and recommendations. The Minister wrote to the NIHE Chair on 9th May 2013 acknowledging that the report had been finalised and asking to be kept informed in relation to further work which the NIHE had initiated in relation to the ASM report findings.

The Minister wrote to the NIHE Chair on 11 September 2013 acknowledging that the NIHE had completed work in response to the ASM Report.

Conclusion

The Review Team considers that this recommendation is implemented.

Work Plan Reference 2 - Performance Measurement Function

In relation to monitoring ongoing performance, ASM identified a suite of reports which could, if collated and reviewed regularly; provide NIHE management with useful information in relation to the performance of both its contractors and Maintenance Officers (MOs). NIHE should consider the establishment of a performance measurement function, either under the auspices of the Repairs Inspection Unit or Internal Audit but independent of Housing and Regeneration, whose role should be to proactively "mine" the data held on the NIHE's systems to identify trends or outliers, which could direct specific further investigations into poorly performing contractors or Maintenance Officers.

Summary of findings

The NIHE has established a performance measurement function under the remit of the Corporate Assurance Unit. The role of the Performance Measurement Officer role is to identify trends based on information relating to contractors and maintenance staff. The function became operational in June 2013. The Review Team confirmed that a number of “Crystal Reports” had already been developed targeting specific issues arising from the initial 2013/2014 inspections undertaken by CAU.

The Review Team were advised that a range of standardised reports are in place for District Maintenance Managers and Area Managers these include reports to identify duplicate payments, numbers of unsuccessful post inspections. The facility to access these Reports is available to Maintenance Staff, Central Maintenance Unit and Corporate Assurance Unit.

The above Reports are currently being used with plans to ensure increased usage. As part of this Central Maintenance have identified areas considered to be of particular risk and the associated codes identified, these will be circulated to relevant Maintenance Managers along with additional guidance on usage. In addition a pilot is currently underway in the Newry Area office around the post of Assistant Contract Manager, this will include the carrying out of risk assessments which will include the running of these Reports on a regular basis.

Conclusion

The Review Team considers that this recommendation is implemented; we welcome the appointment of a Performance Measurement Officer in June 2013 and the further work being undertaken to make use of the standardised reports that have been developed.

Work Plan Reference 3 & 4 – Status of draft 8th round inspection reports; implementation of recommendations made.

11 of the 12 draft reports issued in the 8th round of inspections contained a negative rating and of these 10 remained in draft at end of June 2012. Action to be taken and a regular update on the current status of these draft reports from the Repairs Inspection Unit and the implementation of any recommendations.

Summary of findings

All 8th round inspection reports have been finalised and agreed with management. The Board was informed of the status of the reports in papers date 23 July 2012 and 29 August 2012.

CAU monitor and report on progress towards the implementation of recommendations through the recommendations monitor which is updated and reported to the Audit Committee on a quarterly basis. Recommendations made during the 8th Round of RIU Inspections identified a number of thematic issues relating to the management of response maintenance contracts. Management implemented a four point maintenance improvement plan aimed at identifying the source of failure, providing revised guidance and training to maintenance staff, structural reform of the delivery of landlord services, and investing in new ICT technology to support maintenance staff in carrying out their work.

For the 9th Round of RIU inspections the Unit will offer post review support to maintenance managers to help address any issues that may be identified and in the implementation of any recommendations that may be made.

The Head of Corporate Assurance Unit confirmed that she meets monthly with the Chief Executive to update him on the results of the work of the Unit and an annual summary of the key issues and themes identified by the Unit is presented to the Audit Committee.

Conclusion

The Review Team considers that this recommendation has implemented.

Work Plan Reference 5 – Best Possible Use

The Governance Review 2010 contained a recommendation stating 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”.

As it appears that the “best use possible” has not been made of this Unit or of the information it provides, action should be taken to improve this.

Summary of findings

The Head of CAU confirmed that there has been significant restructuring of CAU since last summer aimed at strengthening its skills set and improving the inspection methodologies used by its various assurance work areas. CAU have been implementing a strategic development plan that was approved by the Board in September 2012. Updates on the delivery of the plan have been provided to the Board. This has involved recruitment to a number of revised and new posts to ensure that the unit had the right people with the right skills to deliver the Unit’s service. Two additional posts have been created with the Unit, a Performance Measurement Officer and a Heating Inspector, and a number of response maintenance inspection posts have been re-graded to reflect the additional skills and expertise now required for the positions. Presently, CAU has three vacancies 1 Grant Inspector, 1 Scheme Inspector & 1 Assurance and Improvement Inspector and additionally seven posts are filled by agency staff.

The Head of Corporate Assurance Unit confirmed that she meets monthly with the Chief Executive to update him on the results of the work of the Unit.

Quarterly update reports on work of the Unit were supplied to the Risk and Performance Committee; following its demise in 2013, the quarterly updates are now presented to the Audit Committee, and an annual paper on the work of the unit goes to the Board. The Review Team obtained a copy of the March 2013 update to the Audit Committee and confirmed that this paper provided an analysis of issues arising out of the 8th round of inspections including a list of key weaknesses such as:

- **Over measurement** - were the quantity of materials paid to contractor is excessive compared to material required/ used;
- **Deemed to be included** – failure of Maintenance Officers to understand procedures material / labour already included in price of jobs leading to contractor being paid for a second time;
- **Duplicate SORs (job codes)** – were the same defects occurring at the same location with 6 months, contractors have a 6 month defect liability. In a number of districts they found that on occasion additional follow-up jobs were issued leading to second payment; and
- **Work not done** – The contractor had claimed for work not done or not required.

The Review Team also obtained a copy of the Annual Report from the Head of the Corporate Assurance Unit that issued to the Board on 23 April 2013. The new Chair has stated that he is content with use made of CAU and has no plans to revise its role.

Conclusion

The Review Team considers that this recommendation has been implemented. However, it is important that the staffing of CAU is kept under review and in particular the high number of Agency staff.

Work Plan Reference 6 – Scheme Inspection Unit (SIU)

It had been identified that there were difficulties in obtaining management responses to Scheme Inspection Unit reports and in particular agreement on the question of measurement and standards. An agreed methodology was to be developed and outstanding issue on contractors making good on defects should be subject to further work by Scheme Inspection Unit.

Summary of findings

The Director of DPS commissioned Personnel & Management Services to carry out a review to identify why DPS staff had indicated that defects had been made good when a later inspection had determined that they had not in fact been addressed. This review made a number of observations in the then inspection process that had allowed for confusion to creep in. In addition DPS staff had placed an over reliance on the word of contractors. A review of the policy, standards and specifications was conducted: SIU and DPS came to a common understanding. The ambiguities that had distorted earlier inspection outcome were addressed.

To deal with the outstanding defects CAU met with Areas and agreed a way forward to resolving the outstanding issues. DPS staff were asked to return to the defects schedule and where practical make good the defects. Of the original 202 defects identified in SIU's follow up inspections 126 were subsequently rectified. Of the remaining 76 defects it was agreed between SIU and the Areas that it was no longer practical to make good 68 defects. 8 defects remain outstanding (7 relate to 1 dwelling) due to difficulty in gaining access to the properties. SIU has reported that it was content with the action taken to make good defects.

A new CAU Scheme Inspection Methodology was approved by the Board on 31/10/12. This included a time-bound reporting process to help to ensure that Final reports were issued in a timely manner. The methodology was "road-tested" and refined in collaboration with DPS. Site reports are signed off by Assistant Director DPS; issues and defects are agreed as Exit Meetings; and draft inspection reports are signed off by Director DPS.

SIU recommendations are monitored quarterly and reported to the Audit Committee. The Director of DPS manages the implementation of recommendations. NIHE have stated that they are content that appropriate action has been taken to address the issues identified and that where practical any defects highlighted in the scheme follow-up inspection 2012 had been completed.

Conclusion

The Review Team consider that this recommendation is completed.

Work Plan Reference 7 – Contractors Closure of Accounts & Work Plan Reference 12 - Overpayments

- (7) **Closure of accounts** - There is an urgent need for NIHE to determine the financial consequences to NIHE. DODPS tasked with identifying the extent of this issue.
- (12) **Over Payments** - NIHE has yet to determine the quantum of overpayment in relation to the Ballynahinch scheme. It important to determine the total amount of overpayments and the total amount to be written off.

Summary of findings

There are 469 schemes in the ECM/Revenue Replacement Programme where accounts needed to be reviewed and closed. The NIHE established a dedicated team of Quantity Surveyors and created the Central Cost Group (CCG) to close out the accounts. 96 accounts had been closed at 25 June 2013 and 373 accounts remain to be closed.

The ECM/Revenue Replacement Programme was delivered by 4 contractors. In July 2012 the Director of DPS wrote to the contractors advising of evidence of overpayments. External chartered surveyors (Moore MacDonald) were engaged to review the work of CCG to provide independent evidence and findings. On 29 May 2013 the Board was advised that the estimated overcharging was £18m representing 10.5% of the total approved contract sum across the 469 schemes. The estimated overcharging related to all 4 contractors.

The Board decided to use the findings from Moore MacDonald's investigations as legal "test cases". On 25 March 2013 a referral for adjudication was served on contractor PK Murphy. The process collapsed when the adjudicator resigned. On 29 May 2013 the Board decided to pursue its claim in the High Court and, in parallel, to continue to engage with the contractor to settle the dispute.

The Review Team noted that in addition NIHE appointed Campbell Tickell *"to identify how substantial overpayments to NIHE planned maintenance contractors occurred."* The Final Report from this review is due by the end of September 2013.

Conclusion

The Review Team considers that this recommendation has been partially implemented.

Work Plan Reference 8 – Chairman's Letters

The Action Plan should cover all the actions and steps communicated in the former Chairman's letters on 21 June 2012 and 29 June 2012 and should also include actions to ensure that Corporate Assurance Unit (CAU) is provided with the full complement of suitably qualified staff to allow it to fully deliver its remit.

Summary of findings

A four point maintenance improvement plan covering the following areas was developed and implemented.

- **Source of Failure** – a programme of intervention visits was delivered to the 16 districts that had received negative ratings as a result of RIUs 8th round of inspections. Improvement Action Plans were developed with the Intervention Team and their implementation was closely monitored by the Intervention Team. At the time of writing 14 of the 16 districts had fully implemented their Action Plans and the Intervention Team was working with the remaining two to finalise their actions to deliver their Plans.
- **Skills/Training Development** - A review of maintenance staff skills and qualifications was carried out and reported to the Board. A training course for maintenance staff, accredited by the Chartered Institute of Housing, was delivered to all relevant staff between December 2012 and July 2013.
- **Structural Issues** - New management structures based upon three Regions delivering housing services through 12 Areas under the command of Area Managers are now operational. New Contract Managers have been appointed working directly to Regional Managers. Their role is to manage the contracts for two Response Grounds and Heating for at least two areas within a region. There are 6 Contract Manager posts (approx. one per two new Areas) and all posts are filled. They are dispersed on a Regional basis as follows: Belfast - 1 Contract Manager; North – 2 Contract Managers; South - 3 Contract Managers.

- **Systems/Technology** – The Response Maintenance Manual is updated on an ongoing basis as a result of, amongst other things, legislation changes, inspection findings and issues raised by maintenance staff. The roll out of Mobile working is being delivered, an initial pilot project was undertaken and rollout it is planned to complete by the end of March 2014. A statistical response maintenance inspection regime is operating throughout the regions and is used to hold contractors accountable for their performance. The results of the inspections are monitored by management and reported to the Audit Committee and Board.

Conclusion

The Review Team considers that this recommendation is implemented. We note, however, that there are still a number of posts in CAU filled with Agency staff.

Work Plan Reference 9 – Governance Review – Revisiting recommendations relating to RIU/CAU

The 2010 Governance Review of NIHE made a number of specific recommendations in relation to the work of the Repairs Inspection Team and the, then, proposed Corporate Assurance Unit. In the context of the actions now being proposed by the Board to address the issues arising in relation to Response Maintenance, and how the Board obtains the information to allow it to challenge Senior Management, it is worth revisiting these recommendations and considering whether with hindsight many of the actions proposed should have been initiated earlier by the Board.

Summary of findings

The specific recommendations relating to the work of RIU and CAU referred to above relate to recommendations 21, 41 and 51 in the original report. All three recommendations are considered implemented.

It should be further noted that the results of CAU's work is now reported to the Audit Committee and annually directly to the Board. The restructuring of the landlord services within Housing and Regeneration Division has addressed the recommendation relating to the performance of one of the districts, and CAU has recently commenced a programme of inspections to provide independent assurance in relation to the delivery of heating contracts.

The Deputy Chief Executive presented a paper to the September 2012 Board meeting in relation to the implementation of the 2010 Governance Review recommendations relating to the work of RIU and the establishment of Corporate Assurance Unit, and the associated lessons learned. The paper outlined the lesson learned as *"a need to place a greater focus on the importance of assurance generally and to implement priorities with greater urgency"*. While there was no specific reference in the report, or in the Board minutes, to the Board considering, with hindsight, whether any of the actions proposed should have been actioned earlier, it was noted in the minutes that Board *"approved the review of the implementation of the governance recommendations associated with the CAU and RIU and the associated lessons learned"*.

Conclusion

The Review Team considers that this recommendation has been implemented.

Work Plan Reference 10 – CAU and Heating Inspections

In the Governance Report 2010, a recommendation relates specifically to the establishment of the Corporate Assurance Unit. This recommendation (number 51), was also earmarked as a critical recommendation and required that:

“The Housing Executive should consider, as part of the establishment of the proposed Corporate Compliance Unit (CAU) how this unit will provide an independent assurance on the adequacy of management controls over Heating Contracts. The Housing Executive should confirm the reason why the Installation, Servicing and Maintenance of heating systems is not undertaken as part of the current functions of Repairs Inspection Unit. Finally, the Audit Committee, which now receives reports from both the Repairs Inspection Unit and Schemes Inspection Unit, should consider how it currently obtains assurance in relation to Heating?”

This recommendation was recorded as completed at June 2011 and then reopened in January 2012 as it had not been fully implemented. In June (2012) the activities of the Corporate Assurance Unit still do not included providing an independent assurance on Heating Contracts and that CAU does not currently have any staff with the necessary training or expertise in this area. Details on how this will be delivered should be provided.

Summary of findings

A gas safe inspector was recruited to CAU in January 2013 and an inspection programme for planned heating schemes has been developed. CAU commenced a programme of inspection covering heating response maintenance in June 2013. Heating inspection findings will be included in the CAU Progress Reports submitted to quarterly to the Audit Committee, next due September 2013. It was noted that NIHE's Internal Audit Department reported in July 2013 on this area of work. The report provided a satisfactory audit opinion in relation the work of CAU specifically that “*a robust system of CAU led technical inspections had been introduced in relation to Heating and All Trades Response Maintenance services*”.

Conclusion

The Review Team considers that this recommendation has been implemented.

Work Plan Reference 11 – Report Timeframe for Reports

The new reporting protocols are welcomed, however, in order to ensure that the target timescales are fully complied with, CAU should develop report clearance targets and report performance against the target to each Risk and Performance Committee meeting. Further, the Schemes Inspection Unit should define timeframes for each stage of the inspection process and address these with Design and Property Services.

Summary of findings

Protocols covering the reporting process for Response Maintenance Inspections, Planned Schemes Inspections and Heating Response Maintenance Inspections have been developed that outline targets for reporting process, however records of performance against these targets are not maintained nor reported on.

Conclusion

The Review Team considers that this recommendation is partially implemented. Whilst CAU has developed report clearance targets it does not report performance against the targets. NIHE has advised that it is envisaged that CAU will report performance against targets to the January 2014 meeting of the NIHE Audit Committee and then all subsequent meetings.

Work Plan Reference 13 & 14 – Investigation

NIHE should expeditiously conclude the investigation on the possible withholding of information from the Audit Committee, specifically:

13. Nine months has elapsed since it was reported that the inspection findings on quality and cost had been reported by inspection staff but that the report had been modified “to both reduce the impact of the quality findings and to remove all reference to overcharging” before it was submitted to the Audit Committee. This matter has yet to be formally investigated.
14. The financial implications that have resulted from this action are significant and this information should have gone to the Audit Committee in June 2010. NIHE should expeditiously conclude its investigation on the possible withholding of information from the Audit Committee.

Summary of findings

Following the Ministers letter of 4 July 2012 the NIHE Chairman (Acting) instructed the Director of Corporate Services to carry out an investigation. An investigation was performed by the Head of Internal Audit and a final draft report dated 31 October 2012 was issued. A special “in camera” Board meeting was held on 31 October 2012 to discuss the final draft report. Between 31 October and 1 December 2012 the Board made a decision to recruit an external HR consultant to review the conclusion of the HIA's report. An oversight group consisting of three Board members oversaw the external HR consultant's review. The Report has been finalised and a copy has been provided to the Department.

Conclusion

The Review Team considers that this recommendation has been completed.

Work Plan Reference – 15 & 16 – Contract Management Analysis and Intervention Team

15. A regular update on all current contract management arrangements should be provided to the Board and to the Department.
16. A regular report on the work of the Intervention Team should be provided to the Board and the Department.

Summary of findings

A paper reporting on performance on all parts of contract management on planned and response maintenance is provided to each Board meeting and a copy of this report is included in the copy of the Board papers supplied to the Department.

A periodic update on the work of the Repairs Maintenance Intervention Team is also provided to the Board and similarly copies of the report are also included in the Board papers supplied to the Department. We noted that the update to the Board in June 2013 reported that the Intervention Team had visited all of the 16 districts that had been awarded negative assurance ratings in the 8th round of inspections.

The establishment of Intervention Teams was a specific response to the issues relating to the 8th round of inspections. As part of the new processes developed for the 9th round of inspections, CAU now provide a post inspection support function, to Districts. This superseded the role of the intervention team and serves a similar purpose of helping the districts resolve issues.

Conclusion

The Review Team is content that the recommendation has been implemented.

Work Plan Reference 17 – Draft Internal Audit/CAU Reports

All draft Internal Audit/CAU Reports (to be sent to the Department) along with a timetable to ensure reports are agreed and recommendations implemented immediately.

Summary of findings

The Review Team confirmed that all draft NIHE Internal Audit and CAU reports were supplied to the Department. Protocols governing the reporting process for reports and outlining targets for reporting process are in place for both CAU and Internal Audit Reports which ensure Department is copied into future reports.

Conclusion

The Review Team considers that this recommendation has been implemented.

Work Plan Reference 18 – Monthly Accountability Meetings

DSD/NIHE to organise monthly meetings and agenda.

Summary of findings

The Department holds Monthly Accountability Meetings with the NIHE attended by the Secretary and the Chief Executive the agenda for these meetings are agreed.

Conclusion

The Review Team considers that the recommendation has been implemented.

Work Plan Reference 19 – Failings, Culture, Practice

Board to critically analyse how failings occurred including what was the culture/practice that allowed this to happen and continue for so many years

Summary of findings

The Board discussed these issues at its August 2012 meeting and a letter, dated 4 September 2012, was sent from the acting Board Chair to the Minister outlining the Boards assessment of how the failings occurred and how the culture and practice of the organisation was changing in light of past experiences. The Review Team also noted that further detail on the underlying issues relating to overpayments on Planned Maintenance/ Schemes was reported by the Chief Executive in his paper “Addressing the Deficiencies in Response and Planned Maintenance”, 29 May 2013. This paper identifies four “generic issues that have contributed to our problems” these were;

- **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.”

Conclusion

The Review Team considers that the recommendation has been implemented.

NIHE Response to Follow up Review of Governance Report

Housing
Executive

Chairman Donald Hoodless OBE

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Will Haire
Permanent Secretary
Department for Social Development
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Ormeau Road
Belfast BT7 2JB

7th March 2014

Dear Will

REVIEW OF GOVERNANCE IN NIHE – FOLLOW-UP REPORT

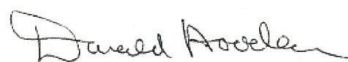
Governance in the Northern Ireland Housing Executive Follow-up Report was completed by DSD in November 2013 and issued to NIHE on 10th February 2014.

This report set out the key findings against each of its 3 objectives and made a requirement for NIHE to consider the report and take forward the following actions:

- 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;
- Provide an update on what actions are being taken to address the cultural issues; 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.

The NIHE review of the findings and actions laid out in the DSD Review of Governance in the Northern Ireland Housing Executive Follow-up Report has now been completed and is attached for your attention together with the Internal Audit Validation report.

Yours sincerely



Donald Hoodless
Chairman



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NIHE INTERNAL AUDIT DEPARTMENT



INTERNAL AUDIT DEPARTMENT

INTERNAL AUDIT VALIDATION

**OF REPORTED PROGRESS IN COMPLETING
OUTSTANDING DSD GOVERNANCE RECOMMENDATIONS**

5 March 2014

Report	March 2014
Completed by HIA	John McVeigh

FINAL

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FINAL

NIHE INTERNAL AUDIT DEPARTMENT

INTERNAL AUDIT VALIDATION OF REPORTED PROGRESS IN COMPLETING OUTSTANDING DSD GOVERNANCE RECOMMENDATION (5 MARCH 2014)

1. INTRODUCTION

- 1.1. The Permanent Secretary (DSD) wrote to the NIHE chairman on 10 February 2014 to advise on the conclusions to a follow-up review, which had been completed in November 2013, of the 2010 Review of Governance in the NIHE.
- 1.2. Included within this letter was a requirement for NIHE Internal Audit to carry out a validation of completion of all outstanding recommendations/ actions.

2. METHODOLOGY FOLLOWED BY INTERNAL AUDIT

- 2.1. The validation process followed by Internal Audit was as follows:

- Identify scope of reported progress;
- Provide a validation assurance opinion;
- Report on non-compliance, if any identified.

3. PROGRESS REPORTED BY NIHE ON RECOMMENDATIONS COMPLETE

- 3.1. In Section 4 of NIHE's "Response to November 2013 Follow Up Report (March 2014)", the following progress was reported:

3.2. Critical Control Recommendations

DSD advised that at the date of their follow up review in November 2013, 4 Critical Control Recommendations were outstanding.

Internal Audit can confirm progress on these as follows:

- Recommendation 30 – Partially implemented – Due for completion upon confirmation from DSD;
- Recommendation 56 – Partially implemented – Due for completion August 2014;
- Recommendation 70 – Partially implemented – Due for completion June 2014;
- Recommendation 25 – No longer deemed relevant.

3.3. Good Practice Recommendations

DSD advised that at the date of their follow up review in November 2013, 21 Good Practice Recommendations were outstanding.

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Internal Audit can confirm progress on these as follows:

- Implemented in full – 10;
- Partially implemented – 10;
- Not implemented – 1.

Projected completion date – December 2014.

3.4. Work Plan Actions

DSD advised that at the date of their follow up review in November 2013, 3 Work Plan Actions were outstanding.

Internal Audit can confirm progress on these as follows:

- WPA 7 – Partially implemented.
- WPA12 – Partially implemented.
- WPA 11 – Partially implemented. Due for completion April 2012.

Completion date for WPA 7 and WPA12 is dependent upon the outcome of on-going negotiations.

4. MAIN FINDINGS

- 4.1. On the basis of the Validation Review set out in Annex A, Internal Audit is content to confirm the accuracy of reported progress in implementing outstanding recommendations/actions listed in paragraphs 3.2 – 3.4 above.

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ANNEX A: VALIDATION – WORK DONE

CRITICAL CONTROL RECOMMENDATIONS			
Number	Status at 10 Feb 2014	NIHE Response	Internal Audit Validation Opinion
No. 25	Not implemented.	No longer deemed relevant.	Confirmed. Addressed by new reporting protocols, issued by NIHE Chief Executive to Head of Internal Audit, and implemented since 15 Jan 2014.
No.30	Actions broadly in line with recommendations.	Partially implemented.	Confirmed.
No.56	Partially implemented.	Partially implemented.	Confirmed. Awaiting NIHE Workforce Plan, due for Board Presentation in March 2014.
No.70	Partially implemented.	Partially implemented.	Confirmed. Due for completion June 2014.

GOOD PRACTICE RECOMMENDATIONS			
Number	Status at 10 Feb 2014	NIHE Response	Internal Audit Validation Opinion
No.6	Partially implemented.	Implemented.	Not confirmed. Document not due for presentation to NIHE Board until March 2014.
No.10	Partially implemented.	Partially implemented.	Confirmed.
No.11	Partially implemented.	Implemented.	Confirmed. As per NIHE Chairman comments.
No.14	Partially implemented.	Implemented.	Confirmed.
No.15	Partially implemented.	Implemented.	Confirmed.
No.19	Partially implemented.	Implemented.	Confirmed.
No.20	Partially implemented.	Partially implemented.	Confirmed. Document due for presentation at June Board.
No.22	Partially implemented.	Implemented.	Confirmed.

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No.28	Partially implemented.	Partially implemented.	Confirmed. Final validation will await completion of Internal Audit review of Economic Appraisal activity in 2014/2015.
No.29	Not implemented.	Partially implemented.	Confirmed. Recommendation will be actioned on completion of the Internal Audit Governance review in 2014/2015.
No.34	Not implemented.	Implemented.	Confirmed. CAU have assumed the role of Land and Property Inspection Unit and a work programme has commenced.
No.37	Partially implemented.	Partially implemented.	Confirmed.
No.38	Partially implemented.	Implemented.	Confirmed.
No.48	Not implemented.	Implemented.	Confirmed. Based on the performance monitored by KPI, this recommendation is now complete.
No.54	Not implemented.	Not implemented.	Confirmed.
No.57	Partially implemented	Partially implemented.	Confirmed.
No.60	Partially implemented	Partially implemented.	Confirmed.
No.61	Partially implemented	Partially implemented.	Confirmed.
No.62	Partially implemented	Partially implemented.	Confirmed.
No.65	Partially implemented	Partially implemented.	Confirmed.
No.72	Partially complete.	Implemented.	Confirmed. Internal Audit review completed in January 2014.

WORK PLAN ACTIONS

Number	Status at 10 Feb 2014	NIHE Response	Internal Audit Validation Opinion
WPA 7	Partially implemented.	Partially implemented.	Confirmed.
WPA 12	Partially implemented.	Partially implemented.	Confirmed.
WPA 11	Partially implemented.	Partially implemented.	Confirmed.

Northern Ireland **Housing**Executive

REVIEW OF GOVERNANCE IN THE NORTHERN IRELAND HOUSING EXECUTIVE

RESPONSE TO NOVEMBER 2013 FOLLOW-UP REPORT

MARCH 2014

Contents

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1.0 INTRODUCTION

- 1.1 In November 2013 the Department for Social Development's Head of Internal Audit had undertaken a review of the implementation of the recommendations made in the 'Review of Governance in the Northern Ireland Housing Executive' as reported in December 2010.
- 1.2 The Follow-up review sought to establish the progress made in implementing the recommendations and actions outlined in the 2010 report and Work Plan referred to above:
1. To consider the actions taken in relation to the implementation of recommendations made in the Review of Governance in the Northern Ireland Housing Executive that reported in December 2010 and to determine the progress made in implementing those recommendations;
 2. To consider the actions taken in relation to the implementation of the actions outlined in the Work Plan relating to the special accountability measures developed in response to the Minister's letter dated 4th July 2012 and to determine the progress made in progressing the actions; and
 3. 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.

2.0 Conclusion from November 2013 Follow-up review

2.1 The review of Governance in NIHE – Follow-up Report was completed and issued to the NIHE on the 10th February 2014.

2.2 The Follow-up report set out the key findings against each of the three objectives and made the following conclusions in relation to the 3 objectives:

1. Two thirds of the 75 recommendations had been implemented but work remains on fully implementing the final third.
2. Three actions in the Work Plan 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.
3. 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.

3.0 NIHE Response

3.1 In order to complete their follow-up review the review team required NIHE to consider the report and take forward the following actions:

- 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;
- Provide an update on what actions are being taken to address the cultural issues: 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.

4.0. Implementation of outstanding recommendations

- 4.1 NIHE reviewed the findings and conclusions in the report and found that of the 4 Critical control recommendations, 3 remain partially implemented (30, 56 and 70) all to be implemented in full by August 2014.

With regard to critical control recommendation 25 NIHE is of the opinion that this recommendation is no longer deemed relevant as a result of the implementation of a recommendation from the Campbell Tickell Report. This recommendation required a review of the paper submission process and the clarification of connections between the Committee Chair, The Head of Internal Audit, Director of Finance and Chief Executive in relation to papers.

To address these actions a revised process for submission of papers was drawn up and submitted to the ARAC on 15th January 2014.

The new submission protocols for all Internal Audit and Corporate Assurance Unit papers is they will no longer be submitted to the ARAC via CXBC, but shall be signed off by the HIA and CAU respectively. This process should ensure that all audit reports shall be brought to the ARAC's attention.

- 4.2 With regard to the 21 outstanding Good Practice recommendations NIHE reviewed the findings and conclusions in the report and found that 10 of these have now been implemented in full, with 10 partially implemented and 1 not implemented. NIHE envisage that all partially and non-implemented recommendations will be implemented in full by December 2014.
- 4.3 Work Plan actions 7 and 12 remain to be partially implemented as a result of on-going negotiations with the Contractors. Work Plan action 11 will be implemented in full by April 2014.

5.0 Actions to address the cultural issues

- 5.1 In order to address the cultural issues, that could be seen in Response maintenance NIHE has adopted an organisation wide approach through a transformation plan entitled 'Our Journey to Excellence'.

The Housing Executive have initiated a major transformation programme the vision for which is to ensure that we deliver top class regeneration and housing solutions in all that we do (internally and externally), 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. The Journey to Excellence programme will aim to ensure consistent approaches to business, customer and people excellence – the “golden threads” that should run through the whole Housing Executive

Staff will play a key part in the delivery of the transformation programme including in the review and redesign of the services they deliver. The first stage of delivery is to outline the drivers for change and vision for the journey to excellence, including their responsibilities to all staff. The aim is to engage positively with staff and encourage them to contribute to the achievement of excellence. Sessions are being held for all staff with the Director of Transformation to launch the journey to excellence. These sessions commenced in mid-February and will continue until the end of April.

6.0 Conclusion

- 6.1 NIHE Internal Audit have carried out a validation exercise to quality Assure the completion of all outstanding recommendations and Work Plan actions. On the basis of this review NIHE Internal Audit unit was content to confirm the accuracy of the reported progress in the implementation of the outstanding recommendations and actions as advised by DSD on 10th February 2014.
- 6.2 NIHE envisages that all partially and non-implemented recommendations will be implemented in full by December 2014.

Appendix A: Detailed Responses by Recommendation

Recommendation 6 (Good Practice Recommendation)

The Board should agree a schedule which sets out when all current policies and strategies should be reviewed, including monitoring arrangements to ensure that this happens at the appropriate time.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented as the Board has not yet been informed on progress against the Schedule since its introduction in May 2012.

NIHE Response

Implemented:

The schedule will be updated annually and a report on proposed policy reviews for the coming year will be brought to the March 2014 Board for approval.

8

Recommendation 10 (Good Practice Recommendation)

Board Members' Appraisals for 2009/2010 should be referred to the Secretariat to compile an overall summary of Board Members' responses for presentation to the Board for discussion in order to discharge the requirement for an annual review of Board performance. In terms of the review of Board Effectiveness, Management may wish to explore with the Board the use of a good practice framework such as the one contained in the HM Government Publication *'Doing the Business Managing Performance in the Public Sector- An External Perspective'* to facilitate a structured approach for discussions amongst the Board as a whole.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented. It is clear that reviews of Board effectiveness have taken place most recently in April 2013. However, the audit trail for the submission and discussion of the annual summary of Board appraisals in 2009/2010 – 2010/2011 is weak with no formal record maintained in the Board minutes and in the case of 2011/2012 there was no record of the summary going to the Board.

NIHE Response

Partially Implemented

Revised Timescale for completion: Discussions are ongoing with the Chairman in relation to the next effectiveness review which is scheduled to take place at the Board away Day event 29th /30th April 2014.

An overall summary of Board Members appraisals for 2009/10 was, as recommended, prepared and submitted to the Board retrospectively on 30th March 2011. Due to subsequent staff and Chair changes, appraisals were carried out, but the outcomes were submitted directly to DSD and not through the Board. The next appraisals are due to be undertaken in June 2014. The process will ensure that once complete, a summary of Members' comments will be submitted to the Board for discussion and to DSD.

The Board last underwent an effectiveness review facilitated by Deloitte in April 2013. Deloitte's report and a covering Board paper were submitted to the Board on 29th May 2013 followed by a Forward Work Plan paper on 31st July 2013. Discussions are

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ongoing with the Chairman in relation to the next effectiveness review which is scheduled to take place at the Board away Day event 29th /30th April 2014.

10

Recommendation 11 (Good Practice Recommendation)

The Board may wish to consider in consultation with the Senior Management Team, a broader role for the Board Secretariat.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has only been partially implemented. The role of the Secretariat has been reviewed but the proposals submitted to the June 2012 meeting of the Chief Executive Business Committee have not been implemented. The Review Team however, takes assurance from the current Chairs view that the secretariat is doing what he asks and expects it to do.

NIHE Response

Implemented.

The role of the Board Secretary has been reviewed and as a consequence of these reviews changed to take on more governance functions. The role of the secretary was also considered by the current Chairman who has said he is happy with the current arrangements.

The proposals that were submitted to CXBC in June 2012 related to wider staffing arrangements within Secretariat although the paper took into account the expanded role of the Board Secretary it was not directly related to the governance review. The CXBC supported a split between the duties of the board secretary and a meetings secretary.

11

Recommendation 14 (Good Practice Recommendation)

The current Audit Committee Terms of Reference should be reviewed with specific consideration given to publication on the Intranet and Internet; determining a definitive time frame for review of the Terms of Reference and documenting this; inclusion of names of Audit Committee Members, their role and date of appointment; reformatting the layout of the Terms of Reference to bring it into line with the Audit Committee Handbook; and include a requirement for the Audit Committee to advise the Board and the Accounting Officer on Anti-Fraud policies, Whistle blowing procedures and arrangements for special investigations.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented. While the Terms of Reference of the Audit Committee was subject to review we noted that the versions published are out of date and need to be updated. NIHE have advised that the version on the website will be updated following the current review of the Audit and Risk Assurance Committee Terms of reference

NIHE Response**Implemented:**

The Terms of Reference of the Audit Committee has been reviewed and updated. These were published on the NIHE website in February 2014.

12

Recommendation 15 (Good Practice Recommendation)

Formal performance appraisal arrangements for (Audit) Committee Members should be developed and implemented as soon as possible.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has only been partially implemented. While evidence examined supports that appraisal arrangements are in place, we noted that these have not been applied consistently across the last three years. The failure to complete the review process in 2011/2012 is of concern.

NIHE Response**Implemented:**

A Formal performance appraisal arrangement for (Audit) Committee Members was developed and completed on 9th October 2013. This process was reported to the NIHE Board through the ARAC Chair's report to the Board (Board Paper no: P627/10(5)), and subsequently to the ARAC on the 15th January 2014.

13

Recommendation 19 (Good Practice Recommendation)
The Audit Committee should conduct an annual evaluation of its performance using the National Audit Office Committee self-assessment checklist.
DSD Review Team Conclusion as at Nov 2013
The Review Team considers that the recommendation is only partially implemented; while there is evidence that the NAO self-assessment checklist has been used to inform the review of the Audit Committee, it is our opinion that this has not been undertaken in a structured manner and that the failure to formally complete the checklist has weakened the overall process. The Secretariat should ensure that the self-assessment checklist is fully completed and retained as part of the current years review.
NIHE Response
Implemented
The Annual evaluation of Audit Committee performance was undertaken on 9 th October 2013. The checklist was completed in full and is retained on file. This process was reported to the NIHE Board on 26 th January 2014.

14

Recommendation 20 (Good Practice Recommendation)
The annual Audit Committee report should include: a summary of the findings of the Audit Committee; details of membership and attendance of members at meetings; confirmation of any conflicts of interest; an opinion on the quality of the audit service; details of the outcome of the review of the effectiveness of the committee; training plans and / or training completed by members; a comment on the effectiveness of the relationship between internal and external audit and details of any changes to terms of reference.
DSD Review Team Conclusion as at Nov 2013
The Review Team considers that the recommendation has been partially implemented as not all aspects of the recommendation have been included in the Annual Report. In particular it is important that the report includes a reference to the declaration of any conflicts of interest.
NIHE Response
Partially Implemented
Revised timescale: The annual ARA Committee report will be completed as required to include a reference to the Declaration of Interest, and will be reported to the Board Meeting in June 2014.

15

Recommendation 22 (Good Practice Recommendation)

A formal induction checklist should be developed for all new committee members, tailored to their specific needs. An annual development plan should also be developed to enhance performance.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation is only partially implemented. It is noted that NIHE do provide induction training and audit specific training as required to audit committee members. However, the recommendation specifically cites that an induction checklist and annual development plan should be developed and NIHE have now advised that this will be tabled to the Audit and Risk Committee for approval.

NIHE Response**Implemented**

Formal Induction checklist and development plan was developed and approved by ARAC 9th October 2013.

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Recommendation 25 (Critical Control Recommendation)

The Board should seek clarification as to why the draft audit report in 2007 raising issues on land disposal, and particularly the need for economic appraisals was never finalised or brought to the audit committee's attention. This is despite the risk of this happening in the future being lower now that the audit committee is monitoring the progress of all draft reports through to their final stage and the assurance reportedly provided to the chair of the audit committee that the responsible division is now in the process of developing and implementing economic appraisals proportionate to the scale of each land sale.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has not been implemented.

NIHE has commented that the matter was discussed at "Senior Management Team and at the NIHE Audit Committee in December 2010. At the Audit Committee in December 2010 the then CX was asked for an explanation why this was not brought to committee in 2007." NIHE have also stated that the current protocols for draft Internal Audit reports should ensure that this does not happen again and Land Disposal procedures have been overhauled and their confidence around the control environment is high.

NIHE Response**No longer deemed relevant**

The Campbell Tickell Report made a number of recommendations in relation to governance within the NIHE both in relation to the Board and the ARAC. One of the recommendations was for a review of the functioning and remit of the ARAC, the reporting lines to it, autonomy and integrity. Additional actions recommended the review of paper submission process and the clarification of connections between the Committee Chair, The Head of Internal Audit, Director of Finance and Chief Executive in relation to papers.

To address these actions a revised process for submission of papers was drawn up and submitted to the ARAC on 15th January 2014.

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The new submission protocols for all Internal Audit and Corporate Assurance Unit papers is they will no longer be submitted to the ARAC via CXBC, but shall be signed of by the HIA and CAU respectively. This process should ensure that all audit reports shall be brought to the ARAC's attention.

18

Recommendation 28 (Good Practice Recommendation)

As Economic Appraisal is a critical control, the Chief Executive and the management team should also consider the oversight arrangements in place for Economic Appraisals and factor this into their development of assurance reporting arrangements.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has not been implemented. Northern Ireland Housing Executive is currently reviewing their arrangements in relation to production and supervision of economic appraisals but have no specific requirement exist to provide assurance in regard to appraisals. The Review Team noted that NIHE Internal Audit had not undertaken a specific review of Economic Appraisals.

NIHE Response

Partially Implemented

Revised timescale for Implementation: June 2014

No specific reviews have been carried out on the Economic Appraisals process during 2013/14. The follow up audit on Land Disposals, carried out in September 2013, reviewed the Economic Appraisal process within the Land & Property Division in relation to land transactions.

Internal Audit will liaise with the Director of Finance to determine how best Internal Audit can assist in this regard. This includes possibly carrying out a planned audit of Economic Appraisals during 2014/15.

19

Recommendation 29 (Good Practice Recommendation)

We would recommend that internal audit adopt the framework approach currently used by the department's internal audit service to ensure comprehensive coverage of governance areas.

DSD Review Team Conclusion as at Nov 2013

The Review Team consider that this recommendation has not been implemented as although the NIHE Internal Audit has adopted the framework developed by the Department for audits of governance this has not yet been used.

NIHE Response**Partially Implemented**

An audit of Governance will be included within the 2014/15 Internal Audit plan, to be agreed by Audit & Risk Assurance Committee. The DSD framework will be used for this assignment.

20

Recommendation 30 (Critical Control Recommendation)

The Housing Executive should also undertake a complete review of its risk management arrangements, this review should: bring the current risk management arrangements into line with the department's policy and risk register format; ensure that all significant risks have been escalated to the corporate risk register; ensure that the current documented risks are still relevant and appropriate and if any new risks need to be added to risk registers; ensure compliance with the HM treasury orange book on articulation of cause and consequence / impact and managers should be assisted to understand the process; introduce a regular assurance reporting process on the management of risks, aligning this with the earlier recommendation on developing a formal quarterly assurance reporting system; ensure that risk registers record the name and role of the risk owner; and include a timetable for reviewing corporate and divisional risk registers, ensuring that the evidence of reviews are recorded and maintained with the register.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the actions taken are broadly in line with the recommendation. However, we noted that NIHE still transcribe the information in their Corporate Risk Register into the format used by the Department before sending this each quarter. The Review Team also notes that the new Chair of the Board considers that "the Corporate Risks Registers did not reflect the risks from the Boards perspective and that there was further work to do on risk registers", this recommendation is therefore considered partially implemented.

NIHE have commented that the "Corporate Risk Register has been produced both internally and for the NIHE Board and externally for DSD in DSD format since early 2012. We do acknowledge that the Divisional and operational Risk Registers are in a slightly different template. NIHE Risk registers are designed with a view to enable stakeholders and risk owners to better understand and manage the risks at this level".

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NIHE Response
Partially Implemented
CAU facilitated a Board risk workshop to refresh the CRR, the register is presented to Performance Review Committee monthly and the ARAC and Board quarterly. The actual format of the CRR includes all the information required by DSD but in addition provides risk causes, this has been verbally discussed with DSD. Written confirmation indicating agreement is awaited from DSD.

22

Recommendation 34 (Good Practice Recommendation)
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.
DSD Review Team Conclusion as at Nov 2013
The Review Team considers that this recommendation has not been implemented as CAU has not yet undertaken reviews of Land & Property. NIHE has advised that deferred work from the 2012/13 programme on House sales and SPED re-sales has now commenced.
NIHE Response
Implemented
As part of the 2013/14 Assurance Programme, CAU have completed planned reviews of House Sales and SPED re-sales. Moving forward, further Land and property inspections will be included in the CAU Assurance Programme for 2014/15.

23

Recommendation 37 (Good Practice Recommendation)

The rationale for the classification given to each site on the Undeveloped Land Schedule should be formally documented detailing the decision making process used. Land and Property Centre should look to establish a robust challenge function to the information provided to support the classification given to sites. As part of this management should consider looking again at the issue of Economic Appraisals raised by the Housing Executives Internal Audit Function.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented, given that the completion of Economic Appraisals for all sites held on the Undeveloped Land Schedule is still on-going.

NIHE Response**Partially Implemented**

Revised Timescale for implementation: 34 are now complete with remaining 92 programmed to be completed by September 2014
EA's for all sites ongoing as follows:

As at 24/2/14 there are **201** sites on ULS (this can vary pending date re sales & site identification)

49 sites programmed for SHDP

26 Retained for Future Use pending strategic review

126 Require EA to determine to retain or declare as surplus

24

Recommendation 38 (Good Practice Recommendation)

Performance against the Managing Public Money (NI) requirement to dispose of surplus land within three years should be reported to management and the Board. A formal strategy for ensuring that assets are disposed within three year period as stated in Managing Public Money (NI) should be considered.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation is partially implemented given that reporting against the Managing Public Money (NI) 3 year rule only commenced during 2013 and that the review of disposal strategies for each site is still a work in progress.

NIHE Response**Implemented**

NIHE are of the opinion this requirement is implemented as Performance against the Managing Public Money (NI) requirement to dispose of surplus land within three years is reported management and the Board on a bi-annual basis. The biannual updates on the current status of NIHE owned sites which have not been sold within 3 years of being declared surplus as recommended by Managing Public Money Northern Ireland (MPMNI). These reporting arrangements are in line with both Internal Audit and Department for Social Development Governance Review recommendations.

The Board was presented with a bi-annual paper in Feb 2013 and Oct 2013 with an update on sites on market for more than 3 years. The October 2013 board paper also included our formal disposal strategy going forward and we now list the disposal method on each site within the EA. The next Board update will be May 2014 and the Programme for ULS sites will be completed

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Sept 2014. Technically the starting point for these sites was the date of the new governance arrangement i.e. EA approval with a 3 year window to dispose. The 34 sites highlighted in the Oct 2013 paper are sites on the market prior to the EA implementation. They now have their EA however we are reporting on retrospective marketing.

The review of the disposal strategy for each relevant site is now included as part of the economic appraisal process. The outcome of the review of the disposal strategy will be submitted to the Chief Executive's Business Committee on an individual site basis with an appropriate recommendation for disposal

26

Recommendation 48 (Good Practice Recommendation)

The Housing Executive should ensure that a printout is obtained from the Housing Management System showing all "Emergency" and "Urgent" jobs that are greater than one month overdue and all Routine Jobs that are greater than two months overdue. At the monthly divisional performance meeting the director of Housing and Regeneration should seek an explanation for why specific jobs have not been completed. An overview of maintenance jobs overdue should be provided to the Performance Review Committee, chaired by the Director of Corporate Services Division.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has not been implemented.

NIHE Response

Implemented

This issue was addressed and bettered in the new response maintenance contracts. KPI 5 measures jobs that are not keyed onto HMS within 5 days of being due for completion. The KPI is governed by the contract and failure is addressed at the monthly contractor performance meeting by:

- Applying damages against the contractor for failed KPIs;
- Requesting an action plan from the contractor to address the failure and prevent it re-occurring;
- Monitoring of the action plan; and
- Escalation to Regional Manager, Director of Landlord Services and Board as appropriate.

The KPIs are reported monthly to the Board with failures and damages explained by narrative.

27

Recommendation 54 (Good Practice Recommendation)

In the case of two of the large Revenue Replacement schemes selected, the Review Team noted that the Final Reconciliation report was not on file. The Review Team was advised that Final Reconciliations were due, pending the resolution of an outstanding issue with the contractors regarding payment for the disposal of "gypsum". The Housing Executive should ensure that this issue is resolved as quickly as possible and that Final Reconciliations are completed.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation is not implemented, but note that action has been taken to try to resolve the issue.

NIHE Response**Not Implemented**

Negotiations around potential overpayment on schemes from January 2008 to July 2012 are subject of negotiations between the Housing Executive and the planned maintenance contractors. The agreement or otherwise of "compensation events" on these earlier schemes will impact on the reconciliation of schemes from July 2012 to present. The contractors are reluctant to close these latter schemes until the outcome of the earlier negotiations is known.

It is hoped to complete the negotiations by the end of March 2014 which will allow closure on the latter schemes to be achieved on a scheme by scheme basis. Some schemes are still live on site and will carry on for the next few months before financial reconciliation can be achieved. For this reason the recommendation will not be achieved until December 2014.

28

Recommendation 56 (Critical Control Recommendation)

The Review Team recommends that the housing executive's manpower plan should be broadened to include strategic workforce planning; a formal succession plan for all key posts should be developed and agreed with the board.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented, succession planning is not complete and the Board has not agreed a formal succession plan, however, the strategic context has also changed and the Board does not see succession planning as being as critical a risk as it was previously.

NIHE Response**Partially Implemented**

Revised Timescale for completion: It is anticipated that the HR Programme will complete August 2014.

The common themes to emerge from these recommendations were Succession Planning and Staff Rotation.

Workforce Plans were developed for 2011/12, 2012/13, and 2013/14. This aspect of the recommendation was considered completed. The recommendation also included reference to Succession Plans. In this respect, the Divisions completed 'Succession Plans' at March 2013 setting out key issues in terms of succession in the respective Divisions. The Plans also reviewed the need for Staff Rotation within the Divisions.

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An updated Workforce Plan will be presented to the Board in March 2014. The Plan will set out the context for Succession planning within the NIHE in terms of the workforce profile now and the manpower planning actions required to meet the needs of the organisation as the NIHE embarks on its 'change programme' – Journey to Excellence.

The Workforce Plan will be accompanied by a HR Programme which will set out a series of improvements to our HR processes including Performance Management and Learning Development, which will inform our approach to succession planning going forward.

30

Recommendation 57 (Good Practice Recommendation)

All key human resources strategies, (the people strategy, the learning and development strategy, the workforce plan, the succession plan and the change management strategy etc) should be developed in line with the timescales for the corporate and business planning cycle and be agreed by the board. There should be clear and consistent linkages between the corporate and business plan and proposals in the supporting human resources strategies which should be explicit on how they will lead to improvement in outputs from staff.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented. However it is noted that some strategies and plans remain at the planning phase and have not been finalised.

NIHE Response

Partially Implemented

Revised Timescale for Implementation: As Per NIHE response to Recommendation 56

31

Recommendation 60 (Good Practice Recommendation)

The Housing Executive should ensure that the assurance of human resources systems is strengthened. Personnel and management service division should review risks relating to human resources to ensure all risks are identified, assessed and escalated as appropriate to the corporate risk register, such risks to include learning and development, leadership development, key competencies, workforce and succession planning and managing governance.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented. We noted that an Assurance reporting process is in place, it is however, noted that succession planning appears on both the Corporate and Divisional Risk Registers but that no codified succession plans are in place.

NIHE Response**Partially Implemented**

Revised Timescale for Implementation: As Per NIHE response to Recommendation 56

32

Recommendation 61 (Good Practice Recommendation)

The Housing Executive should review and agree its priorities for employee resourcing and review its policy for appointments and promotions to consider extending the use of external recruitment. It should review and update arrangements to support organisational and cultural development. It should also agree a policy on staff rotation and maintain records on the rationale and decisions for appointments, transfers and movement of staff.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented as NIHE has reviewed its recruitment policy and has opted to continue with their current policy with regard internal v external appointments. We also note that formal rotation plans have not been developed.

NIHE Response**Partially Implemented**

Revised Timescale for Implementation: As Per NIHE response to Recommendation 56

33

Recommendation 62 (Good Practice Recommendation)

The Housing Executive's learning and development strategy should be explicit on how development will impact on individuals' capability, business area improvement and organisational development. It should demonstrate how the investment in training represents value for money. Consideration should be given to updating and refreshing manager's knowledge and skills to support succession planning.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented. Learning & Development strategies do make connections with the improvement of individual, business and organisational development. The explicit nature of such links could be articulated in a more transparent fashion. A Value For Money quantum is not in place currently however added value can be construed from the achievement of accreditation and certifications. Again the explicit nature of such links could be more clearly articulated.

NIHE Response

Partially Implemented

Revised Timescale for Implementation: It is anticipated that the work on the HR Programme will complete by August 2014.

This focussed on the organisational impact of Learning and Development and was viewed as partially implemented on the basis that the added value of L&D in regard to value for money could be more clearly articulated.

L&D is a workstream within the HR Programme of activity. Within this workstream and the related area of Performance Management the NIHE will seek to enhance the processes of Evaluation, and Return on Investment, of the L&D activity within the organisation.

34

Recommendations 65 (Good Practice Recommendation)

The Audit Committee should be involved with strategic analysis of lessons learned from the investigations conducted by the counter fraud unit. The Review Team recommend that the board arranges for the effectiveness of the new investigations committee to be evaluated against its terms of reference and reported on during 2011. As part of the evaluation consideration should be given to existing guidance on referring cases to Police Service of Northern Ireland, the department, the audit committee, the counter fraud unit and the Northern Ireland audit office.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that the recommendation has been partially implemented given the absence of a formal medium for the learning of lessons from Investigations.

NIHE Response

Partially implemented

Revised Timescale for Implementation: Completion of the Evaluation and Implementation process June 2014

The Counter Fraud Unit have designed a small-scale project management database in order to effectively assign specific lessons learned tasks to the responsible member of staff in the business area relevant to the investigation. This is being evaluated by the Counter Fraud Working Group at their upcoming quarterly meeting at the end of March. The planned outcome is a completed

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piece of work that addresses any identified deficiencies or shortcomings in policy, procedure, documentation or system of working that created the environment within which fraud or attempted fraud were able to occur. If the evaluation by the Counter Fraud Working Group is successful then the Counter Fraud Unit will utilise the project management database structure immediately with an anticipated three-month timescale for each 'lessons learned' exercise. This will then be reported directly to the Audit Committee in a format similar to that of the current 'ongoing investigations' report.

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Recommendation 70 (Critical Control Recommendation)

There are a number of internal investigations ongoing with the housing executive. On the conclusion of these investigations the board should consider any lessons learned from these investigations that can be used to enhance the control framework of the housing executive. The board should also consider the degree to which results of these investigations provide an insight into the extent to which staff fully understand the seven principles of public life and how they apply to them.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has been partially implemented.

NIHE Response

Partially implemented

Revised Timescale for Implementation: Completion of the Evaluation and Implementation process June 2014

As per good practice recommendation 65

37

Recommendation 72 (Good Practice Recommendation)

The Housing Executive Internal Audit unit should consider as part of its review of the declaration of interests by Directors, the adequacy of the process by which interests are declared and recorded and to whom this information is currently communicated. Internal Audit should also consider declarations that were previously made by Directors and how this information was used to prevent actual conflicts of interest or the perception of conflicts of interest. The Board and Audit Committee will want assurance that the current process for the declaration of potential or actual conflicts of interest provides a robust framework for the management of potential risks. Consideration should also be given to reviewing the current arrangements by which members of staff make declarations to the appropriate "Designated Officer".

DSD Review Team Conclusion as at Nov 2013

The Review Team consider that the recommendation is partially implemented, given that the 2011 audit received a Limited Audit opinion but a follow-up review has not been undertaken. NIHE have advised that an audit of Directors and Board Members interests is underway and will be reported on in January 2014.

NIHE Response

Implemented

Audit of Directors and Board Members Interests and Hospitality was reported to January 2014 Audit & Risk Assurance Committee.

An audit of Staff Interests and Hospitality is currently underway and will be reported to the April 2014 Audit & Risk assurance Committee.

38

Work Plan Reference 7 – Contractors Closure of Accounts & Work Plan Reference 12 - Overpayments

(7) Closure of accounts - There is an urgent need for NIHE to determine the financial consequences to NIHE. DODPS tasked with identifying the extent of this issue.

(12) Over Payments - NIHE has yet to determine the quantum of overpayment in relation to the Ballynahinch scheme. It important to determine the total amount of overpayments and the total amount to be written off.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation has been partially implemented.

NIHE Response

Partially Implemented

Negotiations are still on-going with the Contractors to explore if a resolution can be reached. A further joint consultation has been arranged for 19th March 2014 and the NIHE will be in a better position after this meeting to confirm whether a resolution can be found.

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Work Plan Reference 11 – Report Timeframe for Reports

The new reporting protocols are welcomed, however, in order to ensure that the target timescales are fully complied with, CAU should develop report clearance targets and report performance against the target to each Risk and Performance Committee meeting. Further, the Schemes Inspection Unit should define timeframes for each stage of the inspection process and address these with Design and Property Services.

DSD Review Team Conclusion as at Nov 2013

The Review Team considers that this recommendation is partially implemented. Whilst CAU has developed report clearance targets it does not report performance against the targets. NIHE has advised that it is envisaged that CAU will report performance against targets to the January 2014 meeting of the NIHE Audit Committee and then all subsequent meetings.

NIHE Response**Partially Implemented**

Revised Timescale for completion: These are to be reported to the ARA Committee from April 2014.

Report clearance targets and further KPI's for Corporate Assurance are in place and were agreed in December Audit Risk and Assurance Committee (ARA).

DSD

Internal Audit Unit

Review of arrangements for the operation of the Independent Maintenance Inspection Function in the Northern Ireland Housing Executive

2 July 2012

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1. Introduction

The Department for Social Development's Head of Internal Audit was tasked with undertaking a review of the arrangements for the operation of the independent maintenance and inspection function, established by the Northern Ireland Housing Executive. The review commenced on Wednesday 30th May 2012.

2. Background

In October 2010, the Department instigated a review of the governance arrangements within the Northern Ireland Housing Executive. As a result of that review a number of recommendations were made to strengthen those governance arrangements and these were accepted by the NIHE Board and management. As part of its monitoring regime, the Department has received assurances from the NIHE Chief Executive that the recommendations were being implemented effectively.

However, recent evidence has given 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 Head of Internal Audit for the Department for Social Development 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.

3. Scope of the Investigation

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.

4. Objectives

4.1 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 have taken action to deal with issues identified in their reports;
2. To identify what information the Board has received in relation to the work of the Repairs Inspection Unit/ Scheme Inspection Unit;
3. To determine why Repairs Inspection Unit reports dating back to November 2011 have not been finalised;
4. To identify if the Board is aware of any problems with clearance of Repairs Inspection Unit reports;
5. As appropriate, to identify what action the Board has taken to deal with this issue;
6. To determine the current methodology under which the Repairs Inspection Unit operates and reports and to clarify the nature of the current issue identified by NIHE management with the methodology of the unit and what steps have been taken to resolve this issue in a timely manner;
7. To determine if the current methodology for the agreement and finalisation of reports is 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.

4.2 The Review Team's findings on the above questions and their conclusions are set out in Section (6) "Findings and Conclusions".

5. Executive Summary

- 5.1 In the opinion of the Review Team, Senior Management within the Northern Ireland Housing Executive has 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 has failed to focus on the significant findings in the reports. Time that could have been better spent addressing the issues identified has instead been lost in internal debate.
- 5.2 The Review Team welcomes the action plan now being proposed by the Chairman in his letter to the Permanent Secretary of 21st June 2012. However, the Review Team consider that it was only in response to the Permanent Secretary's letter of 8th 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 remain in draft at the end of June 2012.
- 5.3 The Housing Executive has advised that the creation of the Intervention Team will ensure that the findings of these reports are addressed within the Districts; however, the Review Team would consider that the simplest action to take to send a message to staff on the importance of the independent Corporate Assurance Unit would have been to issue these reports, as agreed reports. At time of writing of this report, this has still not happened.
- 5.4 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".

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, it is hard to avoid reaching the conclusion that the "Best use possible" has not been made of this unit or of the information it provides.

- 5.5 Finally, with specific regard to objective 8, the Review Team notes that NIHE has yet to reach agreement on the quantum of the overpayment in relation to the Ballynahinch scheme. The Review Team has significant concerns over how this matter has been dealt with by NIHE and recommends that the Department seek confirmation from NIHE as to the total amount of overpayments and the total amount to be written off.
- 5.6 The review team considers that the financial implications will be significant if the issues in the Ballynahinch scheme are extrapolated over the potential population of 245 schemes. It is recommended that the Department ensures that NIHE expeditiously concludes its investigation into how this information has been brought to the attention of the Board.

6 Findings and Conclusions

- 6.1 **Objective 1** -To consider the work undertaken by Repairs Inspection Unit / Scheme Inspection Unit, their findings and the extent to which management have taken action to deal with the actions identified in their reports.

Repairs Inspection Unit Reports

- 6.1.1 The Repairs Inspection Unit (RIU) is part of NIHE's Corporate Assurance Unit (CAU). CAU sits within the Corporate Services Division of NIHE and the CAU Assistant Director reports directly to the Director of Corporate Services/Deputy Chief Executive. The NIHE Board mandated the establishment of CAU. The Unit's Terms of Reference describes CAU's purpose as:-

"An independent, objective assurance and consulting activity designed to add value and improve NIHE operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes and ensuring compliance with established policies and processes"

RIU'S role is defined as:-

Providing "assurance to Senior Management in two areas namely the Annual Inspection Programme on each District Office and "Special Investigations" as requested by the Investigating Steering Group or support to the advisor of the DOF"

- 6.1.2 RIU carries out technical and management inspections of the maintenance functions at all 35 District Offices. The RIU Inspection Function is a compliance review against NIHE policy and procedure in relation to four review areas:
- Contract Management
 - Probity
 - Inspections
 - Procedures
- 6.1.3 Each of the four review areas are subdivided into individual compliance types e.g. inspections quality of contractor's work; accuracy of contractor's payments. Each review area is also weighted to reflect its importance with on site inspections awarded the highest weighting.
- 6.1.4 Field work for the 8th round of RIU inspections began 1st September 2011. (See table at annex A for dates). At the time of the commencement of this review, 30th May 2012, fieldwork had been completed for 12 of the 35 districts that were to be inspected, two reports had been finalised and ten were at draft report stage. Of the ten inspections at draft report stage, two have been outstanding from November 2011, four have been outstanding from January 2012 and the remaining four were issued on the 9th May 2012.
- 6.1.5 A negative assurance classification of either "limited" or "unacceptable" has been awarded for 11 of the 12 districts inspection reports.
- 6.1.6 It is the opinion of the Review Team that prior to the intervention of the Permanent Secretary on the 8th May 2012, in his letter to the Chief Executive NIHE; management had taken no firm action to address the findings identified in the reports. The Review Team notes that the Chairman and Vice Chair of the Board and Senior Management met on 21st May to discuss an Action Plan for Response Maintenance and that the Board held a special meeting on 6th June where a Response Maintenance Improvement Plan was presented to the Board (the Action Plan is discussed elsewhere).
- 6.1.7 The Chief Executive confirmed to the Review Team that he and the Acting Director of Housing and Regeneration accept the findings of the RIU Reports. In addition the Chairman of the

Board has advised the Review Team that he has directed that all draft RIU reports should be finalised by districts by the end of June 2012.

- 6.1.8 The Chief Executive stated that he first became aware of the delays in clearing RIU reports at the March 2012 NIHE Audit Committee meeting, when delays were mentioned in respect of two RIU reports. Subsequent to this he met with the manager of the Repairs Inspection Unit in order to “understand the methods and processes and issues that were being raised by Districts”. The Chief Executive further stated that the first time he “saw a full set of the RIU reports in question was following the request from the NIAO for sight of draft reports as part of their work on the NIHE annual accounts”. He stated that neither he nor the Directors would normally have sight of draft reports. However in light of the issues raised he has asked that in future CAU copy draft reports to himself and the relevant director as a matter of routine.
- 6.1.9 The Chief Executive has stated that it is clear that the findings in these reports are “unacceptable” and although the reports are not finalised he has nonetheless taken “steps to create a Response Maintenance Intervention team, which will be deployed on the foot of a limited or unacceptable RIU inspection”.
- 6.1.10 The Review Team notes that at time of reporting the Intervention Team was due to start with one of the Districts and that this team forms part of the NIHE response to the issues highlighted in the RIU reports as referenced by the Chairman in his letter to the Permanent Secretary of 21st June 2012.

Scheme Inspection Unit Reports

- 6.1.11 The Review Team identified two separate issues in relation to the extent to which management dealt with the issues identified in the Scheme Inspection Unit (SIU) reports;
- The failure of management to ensure that contractors made good defects to materials and workmanship identified by SIU; and
 - The failure to respond with alacrity to the potential overcharging by contractors in relation to Price Product Lists (“PPLs”).
- 6.1.12 In relation to the first point the Review Team noted that on 5 October 2011 the NIHE Audit Committee was informed in the paper titled “DPS Scheme Inspection Quarterly Report April 2011 – June 2011 that;
- “There is a concern around the lack of response from Contractors to the Audit of the Follow-Up Monitor...The Property Services Managers have also been asked to ensure that their Project Managers are vigilant about outstanding issues that the Contractors are contractually duty bound to address and the final reconciliations are subject to proper scrutiny.” Page 2, Para 13*
- “When a Scheme Inspection Report generates a follow up action, this is recorded in the Follow Up Action Monitor which is updated and included in each Quarterly Report. The Areas then advise the Scheme Inspection Unit that the necessary actions have been taken and are complete...” Page 27, Para 1*
- “To verify that the non compliance identified had been addressed, a sample of schemes... where SIU had been advised that follow up actions had been completed was inspected.” Page 27 Para 2*
- 6.1.13 The Review Team noted that of the 131 defects re-inspected by the Scheme Inspection Unit (SIU), after it had been informed by DPS that the defects were made good, 94 defects were, in fact, not made good. The Review Team considers that SIU should re-inspect a further sample of jobs to provide assurance that contractors are making good defects and, as a confirmation that management is dealing with issues identified by SIU.

- 6.1.14 The second issue identified by the Review Team concerned the alacrity by which DPS responded to the serious findings relating to PPLs. This issue is explored in more depth in our consideration of objective 8. However, in passing, it is worth noting that the issue was identified in the first quarter of 2010 but now, over 2 years later, the NIHE has yet to determine the full scale of the issue. Even though it is too early to state with any degree of confidence the Review Team understand that the acting Director for Design and Property Services reported to the Audit Committee on 7 March 2012 that potential error could be between 8% and 30%, estimates as high as £9 million have been suggested to the Review Team based on very rough approximations against budgeted expenditure.

Conclusion

- 6.1.15 The Review Team consider that it was only the intervention of the Permanent Secretary through his letter of 8th May 2012 that caused NIHE management to give the issues raised in the RIU reports the attention they deserved. We note that NIHE Management now accepts the classifications awarded for the 12 reports that are either final or at draft report stage and that 11 of these reports provide negative classifications; this important independent review of the application of controls over Response Maintenance failed to illicit the response from Management that one would reasonably expect until as late as May 2012. In the opinion of the Review Team, too much time was spent within NIHE in disputing the findings and methodology of the team rather than addressing the serious findings in these reports.
- 6.1.16 With regard to Scheme Inspection Reports, the Review Team has noted the difficulties that were experienced in obtaining management responses to reports and in particular agreement on the question of measurement and standards but following the March 2012 Audit Committee there has been an improvement in communication. However, the Review Team would recommend, on the issue of contractors making good on defects that this should be subject to further work by SIU.
- 6.1.17 With regard to the issue of potential overcharging by contractors in relation to Price Product Lists the Review Team consider that this issue has not been addressed with the speed that one would expect and that there is urgent need for NIHE to determine the potential financial consequences to NIHE. The Review Team understands from interviews with the Chairman and Chief Executive that the new Director of DPS has been tasked with identifying the extent of this issue and that out of a total of approximately 245 schemes 150 are still to be finalised.

- 6.2 **Objective 2** – To identify what information the Board has received in relation to the work of the Repairs Inspection Unit/ Scheme Inspection Unit.

Objective 4 - To identify if the Board is aware of any problems with the clearance of Repairs Inspection Unit Reports.

- 6.2.1 In considering objective 2 the Review Team has also given consideration to objective 4 as the question of what information the Board received and whether they were aware of any problems are interlinked.

Board awareness of role of Corporate Assurance Unit

- 6.2.2 The Head of CAU made three presentations to the members of the NIHE Board at the end of 2011 outlining the independent assurance role of CAU, the role of the Unit's inspection teams in providing this assurance and Unit's role in relation to the future development of the NIHE's Corporate Risk Management Strategy.
- 6.2.3 The Chairman of the Board placed particular significance on the presentation made to a Board "away day" in November 2011; he stated he personally used this event to link the activity of CAU to the NIHE's modernisation framework and to facilitate a discussion between Board members and the Head of CAU about the Unit's role and work.

- 6.2.4 The Chairman also confirmed that the Chief Executive and his Senior Management Team attended this event and that he personally delivered a clear message about the importance of the strategic assurance role of CAU for the Board and Senior Managers.
- 6.2.5 The Chairman of the Board and the Chair of the Audit Committee stated that they did not become aware of the delay in finalising RIU reports and the inspection ratings that had been awarded until Permanent Secretary wrote to the NIHE on 8th May 2012 requesting copies of all draft Internal Audit reports and CAU reports.

CAU Reporting Line to Board

- 6.2.6 Update reports on the work of CAU, including delivery against the planned programme of RIU's work, were originally supplied to the NIHE's Audit Committee in December 2011 and March 2012. However, this reporting line changed in March 2012 with the establishment of a new board committee, the Risk and Performance Committee, which first met in March 2012 and CAU now reports to the Risk and Performance Committee. The Committee Chair reports on any matters arising from the Committee to the Board and the Audit Committee.
- 6.2.7 The first report from CAU that reported on RIU's 8th Round of Inspections was presented to the Audit Committee at its' 7th December 2011 meeting. It was included in a paper titled "Corporate Assurance Section Reporting" authored by the Head of Corporate Assurance Unit. At this date there was no indication of any issues concerning the finalisation of RIU reports, however, the paper does highlight the concerns in relation to the preliminary inspection ratings, stating:-

"While it is noted that these are currently preliminary finding and therefore not available yet it is none the less concerning that of the 4 Districts inspected, three are falling into the unacceptable banding while one is in the limited. If the District scores remain the same at final report stage then these will be recoded into the recommendation register and the status reported to the AC in the next quarterly report"

- 6.2.8 The minutes of the meeting do not record any explicit discussion of RIU's work.
- 6.2.9 The Chair of the Audit Committee provided an update to the Board meeting on 13th December 2011 on the Audit Committee meeting. The Board minutes do not record any explicit discussion of the work of RIU but do record a general discussion on the role of CAU, the minutes record:-

"Members discussed the importance of the role of CAU and the work to be undertaken over the coming months in relation to planned maintenance and contract management."

- 6.2.10 The second report from CAU that reported on RIU's 8th Round of Inspections was presented in a paper titled "Corporate Assurance Unit Quarterly Reporting" to the March 2012 Audit Committee. The paper reported that two reports had been finalised and that the Unit was experiencing delays in eliciting management responses in relation to another six draft reports; paragraph 41 states "it is essential that District Management meet with RIU as soon as practicable after the preliminary report is issued to discuss the findings".
- 6.2.11 The draft minutes of the meeting do not record any explicit discussion of RIU's work or discussion of delays in finalising draft reports, however, the Head of Internal Audit and the Head of Corporate Assurance Unit stated to the Review Team that there was a discussion about the delay in finalising reports in the context of a negative Internal Audit Report titled "Housing Management System (Response Maintenance)". This report referred to delays in finalising RIU reports and that it was noted by the Chair of the Audit Committee that the Head of CAU and the Acting Director of H&R were to meet to address issues in relation to the methodology used in RIU inspections. It was noted that the methodology was being challenged by a number of the districts that had been inspected and this was a significant contributor to the delay in finalising inspection reports.

- 6.2.12 The Chair of the Audit Committee has stated that whilst she recalled some discussion of delays in finalising reports this was not flagged up to the Committee by either Internal Audit or CAU as a business critical issue and the impression she had was that the issues causing the delay were being addressed by CAU and management.
- 6.2.13 The first meeting of Risk and Performance Committee took place on 13th March 2012 and the same paper that was submitted to the March Audit Committee, “Corporate Assurance Unit Quarterly Reporting”, was presented to the Committee. As noted previously that paper reported that two reports had been finalised however the unit was experiencing delays in eliciting management responses in relation to another six draft reports with paragraph 41 stating “it is essential that District Management meet with RIU as soon as practicable after the preliminary report is issued to discuss the findings”. The minutes of the meeting do not record explicit discussion of the delays in finalising RIU reports.
- 6.2.14 The Chair of the Audit Committee provided an update on the March Audit Committee meeting to the Board meeting on 28th March 2012. However, as noted previously, as the delay in finalising reports was not explicitly highlighted as business critical to the Audit Committee, the Audit Committee Chair did not identify this as a significant issue and therefore it was not notified to the Board as an issue. Similarly the Chair of the RPC also provided an update to the Board meeting on 28th March 2012 and likewise did not make any explicit reference to delays in finalising RIU reports.
- 6.2.15 The second meeting of the Risk and Performance Committee took place on 17th April 2012. The Review Team notes that the CAU’s Charter and Terms of Reference were agreed at this meeting, some 10 months after the establishment of the Unit.
- 6.2.16 The minutes record that there was a discussion of overdue responses to RIU reports from Districts with the Chair asking for the reasons for delay and the Head of CAU providing the reasons. The Acting Director of H&R also outlined issues he had in relation to the RIU methodology and that he felt too many areas of district maintenance work were being reviewed and that there was a need to focus on the key parts of their work. The Head of CAU agreed that issues around methodology were being reviewed, particularly for the 9th round, and that a paper on the proposed RIU Inspection Programme and Methodology for the 9th round of inspections would be brought to the next RPC meeting in July 2012.
- 6.2.17 The Risk and Performance Committee Chair reported on the second meeting of the Committee to the Board on 25th April 2012. Whilst the minutes do not record any explicit reference to the delay in finalising RIU reports we noted that it is recorded that Mrs Coffey “referred to consideration of the CAU reports and added that the Committee had asked for the language used to be tempered to better reflect the improving working relationship between staff and RIU and the greater co-operation developing”.
- 6.2.18 Also as part of the discussion of the RPC reference was made to paper presented by an Assistant Director at the last RPC meeting. This paper was referred to as a “root cause analysis paper” and the committee had found it helpful in “identifying why things went wrong on the ground and why invoices were not as accurate as they should be”. The Review Team notes that there is difference between poor invoicing by contractors and poor quality work and failure of controls at district level to identify and tackle poor quality work and it is not clear to what extent the RPC and Board were aware of or took cognisance of the findings in the draft RIU reports.
- 6.2.19 When considering the level of discussion of response maintenance at this Board meeting it is interesting to consider some of the Board’s recorded comments in respect of the Draft NIAO Report “Management of Response Maintenance Contracts”. In particular a number of comments in relation to Contract Management are quite relevant. The members agreed that “the level of information submitted to the Board was appropriate and that the Board should not be engaged in operational matters for which Senior Management is held to account.

It was further agreed that the issues cited in relation to Response Maintenance were not matters that would normally be reported to the Board.”

“Members noted that the Gateway Review undertaken made no reference to a need for enhancing the reporting framework to the Board although it did reference the management reporting framework”.

- 6.2.20 The Review Team note that no reference was made to the recommendations made in the Governance Review in relation to the Board making best use of the information from the Repairs Inspection Unit and the, then to be formed, Corporate Assurance Unit, as a means for providing information to the Board to allow them to challenge management.
- 6.2.21 The Chairman has stated that he first became aware of the seriousness of the issues surrounding the delays in finalising RIU inspection reports following the NIAO letter and Permanent Secretary’s letter in early May 2012. The Chairman has stated to the Review Team that he “had concerns about how these issues are reflected in the SIC, the initial draft was less than robust and less than forthright. Board has insisted that maintenance is a standing item at CXBC and Board to receive a monthly update through key issues paper which will make them aware of any significant developments”. The Chairman expressed the view that he was “disappointed that reports were not finalised”. The Chairman stated that he considered the level of challenge to these reports to be “unnecessary rather than excessive from Districts to RIU reports.”
- 6.2.22 The Chairman and Vice Chair have held a number of special meetings with the Chief Executive and the Senior Management Team in May and June 2012 and the Board’s response to the issues raised in the RIU reports is dealt with in objective 5.

Conclusion

- 6.2.22 The Chairman has stated that he was the key proponent and driver for the establishment of the CAU function and likewise the Chair of the Audit Committee has stated that she is fully supportive of the need for the Unit and its work. However, we are surprised that both the Chairman and Vice Chair of the Board were either not aware of the delay in finalising the draft RIU reports or unaware of the significance of this delay until it was brought to their attention by the Permanent Secretary’s letter of 8th May 2012.
 - 6.2.22 We note that a negative Internal Audit opinion in the audit of “Housing Management System (Response Maintenance)” referred to delays in finalising RIU reports and cited this as the contributor to the negative opinion. The Review Team are noted that this was not considered by the Chair of the Audit Committee as an issue requiring further scrutiny at that time and something that should have been reported to the Board. The Chair of the Audit Committee has stated that she did not regard the issue as business critical as the audit opinion given was “limited”, rather than “unacceptable”.
 - 6.2.23 We also noted that there was a discussion on the NIAO preliminary draft report on Response Maintenance Contracts Management (issued after the March 2012 Audit Committee Meeting) at the Board meeting on 28th March. Given that the draft report refers to the work of RIU and refers to “excessive challenge” from management in relation to RIU findings it is surprising that no Audit Committee members identified that the delay in finalising reports that had been referred in the limited audit opinion was an indicator of this practice and that they did not seek assurance from the Chief Executive in relation to this issue at that time.
- 6.3 Objective 3 – To determine why Repairs Inspection Unit Reports dating back to November 2011 have not been finalised.**
- 6.3.1 There are currently ten outstanding draft RIU reports that have not been finalised two of which issued 25 November 2011, four issued 20 January 2012 and four issued 9 May 2012. It should be noted that two reports from the 8th Round of Inspections have been finalised;

in one case the Final Inspection Report rating was “satisfactory” whilst the other rating was “unacceptable”.

- 6.3.2 Formal protocols governing the clearance of CAU Inspection Unit’s (both RIU and SIU) draft reports have only been agreed recently, in March 2012. Before the protocol was agreed it was practice that District Management was given two weeks to consider the preliminary findings outlined in the draft after which RIU would meet with Management to discuss the report and a final report would usually be issued soon after.
- 6.3.3 It is clear to the Review Team that RIU has actively followed up the finalisation of the outstanding draft reports; however, it is also clear that District and Area Managers have been reluctant to accept the findings of the reports. Management at both levels have questioned the findings and raised issues in relation to the inspection methodology used by RIU inspectors for the 8th round of inspections.
- 6.3.4 The Review Team confirmed that RIU Management consulted with what they considered to be relevant experienced staff in Housing and Regeneration Division in their development of the 8th round inspection methodology, in order to determine and confirm processes and procedures. However, we note that there was no formal consultation on the revised methodology with either the Director of Housing and Regeneration or operational management within the Division.
- 6.3.5 The Review Team noted that the revised RIU inspection methodology was notified to the NIHE Audit Committee in papers presented in September 2010 and March 2011. The minutes for these meetings do not record any explicit discussion of the changes. The papers provided an overview of the changes as follows:
- 11 existing compliance tests will remain as these are still applicable to the business;
 - 10 existing compliance tests have been amended to incorporate the new Housing Management System (HMS) procedures; and
 - 10 new compliances tests have been added to target major areas of risk to our business.
- 6.3.6 The delays in finalising RIU Reports was discussed at the Chief Executive’s Business Committee on 27th February 2012 in the context of an Internal Audit report titled “Housing Management System (Response Maintenance)” that was to be presented to the March 12 Audit Committee. The scope of the Review included consideration of the work of RIU and noted the delays in finalising the RIU draft reports. The report provided a “limited” internal audit assurance classification, however, as the report relied on some of the compliance work undertaken by RIU, and Districts had not formerly responded to the draft RIU reports, the Internal Audit classification carried a caveat as follows:
- “The Director of H&R is to meet the Head of CAU to discuss RIU findings. Subject to the outcome of that meeting, objective 1 and the overall audit classification may both change from “limited” to “satisfactory”.*
- 6.3.7 The first meeting between RIU and Housing and Regeneration (H&R) Division management to discuss the methodology for the 8th round took place on 9th March 2012, some six months after the inspection round commenced. There were two further meetings between CAU and Acting Director of H&R to discuss the suggested changes to methodology. As a result of these meetings it was agreed that reports would be revised to show, in addition to the original score and overall results, what the scores and overall results would be taking account of changes suggested by H&R. The former would be referred to as the “above the line score” and the latter the “below the line score”. The Review Team notes that results and overall scores, after taking account of the H&R changes, did not result in any material improvement to the overall ratings given in the reports.
- 6.3.8 The Permanent Secretary wrote to the NIHE Chief Executive on 8th May 2012 requesting copies of all draft Internal Audit and CAU reports (including RIU reports); following this the

Chief Executive instructed RIU to reissue the six draft reports that had originally been issued in November 2011 and January 2012 and four that had not previously been issued. The revised drafts now report “above the line” and “below the line” scores to accommodate and reflect the concerns of the Housing and Regeneration Management in relation to the 8th round inspection methodology.

- 6.3.9 To date none of the outstanding draft RIU reports have been finalised. However, RIU have confirmed that meetings are ongoing with District Managers to finalise the reports. A target of the end of June has been set for finalising the reports. RIU have advised the Review Team that if agreement cannot be reached on individual reports they will finalise the report and acknowledge in the body of the report that district management dispute the findings and record their responses to the RIU findings. These reports will be reported to the next RPC meeting in July 2012. The reports were not finalised in time to be formally reported to the Audit Committee meeting on 25th June 2012.
- 6.3.10 Both the Chairman and Vice Chair have stated that management have taken too long to reach agreement on these reports. The Chairman and Vice Chair have held a number of special meetings with the Chief Executive since the seriousness of these reports were made clear by the Permanent Secretary’s letter of 8th May 2012. The results of these meetings have been a series of actions to ensure that action is taken to address with Districts the issues identified in the RIU reports, ensure clearer lines of reporting to the Board in future and address underlying issues surrounding commonality of standards and training. While all of these steps are welcomed the Review Team would question, in light of the issues in relation to Response Maintenance highlighted in previous reports on contractor performance, the findings in the previous round of inspections and the then ongoing work on the Shankill District whether some or all of these actions should have been identified as being necessary at a much earlier juncture.

Conclusion

- 6.3.11 The time taken to reach agreement on the findings of RIU has been too long. Whilst the Review Team recognised that District Managers and Area Managers within Housing and Regeneration Division feel strongly that they should have been consulted and informed about the changes to the inspection methodology it is our opinion that the time taken to raise this issue, and actively engage with RIU to address their concerns, should be regarded as unacceptable.
- 6.3.12 We are concerned to note that although the Chief Executive and Senior Management became aware of the issue in relation to the delay in finalising the inspection reports at a Chief Executive’s Business Committee meeting on 27th February 2012 rather than focusing on the findings and ratings that were outlined in the reports their focus was directed at the inspection methodology being employed. Given the high profile risk associated with Response Maintenance within the organisation we would have expected the Chief Executive and Senior Management would have given more attention to the issues identified in the reports rather than the method by how they were identified.
- 6.3.13 However, we recognise that the changes to the inspection methodology introduced for the 8th Round should have been clearly communicated to management within Housing and Regeneration Division.
- 6.3.14 Housing and Regeneration Management should have been actively engaged by RIU when the revised methodology was being developed in order to ensure that they were clear about what standards they would be reviewed against, what the objectives of the inspections were and, more generally, to more effectively manage the interface between the inspectors and Districts.

6.4 Objective 5 - As appropriate, to identify what action the Board has taken to deal with this issue (clearance of RIU Inspection Reports);

6.4.1 The Chairman has stated that since he first became aware of the issue in relation to the delays in finalising RIU Inspection Reports following the Permanent Secretary's letter to the Chief Executive on 8th May 2012, he and the Vice Chair have held a number of meetings with Senior Management including the Chief Executive, Deputy Chief Executive, Acting Director of Housing and Regeneration the Head of Internal Audit and the Head of Corporate Assurance Unit.

6.4.2 A meeting was held on the 21st May 2012 to discuss an Action Plan for Response Maintenance and the Board held a special meeting on 6th June 2012 where a Response Maintenance Improvement Plan was presented to the Board. The Chairman wrote to the Permanent Secretary on 21st June 2012 outlining the action the Board, through the delivery of the Action Plan, intends to take to address the issues identified in relation to Response Maintenance. The letter reports that the Plan will focus on four areas of work:-

- "Addressing the causes of failure identified in the RIU reports; the key proposal was to create a Response Maintenance Intervention Team (RMIT) which would target offices with an RIU assessment of "unacceptable " or "limited";
- "Training and skills development. Here the key proposal is a wholesale refresh of competency-based training for maintenance staff, and a review of the qualifications deemed necessary to provide the role";
- "Addressing the structural issues; here the focus is on restructuring how district-based housing services, including maintenance, should be delivered"; and
- "Technology; in order to reduce measurement and transcription errors and improve inspection data quality generally the Board agreed to progress a mobile working pilot which will simplify the process of quantifying works orders"

6.4.3 In addition to the Improvement Plan, the letter details a number of other actions that are taking place to ensure that not only is a clear message on compliance with the control environment promulgated throughout the organisation but that the Board is provided with timely information about any issues arising from CAU inspections (including RIU inspections); these include:-

- Five seminars with district maintenance staff, introduced by the Chief Executive, to reinforce the importance of complying with prescribed controls and providing examples of issues identified through RIU inspections. The Director of Housing and Regeneration and the Head of RIU also deliver presentations at these seminars. The seminars will be completed by the end of June;
- A monthly report on maintenance issues is to be presented to the Board that will include "commentary on progress in resolving the outstanding Inspection reports.";
- A report on CAU, including RIU, "findings, themes and trends" will submitted to the Board to complement the report on contractor performance and contract KPIs submitted by Housing and Regeneration Division; and
- Maintenance (alternating between Response and Planned) will introduced as a standing item on the Chief Executive's Business Committee's agenda.

6.4.4 The Review Team also notes that the Chairman of the Board stated that he has requested that management in Housing and Regeneration Division fully engages with RIU to ensure that the ten outstanding draft reports are finalised by the end of June and that the message is communicated to District and Area management that they should work with RIU with the objective of addressing the findings reported to ensure that future performance improves.

Conclusion

- 6.4.5 Whilst the actions and steps outlined in the Chair's letter to the Permanent Secretary on 21st June 2012 are to be welcomed and should ensure that the appropriate level of scrutiny is applied to the clearance of the outstanding draft reports and the practical actions that need to be taken to address the findings reported it cannot be overlooked that none of this action would be taking place now if the Permanent Secretary had not intervened on this issue in May 2012.
- 6.4.6 To ensure that the actions outlined progress as intended the Department should require the NIHE to present a detailed Action Plan detailing the specific action that is to be taken and planned target dates for completion. The Action Plan should cover all the actions and steps communicated in the Chair's letter and should also include actions to ensure that CAU is provided with the full complement of suitably qualified staff to allow it to fully deliver its remit.
- 6.4.7 The 2010 Governance Review of NIHE made a number of specific recommendations in relation to the work of the Repairs Inspection Team and the, then, proposed Corporate Assurance Unit. In the context of the actions now being proposed by the Board to address the issues arising in relation to Response Maintenance and how the Board obtains the information to allow it to challenge Senior Management it is worth revisiting these recommendations and considering whether with hindsight many of the actions proposed should have been initiated earlier by the Board.
- 6.4.8 One of the critical recommendations made in the Governance Review was that;
- "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".*
- 6.4.9 Taking into consideration the many actions now being proposed by the Board and Senior Management in response to the significant issues identified in relation to the management of Response Maintenance arising from these reports, it is clear that the Board now is aware of significant weaknesses around the Management of Response Maintenance Contracts and is taking steps to address these. However, it is also clear that the Board was clearly not well sighted on these issues from either the information it received directly or the assurances it received from Management. It is therefore the conclusion of the Review Team that the Board and Management had not, prior to May 2012 been making "best use possible" of the information generated by the Repairs Inspection Unit. The Review Team noted that in respect of this critical recommendation the NIHE oversight Board had noted this action as completed in May 2011.
- 6.4.10 A number of other recommendations were made in the governance report but the Review Team would draw specific reference to one which relates specifically to the establishment of the Corporate Assurance Unit (then titled Corporate Compliance Unit). This recommendation (number 51), was also earmarked as a critical recommendation and required that;
- "The Housing Executive should consider, as part of the establishment of the proposed Corporate Compliance Unit how this unit will provide an independent assurance on the adequacy of management controls over Heating Contracts. The Housing Executive should confirm the reason why the Installation, Servicing and Maintenance of heating systems is not undertaken as part of the current functions of Repairs Inspection Unit. Finally, the Audit*

Committee, which now receives reports from both the Repairs Inspection Unit and Scheme Inspection Unit, should consider how it currently obtains assurance in relation to Heating?"

- 6.4.11 The Review Team noted that this recommendation was recorded as completed at June 2011 and then reopened in January 2012 as it had not been fully implemented. At the time of this report some 18 months after the Review Team reported we note that the activities of the Corporate Assurance Unit still do not include providing an independent assurance on Heating Contracts and that CAU does not currently have any staff with the necessary training or expertise in this area.

6.5 Objective 6 - To determine the current methodology under which the Repairs Inspection Unit operates and reports and to clarify the nature of the current issue identified by NIHE management with the methodology of the unit and what steps have been taken to resolve this issue in a timely manner.

Repairs Inspection Unit 8th Round Methodology

- 6.5.1 A review of the inspection process/methodology for the 8th round of inspections was carried out in 2010 and notified to the NIHE Audit Committee in September 2010 and March 2011. As a result of the review 11 existing compliance tests did not change, 10 were amended to incorporate new Housing Management System (HMS) procedures and 10 new compliances tests were added to target major areas of risk such as, follow up action taken by districts in relation low contractor KPI scores and monitoring of outstanding Maintenance Officer job authorisations. The total number of compliances reviewed increased from 24 to 31.
- 6.5.2 The Review Team confirmed that Senior Management in Housing and Regeneration Division and District and Area managers were not formally informed of the changes to the 8th Round inspection methodology and as a result only became aware of the changes when the inspections began. RIU management have stated that they consulted closely with policy leads in Housing and Regeneration Division in relation to a number of the changes, especially those relating to the changes required to review the new HMS processes, however there was no formal quality assurance process or consultation with Housing and Regeneration Unit. RIU have also advised that the changes were notified to the Audit Committee on two occasions, September 2010 and March 2011 and it was their understanding that because of their consultation with the policy leads and the submissions to the Audit Committee that the changes to the methodology would have been known to Senior Management within Housing and Regeneration Division.
- 6.5.3 The Review Teams notes that the changes to the 8th round inspection methodology took place before the establishment of Corporate Assurance Unit and the appointment of the new Head of the Unit.
- 6.5.4 The Review Team confirmed that the first formal meeting between RIU and Housing and Regeneration (H&R) Division management to discuss the issues with the methodology for the 8th round took place on 9th March 2012, some six months after the inspection round commenced. There were two further meetings between CAU and the Acting Director of H&R to discuss suggested revisions of methodology. Whilst RIU were reluctant to revise the current methodology it was agreed that reports would be revised to show, in addition to the score and overall results, what the scores and overall results would be taking account of changes suggested by H&R. The former would be referred to as the "above the line score" and the latter the "below the line score". The Review Team has noted that the results and overall scores, after taking account of the H&R changes did not materially change the overall classifications awarded in the reports.
- 6.5.5. The Review has confirmed that to date none of the outstanding draft RIU reports have been finalised. However, RIU have confirmed that meetings are ongoing with District Managers to finalise the reports. The Chair of the Board and the Chief Executive have set a target date of the end of June for finalising the reports. If agreement cannot be reached on individual

reports RIU will finalise the report and acknowledge in the body of the report that District Management dispute the findings and record their responses to the RIU findings. These reports will be reported to the next Risk and Performance Committee meeting in July 2012.

- 6.5.6 The Review Team understands that the new inspection methodology for the 9th Round of inspections is currently being developed. RIU have, and are continuing to, actively engage with Senior Management and policy leads in Housing and Regeneration to ensure that the methodology addresses the NIHE's assurance requirements in relation to response maintenance in Districts and that there is a clear understanding within districts of the standards required and the level and quality of control that that districts should be applying.

Scheme Inspection Unit

- 6.5.7 The Scheme Inspection Unit is one of four units that form Corporate Assurance Unit. The Corporate Assurance Unit charter states the purpose of the unit as:

"We provide independent assurance that policies are being complied with and that adequate and effective controls are in place to manage the corporate risks. This assurance is provided to Management, CXBC, Accounting Officer, the Risk and Performance Committee, the Audit Committee, and the Board"

- 6.5.8 The Scheme Inspection Unit inspection process is set out in the Corporate Assurance Unit Terms of Reference which was formally approved by the Risk and Performance Committee on 17 April 2012. The Scheme Inspection Unit prepares and delivers an annual programme of work and reports its findings quarterly. The focus of Scheme Inspection Unit inspections is "Materials and Workmanship" which is, broadly, an inspection of quality. Additionally, work relating to quantities began in January 2010 but was not formally part of the inspection regime.

- 6.5.9 Until December 2011 a typical Scheme Inspection Unit report contained no more than a summary of findings and recommendations. Its findings were reported to the Audit Committee until December 2011. At this meeting the Audit Committee sought more information and, subsequently, reports included management responses. On 7 December 2011 an issue about methodology was brought to the Audit Committee.

"In relation to scheme inspections the Committee heard that there was a lack of management agreement on findings in some inspection reports. The difference appeared to centre around definitions, terminology and the Housing Executive specification."

It was agreed that, in future, findings and recommendations should be agreed and include management response prior to being submitted to Audit Committee...It was agreed that further work should be undertaken to clarify and agree the issues identified around terminology".¹

- 6.5.10 At the 7th March 2012 the Audit Committee heard that:

*"Management responses have not been agreed with SIU due to the lateness of management responses to Site Reports and Preliminary Reports 15 February (DPS) and 16 February (H&R)....To overcome any future disputes relating to lateness of management responses a protocol is being developed which will include timeframes for responses and resolution of disputes"*²

- 6.5.11 The Review Team notes that this protocol is the Corporate Assurance Unit Terms of Reference which sets out the inspection process but, crucially, does not fully set out timeframes. We noted that the Audit Committee also heard that:

1 Audit Committee minutes, 7 December 2012, paragraph 13

2 Audit Committee papers, 7 March 2012, page 43, paragraph 26

“To support management in understanding the implications of the changes...SIU carried out a series of presentations in January 2012 to all DPS Area staff...”³

“During this quarter difficulty was experienced in receiving responses to requests for project information from most Areas, with responses taking up to 4 months to complete, this has been reported to the ADDPS and DDPS (Acting) for resolution. As a result this has had an adverse effect on SIU progress against agreed work programme. It is expected that the proposed protocol setting out the modus operandi of the Corporate Assurance Unit will help address this issue.”⁴

6.5.12 The Review Team notes that Scheme Inspection Unit had difficulty obtaining responses from Design and Property Services from November 2011 to March 2012⁵ and that, while there was some disagreement about standards and terminology, the perception from Scheme Inspection Unit staff was that it coincided with an issue regarding Price Product Lists (PPLs) being brought to the Investigation Strategy Group (ISG) on 7 November 2011⁶. In any event, after the March 2012 Audit Committee meeting, the flow of information between Scheme Inspection Unit and Design and Property Services returned to normal.

6.5.13 The Review Team notes that Scheme Inspection Unit's delivery of its programme of work for 2012/13 is dependent upon securing a Quantity Surveyor resource to properly inspect PPLs.⁷ After the March 2012 Audit Committee meeting, Scheme Inspection Unit reported to the recently formed Risk and Performance Committee (RPC).

Conclusion

6.5.14 While the Review Team is not technically qualified to provide a qualitative opinion on the adequacy of the methodology employed for the 8th round of inspections we note that the inspection results do not substantively change when taking account of changes suggested by Housing and Regeneration.

6.5.15 We also note that the RIU manager who is widely recognised within NIHE as having significant technical and practical experience in response maintenance activity is content that the 8th round methodology is fit for purpose and is providing District management with an accurate assessment of performance in their area.

6.5.16 We do not consider that NIHE Management acted quickly enough to resolve the issue surrounding the 8th round of inspections as is clearly evident from the fact the first formal meeting between RIU and Housing and Regeneration Division management to discuss the issues with the methodology took place on 9th March 2012, some six months after the inspection round commenced.

6.5.17 Whilst we acknowledge that there have been further meetings between RIU and management in Housing and Regeneration Unit in relation to the 8th round methodology, and that the Chief Executive has met with RIU to discuss the issue, we consider that it was only the intervention of the Permanent Secretary through his letter of 8th May 2012 that caused NIHE management to give the issue the attention it deserved. We note that NIHE Management now accepts the classifications awarded for the 12 reports that are either final or at draft report stage and that 11 of these reports provide negative classifications; this important independent review of the application of controls over Response Maintenance failed to illicit the response from Management that one would reasonably expect until as late as May 2012. In the opinion of the Review Team, too much time was spent within NIHE in disputing the

3 Page 43, paragraph 27

4 Page 44, paragraph 28

5 SIU Team Meeting work schedule

6 Internal Memorandum, 7 November 2011, from Gay Ireland to Maureen Taggart

7 Audit Committee papers, 7 March 2012, page 35, paragraph 3

findings and methodology of the team rather than addressing the serious findings in these reports.

- 6.5.18 With regard to Scheme Inspection Reports, the Review Team has noted the difficulties that were experienced in obtaining management responses to reports and in particular agreement on the question of measurement and standards but following the March Audit Committee there has been an improvement in communication. The Review Team would recommend that on the issue of contractors making good on defects that this should be subject to further work by SIU. With regard to the issue of potential overcharging by contractors in relation to Price Product Lists this issue has not been addressed with the urgency that one would expect and there is need for this issue and the potential financial consequences to NIHE to be clarified. The Review Team understands from interviews with the Chairman and Chief Executive that the new Director of DPS has been tasked with identifying the extent of this issue and that out of a total of approximately 245 schemes 150 are still to be finalised. The results of this review and the quantification of the potential financial impact for NIHE should be clearly reported by NIHE to the Department.

6.6 Objective 7 - To determine if the current methodology for the agreement and finalisation of reports is fit for purpose

Repairs Inspection Reports

- 6.6.1 A methodology for the agreement and finalisation of reports has only been approved by the Risk and Performance Committee (RPC) in April 2012. Prior to this agreement the arrangements that were in place were informal. The new reporting protocols were developed following discussion with management in Housing and Regeneration Unit. The protocols outline the reporting process, the specific managers who will receive preliminary reports and final reports and target timescales for the completion of fieldwork, the issue of preliminary and the issue of final reports.

Scheme Inspection Reports

- 6.6.2 The Scheme Inspection Unit inspection process is set out in the Corporate Assurance Unit Terms of Reference which was formally approved by the RPC on 17 April 2012. The Review Team notes that Scheme Inspection Unit had difficulty obtaining responses from Design and Property Services from November 2011 to March 2012 and that part of the delay was due to the failure to obtain requested documentation before the site inspection began.⁸

Conclusion

- 6.6.3 The new reporting protocols are to be welcomed, however, in order to ensure that the target timescales are fully complied with CAU should develop report clearance targets and report performance against the target to each Risk and Performance Committee meeting. Further, the Scheme Inspection Unit should define timeframes for each stage of the inspection process and agree these with Design and Property Services
- 6.7 **Objective 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.

6.7.1 In considering the Ballynahinch issue two related issues have come to light;

- What are the financial implications across all planned maintenance schemes that were subject to EGAN style contracts?; and
- Was information deliberately withheld from the Audit Committee?

6.7.2 To put these issues in context it is necessary to briefly set out the sequence of events pertaining to the Ballynahinch scheme inspection report.

6.7.3 Scheme Inspection Unit was part of the Design and Property Services directorate until September 2011. In the first quarter of 2010 five kitchen replacement schemes were inspected. 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.

- On 4 May 2010 the draft reports were issued to Area Project Managers giving details of the potential overcharging;
- On 26 May 2010 the Scheme Inspection Unit manager instructed staff to remove references to potential overcharging;
- On 28 May 2010 the revised draft reports were issued by Scheme Inspection Unit to Area Project Managers;
- 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;
- On 1 December 2010 the Assistant Director of Design and Property Services reports to the Audit Committee that, “This area of work is proving both problematic and time consuming.”⁹ The Audit Committee was not informed of the potential overcharging;
- On 29 September 2011, four weeks after taking over responsibility for the Scheme Inspection Unit, Gay Ireland wrote to Stewart Cuddy, Director of Corporate Services, raising the issue of potential overcharging and informing him that this issue had been deliberately kept from the Audit Committee. Stewart Cuddy referred the matter to the Investigation Strategy Group (“ISG”);
- On 10 November 2011 the ISG met and Gay Ireland presented her case giving details of the five schemes inspected in July and August 2010. The Acting Director of Design and Property Services refuted the findings. ISG then asked Internal Audit to reconcile the positions;
- On 7 December 2011 the Head of Internal Audit presented a paper to the Audit Committee. “Review of possible overcharging in Planned Scheme Contracts – Kitchen Scheme Replacement”¹⁰ This was the first time that the Audit Committee was informed of potential overcharging in relation to PPLs. The Audit Committee sought a full report for the next meeting;
- 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.”¹¹

“Based on the preliminary work done so far on the Ballynahinch scheme Internal Audit has estimated potential overcharge arising from underestimated omissions and overestimated additions, due from the contractor, at approximately c.£90K.”¹²

“Given the scale of the differences between CAU and DPS, Internal Audit recommends that an Independent Quantity Surveyor perform site visits to kitchens in the Ballynahinch scheme to determine whether the professional judgment shown by CAU and/or DPS is accurate.”¹³

9 Audit Committee papers, 1 December 2010, page 132, paragraph 9

10 Audit Committee papers, 7 December 2011, page 76

11 Audit Committee papers, 7 March 2012, page 127, paragraph 11

12 Page 133, paragraph 30,

13 Page 133, paragraph 31

“Since receiving this paper, the Investigation Strategy Group has directed the NIHE Contract Claims Manager to examine the technical issues outlined in this paper in detail...”¹⁴

- 6.7.4 On 24 May 2012 the Department received a draft copy of Peter Craig’s (NIHE Contract Claims Manager) report. Peter Craig has determined that the contractor has overcharged by approximately £27,000. It should be noted that Scheme Inspection Unit disputes this finding and that a final figure is yet to be agreed.
- 6.7.5 On 7 March 2012 the Acting Director of Design and Property Services reported to the Audit Committee that, “There are historic errors in PPLs – arising from over-measurement and the inclusion of items not required on site. The checking of these PPLs indicates potential errors of between of 8% to 30% overestimate...”¹⁵
- 6.7.6 There are a total of 245 planned maintenance schemes subject to EGAN style contracts. Of this, approximately, 150 have still to be brought to final account.¹⁶ It is too early to put a figure on this but the potential scale of overpayments is significant.
- 6.7.7 The Review Team notes that the NIHE has commenced work to identify those schemes that have not been financially reconciled and has set up a dedicated team to bring those schemes to final account stage. Nonetheless, the issue was identified in the first quarter of 2010 and now, over 2 years later, the NIHE has yet to determine the full scale of the issue.

Was information withheld from the Audit Committee?

- 6.7.8 The issue with PPLs was identified in May 2010 and the Review Team considers that this should have been reported to the Audit Committee at its next meeting in June 2010. The Audit Committee was eventually informed in December 2011. The failure to deal with this issue earlier has affected the NIHE’s capacity to recover overpayments from contractors given that schemes may have been brought to final account in the intervening period.

Conclusion

- 6.7.9 NIHE has yet to determine the quantum of the overpayment in relation to the Ballynahinch scheme. It is important that this is determined as soon as possible as the findings have implications for all 245 schemes. The Review Team has significant concerns over how this matter has been dealt with by NIHE and recommends that the Department seek confirmation from NIHE as to the total amount of overpayments and the total amount to be written off.
- 6.7.10 The Review team notes that nine months has elapsed since Gay Ireland reported that the inspection findings on quality and cost had been reported by inspection staff but that the report had been modified “to both reduce the impact of the quality findings and to remove all reference to overcharging”¹⁷ before it was submitted to the Audit Committee. The Review Team notes that this matter has yet to be formally investigated.
- 6.7.11 The review team considers that the financial implications that have resulted from the suppression of this information are significant and that this information should have gone to the Audit Committee in June 2010. It is recommended that the Department ensures that NIHE expeditiously concludes its investigation on the possible withholding of information from the Audit Committee.

¹⁴ Page 133, paragraph 33

¹⁵ Audit Committee papers, 7 March 2012, paragraph 19, page 149

¹⁶ Minute of meeting with John McPeake on 21 June 2012, page 11

¹⁷ paragraph 10, memorandum “Accuracies of payments to EGAN contractors” from Gay Ireland to Stewart Cuddy

Annex A

Table A

Inspection Area	Date Fieldwork Started	Date Fieldwork Ended	Date Draft First Report Issued	*Date revised Draft issued	Provisional Assurance Rating	
					Above	Below potential
Limavady	01/09/2011	14/10/2011	25/11/2011	n/a - final report issued	36% - Una	---
Cookstown	01/09/2011	14/10/2011	25/11/2011	n/a - final report issued	80% - Sat	---
Shankill	01/09/2011	14/10/2011	25/11/2011	09/05/2012	21% - Una	30%
West Belfast	01/09/2011	14/10/2011	25/11/2011	09/05/2012	39% - Una	47%
Strabane	17/10/2011	02/12/2011	20/01/2012	09/05/2012	29% - Una	37%
Dungannon	17/10/2011	02/12/2011	20/01/2012	09/05/2012	46% - Una	54%
Newry	17/10/2011	02/12/2011	20/01/2012	09/05/2012	47% - Una	56%
Downpatrick	17/10/2011	02/12/2011	20/01/2012	09/05/2012	57% - Una	61%
Coleraine	05/12/2011	20/01/2012	09/05/2012	-----	39% - Una	47%
Magherafelt	05/12/2011	20/01/2012	09/05/2012	-----	33% - Una	41%
Omagh	23/01/2011	31/03/2011	09/05/2012	-----	67% - Lim	73%
Ballymoney	23/01/2011	31/03/2011	09/05/2012	-----	63% - Lim	71%

NI Gateway Review 3-Report Response Maintenance Contracts 2011

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED

Office of Government Commerce

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NI Gateway Process

Review 3: Investment decision

Version number: Final Issued**Date of issue to SRO:** 29/9/11**SRO:** John McPeake**Department:** Department of Social Development**Agency or NDPB:** Northern Ireland Housing Executive**NI Gateway Review dates:** 26/9/11 to 29/9/11**NI Gateway Review Team Leader:**

Ian Brown

NI Gateway Review Team Members:

Tim Ainger

Austin Hogger

NI Gateway Review 3: Investment decision

Project Title: Response Maintenance Contracts (2&3)

NI Gateway ID: BIDP30

Privacy Marking: UNCLASSIFIED

NI Gateway Delivery Confidence Assessment

<u>Delivery Confidence Assessment</u>	Amber / Green
<p>We found that the project has made considerable progress in a short duration and has been diligent in its attention to ensuring that the recommendations from both the previous Health Check Review and wider Governance review have been applied.</p> <p>The backdrop of scrutiny and external pressure to achieve delivery targets is noticeable and has impacted on the project teams approach. The evidence suggests that this has been managed to date without too many compromises. The next stage following PQQ is critical and will have a determining effect on the success or failure on a series of contracts which add up to a £140m 4 year contractual arrangement, and its impact on a proportion of the 90,000 NIHE tenants. It is essential that the project requirements up to service commencement are reviewed now and that an updated risk management plan and critical path programme is produced. This needs to form the basis of an assurance statement to the Project Board covering the status of the Project and its risks before the ITT phase is commenced.</p> <p>With this opportunity to assess and update the Project position, we consider that the Project Team will be well placed to identify and manage the risks and challenges associated with both the ITT phase and with the change management that will be necessary as the contract comes into force and the service delivery phase commences.</p> <p>In summary this has been a well run project to date within a very testing project environment. Subject to the recommendations from this review we consider that the project will be in a good position to proceed to a successful conclusion.</p>	

The Delivery Confidence assessment RAG status uses the definitions below.

Page 2 of 21

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.

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED

<u>RAG</u>	<u>Criteria Description</u>
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 prioritised using the definitions below.

Ref. No.	Recommendation	Critical/ Essential/ Recommended
1.	The Project Manager should prepare a comprehensive Contract Management handbook.	Essential prior to contract commencement
2.	The Project Manager should implement an effective benefits realisation process and management plan to capture, baseline, measure and quantify benefits over time.	Essential prior to contract commencement
3.	The Project Manager should introduce a comprehensive risk management process that embraces the operational phase and wider corporate risk management processes.	Critical
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.	Recommended
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.	Critical

NI Gateway Review 3: Investment decision

Project Title: Response Maintenance Contracts (2&3)

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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.	Critical
7.	The SRO should ensure that plans to finalise change management are in place ready for implementation when the new contracts begin.	Essential prior to contract commencement
8.	The SRO maintains the Project Board governance into service delivery and benefits realisation phase.	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.

Recommended – The programme/project should benefit from the uptake of this recommendation.

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED**Background****The aims of the project:**

The Aims of the project are significantly influenced by the Health Check Review into Housing Executive procurement carried out by the Office of Government Commerce (OGC) on behalf of the DSD which identified 14 critical Health Check recommendations.

A Project Team was set up in March 2011 to address the recommendations in relation to Procurement and Contract Management and 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 Maintenance Contracts (RMC) by November 2011

This Gateway 3 Review is looking primarily at the latter of these points in the context of the other two.

The driving force for the project:

The driving force for the project is the need to deliver a newly procured RMC primarily within the context of the recommendations made by the Health Check Review. Given that the current 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.

NI Gateway Review 3: Investment decision

Project Title: Response Maintenance Contracts (2&3)

NI Gateway ID: BIDP30

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The original 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 are:

- a. That the current Corporate Procurement Strategy be updated and this would serve to guide how future procurements within the organisation should be run.
- b. That contracts are properly managed and appropriate governance structures are put in place.
- c. That contracts provide for effective and enforceable management.
- d. That 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 new arrangements take a strong strategic approach to procurement.

- a. Each procurement will have a Senior Responsible Officer (Normally the Appropriate Director) who will take ownership and will prepare a business case to support the need.
- b. The Head of Procurement will appoint a Corporate Procurement Manager (CPM), a new role, to project manage the delivery of individual procurements. He/she will be supported by a Project Team appointed by the SRO.
- c. Each procurement will require the CPM to prepare a procurement strategy in compliance with the Corporate Procurement Strategy and seek Board approval before rolling out the procurement.
- d. The project will be governed at all stages by a Project Board and appropriate gateways will form part of the assurance process. The Housing Executive Board will approve key stages of the procurement in line with Standing Orders.
- e. A more stringent and tougher approach will be taken in relation to the management of performance in order to drive a behavioural change to achieve better performance in the delivery of the contract.

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED

The current status of the project is that the PQQ Stage has been extended and is due to be returned to the Project Team at the beginning of October 2011. The PQQ phase is subject to 'Formal Challenge' and following the resolution of this it is then intended that the project proceeds to ITT and the milestones updated. The current procurement timetable is as follows -

Deliverable	Status
1. Strategy	Approved Board 27 th June 2011
2. PQQ and Memorandum of Information	Complete and signed off by Legal
3. OJEU Notice	Published 25 th August 2011
4. Return of PQQs	Return Date 4 th October 2011
5. Gateway Review	26 th – 29 th September – on-going
6. Contract Documents	Due to go to Legal 3 rd October 2011 for sign-off by 10 th October 2011
7. Invite to Tender	To be issued 18 th October 2011
8. Tender Return	Due back 28 th November 2011
9. Evaluate Tenders	Due to complete 12 th December 2011
10. Framework Board Approval	Due to be approved Board 14 th December 2011
11. Staff Training	Training Material being prepared – training to commence 1 st December 2011
12. Mini Competition	3 rd – 24 th January 2012
13. Contractor Training	24 th – 31 st January 2012
14. Commence new contract	1 st February 2012

Current position regarding NI Gateway Reviews:

A gateway style Health Check Review was conducted in December 2010 and the recommendations made as part of this process have either been completed or are in the process of being addressed.

A summary of recommendations, progress and status from the previous gateway style Health Check Review can be found in Appendix C.

Purposes and conduct of the NI Gateway Review

NI Gateway Review 3: Investment decision

Project Title: Response Maintenance Contracts (2&3)

NI Gateway ID: BIDP30

Privacy Marking: UNCLASSIFIED

Purposes of the NI Gateway Review

The primary purpose of an NI Gateway Review 3: Investment decision is normally to confirm the Full Business case and benefits plan now that the bid information has been confirmed and check that all the necessary statutory and procedural requirements were followed throughout the procurement process.

By agreement with both the NI Gateway Team and the SRO this review is an 'early' Gateway 3 being undertaken during the procurement phase and prior to the availability of bid information.

Appendix A gives the full purposes statement for an NI Gateway Review 3.

Conduct of the NI Gateway Review

This NI Gateway Review 3 was carried out from 26th September 2011 to 29th September 2011 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.

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED**Findings and recommendations****1: Assessment of the proposed solution**

The RMC Project represents the need to retender an essential service within NIHE as well as the first opportunity to put in place an active response to reports and investigations which had been undertaken during the previous 12 to 18 months.

This project has been significantly influenced by the previous Health Check Review. It is also affected by a Departmental Review on Governance which took place in parallel, the investigation into contract compliance issues with a previous supplier leading to their eventual termination, and finally the intense level of political interest that exists in relation to the provision of maintenance services by the Department. Any one of these factors would create pressure within a project but with all of them together the Project is being delivered in an environment of intense scrutiny.

We found that despite this environment and the extremely challenging timescale, the Project Team has ensured that the proposed delivery solution remains connected to the key requirements for the business and stakeholders. It also addresses the key recommendations of the Health Check Review. In parallel to the contract procurement the Project Team has also recognised the critical issues of training and cultural change management. This will be essential to a successful implementation of the contracts along with the sustainability of its long term application.

As previously recommended we note that the NIHE has a documented Corporate Procurement Strategy and the Project Team has produced both a contract specific Procurement and Contract Management strategy. The intent of the Project Team is to use the NEC form of contract which is in line with Government Policy/Best practice.

We found plenty of evidence as to the relevance of the KPIs to business needs. These have been developed into robust measurable assessments of the performance of the new contractors. In addition we found a wide recognition that the introduction of a Contract Manager role will be essential to ensure that the contracts are understood and managed and that they deliver the service that tenants need.

In line with the Health Check recommendation the RMC project is a project in its own right with a clear governance framework with identified individuals, processes and documentation. The documentation, for example, the risk management process and risk log, and the critical path programme, benefits mapping and realisation plans etc would benefit from further consideration and this is explored in more detail later in this report. This is not an uncommon symptom of a project that is moving at such a challenging pace but equally any improvements need to be assessed at key decision points (such as the pending issue of ITT) so that the Project Board is fully informed of any risks associated with proceeding to the next stage.

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The progress made to date has been excellent. It is essential however for the integrity and robustness of the proposed solution that the time between PQQ and service commencement is dictated by a planned sequence of activity. We comment on this in section 4 of this report.

2: Business Case and stakeholders

The Business Case for RMC confirms the need for this procurement. It clearly identifies a vision and strategy that delivers corporate objectives and compliance with the issues identified in the earlier Health Check and Governance reviews.

The requirement to provide a refreshed response maintenance service is clear. The business case includes a section on benefits but these are limited in their scope. The key benefits identified revolve around achieving new contracts (to replace existing expiring term contracts) that deliver sustainable procurement within an environment of clear strategies, performance measurement and management and behavioural change.

There are, however, a number of issues that will benefit from further attention that will help reinforce the new arrangements and the risks and benefits that are associated with them.

Key Performance Indicators (KPIs) - The proposed KPIs and the performance payment regime that goes with them are well thought through and reflect good practice. The achievement (or otherwise) of performance has been 'road tested' by subjecting them to recent performance statistics from the current term response contracts. This has generated data to analyse the potential impact of poor performance on payments made to new suppliers. This is a valuable piece of work and provides some assurance on the effectiveness of the proposed regime. 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 or, indeed, should the targets prove to be too lenient.

Client KPIs – The current KPI regime rightfully focuses on contractor performance and tenants' satisfaction. The Project Team are already considering the measurement of their own performance and we suggest these are presented in a similar KPI format and used as an active management tool.

Housing Management Services (HMS) - The operation of the Contractor Performance Management process is wholly reliant on the effective operation of

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the (HMS) IT system and we are assured that significant work has and is being undertaken to develop this system in time for an effective start to the new arrangements. We understand that this system is robust with daily backups and off site resilience.

Statistical Sampling - The Project Team has undertaken a significant amount of work to generate a proposed Statistical Inspection Regime to align with the expectations set out in the earlier Health Check report. This regime should be finalised, thoroughly tested on live data to test its robustness and then implemented as part of the business as usual contract management process. The ability to provide a degree of flexibility and discretion in sampling to explore anomalies which arise from the process should be retained.

Management of Tenants expectations - The documentation that we have had access to makes reference, in a variety of places, to the need to satisfy tenants' expectations and the terms of their tenancy agreements. As landlord, the Northern Ireland Housing Executive (NIHE) is clear on its business objectives to improve performance.

We understand that the new arrangements have taken tenants' needs into account. The project will benefit from a clearer statement about how the new arrangements will work with tenants and underpin the respective landlord and tenant obligations. Such a statement could usefully be embraced in a formal communication with the tenants prior to the contract going live. This would help fully explain the workings and benefits of the new arrangements and what is expected of the tenants to make the arrangements work as effectively as they can. We are mindful here of the direct impact that tenants will have on contractors (and their payment) through effective and objective feedback.

Contract Management Handbook - Much work has been undertaken by the Project Team to generate new procedures and guidance on how the new arrangements are expected to work, and these are used to good effect to inform and support the Invitation to Tender documentation for the new frameworks. We have also seen good development of governance structures and the associated roles, relationships and responsibilities. We believe that the project will benefit from the creation of a clear Contract Management handbook that comprehensively draws together all of this information and related response maintenance activity into a master reference handbook for operational use and to help inform any new staff inductions. The Handbook should embrace all response maintenance procedures and their interfaces with other divisions within NIHE. The Contract Management handbook should be prepared in time to inform the main training programme before the live start date on site. We understand from the Project Team that the current planned maintenance Scheme Delivery Process documentation will provide a useful basis for this more extensive handbook.

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Recommendation 1: The Project Manager should prepare a comprehensive Contract Management handbook.

Benefits - The Response Maintenance arrangements will generate benefits over and above those identified in the business case. The demonstrable improvement in tenant satisfaction and effective maintenance of the estate are key outcomes from this project. The Project Team should identify all anticipated benefits from the output of this procurement exercise and put in place an effective benefits realisation process and management plan to capture, baseline, measure and quantify benefits over time. Such benefits will be a valuable tool in being able to demonstrate the added value of the new arrangements.

Recommendation 2: The Project Manager should implement an effective benefits realisation process and management plan to capture, baseline, measure and quantify benefits over time.

The previous Health Check Review identified the need to embed the KPI regime in the new Contract(s), for the KPIs to be based on business need, for resolution of issues with the HMS system, for tailored KPI reports and trends and for a statistical approach to the sampling of completed works for inspection and assurance. We believe that these issues have been satisfactorily addressed. In addition we found that all stakeholders we spoke to were committed to delivering the requisite change and fully embraced the need for a new regime.

3: Risk management

The project has utilised a risk log that has formed an integral part of the reporting regime to the NIHE Oversight Board and the DSD Oversight Board. The risk log has identified a number of project risks and risk owners. It does not identify a clear mitigation plan or impact and likelihood for each risk, and does not embrace all risks associated with this procurement and its operational phase.

Additional risks include, for example:

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- There is a risk that that one framework bidder is able to secure all contracts in one Area, or indeed, in all Areas.
- There is a risk that bidders ignore inflation to secure contracts and experience severe difficulties in the latter years of the contract.
- There is a risk that the risk profile of the contracts undermines Value for Money.

The Project Team should introduce a wider, more comprehensive risk management process that identifies all procurement and operational risks, risk owners and mitigating actions. Such a risk management process should be carried forward into the operational phase and form an integral part of the Housing and Regeneration Division corporate risk management process. To instigate this, the Project Team may consider holding a half day risk management workshop to provide the basis of a refreshed way forward.

Recommendation 3: The Project Manager should introduce a comprehensive risk management process that embraces the operational phase and wider corporate risk management processes.

During the course of our discussions with key stakeholders we heard a variety of concerns and issues about the likely impact of inflation on the pricing strategies of potential suppliers. We fully understand the frustration experienced by NIHE on the current arrangements which allow an inflation uplift using BCIS published indices at a time when tender prices are static. The current proposal in this procurement is for bidders to offer a single percentage adjustment to the published Schedule of Rates which is to include, inter alia, all inflation allowances for the full (four year) duration of the contracts. This strategy carries a number of risks, particularly given the uncertain financial climate that currently prevails.

The Project Team should further consider how it is going to evaluate bidders and their approach to inflation. We suggest that it would be prudent to continue to consider options. This may include the use of adjustments using a different index or a fixed price within a defined range of inflation. At the very least the Project Team should introduce a degree of visibility into the inflation allowances included in bidders' offers (at Frameworks and mini competition stages) to allow a degree of interrogation and comparison at tender stage and to provide clear data in the event of difficulties with inflation allowances in the latter years of the contracts.

Recommendation 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.

4: Review of current phase

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The project is in the procurement phase. PQQs were issued on 25 August 2011 with a return date originally of 20 September. However we understand that a challenge has been received from a potential bidder and as a result the date for return of PQQs has been extended by 2 weeks. PQQs are now due back in early October.

The target date for the commencement of responsive maintenance services under the new contracts was, until very recently, set for mid-January 2012. The 2 week extension to the PQQ return date has meant that the target service commencement date has been adjusted to 1 February 2012. There is, however, widespread concern in the Project Team that further challenges will be received from potential bidders that may impact on the procurement timetable and consequently on the proposed service commencement date.

It is also clear that the target procurement dates have not been set by service considerations but have been driven by external pressures to have new contracts in place as soon as possible. Continuing service cover has been assured by extending the existing response maintenance contracts effectively on an open ended basis until the new contracts are ready to commence.

Whilst acknowledging that a great deal of work has been undertaken in the last few months to prepare new KPIs, new contracts and new contract management arrangements, significant work remains to be completed before the Response 2 and 3 Maintenance contracts can be let with confidence. We found strong evidence that the current service commencement target date means that insufficient time is being allowed for an effective procurement phase. From our experience this runs a risk of compromising a structured and comprehensive commencement of an effective new service.

Whilst many of the outstanding procurement activities have been recognised by Project Team members and by the SRO, we have not seen a critical path programme through to the completion of the procurement phase. This is now a critical requirement.

Recommendation 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.

In preparing this detailed critical path programme, we would suggest that the following issues and work areas need to be defined and realistic timescales included (This list is not exhaustive) -

- completing the contract conditions
- finalising the framework agreements

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- achieving NIHE Head of Legal Services sign-off
 - appointing the evaluation team and setting out clear timetables for their participation in the evaluation process
 - sensitivity analysis on the impact of the proposed KPIs in order to identify how they might impact on both the contract management arrangements and on contractors' margins
 - appointing the proposed Contract Managers
 - appointing the Director of Housing and Regeneration Division
 - preparing a contract management handbook.
 - setting out training plans and timescales up to contract let stage which embraces the new Contract documentation, new procedure manuals, new roles and responsibilities of both existing staff and new post holders
 - preparing a tenant consultation plan including consideration of a new Tenants' Charter to match the new contract launch
 - final HMS testing and assurance
 - incorporating TUPE timetables
 - go live commissioning plan in place such that service delivery is assured across the old/new contract boundary
 - benefits realisation plan
 - clear programme of mini competition activity to finalise contract awards

The next key stage in the procurement phase is ITT and prior to that we would suggest that the Project Board receives and signs off a report assuring the Board that the necessary pre-ITT issues set out above have been completed. Similarly, formal Board papers should be prepared and signed off prior to award of the framework agreements and again prior to contract award following the mini-competition stage.

Recommendation 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.

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.

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Recommendation 7: The SRO should ensure that plans to finalise change management are in place ready for implementation when the new contracts begin.

5 Readiness for next phase - service delivery

The project's governance arrangements have maintained effective control of the project to date. However, there is a need to continue with the Project Board and, possibly, the NIHE Oversight Board, into the service delivery phase. Until the new contractual processes have bedded down and until service delivery levels are assured, the Project Board has a key role to play in ensuring that performance and accountabilities are discharged effectively and proposed benefits are realised.

Recommendation 8: The SRO maintains the Project Board governance into service delivery and benefits realisation phase.

Responsive maintenance is a major component of NIHE's responsibilities but is only part of an integrated approach to their asset management strategy. Accordingly we would suggest that the asset management strategy continues to develop to maximise the integration of responsive, planned, cyclical and capital investment works. We also support the proposal to include the H&R Division Performance Review Group in the analysis of activity data.

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.

The next NI Gateway Review could be a Gateway 5 some 12 months following contracts commencement.

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED**APPENDIX A****Purposes of the NI Gateway Review 3: Investment decision**

- Confirm the Full Business Case and benefits plan now that the relevant information has been confirmed from potential suppliers and/or delivery partners.
- Confirm that the objectives and desired outputs of the project, are still aligned with the programme to which it contributes and/or the wider organisation's business strategy.
- Check that all the necessary statutory and procedural requirements were followed throughout the procurement/evaluation process.
- Confirm that the recommended contract decision, if properly executed within a standard lawful agreement (where appropriate), is likely to deliver the specified outputs/outcomes on time, within budget and will provide value for money.
- Ensure that management controls are in place to manage the project through to completion, including contract management aspects.
- Ensure there is continuing support for the project.
- Confirm that the approved delivery strategy has been followed.
- Confirm that the development and implementation plans of both the client and the supplier or partner are sound and achievable.
- Check that the business has prepared for the development (where there are new processes), implementation, transition and operation of new services/facilities and that all relevant staff are being (or will be) prepared for the business change involved.
- Confirm that there are plans for risk management, issue management and change management (technical and business) and that these plans are shared with suppliers and/or delivery partners.
- Confirm that the technical implications, such as 'buildability' for construction projects; and for IT-enabled projects information assurance and security, the impact of e-government frameworks (such as e-GIF, e-business and external infrastructure) have been addressed.

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APPENDIX B

Interviewees

Name	Role
John McPeake	Chief Executive and SRO
Ken Millar	Member of NIHE Board and Oversight Board
Will Haire	Permanent Secretary Dept for Social Development (DSD)
Tim Gough	Assistant Director Design & Property Services and Project Team Manager
Mark Graham	Assistant Director Business Improvement and Project Board Member (Project Manager for overall Governance Project)
Charlie Walker	Senior Quantity Surveyor Central Policy & Standards and Project Team Member
Declan Allen	Head of Procurement and Project Board Member
John Cole	Deputy Secretary/Chief Estates Officer, Health Estates Investment Group and External Project Board Member.
Trevor Neill	Corporate Procurement Manager and Project Team member
Owen Brady	District Manager Lisburn
Drew McMath	District Maintenance Manager Armagh/Banbridge
Aengus Hannaway	District Manager and Project Team Member
Stephen Graham	Area Manager South East and Project Board Member
Frances Gallagher	Head of Legal Services and Project Board Member
Lorraine Campbell	Area Manager South
Michael Kavanagh	Manager Central Technical Support and Senior Business Representative
Harry Dornan	Assistant Director Housing & Regeneration and Project Sponsor (Project Board Member)

NI Gateway Review 3: Investment decision**Project Title:** Response Maintenance Contracts (2&3)**NI Gateway ID:** BIDP30**Privacy Marking:** UNCLASSIFIED**APPENDIX C****Recommendations from previous NI Gateway Review**

<u>Recommendation</u>	<u>Progress/Status</u>
a. We recommend that the NIHE produces and adopts a new corporate procurement vision and strategy	Complete - Corporate Strategy approved at Board 29.06.11 Gateway 3 RMC Comment - Confirmed
b. We recommend that all new major procurements have a named individual client/owner and a specific procurement strategy approved by the CXBC or an equivalent authority	Complete - Response and Grounds Procurement Strategies approved CXMC 20.06.11 and submitted for June Board – Full governance structure identified in Strategies. Gateway 3 RMC Comment - Confirmed
c. We recommend that all major procurements are run as projects with identified project managers and using a consistent recognised project management methodology	Complete - Response and Grounds procurement projects being run under this project Gateway 3 RMC Comment – Noted and further comment in Gate 3 report
d. We recommend that every contract has a named individual who is responsible for the effective management of the contract and contractor. Each contract manager should be suitably skilled or experienced, familiar with OGC best practice guidance on contract management and be engaged as part of the project team throughout the procurement	Complete - Corporate Procurement Strategy has identified that future procurements will be project managed by a Corporate Procurement Manager – recruitment required. Gateway 3 RMC Comment - Confirmed
e. We recommend that, regardless of the type of contract relationship envisaged in the individual procurement strategy, attention is given to the form (detailed terms and conditions) so that the contract enables effective and enforceable management to be delivered	Complete – New contracts being delivered with appropriate procedures for measuring and managing poor performance. Gateway 3 RMC Comment - Confirmed
f. We recommend that a contract governance structure is developed and agreed, if necessary for each type of service, which ensures that all those engaged in service delivery know how and to whom to escalate problems and resolve consistent or material poor performance	Complete - Governance Structure has been identified for Response and Grounds Contracts and Roles and Responsibilities detailed. Gateway 3 RMC Comment – Noted and further comment in Gate 3 report around development of a Contract Management Handbook.

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g. We recommend that KPIs targets/levels are set prior to the procurement of any contract and embedded in the contract so that bidders can price against known targets	<p>Complete – KPIs developed and included in new Response Contract</p> <p>Gateway 3 RMC Comment - Confirmed</p>
h. We recommend that the KPIs and levels of performance expected are set on the basis of business needs for the specific service to which they relate. We consider it unlikely that four/five KPIs, as currently planned, will be enough to cover the complex contracts being tendered	<p>Complete – KPIs developed and included in new Response Contract and agreed with Business Unit.</p> <p>Gateway 3 RMC Comment - Confirmed</p>
i. We recommend that urgent attention is given to resolving the issues with HMS that are critical to contract management for both current and future contracts	<p>On-going – Specification for new reports with Business Improvement Unit and reports are currently being produced and tested on an on-going basis. Due to complete mid December.</p> <p>Gateway 3 RMC Comment – Noted</p>
j. We recommend that the trend analyses and detailed reporting required for local managers, area managers, central directorates and the Board are identified and agreed in the light of this report and that HMS is enabled to generate them	<p>On-going – see previous comment</p> <p>Gateway 3 RMC Comment - Noted</p>
k. We recommend that a statistical approach to inspection is developed and incorporated into future contract management regimes. Appropriate contract clauses <u>may</u> need to be developed but should not describe the precise detail of any regime, rather encapsulate the right to inspect on this basis and incorporate any financial consequences in terms of payment into the appropriate schedule to the contract. If this approach can be agreed with contractors currently in post this should be done for existing contracts. We would envisage that this might prove most difficult in response maintenance contracts	<p>On-going – Work on-going. Approach will be a 2 tier inspection regime. Tier 1 – random inspections randomly generated by HMS. Tier 2 – will be more targeted inspections where problems are identified. Target completion date is end October.</p> <p>Gateway 3 RMC Comment – Noted and further comment in Gate 3 report around development of this approach.</p>
l. We recommend that all future	<p>On-going – Both Response and Grounds Maintenance contracts have</p>

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contracts are drafted on the basis of the detail set out in the procurement strategies and that there is a report produced to confirm that they meet the need and, insofar as can be determined, they will be enforceable	been prepared in line with Corporate Procurement Strategy – to be signed off by Corporate Procurement Manager Gateway 3 RMC Comment – Noted but not checked
m. We recommend that the contract manager ensures that processes are put in place to recognise and collect the evidence that may be needed to enforce any provision of the contract	On-going – Contract Managers are currently being recruited - they will be trained and will roll out training to operatives of the contract. Their remit will be to ensure that a consistent approach will be applied to the contract and that evidence is collated on a regular basis in compliance with the contract. Gateway 3 RMC Comment - Noted
n. We recommend that the contractual and procurement options for phases 1, 2 and 3 of the response maintenance repairs contracts are reviewed and that an early decision on the way forward for these contracts	Complete Phases 2 and 3 being procured as part of this project. KPIs will be negotiated into Phase 1 and when Phase 1 is complete in August 2014 the work packages will be included in Phase 2&3 by way of mini competition Gateway 3 RMC Comment - Noted

NIAO NIHE Report to those charged with Governance Year ended 2010

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Northern Ireland Housing Executive

Year ended 31 March 2010

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1. Executive summary

Our audit is now complete and resulted in a qualified audit opinion due to irregular housing benefit overpayments and in relation to £2.2m of Supporting People funding. The Comptroller and Auditor General (C&AG) produced a report to accompany his audit opinion.

Significant matters which we would like to draw to the attention of the Audit Committee as a result of our audit include the following:

1. Housing benefit – levels of fraud and error

The levels of fraud and error for Housing Benefit for the year 1 January 2009 to 31 December 2009 highlighted estimated fraud and error for Housing Benefit were £9.3m (overpayments) and £3.4m (underpayments).

2. Housing benefit – recovery of overpayments

NIAO are concerned that the level of housing benefit overpayments continues to rise year on year and has increased by £3.2m from £20.2m at 31 March 2009 to £23.4m at 31 March 2010.

3. Supporting People

Our audit approach for 2009-10 built on our work of the previous years with again visiting a number of organisations in receipt of Supporting People funding. This work uncovered a number of significant issues with the organisations that were in receipt of Supporting People funding. We are satisfied that robust controls are in operation at NIHE but further monitoring of actual spend by the organisations in receipt of the funding was considered advisable. We are also mindful of the review that was carried out by the Department for Social Development (DSD), issued, after the end of the financial year and the NIHE response dated 7 May 2010.

4. PSNI Investigation

As referred to in the Statement of Internal Control there are a number of investigations ongoing. In particular we note that Project Amber has been referred to the PSNI but they have not yet completed their investigations. We will keep the development and outcomes of these investigations under review.

5 Qualification

We have qualified the financial statements on account of

- the level of Housing Benefit fraud and error; and
- the payment of £2.2m Supporting People grant paid in respect of the Special Needs Management Allowance

as set out in the C&AG's Certificate and Report on the financial statements (reference Annex A and B).

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2. Introduction The purpose of this report is to provide those charged with governance, both management and non-executives, with the results of our audit work on the Northern Ireland Housing Executive Account (NIHE) for 2009-10 and our recommendations for action. The report sets out:

- our audit conclusion;
- the outcome of our response to the key risks set out in the previously provided Audit Strategy; and
- our ISA 260 Report.

This report includes only those matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

This document is purely for the use of NIHE and our prior consent should be sought before any distribution either in full or in part is made. The NIAO does not accept responsibility to any third party for losses arising from reliance being placed upon this document.

We would like to take this opportunity to thank the management and staff at NIHE who provided assistance during the course of our audit.

3. Audit Conclusion Our audit is now complete and resulted in the Comptroller and Auditor General (C&AG) providing a qualified audit opinion on regularity on 30th June 2010 – see Annex A. The C&AG also produced a Report to accompany his audit opinion – see Annex B.

4. Key risks identified in Audit Strategy In our Audit Strategy which we presented to the Audit Committee on 13 January 2010, we identified a number of risks that related to the NIHE as an organisation and in addition to these risks others that related to individual account areas. In the Strategy we also outlined how we were going to consider further how the NIHE have addressed these risks. The following section includes details of the previously identified risks relating to the NIHE as an organisation and to individual account areas, our audit response as previously provided in the Strategy and the outcome of our testing.

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Key Risk 1 – Housing Benefit – levels of fraud and error

Level of Housing Benefit fraud and error.

Audit Response

- Review of the Analytical Services Unit (previously the Standards Assurance Unit) Report on the Levels of Fraud and Error for Housing Benefit. Testing and examination of the basis as to how this is collated.
- Review of results of Data Matching exercises.
- Review central and district office controls over administration of housing benefit.
- Review work by Internal Audit on Housing Benefit.
- Review disclosure of housing benefit fraud and error in the financial statements.

Outcome

Levels of fraud and error for Housing Benefit are reported on a calendar year by the Analytical Services Unit of the Department for Social Development. Their report produced in May 2010 covered the period 1 January 2009 to 31 December 2009. The report estimated that the levels of fraud and error for Housing Benefit were £9.3m (overpayments) and £3.4m (underpayments).

For 2009-10, NIAO did not have reasonable assurance as to the validity of Housing Benefit expenditure due to the estimated losses arising from fraud and error. As a result, a **qualified opinion** on regularity arose.

As a result of the Data Matching Exercise managed by NIAO under the National Fraud Initiative (NFI), NIHE received 20,016 matches for resolution. £717k of estimated suspected fraud or confirmed error has been identified from 291 cases. In addition, approximately 1,500 cases which are strongly suspected of being fraudulent benefit claims are being investigated by the Social Security Agency.

Key Risk 2 – Supporting People

Payment of Supporting People funding.

Audit Response

- Review progress between NIHE and DSD in developing Supporting People guidance specific to Northern Ireland.
- Review actions taken by NIHE on service reviews where issues have been identified.
- Review and testing of high level management controls, including NIHE's progress on accreditation process and a review of work by Internal Audit.
- Review NIHE's new Contract Management Process in place including risk assessment of providers.
- On a sample basis, testing and examination of grants paid to organisations in receipt of Supporting People as well as visiting these organisations.

Outcome

Our audit approach for 2009-10 built on our work of the previous years with again visiting a number of organisations in receipt of Supporting People funding. This work uncovered a number of significant issues with the organisations that were in receipt of Supporting People funding. We are satisfied that robust controls are in operation at NIHE Headquarters but further monitoring of actual spend by the organisations in receipt of the funding was considered advisable. We are also mindful of the review that was carried out by the Department for Social Development (DSD), issued after the end of the financial year and the NIHE response dated 7 May 2010.

We have considered the payment of £2.2m from the Supporting People funding to providers which is paid on approval of the Department in place of the Special Needs management Allowance. We have given a **qualified opinion** on regularity in this regard.

Key Risk 3 - Transition to International Financial Reporting Standards (IFRS)

Non-compliance with IFRS.

Audit Response

- Review NIHE's 2009/10 accounts for compliance with IFRS.

Outcome

The audit of the NIHE shadow IFRS accounts for 2008-09 was completed in early 2010 and our findings and recommendations were communicated to NIHE in our IFRS Report to those charged with Governance. As part of our work on the 2009-10 accounts we examined progress on the recommendations made in this report.

Employee benefits accrual - We recommended that NIHE calculate the holiday pay accrual using an average cost for each grade, rather than an average cost for all employees, to give a more accurate accrual.

Follow-up - In the preparation of the 2009-10 financial statements we confirmed that NIHE have calculated the holiday pay accrual using scale points for each officer. This is a more accurate and detailed analysis than that was recommended in the IFRS Report to those charged with Governance.

Segmental reporting – We recommended that each operating segment is classified as a separately identifiable transaction stream, in accordance with IFRS 8, Operating Segments.

Follow-up - Prior to the receipt of the draft 2009-10 financial statements NIHE provided NIAO with a draft segmental reporting note. We recommended a number of changes to the note and these were accepted.

Property, Plant and Equipment – depreciation – L&PS provided NIHE with a split of land for housing stock and offices, being 70% building and 30% land in their calculation. NIHE relied on this split in re-calculating depreciation under IFRS. However, no formal confirmation of the split was provided by L&PS for hostels or commercial properties. We recommended that for the 2009-10 IFRS accounts, the split of land for hostels and commercial properties should also be obtained in writing from L&PS.

Follow-up - NIAO confirmed that L&PS provided NIHE with an actual split of land and buildings valuations for each property in all categories.

Assets classified as held for sale – Housing Stock – We recommended that NIHE review house sales after the year end to determine if any of these house sales would result in these assets being classified as held for sale in accordance with IFRS 5.

PROTECT

Follow-up - NIAO confirmed that a review of house sales after year end was conducted by NIHE. This review resulted in a number of properties being classified as held for sale at 31 March 2010.

Assets classified as held for sale – Land marketed after the year end – We recommended that NIHE review land marketed after the year end to determine if any of these lands would result in these assets being classified as held for sale in accordance with IFRS 5, and disclosed as a note to the accounts.

In preparing the Undeveloped Land Schedule (ULS) for Board approval, we recommended that surplus lands be split between lands which are not yet marketed and lands which are classified as held for sale in accordance with IFRS 5.

Land disclosed in the Property, Plant and Equipment note to the accounts should be further analysed between land transferred to Housing Associations, land retained for future use and surplus land. The number of sites in each category should also be disclosed. The number of buildings for Commercial Properties, Offices, Travellers Sites and Hostels should also be disclosed.

Follow-up – NIHE have informed us that a more detailed analysis of Land disclosed in the Property, Plant and Equipment note to the accounts has been progressed and will be disclosed in the final set of accounts. NIAO are satisfied that Land is correctly stated at note 12 to the accounts.

Commercial Properties - Abatements – NIAO recommended that NIHE review all commercial property agreements where abatements arise to determine if any lease incentives are granted, and if so, these should be accounted for in accordance with SIC 15, Lease Incentives.

In addition, NIHE should also disclose separately the amount of abatements for both housing stock and commercial properties in the income note to the accounts.

Follow-up - NIHE undertook a review of commercial property agreements where abatements arose. This review resulted in a small adjustment to ensure compliance with SIC 15, Lease Incentives. Additional disclosure of the amount of abatements has been provided in the accounts.

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PROTECT

Key Risk 4 – Social Housing Development Programme

Accounting treatment, controls and funding of the Social Housing Development Programme.

Audit Response

- Review and testing of high level management controls.
- On a sample basis, testing and examination of grants paid to Housing Associations.
- On a sample basis, we will visit Housing Associations in receipt of Housing Association Grant to ensure they have complied with the requirements of the Housing Association Guide.
- Review of DSD Governance and Inspection Team's reports on Housing Associations for any impact on NIHE funding.

Outcome

As detailed in note 5 to the financial statements the amount expended in 2009-10 on the Social Housing Development Programme was £157.446m.

NIAO selected a number of schemes in receipt of Social Housing Development Programme funding with spend of £57.083m. Some issues were noted during the interim audit and these issues will be included in the final Report to those charged with Governance.

Three housing associations were visited to ensure that the requirements of the Housing Association Guide had been complied with. No significant issues have been raised with management at this time.

Key Risk 5 - Contracts

Contracts awarded in excess of estimates.
Poor monitoring of contracts.

Audit Response

- Testing and examination of a sample of contracts awarded in excess of cost/estimates.
- Review any instances of knowledge or suspicion of money laundering.

Outcome

NIAO noted a number of contracts where the final cost exceeded the contract price. It was noted that on occasions, the cost overrun was due to poor contractor or consultant performance.

In addition there were a number of projects where standing orders were breached e.g. in some cases approvals were not sought for additional expenditure over the 5% permitted by Standing Orders.

Key Risk 6 – Housing Benefit – overpayments

Housing Benefit – Overpayments

Audit Response

- Review the level of overpayments.
- On a sample basis, testing and examination of overpayments and overpayments written off during the year.
- Review accounting treatment and disclosure of Housing Benefit overpayments.

Outcome

NIAO are concerned that the level of housing benefit overpayments continues to rise year on year and has increased by £3.2m from £20.2m at 31 March 2009 to £23.4m at 31 March 2010.

NIAO reviewed a sample of overpayment cases and noted the following cases:

- A housing benefit overpayment of £3,172.60 arose because the entitlement to housing benefit had been assessed incorrectly; and
- A housing benefit overpayment of £9,668.38 arose when data was incorrectly input onto the system.

We note that £1.179m overpayments written off during the year have been included in the Statement of Losses and Special Payments at note 7 in the financial statements.

Key Risk 7- Rent arrears

Debtors not paying on a timely basis.
Inappropriate write-offs.

Audit Response

- Review and testing of high level management controls.
- Review process for collecting rent arrears.
- On a sample basis, testing and examination of rent arrears and write-offs.

Outcome

NIAO acknowledge the decrease in rent arrears from £13,91k at 31 March 2009 to £13,30k at 31 March 2010 and would encourage NIHE to continue to reduce the level of rent arrears. As in 2008-09, we noted, from reviewing a number of cases that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants.

For example, a balance of approximately £18k will take around 159 years to be repaid in full at the existing repayment rates. (This is equivalent to £2.15 per week). Write-offs for the year to 31 March 2010 amount to £0.91m (2008-09 £1.04m).

A report titled "The Management of Social Housing Rent Collection and Arrears" was published by the Comptroller and Auditor General in May 2009. The main findings of this report were:

- Collecting rent and recovering arrears is challenging for social housing landlords and measuring performance in this area can be complex.
- NIHE's overall rent collection performance is variable; and
- NIHE is in the process of implementing an improvement plan for rent collection and arrears management.

A proportion of the historic arrears debt is actually Housing Benefit overpayment or Housing Benefit fraud. NIHE cannot provide a breakdown of these amounts and this also affects analysis of write-offs as it is impossible to split the substantial sums written off each year between true rent arrears and Housing Benefit overpayments or Housing Benefit fraud.

Key Risk 8 – Housing Stock
Incorrect basis used for valuing housing stock
Audit Response
<ul style="list-style-type: none"> • Review NIHE's methodology of valuing housing stock. • On a sample basis, testing and examination of housing stock valuations.
Outcome
<p>Housing stock was valued on the basis of open market value for existing use by an independent valuer, Land and Property Services at 31 March 2010.</p> <p>NIHE use the beacon approach to determine the open market value of housing stock. This exercise requires an internal inspection of a sample of properties called beacons. Under this approach, the value of a group of assets is determined by valuing a sample of the assets and using the mean as the average value for the group.</p> <p>A full valuation was carried out by Land and Property Services at 31 March 2009 where valuations were placed after an internal inspection of each sample dwelling was carried out. At 31 March 2010 the housing stock was subject to a 'desk-top' revaluation by Land and Property Services to reflect changes in stock numbers and local price indices.</p> <p>To obtain existing use value for Social Housing, the market values for each group of assets were adjusted by a factor to reflect a valuation for the properties if they were sold with sitting tenants who enjoy tenant's rights.</p> <p>NIAO reviewed the methodology and on a sample basis, tested and examined housing stock values.</p> <p>NIAO are satisfied with the approach used and concluded that the valuation of housing stock at 31 March 2010 is not materially misstated.</p>

Key Risk 9 – Warm Homes
Controls and funding of the Warm Homes scheme.
Audit Response
<ul style="list-style-type: none"> • Review and testing of high level management controls. • On a sample basis, testing and examination of warm homes grants paid.
Outcome
<p>The amount expended in 2009-10 on the Warm Homes Programme was £9.2m. NIAO selected a number of cases where Warm Homes Programme funding had been allocated.</p> <p>During testing we noted that there appeared to be no controls in place to identify if applicants had received another grant from NIHE for similar work. Previously, the completed warm homes grant payments were traced through the grants management system to identify if any other grants had been received by the same applicant. Any such matches were then investigated to ascertain if duplicate funding had occurred. This is under review again by Management.</p>

Key Risk 10 – Fraud
Fraud resulting in financial and reputational damage
Audit Response
<ul style="list-style-type: none"> • Review NIHE's overall approach for managing the risk of fraud in the organisation including: • reporting arrangements to DSD and NIAO • monitoring whistle-blowing instances
Outcome
<p>NIAO has noted the NIHE response to matters of concern through investigations commenced during the audit year. We also note that the Audit Committee is kept apprised of such matters.</p>

PROTECT

5. Significant observations identified during audit work and recommendations to management

In this section we outline the findings from our audit, as well as management's response to these recommendations. While our recommendations are made in a constructive spirit it is management responsibility for deciding whether to implement them and in assessing the impact of their introduction.

We reviewed the accounting systems and management controls operated by the NIHE only to the extent we considered necessary for the effective performance of our audit. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or all improvements which may have been made but have addressed only those matters which have come to our attention as a result of the audit procedures performed. As a result our review may not have detected all weaknesses that exist or all improvements that could be made.

We would like to bring the following significant priority 1 matters to the attention of the audit committee following our audit. Annex C includes priority 2 and 3 weaknesses.

Each recommendation has an assigned priority rating,

Priority 1 - Significant weaknesses which should be addressed immediately.

Priority 2 - Weaknesses which are not fundamental but should be addressed as soon as possible.

Priority 3 - Improvements that represent best practice.

PROTECT

1. Performance of Sub-Consultants

Observation	
<p>During the audit of contracts, it was evident from reviewing documentation and correspondence that the performance of one sub-consultant in particular was below the expected standard (NIHE ref 26.84.518). The sub-consultant submitted a claim for additional costs incurred which was subsequently paid by NIHE.</p> <p>It was found that there was no clause within the contract to clawback the additional costs of £311k which were incurred due to the performance of the sub-consultant. The NIHE should not have to bear the costs when the performance of contractors and consultants are below the standard expected.</p>	
Implication	
Additional costs may be incurred unnecessarily due to the inadequate performance of contractors and consultants.	
Priority Rating	
1.	
Recommendation	
We understand that this type of sub-consulting does not occur frequently, but where it does, we recommend that the NIHE ensures it has sufficient contractual protection so that where issues arise with sub-consultant's performance, NIHE have the ability to claim back the additional costs incurred from the sub-consultant.	
Management Response	
Accepted. The current panels of external consultants expire in 2011. NIHE is presently engaged in the work necessary to procure the successor to the current panels. The new arrangements will include express provision for redress where a consultant's performance is inadequate. It is expected that the new contracts will be in place from April 2011.	
Responsibility	
Harry Dorman, Assistant Director Property Services (Policy)	
Date of Implementation	Signed Off By:
April 2011	John McPeake, DoD&PS

2. Housing Benefit Overpayments

Observation	
NIAO note that the level of housing benefit overpayments continues to rise significantly year on year and has increased by £3.15m from £20.2m at 31 March 2009 to £23.35m at 31 March 2010. A full review of the overpayments strategy was undertaken this year by NIHE and a plan drawn up addressing current issues and actions to be taken over the next two years to ensure the strategy remains focussed and relevant in addressing this important issue. It is noted that successfully identifying Housing Benefit Fraud increases the level of Housing Benefit Overpayments.	
Implication	
Increasing levels of overpayments may lead to increasing levels of unrecoverability.	
Priority Rating	
1.	
Recommendation	
NIAO would encourage NIHE to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments.	
Management Response	
Accepted	
Responsibility	
Director of Housing & Regeneration	
Date of Implementation	Signed Off By:
March 2011	Helen Walker, DoHR (Acting)

3. Supporting People - Unaccredited Service Providers

Observation

The Accreditation process is one of a number of elements within the monitoring and review framework used by both Supporting People and providers to improve services and achieve higher standards. It is in line with and reflects OPDM Guidance issued by the ODPM in May 2004 which identified the requirement for Administering Authorities to ensure that provider organisations were sufficiently robust, effective and competent to deliver Supporting People Services. The process is underpinned and directed by the need to ensure the provision of consistent, high quality and 'value for money' Housing Related Support Services.

It is a key risk management tool for Supporting People which enables them to make sure that all organisations providing Supporting People services have the capability, structure and capacity to continue to deliver quality services during the duration of the funding agreement.

At the start of this financial year there were still 7 providers out of a total of 120 that had not received accreditation status. The 7 providers had been receiving Supporting People funding since 2004/05. Approximately £2.8m out of a total spend of £63.4m would have been paid annually to these providers in previous years. These organisations were neither accredited by the NIHE nor passported for Supporting People funding. Four of these organisations were accredited during the course of the year. Up to the point of accreditation these organisations had received funding amounting to £1,553,772. In respect of the other three organisations they had received funding amounting to £719,574 in 2009-10. Of these, one was accredited on 14/04/10 (annual award £120,120), one has had its' funding suspended (annual award £42,420), and one is ready to be accredited (annual award £557,034).

This issue was raised in the previous year's management letter. It was also addressed in a recent Internal Audit report issued in April 2010 where one of the objectives; "to ensure that the Supporting People controls that management have identified, through the risk management process, are in place and are being complied with", was given a limited assurance. Internal Audit recommended that, "whilst it is not mandatory to stop funding to unaccredited scheme providers, it is Internal Audit's view that a deadline should be put in place for these scheme providers to receive accreditation for funding to continue".

DSD in a recent review of Supporting People paragraphs 4.34 to 4.38, recommended that NIHE continue to work with the providers to achieve accreditation status. If accreditation is not achieved in 2010 consideration should be given to withdrawing funding from these organisations.

Whilst we recognise the difficulties in obtaining information from these organisations, this issue has been ongoing since 2004-05. NIHE have failed to enforce, their own policy document which states that, "the accreditation questionnaire and evidence portfolio must be completed and returned to the SP team within 28 days of the issue date. Failure to complete and return the questionnaire could have implications on existing funding, formal funding agreements will not be entered into with non-accredited providers. Where the appropriate criteria are less than fully met, an action plan must accompany the questionnaire stating how criterion is to be met in full and accreditation completed".

Implication

There is a risk that without proper governance controls in place that irregular payments could have been made to these organisations, which are not accredited.

Priority Rating

1	
Recommendation	
That NIHE consider if it is appropriate to continue to fund organisations which have not been accredited, or which fail to meet the required minimum accreditation standards either in the renewal process or through normal monitoring until they have clearly demonstrated that the weaknesses in their Corporate Governance arrangements have been fully addressed.	
Management Response	
<p><u>Observation</u></p> <p>Lack of accreditation is not itself a reason for suspension or removal of SP funding from a provider who continues to provide housing support services to vulnerable clients. These 7 providers continued to provide Housing Support Services to service users using the funding provided by the SP programme. It is the responsibility of NIHE in administering the SP programme to assess and manage the associated risks of the programme and it is NIHE's view that the risk to continue to fund these providers for the SP services provided is minimal.</p> <p>We have continued to work with these providers to achieve accreditation status and by the end of the year, 5 had been approved for accreditation. Subsequently 1 of the remaining 2 was accredited and funding was suspended for the remaining provider.</p> <p>In para 5 reference is made to the most recent internal audit report and to the limited assurance of 1 objective. I would take this opportunity to highlight that of the last 3 Internal Audit reports relating to SP, including the one referred to, an overall Satisfactory classification was accorded. The NIHE agree with the internal audit assessment that it is not mandatory to stop funding to unaccredited scheme providers. The DSD review supports the NIHE position on accreditation as per recommendation 4 of the report "The Housing Executive to continue to work with the six providers to achieve accreditation status. If accreditation status is not achieved in 2010 consideration should be given to withdrawing funding from these organisations".</p> <p>In Para 7 you recognise the difficulties in receiving information which supports the accreditation process. We continue to work with providers and to develop the organisations capacity in keeping with our requirements for the management of risk.</p> <p><u>Recommendation</u></p> <p>NIHE accepts this recommendation and is in keeping with the NIHE's current approach to accreditation. This complements the recommendations contained in the recent DSD review and internal audit report.</p>	
Responsibility	
C McQuillan Assistant Director	
Date of Implementation	Signed Off By:
With immediate effect	S Cuddy

4. Supporting People - Guidance should clarify what constitutes regular expenditure

Observation
<p>NIHE currently use the English based Department of Communities and Local Government guidance as well as the Department's , ' Positive Steps ', Dossier of Controls, and Legislation set by Department to administer the Supporting People Programme. It is our understanding that NIHE did not ask the Department to formally approve the use of the English guidance as required under paragraph 4.2 of the Dossier of Controls. There is also no definitive guidance in Northern Ireland on what expenditure is deemed eligible / regular under the Supporting People programme.</p> <p>This issue was raised in last year's management letter.</p> <p>Since the issue was raised last year (October 2009), we are pleased to note that NIHE have corresponded with DSD as to the progress in developing guidance. In the correspondence presented to us, DSD, in an email on 22nd April 2010, confirmed that they were in the process of developing guidance, but that they were waiting on documentation from NIHE in respect of DCLG's good practice guidance. NIHE had asked DSD to consider this guidance in drawing up new guidelines.</p> <p>In their review of Supporting People paragraphs 4.39 to 4.44, DSD stated that they did not formally authorise the Housing Executive to use the DCLG guidance. However, they did accept that guidance should have been updated to recognise the refinements to processes and procedures in the programme in the rest of the United Kingdom, and so provide clarity around what could be paid out as eligible and regular payments from Supporting People grant.</p>
Implication
In the absence of prescribed guidance specific to Northern Ireland, irregular / ineligible expenditure could be paid under the Supporting People Programme.
Priority Rating
1
Recommendation
NIHE in conjunction with DSD should develop some formal guidance, specific to Northern Ireland on what constitutes regular expenditure in administering the Supporting People Programme.
Management Response
<p>Observation</p> <p>We would highlight that para 4.2 of the Dossier of Controls states "Where in the NIHE's opinion a situation is not covered by any guidance or policy it shall make a comprehensive submission on the matter to the Department to trigger consultation and revision to guidance if appropriate".</p> <p>Supporting People is a national programme introduced across the 4 jurisdictions. It is the view of NIHE that the guidance provided by DCLG was appropriate for all jurisdictions to use and in the absence of anything specific was applied in Northern Ireland. On this basis we were of the opinion that there was no requirement to seek Departmental approval in relation to the guidance</p>

that was used. The NIHE in correspondence with DSD on many occasions referred to our use of DCLG guidance and therefore we were of the opinion that DSD was aware of its application. We would also take this opportunity to highlight a recommendation of the DSD review "The Department to develop detailed guidance on the terms and conditions of eligible/ineligible costs of SP grant and will also include guidance on restricted reserves."

Recommendation

NIHE will continue to co-operate with DSD in the development of guidance. I would however refer to the DSD review, recommendation 5 "The Department to develop detailed guidance on the terms and conditions of eligible/ineligible costs for Supporting People grant and will also include guidance on restricted reserves.

Responsibility

Colm McQuillan Assistant Director

Date of Implementation

Ongoing

Signed Off By:

S Cuddy

Supporting People - Monitoring of regularity of spend under the Special Needs Management Allowance

Observation	
<p>NIHE administer the payments of the Special Needs Management Allowance (SNMA) on behalf of DSD. DSD's, Departmental Solicitor confirmed that Article 3 of the Housing Support Services Regulations (Northern Ireland) 2003 made provision for Supporting People funding to be paid to Registered Care schemes in receipt of SNMA for year ending 31st March 2003. The total amount paid under this programme for 2009-10 amounted to £2.21m (as of September 2009 the number of schemes had reduced from 38 to 34). A letter of approval to continue to pay these fixed amounts is provided by DSD each year. It would appear that this was intended to have been a transitional arrangement that was put in place in order to allow DSD to review the scheme and make a decision on future funding. In normal circumstances these Registered Care Homes would not have attracted Supporting People funding. It is our understanding that no monitoring of these payments has been carried out by either DSD (See paragraphs 4.54 to 4.58 of DSD review) or NIHE since the above arrangement was put in place.</p>	
Implication	
NIHE could be funding irregular spend.	
Priority Rating	
1	
Recommendation	
<p>As, this funding features in NIHE'S Financial Statements, the supporting notes to the financial statements should clarify the payment process. NIHE should clarify with DSD the arrangements for the payment of this allowance and associated assessment, monitoring and control procedures which need to be put in place to validate the payments being made under this particular scheme.</p>	
Management Response	
<p><u>Observation</u></p> <p>Although DSD approve on an annual basis these payments it does not seek NIHE to monitor or have oversight. It is our understanding that these roles were the responsibility of DSD. This is borne out by the recommendation 7 of the DSD review which states that the Department has undertaken to "conduct a fundamental review of the payment of Special Needs Management Allowance from the Supporting People grant in line with the original policy intent".</p>	
<p><u>Recommendation</u></p> <p>NIHE accept this recommendation and will liaise with DSD accordingly.</p>	
Responsibility	
C McQuillan Assistant Director	
Date of Implementation	Signed Off By:
With immediate effect	S Cuddy

5. Supporting People - Housing Associations with Accreditation Passport withdrawn

Observation
<p>When Supporting People funding was introduced in 2003 all providers of Housing Support Services were to be subject to the accreditation process. However, the Department informed the NIHE that Housing Associations who provided housing support services should be passported to Supporting People funding as they were already regulated by the Department.</p> <p>As part of recent inspections by the Department (refer to paragraphs 4.45 to 4.53 of DSD review), 15 Housing Associations have received an unacceptable rating with 4 being issued with formal notice that the housing grant is being withdrawn. These 4 housing associations received Supporting People funding of £460k during 2009-10. Of the others, a further four are in receipt of Supporting People funding and received approximately £384k during 2009-10. Given that these housing associations had received an unacceptable rating by DSD, and funding was withdrawn, this raises concerns that the Associations may not have had the proper financial management or corporate governance arrangements in place to be responsible for administering public funds. We have been informed by NIHE that one of those Housing Associations which received approximately £401k have had their Supporting People funding suspended since the start of April 2010 as it was felt the level of services provided was falling below the level expected.</p> <p>We are pleased to note that DSD and NIHE are jointly addressing these issues through the implementation of action plans with the Housing Associations.</p> <p>This issue was raised in the previous year's management letter.</p>
Implication
Poor corporate governance arrangements within these Housing Associations could result in Supporting People grant being misspent, i.e. irregular payments being made.
Priority Rating
1
Recommendation
That NIHE consider if it is appropriate to continue to fund Housing Associations who receive an unacceptable rating from DSD until they have clearly demonstrated that the weaknesses in their Corporate Governance and financial management arrangements have been fully addressed.
Management Response
<p><u>Observation</u></p> <p>Lack of accreditation is not itself a reason for suspension or removal of SP funding from a provider who continues to provide housing support services to vulnerable clients. Please note that DSD have advised NIHE of only 4 Housing Associations with an "unacceptable rating" and to date no further associations have been notified. NIHE on notification of these 4 Housing Associations with unacceptable ratings initiated a process of accreditation. With regards to the continued funding for these associations via the SP programme we would highlight that this mirrors the situation with regards to the ongoing activities of the organisations in relation to their Housing Management duties. Similarly, these organisations continued to provide Housing Support services to service users using the funding provided by the SP programme. It is the responsibility of NIHE in administering the SP programme to assess and manage the associated risks of the programme and it is NIHE's view that the risk to continue to fund these Associations for the SP services</p>

provided is minimal. It should be noted that the total amount in payment to 3 of the organisations is approx £60k in respect of a number of sheltered schemes operating with wardens, paid retrospectively.

Recommendation

NIHE accepts this recommendation and is in keeping with the NIHE's current approach to accreditation. This complements the recommendations contained in the recent DSD review and internal audit report. NIHE will liaise with DSD and any Housing associations with outstanding "unacceptable ratings" arising from DSD inspections.

Responsibility

C McQuillan Assistant Director

Date of Implementation	Signed Off By:
With Immediate effect	S Cuddy

6. Grants – Programme for Technical Monitoring, Test of Resources, Administrative Audits and Internal Audit

Observation
<p>Grants - Programme for Technical Monitoring, Test of Resources, Administrative Audits and Internal Audit</p> <p>It is noted that as a result of the implementation of the new grants management system, all Technical Monitoring, Test of Resources and Administrative Audits were postponed for 2009/10. It was also noted that internal audit did not carry out any testing within area offices throughout the year.</p> <p>NIAO also raised a similar point in 2008-09.</p>
Implication
<p>The absence of these audits in the year may give rise to an increase in errors occurring.</p>
Priority Rating
1
Recommendation
<p>NIHE should complete a timetable for recommending the Technical Monitoring, Test of Resources and Administrative Audits, and ensure adequate coverage of all grant outlets.</p>
Management Response
<p>Grants comments</p> <p>Although the normal inspection regime has been temporarily suspended all DFG approvals requiring "top up" funding and all exceptional approval cases were subject to detailed central scrutiny in terms of compliance with grants and technical policy. Overall, some 650 cases were scrutinised, representing about 1/6 of all approvals issued in the year. This is higher than would normally have resulted from the inspection programme. However, upon completion of the implementation for the Private Sector Management System by the end of July 2010 the normal inspection and audit programmes will be re-commenced.</p> <p>Internal Audit comments</p> <p>Agreed. In the current NIHE Audit Needs Assessment / 3 Year Strategic Audit Plan, the Grants system has been risk assessed and ranked in order of priority as 16th out of 113th identified NIHE control systems.</p> <p>Accordingly, it is anticipated that Internal Audit work will be carried out in this area during 2010-11, 2011-12 and 2012-13.</p> <p>It should be noted that in 2009-10, Internal Audit did examine financial reconciliation controls in the Grants system in operation at that time (Grants Management System) and a report on this work was presented to the NIHE Audit Committee in January 2010.</p>

Responsibility	
Grants: K Hicks Internal Audit: J. McVeigh	
Date of Implementation	Signed Off By:
Grants: August 2010 Internal Audit: April 2010	Grants: J. McPeake Internal Audit: S. Cuddy

PROTECT

6. International Standards on Auditing (ISA 260)

We are obliged under ISA 260 to bring to the attention of those charged with governance the following matters:

- Any significant facts and matters that bear upon the auditor's objectivity and independence. There are no such matters to report.
- Details of how we have managed personal data obtained during the audit including how it has been disposed of or retained. All personal data has been returned to NIHE. NIAO have not retained any personal data.
- Details about our views on the qualitative aspects of the entity's accounting practices and financial reporting. We have nothing significant to report on these issues.
- Errors found during the course of our audit. The auditors must report material errors that are adjusted in the financial statements, if their occurrence has implications for the entity's control environment. They must also report all immaterial errors found during the audit that are not adjusted unless they are "clearly trifling". For the NIHE we have determined that "clearly trifling" is less than £50,000.

6.1 Adjusted Differences

The accounts presented to NIAO on 17 May 2010 were subsequently adjusted for the following items. The final version of the accounts was signed by the Accounting Officer on the 30 June 2010.

PROTECT

Description of adjustment	Account Area	Statement of Financial Position £'000		Net Expenditure Account £'000	
		DR	CR	DR	CR
To reclassify revenue grant received from DSD	Revenue Reserve	507			
	Net Expenditure A/C				507
To reverse creditor to DSD for CFER amount on excess capital receipts	Other Creditors	149			
	Revenue Reserve		149		
To account for additional revaluation surplus on assets purchased under service concession arrangement	Net Expenditure A/C			167	
	Revenue Reserve		167		
To account for revaluation surplus on office not provided for in original LPS valuation	Non-Operational Offices	53			
	Revaluation Reserve		53		
To reclassify amount due to IT service provider for service concession arrangement	Creditors due > 1 year	728			
	Creditors due < 1 year		728		
To reclassify an office to non-operational at year end	Non-Operational Offices	120			
	Offices held for Sale		120		
	Overall Net	1,557	1,217	167	507

6.2 Unadjusted audit differences

There were no unadjusted errors found which are above the "clearly trifling" level of £50,000. There are no matters arising from these audit differences that we wish to particularly draw to the Audit Committee's attention.

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7. Conclusion The C&AG provided a qualified audit opinion on regularity on 30 June 2010. The C&AG produced a report to accompany his audit opinion.

We noted a number of weaknesses during our audit. These weaknesses have been reported to management and we await their responses.

We recommend that NIHE considers the points included in this report alongside any subsequent management reviews so that positive actions can be taken to enhance the processes in the critical areas of NIHE's operations.

8. Complaints Procedures NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Accounting Officer of the audited body can then write directly to the C&AG. He will ensure that a further review of the case will be undertaken.

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Annex A: Certificate of the Comptroller and Auditor General

Northern Ireland Housing Executive

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of Northern Ireland Housing Executive for the year ended 31 March 2010 under the Housing (Northern Ireland) Order 1981. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Movement in Taxpayers Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and Auditor

As explained more fully in the Statement of Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Housing Executive's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Housing Executive and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Qualified Opinion on Regularity arising from erroneous housing benefit awards and payment of fraudulent claims

As disclosed in my report based on the latest information provided by the Department for Social Development on the monetary value of errors in the payment of housing benefit, an estimated £9.3 million may have been lost through overpayments incorrectly paid in 2009 because of error and fraud. A further estimated amount of £3.4 million in housing benefit may have been underpaid because of official error. The total expenditure on housing benefit in 2009/10 was £527.6 million. Housing benefit overpayments made by the Northern Ireland Housing Executive, whether due to fraud and error, cannot be deemed regular as the expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and fraudulent transactions cannot, by definition be regular since they are also without proper authority. In addition, under Housing Benefit

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legislation, the Northern Ireland Housing Executive is required to calculate housing benefit due in accordance with the Regulations.

I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly and because of the level of under and overpayments in such benefit expenditure which are not in conformity with the relevant authorities.

Qualified Opinion on Regularity arising from weaknesses in control and monitoring of expenditure on part of the Supporting People grant

I was unable to obtain sufficient assurance that the Northern Ireland Housing Executive's control and monitoring of supporting people expenditure relating to the £2.2 million Special Needs Management Allowance was adequate to ensure the expenditure was used in accordance with the Regulations. The total expenditure on Supporting People grant was £63.4 million. While the Northern Ireland Housing Executive receive Departmental approval each year for the expenditure, I was not provided with sufficient evidence to enable me to confirm the payments had been applied for the purposes intended by the Assembly. Because of the lack of evidence described above I was unable to form an opinion whether the expenditure of £2.2 million on supporting people had been applied for the purposes intended by the Assembly.

In my opinion except for Supporting People expenditure of £2.2 million and the £12.7 million of incorrect housing benefit payments attributable to fraud and error, both referred to above, in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of Northern Ireland Housing Executive's affairs as at 31 March 2010 and of its net expenditure, changes in statement of movement in taxpayers equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing (Northern Ireland) Order 1981 and Department for Social Development directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department for Social Development directions issued under the Housing (Northern Ireland) Order 1981; and
- the information given in Directors' Report, the Management Commentary and

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Remuneration Report included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect alone of the issue relating to Special Needs Management Allowance referred to above I have not received all of the information and explanations that I considered necessary to confirm the regularity of the payments for the purposes of my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.

Report

My detailed observations are included in my Report attached to the financial statements.

K J Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Date 30 June 2010

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Annex B: Report of the Comptroller and Auditor General

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Introduction

1. The Northern Ireland Housing Executive (NIHE) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Social Development (DSD). NIHE was established by the Housing Executive Act (Northern Ireland) 1971 (since superseded by the Housing (Northern Ireland) Order 1981 and 2003). Under the terms of the Act, NIHE took over the housing responsibilities of 65 separate authorities and became Northern Ireland's overall housing authority.
2. In accordance with Article 21(3) and (4) of the Housing (Northern Ireland) Order 1981, as amended by the Audit and Accountability (Northern Ireland) Order 2003, I have audited the accounts of the Northern Ireland Housing Executive for the year ended 31 March 2010 and I now report thereon.
3. This report reviews the results of my audit of Housing Benefit and Supporting People expenditure and sets out the reasons for my qualified audit opinion. For a considerable number of years I have qualified my audit opinion because of significant levels of fraud and error in housing benefit expenditure, and do so again this year. In addition I have qualified my audit opinion in relation to £2.2m of Supporting People grant (which represents an amount equal to Special Needs Management Allowance). In 2009-10, NIHE accounted for £527.6m in housing benefit expenditure and £63.4m in Supporting People grants.
4. This report also comments on a number of other matters in relation to my audit of the accounts of NIHE.

Qualified opinion due to irregular Housing Benefit payments

5. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.
6. The levels of fraud and error for Housing Benefit for the year 1 January 2009 to 31 December 2009, issued by the Department for Social Development in May 2010 highlighted estimated levels of fraud and error of £9.3m overpayments (customer fraud £4.5m, customer error £1.2m and official error £3.6m) and £3.4m underpayments due to official error, in total representing some 2.5% of housing benefit expenditure.

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7. I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which do not conform to the intention of the Northern Ireland Assembly; and because of the level of under and overpayments in such benefit expenditure which are not in conformity with the relevant authorities.
8. I recognise the considerable efforts and resources committed by NIHE to address housing benefit fraud and error. NIHE has a robust Fraud and Error Strategy in place to detect and prosecute instances of customer fraud and to minimise instances of customer error. The Housing Executive continues to deploy a range of measures to address the risk of fraud and error including data matching and involvement in the National Fraud Initiative. A substantial investment in additional resources has been maintained for the current year. I would encourage NIHE to continue to employ strategies to reduce the levels of loss.
9. The Department informed me that it welcomes the fact that this report acknowledges the considerable efforts and resources committed by NIHE to address Housing Benefit fraud and error. The Department indicated that it is equally committed to assisting the NIHE in their efforts to reduce the current levels of fraud and error and have an ongoing monitoring process in place to review progress.

Housing Benefit overpayments owed by claimants

10. At 31 March 2010, the levels of Housing Benefit overpayments have increased to £23.45m (08-09, £20.34m) less a provision of £12.14m (08-09, £10.84m), resulting in a net figure of £11.31m (08-09, £9.5m). Since 2008-09, Housing Benefit overpayments written off are now disclosed in NIHE's financial statements. In 2009-10, an amount of £1.29m (08-09, £1.01m) was written off. I recognise that dealing with Housing Benefit overpayments remains a priority for NIHE. A full review of the overpayments strategy was undertaken this year and a plan drawn up addressing current issues and actions to be taken over the next two years to ensure the strategy remains focussed and relevant in addressing this important issue. It should be noted that successfully identifying Housing Benefit Fraud increases the level of Housing Benefit Overpayments. I would encourage NIHE to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments.
11. The Department informed me that it is pleased that the NIAO have recognised the relationship between greater success in identifying fraud and error and increasing levels of Housing Benefit Overpayments and that as part of its overall governance arrangements, the Governance Unit within Housing Division will continue to monitor the effectiveness of the actions taken by NIHE to implement the overpayments strategy.

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Qualified opinion due to irregularity of Supporting People payments

12. I have also qualified my opinion on regularity of grant payments in respect of £2.2m paid as a Special Needs Management Allowance (SNMA) to 34 Registered Care Homes from the Supporting People budget.

13. NIHE administer the payments of the Special Needs Management Allowance (SNMA) on behalf of DSD which was paid to registered care schemes prior to March 2003. This allowance was previously administered by DSD from the Housing Budget. From 1 April 2003 transitional arrangements were put in place under Article 3 of the Housing Support Services Regulations (Northern Ireland) 2003 that makes provision for Supporting People funding to be paid to Registered Care Schemes in receipt of Special Needs Management Allowance for the year ending 31 March 2003. NIHE has continued to pay the providers of the registered schemes on an annual basis from 1 April 2003. A letter of approval to continue to pay these fixed amounts is provided by DSD each year. The total amount paid under this programme for 2009-10 amounted to £2.2m to twenty-four providers of registered schemes. These payments have not been appropriately monitored by either DSD or NIHE since the above arrangement was put in place, and continue to be paid at the same amount without consideration of any change in circumstances. The lack of monitoring of the use of these payments by either DSD or NIHE means I cannot be satisfied that they were used for the purposes intended by the Northern Ireland Assembly and therefore I have qualified my opinion on the grounds of regularity. DSD has committed to "conduct a fundamental review of the payment of SNMA from the Supporting People grant in line with the original policy intent".

Other concerns with regard to Supporting People grants

14. The Supporting People programme is administered in accordance with The Housing Support Services (NI) Order 2002 and the principal aim is to improve the quality of life of vulnerable people and maximise their independence. During 2009-10, NIHE spent £63.4m in administering the Supporting People programme. In addition to the above Order, NIHE also used the English based Department of Communities and Local Government (DCLG) guidance and DSD's Positive Steps guidance to administer the programme. NIHE did not ask the Department to formally approve the use of this guidance as required under paragraph 4.2 of the Dossier of Controls. NIHE have advised that they believed that as Supporting People was a national programme introduced across the four jurisdictions the guidance provided by DCLG was appropriate for all jurisdictions to use and thus there was no requirement to seek DSD approval. I note that DSD are committed to "develop detailed guidance on the terms and conditions of eligible/ineligible cost for Supporting People Grant and will also include guidance on restricted reserves".

15. When Supporting People funding was introduced in 2003 all providers of Housing Support services were to be subject to the accreditation process. This is a key risk

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management tool for Supporting People. The process makes sure that all organisations providing Supporting People services have the capability, structure and capacity to continue to deliver quality services during the duration of the funding agreement. However, DSD informed NIHE that Housing Associations who provided housing support services should be passported to receiving Supporting People funding as they were already regulated by the Department. My investigation has noted that until recently DSD failed to inform NIHE when Housing Associations had received an unacceptable rating in respect of their financial management or corporate governance arrangements. In my view, poor financial management or corporate governance arrangements could impact on their ability to administer public funds. Following the completed first round of inspections by DSD's Regulatory and Inspection Unit, 14 Housing Associations received an unacceptable rating with four being issued with formal notice that the housing grant was being withdrawn. Despite the fact that the housing grant was withdrawn, NIHE continued to make supporting people grant payments to these organisations. These 14 Housing Associations received funding amounting to £460k during 2009-10. NIHE advised that the renewal or lack of accreditation is not itself a reason for suspension or removal of Supporting People funding from a provider who continues to provide housing support services to vulnerable clients. NIHE takes the view that the risk to continue to fund these Associations for the Supporting People services provided is minimal and that for three of the four organisations is approximately £60,000 in respect of a number of sheltered schemes operating with wardens, paid retrospectively.

16. During 2009-10, £2.27m of Supporting People expenditure was paid to seven organisations which were not accredited by NIHE or passported by DSD. They had been in receipt of Supporting People funding since 2004-05. Whilst I note that there are now only two organisations which remain unaccredited, the accreditation only took place at the end of this financial year. I also noted that NIHE Internal Audit gave a Limited Assurance classification to one aspect of their review relating to the control objective of "to ensure that the Supporting People controls that management have identified, through the risk management process, are in place and are being complied with". NIHE advised that the seven organisations were well on the way to full accreditation and that it would have been unjustified and irresponsible to remove funding for a service to vulnerable clients in the circumstances. NIHE also advise that of today six of the seven providers have attained accreditation status.
17. There are currently 115 Supporting People providers running 808 schemes. NIHE began reviewing schemes in 2005, with an expectation of carrying out 120 reviews per year. NIHE introduced a new Contract Management Process with effect from 1 April 2009 which is a risk based approach to the review of providers. This, with new scheme grouping arrangements, may result in a number of schemes not being individually reviewed. NIHE has advised that under the new contract management approach those services with the highest risk will be targeted more regularly and that over a 3 year cycle all services will be reviewed.
18. As part of the audit process during 2009-10 we carried out a number of site visits with organisations in receipt of Supporting People funding and our findings from five of the visits highlighted a number of issues which included:

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- i) Expenditure which required clarification as to whether or not it was eligible under the Supporting People programme;
- ii) Potential for cross subsidisation in funding between Care and Supporting People funding;
- iii) A number of organisations with consistently low occupation rates over a long period of time (for example, an organisation visited had average occupancy rates for the last five years below 75% and required additional funding from NIHE to keep it afloat);
- iv) Possible inappropriate apportionment of costs on the basis of historical information;
- v) Lack of transparency by organisations in their audited financial statements to the makeup of reserves and how much relates to Supporting People funding; and
- vi) Evidence that surpluses are not being clawed back by NIHE.
(note that whilst the above comments do not relate to each of the five organisations visited they represent issues which could apply to other organisations in the Supporting People programme).

NIHE has provided explanation and responses to each of the issues raised and take the view that their management of the Supporting People programme addresses such issues on an ongoing basis.

19. Although site visits raised a number of issues including eligibility and the potential for cross subsidisation which require clarification, I am content that based on other evidence available within NIHE; I should not place a qualification on the total Supporting People spend.

Other matters

20. In October 2008 DSD commenced an evaluation of the Supporting People programme entitled "The impact of the Supporting People Policy and its administration". The evaluation was completed in March 2010 and since the end of the financial year, DSD has issued its report. The report contained 13 recommendations and addressed issues including guidance, passporting, and regulation and inspection. In particular I note that DSD has raised the potential for transferring a substantial portion of the Supporting People programme to another Department. In addition, as indicated at paragraph 18 above, our site visits raise the potential for cross subsidisation between Care and Supporting People funding and funding being based on possible inappropriate apportionment of costs on the basis of historical information. There are 13 recommendations in the report (9 of which NIHE are generally in agreement with) and I am pleased to note that currently these issues are being taken forward in discussions between DSD and NIHE.

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21. A PAC report titled "The Management of Social Housing Rent Collection and Arrears" was published in 2009. This report highlights that reductions in NIHE rent arrears have been achieved largely due to writing off high levels of rent debt. A proportion of the NIHE rent arrears debt comprises Housing Benefit overpayments. NIHE cannot provide a breakdown of these amounts. At 31 March 2010, the level of rent arrears was £13.30m (08-09, £13.91m). In arriving at this figure, an amount of £0.91m (08-09, £1.04m) was written off.
22. NIHE has undertaken a full review of the issues highlighted in this report including the write off of irrecoverable debt. A comprehensive improvement plan has been drawn up addressing current issues and actions to be undertaken over the next two years to ensure a focus in addressing this important matter. I would encourage NIHE to continue to reduce the level of rent arrears.
23. The Statement on Internal Control refers to four significant topics under investigation, one of which has been referred to the PSNI. I will keep the results of these investigations under review.

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

30 June 2010

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Annex C: Other Management Recommendations

1. Statement of Losses and Special Payments

Observation	
<p>Note 7 to the financial statements details the Statement of Losses and Special Payments amounting to £3.812m (08-09 - £2.452m) for the year ending 31 March 2010.</p> <p>Included within this total is an amount of £973k which was written off in 2009-10 due to errors and inconsistencies within the database of property records which is used as a basis to calculate rent on NIHE properties.</p> <p>The errors were discovered and therefore written off following a stock audit procedure which was completed in October 2008.</p>	
Implication	
Incorrect calculation of rent on NIHE properties.	
Priority Rating	
2.	
Recommendation	
NIHE should plan regular reviews to ensure that the NIHE database of property records contains accurate information.	
Management Response	
NIHE has just completed a 100% Stock Audit Exercise. We will ensure that arrangements are in place to carry out checks on property records.	
Responsibility	
Director of Housing & Regeneration	
Date of Implementation	Signed Off By:
March 2011	Helen Walker, DoHR (Acting)

2. Tenant Debt

Observation	
<p>NIAO acknowledge the decrease in tenant debt from £13,816k at 31 March 2009 to £13,218k at 31 March 2010 and would encourage NIHE to continue to reduce the level of tenant arrears.</p> <p>As in 2008-09, we noted, from reviewing a number of arrears that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants. For example, a balance of approximately £18k will take around 159 years to be repaid in full at the existing repayment rates. (This is equivalent to £2.15 per week).</p>	
Implication	
Low levels of repayment of tenant arrears raises serious doubt as regards the recoverability of the debt.	
Priority Rating	
2.	
Recommendation	
NIHE should continue to examine whether there are alternative means of achieving improved recoverability.	
Management Response	
Accepted	
Responsibility	
Director of Housing & Regeneration	
Date of Implementation	Signed Off By:
March 2011	Helen Walker, DoHR (Acting)

3. Bank Reconciliations

Observation	
A review of bank reconciliations found that the Paypoint Account bank reconciliation for period 13 was not signed off as having been reviewed by the Assistant Director.	
Implication	
Errors may not be detected on a timely basis.	
Priority Rating	
2.	
Recommendation	
All bank reconciliations should be signed off as having been reviewed.	
Management Response	
Accepted	
Responsibility	
Helena Carty, Assistant Director of Finance	
Date of Implementation	Signed Off By:
Immediate	Clark Bailie, Director of Finance

4. Housing Stock Valuations

Observation	
<p>NIAO used computer software to analyse the property services database at 31 March 2010 and therefore the housing stock valuation. The following issues were noted;</p> <ul style="list-style-type: none"> • An analysis of the housing stock lettable dwellings shows that the data for the number of bedrooms field was not included in the NIHE property database for 262 dwellings; and • A further sample was selected to confirm that the number of bedrooms field in the NIHE property database matched the correct type of archetypal group, i.e. all dwellings in a terraced 3 bedroom archetype had 3 bedrooms. A total of 29 dwellings across 12 archetypal groups did not appear to match the group. The resultant error in valuation was calculated to be £94k. 	
Implication	
Miscategorised dwellings could be incorrectly valued for accounts purposes.	
Priority Rating	
2.	
Recommendation	
NIHE should ensure that dwellings are correctly categorised for the purposes of valuation.	
Management Response	
<p>NIHE already carry out significant checks on the information returned from Land & Property Services regarding housing stock valued. The error found by NIAO was not materially significant when compared with the total value of NIHE Housing Stock. However, NIHE will continue to interrogate the data to ensure that dwellings are correctly categorised for valuation purposes at year end.</p>	
Responsibility	
Lorraine Quinn, Chief Accountant	
Date of Implementation	Signed Off By:
For 2010/11 Annual Accounts	Clark Bailie, Director of Finance

5. Supporting People - Organisation 1 – Provider ID:80 / Scheme ID: 578

Observation

Organisation 1 is almost solely funded from grants received from NIHE, i.e. from Housing Benefit and Supporting People. In the financial statements for the year ended 31st March 2009, organisation 1 had total incoming resources of £977k. Of this NIHE fund approximately 90%. (£709k Supporting People & £174k Housing Benefit).

NIAO noted a number of issues as a result of our desktop review of files held at NIHE and our subsequent audit visit to the premises as follows:

Desktop Review

Restricted / Unrestricted Funds

1. This organisation received Supporting People funding amounting to £233,407 for the above scheme for 2009-10. This funding has been treated as unrestricted within the accounts in previous years. The company describes such funding as donations and other incoming resources received or generated and which are expendable at the discretion of the directors in furtherance of the company's objectives. It was difficult for NIHE to determine how much of the unrestricted reserves amounting to £255,891 as at 31st March 2009 was Supporting People funding. The issue of reserves and whether or not organisations should be allowed to retain them has also been looked at by DSD (see paragraphs 4.60 to 4.71) as part of their overall review of Supporting People. They have stated that the Department will develop guidance to NIHE to clarify this issue.

Insufficient Budgetary Information

2. The company did not provide management accounts for the previous year for each of the 4 separate schemes being funded and there was no budgetary information on file for 2009-10.

Site Visit

The organisation provided us with financial information up to week 44 and we selected a number of items for testing and reviewed supporting documentation.

Food & Household expenses

3(a). We noted that the organisation allocates £1,575 each month towards Food and Household expenses. These expenses are for such things as milk, cleaning windows, laundry, meat centre, and fruit and vegetables. The food costs would not be eligible under the supporting people programme. The organisation does charge residents to cover these costs, but given the circumstances of the customers involved there is a significant amount of bad debt, which is uncollectable. As a result only a proportion of the costs are subsidised by, residents contributions

CCTV installation costs

3(b). The organisation paid for the installation of CCTV cameras. Of the amount paid, £5,196 was allocated against this supporting people project. This included the cost of CCTV Cameras for the Resource Centre. This should not be funded by Supporting People and the expenditure would therefore be deemed to be ineligible. The organisation is currently trying to recoup these costs

from the Housing Association.

Low Occupancy Rates

4. The occupancy rate as a percentage of units occupied against contracted units has been below the recommended minimum level of 75% for a period of time. The standard letter of award states that funding can be reduced by up to 20% if the occupancy rate falls below 75%. NIHE have stated that they are working with the organisation to achieve a higher rate of occupancy.

Implication

1. By including the funding received from Supporting People under the unrestricted fund column in the annual financial statements the directors of the company are basically stating that the funds can be used to pay for whatever they consider appropriate which may not be necessarily in accordance with the Supporting People programme.

2. Without appropriate budgetary information being provided it is difficult for the NIHE to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.

3. The NIHE may be funding spend which is ineligible under the Supporting People programme.

4. This service may not be strategically relevant as a result of the consistent low occupancy rates being provided.

Priority Rating

2

Recommendation

1. The grant funding provided by NIHE should be treated as restricted within the financial statements to prevent irregular payments being made. Organisations should be asked to disclose as a separate note within the financial statements the actual makeup of the restricted reserves so that it is clear and transparent what restricted reserves relate to Supporting People funding. NIHE should also review what limits should be applied as to the level of funding that an organisation can hold in "reserves", by taking into account any new guidance issued by DSD.

2. Budgetary information should be provided before the start of each financial year if possible and certainly no later than the first quarter to provide evidence of continued need under the Supporting People programme.

3. Potential ineligible spend should be investigated and clawed back from the organisation were it is appropriate to do so.

4. The NIHE should reduce funding in accordance with the terms and conditions laid out in the letter of award were occupancy rates consistently fall below an expected level.

Management Response

Observation

Restricted/unrestricted funds – it has always been a requirement of SP funding that providers advise NIHE of surpluses derived from SP funding. In more recent years we have requested that SP funding should be shown as restricted income and surpluses held as restricted reserves.

Organisation 1 has provided NIHE with management accounts covering each of their projects which show a surplus of £11,400 in the year 2008/09. Since 2003 the overall reserves has increased by only £11,000. An assessment of these schemes over the last number of years has shown that across all schemes they have been close to a break even position. Given the above it is not considered by NIHE that there is a significant surplus attributable to SP funding included in these reserves. It is the view of NIHE that a certain level of restricted reserves for SP purposes reflects best practice and is in line with DCLG and DSD Positive Steps policy.

Insufficient budgetary information – NIHE receives management accounts and financial statements on an annual basis and more frequently if requested.

Food/household items – we would take this opportunity to highlight that a number of items referred to are eligible for SP funding and that there are funding sources to cover the remaining elements identified. It is clear that the organisation has made provision for the charging and collection of personal charges in respect of items not eligible for SP funding e.g. food. Under current guidance in particular DSD Positive Steps document, voluntary organisations are entitled to recover full costs of the service which would include provision for bad debt.

CCTV – The organisation has shown in their management accounts that they do not intend to fund the costs of installation from SP but are seeking recovery from the Housing Association.

Low occupancy – The occupancy of this scheme while 73% is understandable given the nature of the clients being housed. In many instances the provider must ensure that the clients are compatible given that in many instances they have a history of offending including violent and sexual abuse. Compatibility and individual's personal security are a prime concern and it is important to note that this remains as a significant strategically relevant service. This organisation is 1 of only 6 Approved Premises within Northern Ireland who cater for highly complex offenders and as such is a strategically relevant service but which as highlighted can lead to periods of lower occupancy. We are currently engaged with the organisation to look at options to address occupancy issues and the continued provision of services in this location.

Recommendations

1. Agreed. All organisations have been asked to treat SP funding as restricted and to reflect this in their financial statements. NIHE will take into account new DSD guidance regarding reserves when this becomes available.
2. It is the view of NIHE that any additional benefit from this approach would be disproportionate to the costs to both NIHE and the provider organisation. The current financial information received from providers is in the view of NIHE sufficient for the ongoing monitoring of SP expenditure.
3. NIHE accepts this recommendation. NIHE will continue to monitor spend in all organisations and where appropriate claw this back.
4. In this particular case NIHE continue to work with the provider in relation to service provision and the overall cost of same. It is not considered at this time appropriate to reduce funding for this strategically relevant and important service.

Responsibility

B O'Kane Senior Principal Officer

Date of Implementation	Signed Off By:
With immediate effect	C McQuillan Assistant Director

6. Supporting People - Organisation 2 – Provider ID: 10 / Scheme ID: 42

Observation

Desktop Review

Risk Assessment

1. Under the new Contract Management process this organisation was given an overall risk assessment as medium risk. However, given the fact that the service could be considered strategically not relevant as a result of the low occupancy rates we are of the opinion that it would be more appropriate to assess the operational risk as high risk which would give an overall assessment of high risk.

Restricted Reserves

2. The latest set of signed audited accounts for this organisation were dated 31st March 2009. We noted that the monies from NIHE have been clearly identified as restricted funding within the financial statements. The reserves for restricted funding as at 31/03/09 amounted to £129,419, unrestricted reserves amounted to £205,041 - total reserves £334,460. The restricted reserves are mainly made up of surpluses from Supporting People funding as confirmed by additional information provided by the organisation to NIHE, i.e £68,622. The makeup of the restricted reserves includes a general category amounting to £39,244 which cannot be broken down. Our concern is that the balance of £68,622 for Supporting People is just for the two years 2007-08 and 2008-09. This organisation has been funded since the start of the programme and there is a possibility that Supporting People surpluses from previous years are included within other reserves. NIHE have not clawed back any surpluses from the previous financial years and were unaware of exactly how much the organisation retained by way of Supporting People funding until asked by audit. The issue of reserves and whether or not organisations should be allowed to retain them has also been looked at by DSD (see paragraphs 4.60 to 4.71) as part of their overall review of Supporting People. They have stated that the Department will develop guidance to NIHE to clarify this issue.

Site Visit

Lease Agreement not updated

3. Organisation 2 had a 3 year lease agreement with a local landlord for the period 01/08/06 to 31/07/09 at £8,750 per year. This lease has not been updated but the organisation is still occupying the same premises and continues to pay the same rent.

Apportionment of all Spend

4. Expenditure including central overheads, are apportioned against the Supporting People grant on the basis of agreed historic figures going back to 2006-07. We recognise that this, organisations central overheads which are approximately 7% of total spend are not unreasonable. However, the basis of apportionment has never been reviewed by Supporting People. We are concerned that there may be an element of cross subsidisation between Care and Supporting People funding.

Low Occupancy Rates

5. This organisation has been consistently failing to meet the 75% utilisation target as set by the NIHE for some time. In fact the utilisation levels were never very high and this service has been provided since 2003. In the standard agreement NIHE state that repeated utilisation levels of less than 75% of agreed service units would incur a reduction of grant of 20%. Whilst we are aware of the steps currently being taken to remodel this service it is still the case that NIHE have failed to implement this part of the agreement and reduce the funding accordingly. NIHE acknowledge the ongoing issues of the service being provided and have stated they are working with the organisation to remodel it.

Implication

1. An incorrect risk assessment could result in a lighter monitoring approach being adopted by NIHE and potential problems going undetected for a period of time before appropriate action is taken.
2. Surpluses from Supporting People funding obtained in previous years may be used for purposes not originally intended under this particular programme.
3. The Service provided may be disrupted should the organisation be asked to leave its headquarters at short notice as a result of its lease of the premises not being renewed.
4. The apportionment basis which is based on historical costs may no longer be appropriate.
5. This service may not be strategically relevant as a result of the consistent low occupancy rates being provided.

Priority Rating

2

Recommendation

1. NIHE should take care when assessing the risk of an organisation as under the new contract management process this will impact on the overall approach adopted to monitor the organisation and the service being provided.
2. Organisations should be asked to disclose as a separate note within the financial statements the actual makeup of the restricted reserves so that it is clear and transparent what restricted reserves relate to Supporting People funding. NIHE should also review what limits should be applied as to the level of funding that an organisation can hold in "reserves", by taking into account any new guidance issued by DSD.
3. A rental agreement should be put in place to ensure the service is not disrupted.
4. As part of the desktop review of budgetary information, NIHE should assess the reasonableness of the apportionment basis for spend.
5. NIHE should consider reducing funding in accordance with the terms and conditions laid out in the letter of award were occupancy rates consistently fall below an expected level.

Management Response

Observation

Risk assessment – NIHE takes this opportunity to highlight that this is 1 of 11 services provided in respect of victims of domestic violence across Northern Ireland. It provides a much needed and

ongoing strategically relevant service to this vulnerable client group over an extensive geographical area [i.e. an urban and large rural District Council area]. This service, like the rest of the domestic violence sector, is currently undergoing transition supported by the SP team with a view to remodel SP services thereby ensuring they are more relevant, accessible and cost effective. NIHE has highlighted to audit that as an SP Commissioner NIHE must take into account the changing needs of the sector, the models which support the delivery of it and facilitate any remodeling required. During these transition periods it is important that SP provides support to ensure that services continue to be delivered.

Restricted reserves – we are currently engaged with this organisation regarding the make up of reserves. The annual financial statement shows that the SP reserve represents 5 months of SP operating costs. The best practice benchmark suggests that reserves of between 3-6 months should be maintained and the SP team continue to engage with the organisation to further clarify the make up of their reserves. It should be noted that the remodeling of this service as highlighted above is likely to incur “one-off” costs which NIHE would expect to be addressed using their reserves.

Lease Agreement not updated –this relates to office accommodation, which is readily available in the locality and as such will have no bearing of the ongoing delivery of the SP service.

Apportionment of all spend – management accounts for this organisation are reviewed on an annual basis, this includes consideration of the apportionment of all spend identified. As acknowledged by Audit, 7% is not an unreasonable amount for central overhead costs.

Low occupancy rates – see also comments under risk assessment above. It is imperative that the services are maintained in this area while undergoing transition.

Recommendations

1. Agreed and accepted.
2. This is already a requirement under SORP and organisations will be reminded to comply. A template will be developed to assist providers to more readily provide the information for the monitoring of grant expenditure in each year as required by NIHE.
3. This is a matter for the organisation concerned and it will not impact of the future delivery of SP services.
4. Management accounts for this organisation are reviewed on an annual basis, this includes consideration of the apportionment of all spend identified.
5. Accepted. This is NIHE's normal approach, however, in individual circumstances this is not always appropriate as explained in our comments regarding remodeling and the associated costs of doing so.

Responsibility	
B O'Kane Senior Principal Officer	
Date of Implementation	Signed Off By:
With immediate effect	C McQuillan Assistant Director

7. Supporting People - Organisation 3 – Provider ID:4 / Scheme ID: 25

Observation
<u>Desktop Review</u>
<u>Funding for 'Restructuring Purposes'</u>
1. The majority of this organisations funding is provided by the NIHE. It has been operating a deficit for this scheme since 2006-07 and additional funding has been paid to it for restructuring purposes. These additional monies do not appear to have brought about any significant change to how the service was provided but have helped to keep the organisation afloat. The organisations reserves have fallen from £123k as at 01/04/06 to £63k as at 31/03/09. With an expected deficit of £49k for 2009-10 there is a risk that this organisation could become technically insolvent in the near future. We note that NIHE has been in detailed discussions with the organisation in respect of remodelling the service, but are of the opinion this should have taken place sooner.
<u>Site Visit</u>
The organisation provided us with financial information up to 31/01/10 and we selected a number of items for testing and reviewed supporting documentation.
<u>Redundancy Payments</u>
2. Two key personnel within the organisation were made redundant in January and February 2010. Seventy five % of redundancy and pay in lieu of notice costs amounting to £23,492 were being claimed against Supporting People funding.
<u>Low Occupancy Rates</u>
3. We obtained occupancy rates for this organisation from 31/03/05 to date and noted that the organisation has been consistently below the required level for a long period of time. The standard letter of award states that funding can be reduced by up to 20% if the occupancy rate falls below 75%. The service has only partly demonstrated relevance. It should be noted that occupancy levels below 90% can cause difficulties in getting returns of income to cover overheads and staff costs. When they are lower than 75% then there are usually serious problems in getting rental income, e.g. service charges. This would partly explain why this organisation has been operating at a deficit for a number of years and why NIHE had to provide additional funding to keep it afloat.
Implication
1. Additional monies may have been spent for purposes not intended under the Supporting People programme.
2. Redundancy payments in lieu of notice may not be eligible under the Supporting People programme.
3. This service may not be strategically relevant as a result of the consistent low occupancy rates being provided over a number of years.

Priority Rating
2
Recommendation
<p>1. Additional funding for restructuring purposes should only be paid to bring about change rather than to fund deficits.</p> <p>2. That clarification be sought as to whether redundancy costs are eligible spend for Supporting People purposes.</p> <p>3. NIHE should reduce funding in accordance with the terms and conditions laid out in the letter of award were occupancy rates consistently fall below an expected level.</p>
Management Response
<p><u>Observation</u></p> <p>Funding for restructuring purposes – considerable effort by NIHE and this organisations staff has been expended, over a 3 year period, to ensure the ongoing delivery of a strategically relevant service for vulnerable clients in this particular area. Significant change has taken place within this organisation including the appointment of new committee members, restructuring of the staff team and the relocation of premises (including the sale of previous premises). It is also useful to note that the organisation has recently secured significant additional funding via the Big Lottery (£450k over 3 years). Taking all of these factors into account it the view of NIHE that this organisation has demonstrated their ability to make significant changes in order to secure ongoing services and continued viability.</p> <p>Redundancy payments – NIHE are of the opinion that such costs are eligible under the SP grant for funding. These costs are required under statute and as such are legitimate and can be offset against SP funding. For services primarily funded by SP there would be no other funding source.</p> <p>Low occupancy rates - Low occupancy levels in themselves do not indicate that a service is not strategically relevant. As highlighted in previous comments made in relation to services in respect of domestic violence, this service continues to provide an essential service to vulnerable clients over a large urban and rural area covering 2 District Councils. This service, like the rest of the domestic violence sector, is currently undergoing transition supported by the SP team with a view to ensure SP services are remodeled thereby ensuring they are more relevant, accessible and cost effective. NIHE has highlighted to audit that as an SP Commissioner NIHE must take into account the changing needs of the sector and the models which support the delivery of it. During these transition periods it is important that SP provides support to ensure that services continue to be delivered. Wit should also be noted that a reduction in occupancy of say 15% does not necessary equate to a similar reduction in SP costs bearing in mind these are in the main fixed in the short to medium term.</p> <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. We would agree with this recommendation and point out that deficit can occur during a period of restructuring. 2. NIHE are of the opinion that such costs are eligible under the SP grant for funding. These costs are required under statute and as such are legitimate and can be offset against SP funding. 3. As noted above this continues to be a strategically relevant service in transition and we are engaged in a comprehensive remodeling exercise to make it more sustainable and cost

effective.	
Responsibility	
Brian O'Kane Senior Principal Officer	
Date of Implementation	Signed Off By:
Ongoing	C McQuillan

8. Supporting People - Organisation 4 – Provider ID:134 / Scheme ID: 851

Observation

Desktop Review

Delay in Completion of Documentation

1) The contract management process was initiated in April 2009. Despite a reminder letter in June 2009 to complete and send in the relevant documentation, this was still not done at the time of the audit in February 2010. The risk assessment process is dependent on getting prompt responses from the organisation. This could ultimately impact on the overall risk assessment and hence the approach to monitoring taken by NIHE.

Clarity of Budgetary Information

2) The budgetary information provided by the organisation lacks clarity and does not clearly identify what is Supporting People spend.

Site Visit

Review of Cost Apportionment

3) As with other organisations in receipt of Supporting People funding the basis on which costs were apportioned was agreed on the basis of historical cost information, i.e. the 2006-07 budget year. The apportionment basis does not appear to have been reviewed since this initial agreement with Organisation 4 and NIHE. There may be an element of cross subsidisation between Care and Supporting People funding.

Expenditure

4) We recognise that the service provided by this organisation is based on an unusual model. Support workers are volunteers who are not paid salaries but are provided with accommodation on site, their material needs and a nominal amount by way of expenses. As such NIHE are paying this organisation the salary equivalent across a number of expenditure transaction streams. Whilst we have taken on board the unusualness of the service we are concerned about certain items of spend which may be ineligible under the Supporting People programme as follows:

i) **Co – worker pension contribution** – budgeted at £100k per annum – funded by Supporting People funding @ 60%, i.e £60k. This apparently is an old age pension provision. The Community Body gives Organisation 4 £100k each year which is invested on behalf of the community body so that a pension can be paid to volunteers who retire.

ii) **Social Fund** – budgeted at £37,925 for year ended 31/01/10 – funded by Supporting People funding @ 60%, i.e. £22,755. This is for relocation expenses of volunteers from abroad.

iii) **Community Body Expenses** – budgeted at £196.6k for the year ended 31/01/10 – funded by Supporting People @75%*60%, i.e. £88,470. This includes a number of different categories of spend, eg. Holidays for senior co-workers @£50k, Short term community expenses @ £54k, Presents @ £6k, and General community expenses @ £48k.

iv) Organisation 4 states that its main source of income is rental which it charges against the operating companies/community bodies. In the case of the community body, Organisation 4 charges them £130k each year to rent the land. Is this a reasonable rental charge?

v) Supporting People appear to be funding net farm costs. In the eleven month period to 31/12/09 net farm costs amounted to £74,725 (excluding wages) of which Supporting People are funding approx. £31k. Are the losses incurred under this business enterprise eligible under the Supporting People programme?

vi) Supporting People appear to be funding capital spend for vehicles through the depreciation charge. Depreciation for motor vehicles has been budgeted at £30k of which Supporting People Funding of £17,460 each year. Is depreciation an eligible expense under the Supporting People Programme?

Implication

1. The risk assessment process may be impeded by the lack of co-operation of the organisation in returning the required documentation.
2. Lack of clarity could result in monies being spent on ineligible items of expenditure.
3. The apportionment basis which is based on historical costs may no longer be appropriate.
4. Ineligible spend could be funded under the Supporting People Programme.

Priority Rating

2

Recommendation

1. NIHE should be quicker in following up on the contract management documentation as it plays such an important role in assessing the overall risk of this organisation.
2. Budgetary information should set out clearly what is Supporting People spend.
3. As part of the desktop review of budgetary information, NIHE should assess the reasonableness of the apportion basis for spend.
4. Potential ineligible spend should be investigated and recouped from the organisation were it is appropriate to do so.

Management Response

Observation

This organisation is part of an international community providing services to extremely vulnerable clientele and operates in a unique way when compared to other service providers in Northern Ireland. NIHE, like all other administering authorities throughout the UK, recognise this model for SP purposes. This model is based on the service being provided by full-time volunteer co-workers instead of salaried staff. NIHE in conjunction with the provider and the Health Trust have agreed an apportionment of costs relating to both housing support and care. In this process there are 2 stages in the apportionment of community expenses. Firstly, expenses are apportioned to identify the costs of the co-workers and secondly, the balances of these expenses are apportioned in

keeping with normal SP eligibility criteria. The living expenses of co-workers are part of the cost of providing the support required by service users. These costs resulted in an average cost per full-time co-worker of £20,700 in 2008/9, 60% of which is attributable to the SP programme. This total included the following items queried by NIAO:

i. **Co-worker pension contribution**- this is a legitimate cost of providing pensions for long term co-workers and the overall amounts for this size of community are reasonable.

ii. **Social fund** - this is an example of how community expenditure represents costs which would normally be covered by salaries.

iii. **Community body expenses** – this is similar to the point above.

iv. **Rental income** – a portion of the rental costs are allocated as a cost of providing accommodation for co-workers and as such has been treated on the same principals of 2 and 3 above. It represents an accommodation charge averaging £47 per week, 60 % of which (£28 p.w.) is allocated against SP funding.

v. **Net farm costs** – a portion of the net farm costs relate to the cost of food produced for the co-workers and this has been included in the apportionment allocated to co-workers salaries. The average cost included in calculating co-worker salary equivalent is £27 per week and 60% (£16 p.w.) is allocated to SP.

vi. **Vehicle depreciation** – the depreciation referred to is in respect of vehicles used by the co-workers when living within the community. Depreciation of these assets is a legitimate revenue cost and has been included in the co-workers salary equivalent calculations.

It should be noted that the overall cost per service user per week is in keeping with the SP benchmark amounts for this particular client group. The Health Trust also provides funding at levels equivalent to SP.

Recommendations

1. This is noted and will be incorporated into the contract management process.
2. NIHE is satisfied with the information supplied to facilitate the monitoring of this provider.
3. NIHE has considered the apportionments of the financial information supplied and are satisfied that it is reasonable and that it is in keeping with the SP programme requirements.
4. NIHE agree that where any ineligible spend is identified it will be investigated and recouped from the organisation involved.

Responsibility

John Graham Principal Officer

Date of Implementation

Signed Off By:

Ongoing

Brian O'Kane

9. Supporting People - Organisation 5 – Provider ID:25 / Scheme ID: 1345

Observation
<p>Site Visit</p> <p>Apportionment of costs between Supporting People and Care</p> <p>1. This scheme is funding 10 apartments which use smart technology in order to assist people with disabilities. From the management accounts provided to us for the period to 31/12/09 we noted a surplus of £62k. The client has told us that this is because of Health Trust funding for Care costs. The budget for 2009-10 actually highlights a small deficit of approx. £1k for Supporting People costs. We are concerned with the apportionment basis used to attribute costs either against Supporting People funding or Care. As such there could be an overlap with care, in that certain costs are being wholly apportioned against SP funding when it may be appropriate to apportion some against Care; e.g.</p> <ul style="list-style-type: none"> i) Technology maintenance - £3,213 – provision for maintenance of adaptive technology – which may need to be replaced every 3 to 5 years; ii) A provision for voids, £5,571 for this period of which £4,092 is set against SP funding, £nil against Trust funding. iii) Postage and stationery £1,043; and iv) Telephone and internet - £2,164. <p>The apportionment basis was agreed with NIHE at the commencement of this project but does not appear to have been reassessed.</p> <p>Use Of Reserves</p> <p>2). The organisation had Supporting People reserves of £113,049 as at 31/03/09. We noted that a number of specific costs in the form of provisions are made against Supporting People funding, e.g Voids and Technology maintenance costs. These monies appear to have been transferred into there own specific reserves. As such the Supporting People reserve may be understated. The Void reserve amounted to £163,966 as at 31/03/09. Is it necessary to continue with this provision given the amount of reserve already held by the organisation? The technical and maintenance cost reserve is a capital reserve. Is capital expenditure eligible under the Supporting People programme?</p>
Implication
<p>1. The apportionment basis used by the organisation should be reviewed by NIHE to ensure costs are being reasonably attributed to Supporting People funding.</p> <p>2. Supporting People reserves may be understated. Expenditure may be unnecessary or ineligible.</p>
Priority Rating
2
Recommendation
<p>1. NIHE should review the apportionment basis used by the client to apportion costs of the scheme on a regular basis to ensure it is still appropriate.</p> <p>2. NIHE should ascertain whether or not these provisions are being held within the Supporting People Reserve. In addition they should establish need for the void provision and clarify whether</p>

the capital spend is eligible under the supporting people programme.	
Management Response	
<p><u>Observation</u></p> <p><u>Apportionment of costs</u> – this is a new and innovative supported housing scheme with a reliance on the use of sophisticated ICT. When developing the case for SP funding particular attention was given to the care and housing support elements which make up the total funding package. Since opening in 2007 SP funding has not increased for the service, whereas Health have continued to provide year on year uplifts to their aspect of the funding. NIHE's analysis of the management information provided indicates that the SP funding is being spent in accordance with the initial projections. Management accounts for the 9 months to December 2009 show a small deficit attributable to SP, however an analysis of the Ardkeen management accounts for the 2008/9 financial year attribute a deficit of £22,947 to SP. The costs which resulted in this deficit included £5,394 for voids provision and £4,284 for technology maintenance. If these items were reversed there would still be a £13,269 deficit on the SP cost allocation. The deficit has not been charged against the SP restricted reserve, but is included in the net movement on unrestricted funds. As a result of this deficit, the provision for voids and the accrual for technology maintenance in 2008/9 have not actually been funded by Supporting People. It should be noted that part of the expenditure on technology maintenance would be eligible for SP funding, as this was agreed by SP when the project was being commissioned. NIHE will review the allocations of expenditure which have resulted in deficits for 2008/9 to ensure that only eligible costs have been included. We will also point out to the service provider that only actual expenditure should be charged against SP income and generally not provisions for future costs which have not been incurred in the financial period.</p> <p><u>Use of reserves</u> – the Supporting People restricted reserve represents 1.7 months of SP annual expenditure and as such is well within the tolerance operated by NIHE when dealing with reserves. Should DSD provide future guidance, NIHE will take this into account.</p> <p><u>Recommendations</u></p> <ol style="list-style-type: none"> 1. NIHE will continue to review apportionments as part of our ongoing review of financial information provided by this organization. 2. NIHE will seek clarification of the reserves position from the organisation. 	
Responsibility	
John Graham	
Date of Implementation	Signed Off By:
Ongoing	Brian O'Kane

10. Supporting People - Organisation 6 – Provider ID:27 / Scheme ID: 140

Observation	
<u>Payments made before funding Agreement signed.</u>	
We noted that the organisation failed to sign the initial contract until 27/04/09. Payments continued to be made up to this point in contravention of the agreement which stated, "Failure to return signed copy of letter will result in expiration of funding agreement on 31/03/09. All payments in respect of funding agreement will only be made to this date".	
Implication	
Non compliance with the terms and conditions set out in the letter of award. Irregular payments could have been made.	
Priority Rating	
2	
Recommendation	
NIHE should fully comply with the terms and conditions as set out in the letter of award to ensure irregular payments are not made.	
Management Response	
<u>Observation</u> There was a 1 month delay in returning the signed renewal (not initial) contract. In this case it was judged that withholding payment would not have been an appropriate response to an administrative oversight by the provider.	
<u>Recommendations</u> Agreed.	
Responsibility	
Stephen Osborne Principal Officer	
Date of Implementation	Signed Off By:
Ongoing	Brian O'Kane

11. Supporting People - Organisation 7 – Provider ID:116 / Scheme ID: 739

Observation	
<u>Payments made before funding Agreement signed.</u>	
We noted that the organisation failed to sign the initial contract until 03/06/09 (signed on behalf of the Trustee committee). Payments continued to be made up to this point in contravention of the agreement which stated, "Failure to return signed copy of letter will result in expiration of funding agreement on 31/03/09. All payments in respect of funding agreement will only be made to this date".	
Implication	
Non compliance with the terms and conditions set out in the letter of award. Irregular payments could have been made.	
Priority Rating	
2	
Recommendation	
NIHE should fully comply with the terms and conditions as set out in the letter of award to ensure irregular payments are not made.	
Management Response	
<u>Observation</u>	
There was a 2 month delay in returning the signed renewal (not initial) contract. In this case it was judged that withholding payment would not have been an appropriate response to an administrative oversight by the provider.	
<u>Recommendations</u>	
Agreed.	
Responsibility	
Stephen Osborne	
Date of Implementation	Signed Off By:
Ongoing	Brian O'Kane

12. Special Purchase of Evacuated Dwellings (SPED)

Observation
<p>Special Purchase of Evacuated Dwellings (SPED)</p> <p>From reviewing a sample of SPED transactions during the year, it is noted that:</p> <p>One SPED house was purchased in December 2007 for £285,000 and sold in July 2009 for £185,000, realising a loss of £100,000.</p> <p>One SPED house was purchased in May 2008 for £495,000 and sold in October 2009 for £280,000, realising a loss of £215,000.</p> <p>NIAO acknowledge that the loss on the disposal of these two properties was indicative of the difficult conditions affecting the housing market in Northern Ireland during the year.</p> <p>The latter property was purchased in May 2008 after obtaining an independent valuation from Land & Property Services (L&PS).</p> <p>After no housing need had been identified by NIHE in this area, an estate agent was instructed to sell the property in June 2008.</p> <p>The estate agent wrote to the NIHE stating that 'an asking price of £495,000 would be unrealistic and they believed that £400,000 would be a realistic asking price for this property' based on comparable properties in the area that were sitting at less than £400,000 since June 2007 with no offers.</p>
Implication
<p>Even though an independent valuation had been provided by L&PS, NIHE may have paid too much money for this property.</p> <p>A very substantial loss has been incurred on this property.</p>
Priority Rating
2
Recommendation
<p>NIHE should consider getting more than one external valuer (such as a local estate agent) to value high-valued properties under the SPED scheme to ensure a realistic amount is paid for properties given the current housing market conditions in Northern Ireland.</p> <p>Consideration should be given to whether such a property should be held longer rather than disposed at such a loss.</p>
Management Response
<p>The Housing Executive is required to operate under the provisions of the statutory SPED Scheme. This provides that the valuations must be assessed by the VLA and there is no scope to introduce any external valuers. The prices accepted for vacant SPED dwellings are approved by the VLA. The housing market took an unprecedented slump in sales post 2007 and SPED dwellings in particular, with their stigmatised history and many of these dwellings in isolated locations, were difficult to generate any interest in.</p>

The trend in profit/loss on SPED resales in recent years is as follows: (2006/07 shows a profit of 37.22%).

Financial Year	Percentage Loss on Resales
2003/2004	-3.98%
2004/2005	-4.97%
2005/2006	-4.12%
2006/2007	8.93%
2007/2008	37.22%
2008/2009	-39.48%
2009/2010	-36.11%

Responsibility

H.Walker

Date of Implementation

Ongoing

Signed Off By:

H. Walker

13. Grants – Annual Future Occupation Compliance Monitor Report

Observation	
<p>Annual Future Occupation Compliance Monitor Report</p> <p>It is noted that the 2008-09 Annual Future Occupation Compliance Monitor Report was not issued to the Chief Executives Business Committee until September 2009, some 6 months after the year end.</p> <p>The 2007-08 report was not issued until 24 November 2008.</p> <p>The 2006-07 report was not issued until 6 January 2008.</p>	
Implication	
<p>Reports are not issued on a timely basis.</p> <p>This may result in cases where grant clawback is required could be missed.</p>	
Priority Rating	
2	
Recommendation	
<p>NIHE should ensure the monitoring results are issued on a timely basis.</p> <p>NIHE should remind staff of the requirements of grant application and ensure applicants are informed when applying for grants.</p>	
Management Response	
<p>In April of each financial year the Grants Managers are requested to update their compliance monitor and submit to Headquarters by the end of June. Prior years delay have been in part due to the further investigation required to ensure compliance of the statutory time scale conditions of grant aid, and the implementation of the new Grants Management System into the Grants Offices. However, the recommendation is noted and we will strive to bring the Monitor to the CXBC as soon as possible after June.</p>	
Responsibility	
K Hicks	
Date of Implementation	Signed Off By:
April 2010	J. McPeake

14. Housing Benefit - Overpayments

Observation	
<p>Housing Benefit Overpayments - example - 3116981</p> <p>On 26 January 2010, NIHE informed a Housing Benefit claimant that their entitlement to Housing Benefit has been reassessed resulting in an overpayment of £3,172.60.</p> <p>The Housing Benefit overpayment is recoverable because a non-dependant turned 18 on 2 November 2008, some 14 months previously.</p> <p>Although it is the claimant's responsibility to inform NIHE of any changes to their circumstances, NIHE were already aware of the date of birth of the non-dependant and as such should have suspended the Housing Benefit from 2 November 2008.</p>	
Implication	
Increase in Housing Benefit overpayments.	
Priority Rating	
2	
Recommendation	
All Housing Benefit staff should consider entering an Event Date in the 'iWorld' system for all Housing Benefit cases to ensure that overpayments do not arise.	
Management Response	
Managers will be reminded of the requirement to use diary events for predictable Changes of Circumstances.	
Responsibility	
H.Walker	
Date of Implementation	Signed Off By:
Ongoing	H. Walker

15. Housing Benefit - Overpayments

Observation	
<p>Housing Benefit Overpayments - example - 1000011829</p> <p>A Housing Benefit overpayment of £9,668.38 arose whenever 2 non-dependants were incorrectly included in setting up the above new case.</p> <p>The above overpayment was subsequently rectified by the District Manager.</p>	
Implication	
Increase in Housing Benefit overpayments.	
Priority Rating	
2	
Recommendation	
Information relating to new Housing Benefit cases should be vouched and agreed to supporting documentation.	
Management Response	
Managers will be reminded of the need to ensure that data is input accurately as part of the assessment of claims and that checks are made to ensure that this is being done.	
Responsibility	
H.Walker	
Date of Implementation	Signed Off By:
Ongoing	H. Walker

16. Warm Homes – Duplicate funding

Observation	
<p>Lack of controls to identify duplicate funding of warm homes & other grants</p> <p>It is noted there are no controls in place to identify if applicants in receipt of a warm homes grant may have also received another grant from NIHE for similar work done.</p> <p>Under the old scheme the completed warm homes grant payment to the individual was traced through the grants management system to identify if any other grants had been received by the same applicant and investigated.</p>	
Implication	
<p>There is a risk that applicants may receive a warm homes grant after receiving another grant from the NIHE for similar work done and be successfully paid.</p>	
Priority Rating	
2	
Recommendation	
<p>When warm homes grants are completed under the new scheme, they should also be checked against the grants management scheme to ensure double funding has not arisen.</p>	
Management Response	
<p>The recommendation is noted. We are currently considering an appropriate level of checking for both heating and insulation measures.</p>	
Responsibility	
K Hicks	
Date of Implementation	Signed Off By:
April 2010	J. McPeake

17. Warm Homes – Benefit entitlement checks

Observation	
<p>Checking of benefit entitlement by NIHE</p> <p>Benefit entitlement checks are carried out by both scheme managers.</p> <p>NIHE do not carry out any further testing of these entitlement checks.</p>	
Implication	
There is a risk that errors may be made by the scheme managers which are not identified.	
Priority Rating	
2	
Recommendation	
NIHE consider checking a sample of forms against evidence of benefit entitlement to ensure scheme managers are carrying out their contractual duties.	
Management Response	
<p>The Benefit Entitlement Check is not part of the scheme eligibility check.</p> <p>They are designed to identify people who may not be claiming their full benefit entitlement, and direct them to the Social Security Agency. It may help someone become eligible for the scheme, but only when they have successfully applied for the benefit and it is in payment.</p> <p>Receipt of qualifying benefit is thoroughly checked by the scheme manager.</p> <p>The two new scheme managers submit detailed schedules of addresses with the Benefit Entitlement invoices.</p> <p>On a quarterly basis the Department For Social Development carry out a sample validation on all the benefit entitlement checks submitted by the two scheme managers.</p>	
Responsibility	
K Hicks	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

18. Contracts – Contractor / Consultant performance

Observation			
<p>Contracts – Contractor / Consultant performance</p> <p>While reviewing the Post Tender Reports and Final Accounts presented to CXBC, and from our contracts testing, we found that on occasion, the contracts where final price exceeds tendered amount involve poor contractor or consultant performance. Examples include:</p>			
Project Number	Contract Sum	Final Account	Variation
21.84.083	1,128,950	1,253,789	125,839
03.84.073	769,951	999,420	229,469
26.84.518	1,635,000	2,250,736	615,736
Implication			
There is a risk that if not carefully monitored, poor performing consultants or contractors are reappointed.			
Priority Rating			
2			
Recommendation			
<p>NIHE should monitor poor performance in detail to ensure contractors/consultants with poor performance are not re-appointed.</p> <p>We would expect to see at the appointment stage evidence of prior work done by this contractor/consultant on NIHE contracts being considered.</p>			
Management Response			
<p>When additional expenditure is identified through a Post Tender Report or Final Account Report the reasons are identified and Consultant Performance examined. If poor performance is identified the matter is referred to the Service Review Panel for appropriate action.</p> <p>Procurements now are based on quality / price including evidence of previous performance.</p>			
Responsibility			
J. McPeake			
Date of Implementation		Signed Off By:	
Ongoing		J. McPeake	

19. Contracts – Monitoring of outstanding final accounts

Observation	
<p>Contracts – Monitoring of outstanding final accounts</p> <p>While looking at the clearing of historic outstanding final accounts within the Belfast Area Office, it is noted that no formal monitoring is carried out by management on the number of outstanding accounts. One member of staff works at clearing these on an ad hoc basis around his day to day work.</p>	
Implication	
Delay in completing final accounts.	
Priority Rating	
2	
Recommendation	
Formal monitoring of outstanding accounts should be undertaken by management, including a plan and timetable to reduce the number of outstanding final accounts.	
Management Response	
Every month the Property Services Managers are issued with a list of Outstanding Final Accounts for action. These are prioritised by date order and are monitored by the PSMs.	
Responsibility	
J. McPeake	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

20. Contracts – monitoring of contracts

Observation	
<p>Contracts – monitoring of contracts</p> <p>From reviewing a number of contracts, it is noted:</p> <p>Project 26.84.518 - there was no conclusion on contractor performance on Clerk of Works weekly reports. In addition, there were 4-8 weekly progress meetings and the Clerk of Works was not in attendance at a number of these and did not present any papers regarding the quality of work or their comments in their absence.</p> <p>It was also noted that the sub-consultants involved in the work did not perform adequately.</p>	
Implication	
Poor monitoring of contracts.	
Priority Rating	
2	
Recommendation	
<p>NIHE should ensure the Clerk of Works appointed are informed of the need to provide a comment on contractor performance on their weekly reports.</p> <p>In addition, where a Clerk of Works is unable to attend one of the progress meetings, they should submit a paper in their absence to conclude on progress on site since the last meeting.</p>	
Management Response	
<p>It is not the Clerk of Works role to report on Contractor performance. Contractor performance is measured through the KPI system and input is from the Contract Administrator / Project Manager and the District Office.</p> <p>The Clerk of Works report is submitted weekly to the Contract Administrator / Project Manager and they can report on progress in the absence of the COW.</p>	
Responsibility	
J. McPeake	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

21. Contracts – Breach of Standing Orders

Observation	
<p>Contracts – Breach of Standing Orders</p> <p>It is noted that some projects breached standing orders for a number of reasons. Examples include:</p> <p>Project 26.78.343 - Delay in submission of the post tender report.</p> <p>Project 07.37.448 - Consultant authorised expenditure beyond the limit of his authority.</p> <p>Project 17.32.962 - Additional items of work were not reported prior to the works being complete.</p> <p>Project 26.78.239 - Failure to submit a paper advising of the increase of more than 5% of the contract sum due to addition of works to the contract.</p> <p>Project 06.78.028 - Approval was not sought for additional expenditure over the 5% permitted by Standing Orders.</p>	
Implication	
Breach of Standing Orders reflects poor contract administration and a lack of good project management skills.	
Priority Rating	
2	
Recommendation	
<p>Consultants should be reminded of the need to adhere to Standing Orders in all contracts.</p> <p>Consultants should be reminded of the need to gain prior approval from NIHE for additional expenditure required on such contracts.</p>	
Management Response	
<p>Consultants are constantly reminded to adhere to Standing Orders – this is a standard item on their annual review. The majority of our Consultant appointments are now terminated as a result of the reduced capital budget. We are in the process of procuring new consultant support and these conditions should be emphasized in the documentation – this will be passed to Policy & Standards.</p>	
Responsibility	
J. McPeake	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

22. Contracts – Consultant Performance

Observation	
<p>Contracts – Consultant Performance</p> <p>From reviewing a sample of contracts in dispute and arbitration, it was noted that one consultant (JCP Consulting) had contract disputes in a number of projects.</p> <p>Action was being taken by NIHE for Negligent Contract Administration resulting in overpayments to the Contractors involved in the projects managed by this consultant.</p> <p>In 8 projects, a total of £46,224 was overpaid to the contractors as a result of poor performance by the consultant.</p> <p>During 2009-10, disputes with this consultant arose in a further 203 schemes involving 21 different contractors, resulting in a provisional value of £399k being documented on the Register of Litigations.</p>	
Implication	
Poor monitoring of contracts.	
Priority Rating	
2	
Recommendation	
<p>NIHE should monitor poor performance in detail to ensure contractors/consultants with poor performance or negligent administration are not re-appointed.</p> <p>We would expect to see at the appointment stage evidence of prior work done by this contractor/consultant on NIHE contracts being considered.</p>	
Management Response	
<p>As at point 19 Consultant performance is reviewed and poor performance referred to the Service Review Panel for appropriate action. In the case of JCP the appropriate action is being taken through our Contract Claims Department.</p> <p>Procurements now are based on quality / price including evidence of previous performance.</p>	
Responsibility	
J. McPeake	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

23. Land & Property Services

Observation	
<p>Land & Property Services</p> <p>NIHE administer Rate relief and Lone Pensioner Allowance payments on behalf of Land and Property Services (L&PS). NIHE invoice L&PS on a monthly basis and monthly invoices are approximately:</p> <p>Housing Associations - £20,000 for rate relief and £5,000 for Lone Pensioner Allowance.</p> <p>NIHE owned properties - £55,000 for rate relief and £6,000 for Lone Pensioner Allowance.</p> <p>It is noted that a breakdown of these amounts at tenant level is not obtained or checked prior to sending the invoice to L&PS.</p> <p>NIHE could provide NIAO with a breakdown of the rate relief for Housing Associations at District Level. However, no detailed breakdown for Lone Pensioner Allowance at District Level could be provided.</p> <p>No detailed breakdown could be provided for NIHE owned properties.</p>	
Implication	
NIHE invoices to L&PS to cover Rate Relief payments for NIHE and Housing Association tenants may be inaccurate.	
Priority Rating	
2	
Recommendation	
<p>A more formal reconciliation or checking process should be performed prior to an invoice being sent to L&PS.</p> <p>A sample of amounts should be checked at tenant level prior to sending the invoice to L&PS.</p> <p>A detailed breakdown for Lone Pensioner Allowance and NIHE owned properties at District Level should be produced.</p>	
Management Response	
<p>A checking regime is already in place within HB Policy Unit on sample cases within both Rate Relief and LPA prior to invoicing LPS.</p> <p>The feasibility of providing breakdowns of LPA at District level and for NIHE properties will be investigated.</p>	
Responsibility	
H. Walker	
Date of Implementation	Signed Off By:
Ongoing	H. Walker

24. Repairs Inspection Unit – Unacceptable ratings

Observation	
Repairs Inspection Unit - Unacceptable ratings It is noted that 3 Districts have obtained an unacceptable rating by the Repairs Inspection Unit, namely - Shankill, West Belfast and Castlereagh.	
Implication	
Poor quality of work. Ineffective monitoring of contractors administration requirements. Inaccuracy of contractor payments. Inaccuracy of maintenance officer post inspections.	
Priority Rating	
2	
Recommendation	
The issues identified in each of these 3 District Offices should be addressed as soon as possible. All District Offices should be made aware of the shortcomings in the above 3 Districts to ensure that they do not re-occur.	
Management Response	
All Management Teams of the Districts identified have subsequently been visited by the Repairs Inspection Unit to appraise managers of the detail of the findings and the corrective actions to be taken to ensure that they do not reoccur.	
Responsibility	
H. Walker	
Date of Implementation	Signed Off By:
Ongoing	H. Walker

25. Bank Reconciliations

Observation	
<p>Review of Bank reconciliations</p> <p>Bank Reconciliations are to be reviewed quarterly by management and filed in the Quarterly Bank Reconciliation folder.</p> <p>It is noted that the quarterly bank reconciliation for September 2009 could not be located.</p>	
Implication	
<p>An important financial control was not operating.</p> <p>There is a risk that errors may go undetected.</p>	
Priority Rating	
3	
Recommendation	
All quarterly bank reconciliations should be reviewed and signed by management on a timely basis.	
Management Response	
<p>Accepted.</p> <p>Quarterly reconciliations are carried out for all bank accounts, including the salaries bank account, and signed off by management as evidence of review. On this particular occasion the reviewing manager was on leave and there was some delay in completing the reconciliation process. A signed copy is now available in the bank reconciliation file.</p>	
Responsibility	
L. Quinn	
Date of Implementation	Signed Off By:
Immediate	C. Bailie

26. Grants – Segregation of duties

Observation	
Grants testing at Ballymena Office - Segregation of duties When reviewing various grant files, it is noted that within the Test of Resources control sheet the assessing officer had also checked the process.	
Implication	
Lack of segregation of duties. Any errors may not be identified.	
Priority Rating	
3	
Recommendation	
A different officer should check the process and sign the control sheet, thus ensuring that duties are segregated within the test of resources.	
Management Response	
In the instances where this occurred it was during the sickness absence of the Senior Administrative Officer Level 5. In line with the Test of Resources policy 10.08 the applications were keyed by an officer other than the Assessing Officer. The secondary checking was carried out by the Assessing Officer as permitted when resources are unavailable due to leave, sick leave, etc. in which case the Assessing Officer may carry out secondary checking. Upon return of the Level 5 the secondary checking has been carried out by her.	
Responsibility	
K Hicks	
Date of Implementation	Signed Off By:
Ongoing	J. McPeake

27. Warm Homes – Quality Assurance Plan

Observation	
Warm Homes - Quality Assurance Plan It is noted that a Quality Assurance Plan for the new Warm Homes Scheme has not yet been completed. The Quality Assurance Plan will describe the work NIHE will perform to quality assure the delivery of the Warm Homes Scheme.	
Implication	
There may be problems within the scheme relating to quality control which have not been identified.	
Priority Rating	
3	
Recommendation	
A timetable should be drawn up to complete this quality assurance plan.	
Management Response	
The Warm Homes Quality Assurance Plan is currently being drafted and is scheduled for completion in June 2010.	
Responsibility	
K Hicks	
Date of Implementation	Signed Off By:
June 2010	J. McPeake

NIAO NIHE Report to those charged with Governance Year ended 2011



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Dr John McPeake
Chief Executive
NORTHERN IRELAND HOUSING EXECUTIVE
2 Adelaide Street
BELFAST
BT2 8PB

3rd October 2011

Dear John,

NORTHERN IRELAND HOUSING EXECUTIVE 2010-11 – AUDIT FINDINGS

I am writing to inform you that the audit of the Northern Ireland Housing Executive's financial statements for the year ended 31 March 2011 is now complete and the accounts were certified on 30 June 2011.

The results of the audit are set out in the attached report to those charged with governance which includes recommendations for action.

You will appreciate that the matters were identified from our normal audit procedures conducted to Auditing Practices Board standards. These are designed primarily for the purpose of forming an opinion on the financial statements and included only a limited review of your accounting systems and procedures. Consequently they may not have brought to light all the weaknesses that may exist, and our findings should not be seen as comprehensive in this respect. I have included an assessment of the risks and made recommendations that are designed to be constructive. However, I should point out that responsibility for determining whether they should be implemented, and the effects of such implementation, necessarily rests with management.

I would be happy to discuss any of the matters raised in the report to those charged with governance if you would find that helpful. I am copying this correspondence to Will Haire, the Accounting Officer of Department for Social Development.

I would be grateful if you would pass a copy of this letter to the chair of the Departmental Audit and Risk Committee. In conclusion, may I take this opportunity to thank you and your staff for the assistance and co-operation received throughout the audit.

Yours sincerely

LOUISE MASON
Assistant Auditor General



**PROMOTING ACCOUNTABILITY AND
THE BEST USE OF PUBLIC MONEY**

The Northern Ireland Audit Office's Mission is to provide objective information, advice and assurance on the use of public funds; and to encourage:

- beneficial change in the provision of public services
- the highest standards in financial management and reporting; and
- good governance and propriety in the conduct of public business.

The Comptroller and Auditor General (C&AG), Mr Kieran Donnelly, is an Officer of the Northern Ireland Assembly. He is the Head of the Northern Ireland Audit Office, which employs some 150 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information please contact:

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**Northern Ireland Housing
Executive**

Year ended 31 March 2011

**Report to those charged with
Governance**

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Due end of Oct.

1. Executive Summary

Our audit is now complete and resulted in a qualified audit opinion due to the level of housing benefit overpayments attributable to fraud and error and also in relation to weaknesses in the control of expenditure on response maintenance and to the potentially serious issues identified by the Department of Social Development's (DSD) inspection of Helm Housing Association. The Comptroller and Auditor General (C&AG) produced a report to accompany his audit opinion. Significant matters which we would like to draw to the attention of the Audit Committee as a result of our audit include the following:

1. Housing benefit – levels of fraud and error

The levels of fraud and error for Housing Benefit for the year 1 January 2010 to 31 December 2010 highlighted estimated fraud and error for Housing Benefit were £14.8m (overpayments) and £2.6m (underpayments). We have therefore given a **qualified opinion** on regularity in this regard due to the levels of fraud and error.

2. Housing benefit – recovery of overpayments

NIAO are concerned that the level of housing benefit overpayments continues to rise year on year and has increased by £3.5m from £23.4m at 31 March 2010 to £26.9m at 31 March 2011. The Housing Executive's performance in recovering the overall levels of overpayment has reduced over the period from 39.8 per cent in 2007 to 32.7 per cent in 2011.

3. Land disposals

As referred to in the Statement of Internal Control there are a number of investigations ongoing. Given the extent and significance of these investigations it is intended that NIAO will keep this area under review and will provide a detailed report to the Northern Ireland Assembly at the earliest opportunity.

4. Procurement/Contract Management

Following internal and external investigative work, significant weaknesses in control have emerged in respect of response maintenance expenditure incurred by the Northern Ireland Housing Executive ('the Housing Executive'). We have therefore given a **qualified opinion** on regularity in this regard due to the weaknesses in controls over response maintenance.

We have also identified a number of issues in relation to planned maintenance and these are outlined in section 5: significant weaknesses identified.

5. Social Housing Development Programme

There are continuing significant problems within the registered housing association sector in Northern Ireland. DSD's ongoing inspection programme of Housing Associations has identified potentially serious issues in relation to Helm Housing Association. We have **qualified our audit opinion** on regularity because we were unable to obtain sufficient evidence on whether the expenditure of £12.1 million on Social Housing Development Programme in relation to Helm Housing Association had been applied for the purposes intended by the Northern Ireland Assembly.

Of particular concern is the high level of underachievement in finance and governance in a number of Housing Associations. We will continue to monitor this area and in particular the timely and full implementation of the recommendations arising from DSD's inspections and the implementation of the recommendations from the C&AG's review of the governance arrangements contained in his General Report 2009.

2. Introduction The purpose of this report is to provide those charged with governance, both management and non-executives, with the results of our audit work on the Northern Ireland Housing Executive Account (the Housing Executive) for 2010-11 and our recommendations for action. The report sets out:

- our audit conclusion;
- the outcome of our response to the key risks set out in the previously provided Audit Strategy; and
- our ISA 260 Report.

This report includes only those matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

This document is purely for the use of the Housing Executive and our prior consent should be sought before any distribution either in full or in part is made. The NIAO does not accept responsibility to any third party for losses arising from reliance being placed upon this document.

We would like to take this opportunity to thank the management and staff at the Housing Executive who provided assistance during the course of our audit.

3. Audit Conclusion Our audit is now complete and resulted in the Comptroller and Auditor General (C&AG) providing a qualified audit opinion on regularity on 30th June 2011 – see Annex A. The C&AG also produced a Report to accompany his audit opinion – see Annex B.

4. Key risks identified in Audit Strategy In our Audit Strategy which we presented to the Audit Committee on 19 January 2011, we identified a number of risks that related to the Housing Executive as an organisation and in addition to these risks others that related to individual account areas. In the Strategy we also outlined how we were going to consider further how the Housing Executive has addressed these risks. The following section includes details of the previously identified risks relating to the Housing Executive as an organisation and to individual account areas, our audit response as previously provided in the Strategy and the outcome of our testing.

Key Risk 1 – Housing Benefit – levels of fraud and error

Based on a continuing history and as demonstrated by the testing of the Social Security Agency's Standards Assurance Unit (SAU), there is a risk of significant levels of estimated fraud and incorrectness in housing benefit. Such fraud and error results in irregular expenditure.

Audit Response

- Review of the Analytical Services Unit Report on the Levels of Fraud and Error for Housing Benefit. Re-performance of a random sample of the caseload selected and tested by the Analytical Services Unit;
- Review controls over administration of housing benefit;
- Review the outcome of the work on National Fraud Initiative;
- Review disclosure of housing benefit fraud and error in the financial statements; and
- Review work by Internal Audit on Housing Benefit.

Outcome

Levels of fraud and error for Housing Benefit are reported on a calendar year by the Analytical Services Unit of the Department for Social Development. Their report produced in May 2011 covered the period 1 January 2010 to 31 December 2010. The report estimated that the levels of fraud and error for Housing Benefit were £14.7m (overpayments) and £2.6m (underpayments).

For 2010-11, the C&AG qualified his opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly; and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

As a result of the Data Matching Exercise managed by NIAO under the National Fraud Initiative (NFI), the Housing Executive received over 14,000 matches for resolution. A number of matches were passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service. To date, overpayments amounting to £1.7 million from 503 investigations by Housing Executive staff have been identified as part of this Initiative. Of the cases referred to the Benefit Investigation Service, fraud has been found in 48 cases.

Significant Risk 2 - Housing Benefit Overpayments

In previous audits, we have identified uncertainty over the completeness, accuracy and collectability of Housing Benefit overpayment balances.

Audit Response

- Review of the overall level of overpayments;
- Test and examine a sample of overpayments and overpayments written off during the year;
- Review the accounting treatment and disclosure of Housing Benefit overpayments; and
- Reliance will be placed on the work of Internal Audit where appropriate.

Outcome

NIAO are concerned that the level of housing benefit overpayments continues to rise year on year. The level of overpayments owing at 31 March 2011 has increased by £3.5m from £23.4m at 31 March 2010 to £26.9m at 31 March 2011. This follows on from a £3.4m increase in the level of overpayments owing that was reported last year.

It should be noted that successfully identifying Housing Benefit Fraud increases the level of Housing Benefit Overpayments. However, it would appear that the Housing Executive's performance in recovering overpayments when compared to the amount that is owing has actually reduced over the past number of years. Further information is outlined in the C&AG's report at Annex B.

We note that £1.8m (2009-10 - £1.3m) overpayments written off during the year have been included in the Statement of Losses and Special Payments at note 7 in the financial statements.

Internal Audit provided a limited assurance on the audit of housing benefit overpayments. The main recommendations outlined in their report related to

- Resolution of the issue of the lack of Northgate reports showing overpayments created and overpayments recovered;
- Informing the Audit Committee of the recoverability of overpayments; and
- Wider scope to be implemented in Divisional Inspection Unit work.

A number of issues have arisen from our testing of specific overpayments and these issues are included in section five: Significant Weaknesses Identified.

Significant Risk 4: Procurement/Contract Management

There is a risk across the public sector that contracts may not be awarded in accordance with best practice and we will therefore need to ensure the requirements of regularity have been fulfilled by the Housing Executive.

During 2009 there have been specific allegations of overcharging by contractors carrying out work to Housing Executive properties. In addition allegations have also surfaced regarding the quality of work carried out by another contractor regarding maintenance work on housing executive properties.

These allegations are currently being investigated by the Housing Executive.

Audit Response

- Carry out a review of procurement arrangements and management of contracts;
- Liaise with Internal Audit on any work completed on procurement;
- Test a sample of contracts to ensure that the Housing Executive is following best practice; and
- Keep under review emerging issues from investigations currently underway.

Outcome

Following internal and external investigative work, significant weaknesses in control have been identified in respect of response maintenance expenditure incurred by the Housing Executive. The total expenditure on response maintenance in 2010-11 was £48.9 million. The Housing Executive have to date accounted for approximately £497k of overpayments in relation to one specific contractor. As a result of various reviews the Housing Executive took the decision to terminate all the response maintenance contracts with this contractor.

As a result of the issues identified we were unable to obtain sufficient assurance that the Housing Executive's control of response maintenance expenditure of £48.9 million was adequate to ensure the expenditure was used in accordance with the Regulations. Because of the lack of evidence we were unable to form an opinion whether the expenditure of £48.9 million on response maintenance had been applied for the purposes intended by the Assembly. We have therefore given a **qualified opinion** on regularity in this regard.

We note that there are a number of other investigations ongoing at present and we await further developments.

We have also identified a number of issues in relation to planned maintenance and these are outlined at section five: Significant Weaknesses Identified. We are also carrying out a value for money review of contract management in the Housing Executive. The scope of the review includes:

- the range of the Housing Executive contracts and extent of expenditure;
- an overview of the findings from recent external and internal reviews and investigations within the Housing Executive;
- how response maintenance and major adaptations work is contracted; and
- the management of response maintenance and major adaptations contracts, including monitoring of contractor performance, inspection of repairs and

adaptations carried out, reporting arrangements for contract management within the Housing Executive.

In addition, the review will also examine and report on the Housing Executive's re-negotiation of its heating contracts following an internal review. Our findings will be published in a report to the Northern Ireland Assembly later this year.

Significant Risk 4: Rent Arrears

The value of rent arrears at year end decreased marginally in 2009-10. We have noted that in many of the cases examined that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants.

A proportion of the historic arrears debt is actually Housing Benefit overpayment or Housing Benefit fraud. The Housing Executive cannot provide a breakdown of these amounts. This also affects the analysis of write-offs as it is impossible to split the substantial sums written off each year between true rent arrears and Housing Benefit overpayments or Housing Benefit fraud.

Audit Response

- Carry out a review and test high level controls over rent arrears.
- Examine the process for collecting rent arrears.
- On a sample basis, test and examine rent arrears and write-offs.

Outcome

NIAO acknowledge the decrease in rent arrears from £13.3m at 31 March 2010 to £12.7 at 31 March 2011 and would encourage the Housing Executive to continue to reduce the level of rent arrears.

The level of rent arrears write-offs increased from £912k in 2009-10 to £953k in 2010-11.

As in previous years, we noted, from reviewing a number of cases that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants.

Significant Risk 5: Land Disposals

There is a risk that controls have not been operating effectively over surplus land disposals. The following issues have been noted by Internal Audit:

- concerns over approval protocols for disposal;
- technical compliance with Managing Public Money for Northern Ireland (MPMNI);
- guidance on requiring economic appraisal analysis in land disposal; and
- decisions and lack of progress in developing an electronic land terrier system, which would assist the completeness of the land disposal process.

Audit Response

- Carry out a review of the land disposals process and examine high level controls in this area;
- On a sample basis, test and examine land disposals and ensure that appropriate protocols have been followed. We will also ensure compliance with the requirements of MPMNI;
- Follow up on previous recommendations by Internal Audit to ensure outstanding actions are being progressed by management; and
- Consider the impact of any reports/investigations on this area.

Outcome

There were a small number of land disposals in 2010-11 in comparison to previous years. Testing of land disposals in 2010-11 has not identified any significant issues to date.

There are a number of reports/investigations currently underway into the Housing Executive's management of its lands and property. The Accounting Officer has, through the Statement on Internal Control, provided updates on a number of these investigations. These include:

- a site zoned for social housing in North Belfast (with PSNI);
- the sale of land by the Housing Executive to a community group and subsequently sold to a third party (discussions with PSNI ongoing);
- the sale of land in Belfast (Hardcastle Street) to a developer; this investigation follows a finding of maladministration by the Northern Ireland Ombudsman against the Housing Executive and is intended to establish if fraud is present; and
- a review of a number of land and property transactions to determine whether they were managed in line with agreed policy/procedure and to highlight any cases of non-compliance.

Given that these investigations have or may identify potential fraud it is not possible to report on the detail at this time. Nevertheless, given their extent and significance it is intended that NIAO will keep this area under review and if necessary, provide a detailed report to the Northern Ireland Assembly at the earliest opportunity.

Significant Risk 6: Economic Climate

Given the current economic climate there are risks which could have a significant impact on the Housing Executive. These include:

- an increased risk of fraud across the Housing Executive;
- the ability of the Housing Executive to meet its obligations and its legislative requirements in an environment of potential increasing workload but reduced resources; and
- The recession has had a dramatic impact on the housing market and the downturn in the sale of housing executive homes and land has had a significant adverse effect on housing funding.

Furthermore the Social Development Minister has announced details of a fundamental review of the Housing Executive. The review will examine the functions of the Housing Executive in detail, providing a comprehensive assessment of its contribution to housing and other Government policy objectives. The review will also examine the efficiency and effectiveness of the Housing Executive's operations including the appropriateness of existing structures.

It is expected that the review will report on recommendations by March 2011.

Audit Response

- Liaise with the Housing Executive on the number of frauds, incidents of whistle blowing, and internal data protection incidents reported during the year;
- Review any fraud notifications passed to the C&AG and the outcomes of the investigations;
- Analyse the impact on caseload management; and
- Keep under review the findings and issues emanating from the review of the Housing Executive.

Outcome

The findings of a number of reviews have been announced during 2010-11.

In October 2010 the Social Development Minister announced a fundamental review of the Housing Executive. The review carried out by PriceWaterhouseCoopers was published in March 2011 and outlined proposals for the strategic direction for housing functions in N.I. One of the key proposals is the separation of the strategic and landlord functions that is currently carried out by the Housing Executive. The review also outlines a number of other proposals which may have an impact on the Housing Executive. We will keep under review any developments in this area.

The Review of Corporate Governance at the Housing Executive was published in December 2010. The review was commissioned by the Social Development Minister to satisfy him that the Housing Executive has robust governance arrangements in place to ensure that it could carry out its functions effectively. The review team concluded that the Board of the Housing Executive had 'appropriate structures available to them to effectively identify and manage risk, including a well established Audit Committee, a supporting management structure and an effective Internal Audit Service'. The review team also concluded that 'there is good evidence that management are being challenged

and held to account through the Board and the Audit Committee structures'. However, the review team identified a range of critical control issues which weaken the governance structures and their effective operation. The review made a number of recommendations across a number of areas.

An Independent Gateway Health Check Review on the establishment and management of maintenance contracts was also undertaken. Again the review outlined a number of issues and recommendations.

We will continue to monitor the progress of the Housing Executive in implementing the recommendations.

We note that there are a number of other investigations ongoing at present and we await further developments.

Significant Risk 7: Supporting People

In 2009-10 the financial statements were qualified on grounds of regularity due to the payment of £2.2m Supporting People grant paid in respect of the Special Needs Management Allowance.

In addition our Report to those charged with Governance detailed a number of other findings and recommendations in respect of the Supporting People programme.

Audit Response

- Review progress between the Housing Executive and DSD in developing Supporting People guidance specific to Northern Ireland and how the Special Needs Management Allowance will be monitored by DSD;
- Follow up on recommendations made in our 2009-10 Report to those Charged with Governance to ensure that outstanding actions are being progressed by management; and
- Review the controls over Supporting People and test a sample of payments.

Outcome

The Special Needs Management allowance (SNMA) is paid to 34 registered Care Homes from the Supporting People budget. SNMA payments were not appropriately monitored by either DSD or the Housing Executive since the scheme was transferred to the Housing Executive under transitional arrangements on 1 April 2003. DSD have now confirmed that monitoring and control procedures were put in place during 2010-11. An extensive desktop exercise was carried out by DSD followed by a number of site visits to the providers of this service. We are satisfied that these new arrangements are adequate to remove the qualification.

A number of other concerns were also raised in the C&AG's report last year, and we can confirm that the Housing Executive and DSD are making progress on these issues. However a number of issues have arisen from our site visits and testing of payments and these issues are included in section five: Significant Weaknesses Identified and section six: Other Recommendations.

Significant Risk 8: : Social Housing Development Programme

There is a risk that grants paid to Housing Associations under the Social Housing Development Programme may not be used for the purposes intended.

Audit Response

- On a sample basis, testing and examination of grants paid to Housing Associations.
- Review of DSD Governance and Inspection Team's reports on Housing Associations for any impact on Housing Executive funding.

Outcome

DSD provides funding to the Housing Association sector via the Housing Executive each year and this amounted to £165m during 2010-11. In order to satisfy itself that this money is being spent correctly, DSD's Regulatory and Inspection Unit conducts regular reviews of all Housing Associations in Northern Ireland examining governance, finance, property management and property development.

DSD's ongoing inspection programme of Housing Associations has identified significant problems within the registered housing association sector in Northern Ireland. In addition, in the latter half of 2010, DSD became aware of the breakdown of governance within Helm, the largest Housing Association in Northern Ireland, and had concerns regarding specific building schemes. Helm has therefore been the subject of a detailed examination by the Regulatory and Inspection Unit and a draft copy of their interim report raises some potentially very serious issues. The report is expected to be finalised over the next few months and I may report further in due course.

At this point in time we have been unable to obtain all the information and explanations necessary to satisfy ourselves as to the regularity of the £12.1 paid to Helm Housing Association in 2010-11 and we have therefore **qualified our opinion** in this matter.

Our testing of the Social Housing Development programme identified some issues and these are outlined at section five: Significant Weaknesses Identified.

5. Significant observations identified during audit work and recommendations to management

In this section we outline the findings from our audit, as well as management's response to these recommendations. While our recommendations are made in a constructive spirit it is management responsibility for deciding whether to implement them and in assessing the impact of their introduction.

We reviewed the accounting systems and management controls operated by the Housing Executive only to the extent we considered necessary for the effective performance of our audit. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or all improvements which may have been made but have addressed only those matters which have come to our attention as a result of the audit procedures performed. As a result our review may not have detected all weaknesses that exist or all improvements that could be made.

We would like to bring the following significant priority 1 matters to the attention of the audit committee following our audit. Annex C includes priority 2 and 3 weaknesses.

Each recommendation has an assigned priority rating,

Priority 1 - Significant weaknesses which should be addressed immediately.

Priority 2 - Weaknesses which are not fundamental but should be addressed as soon as possible.

Priority 3 - Improvements that represent best practice.

5.1 Response Maintenance – Repairs Inspection Unit Reports

Observation
<p>The Repairs Inspection Unit carries out technical and management inspections of each district maintenance section on an annual basis. The results are measured and presented in a summary report listing scores for four specific areas: Contract Management; Probity; Inspection (on site); and Procedures. Districts are rated according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial.</p> <p>During 2010-11 each of the maintenance sections in the 35 districts were inspected by the Repairs Inspection Unit. The review found that the performance of a number of districts fell into either the limited or unacceptable rating. Three districts were deemed to be unacceptable, eleven were rated limited and the remainder received either a satisfactory or substantial rating.</p> <p>In addition a total of six re-visits were carried out on those districts that had previously received the lowest scores. Of the three districts that had previously received an unacceptable rating, one district remained unacceptable while the other two districts were uplifted to a limited rating. Of the three districts that had previously received a limited rating, one district remained limited, one district received a satisfactory rating and the other district received an unacceptable rating.</p> <p>We also noted that the performance of districts who had received a limited or unacceptable rating in 2010-11 had not improved their performance from previous inspection rounds.</p>
Implication
<p>As a result of the deficiencies in the key controls over response maintenance we were unable to form an opinion whether the expenditure on response maintenance had been applied for the purposes intended by the Northern Ireland Assembly. We have therefore qualified our opinion on regularity on the 2010-11 financial statements.</p>
Priority Rating
1.
Recommendation
<p>The Housing Executive should ensure that where districts are given either a limited or unacceptable rating that appropriate action plans are put in place to improve the performance of that district within a reasonable timeframe.</p> <p>The results of post inspections should be communicated back to Headquarters to enable an analysis of the issues arising from post inspections to be carried out.</p> <p>The Housing Executive should undertake a fundamental review of how response maintenance expenditure is managed given the deficiencies in the inspection process and the range of issues identified in the reports by the Repairs Inspection Unit.</p>

Management Response

Improvement plans are currently required from offices which receive an unacceptable rating. Those offices which attained a limited rating will be expected to deliver improvement plans by December 2011. This will be extended to all offices receiving limited or unacceptable ratings following the implementation of the new contracts (target date April 2012.)

Post inspection results generate KPI scores which are reported to Area and Headquarters. Failed inspections are now supported by reasons for failure against each job. An analysis of reasons for failure will be carried out in January 2012

A fundamental review of management of maintenance expenditure and associated contracts has commenced. A new procurement exercise has been put in place and will be complete by February 2012..

A review of the processes will be reported in June 2012 and the role of the contract manager in the new processes will be central to the review.

Responsibility

Harry Dornan (ADoHR)

Date of Implementation

February 2012

Signed Off By:

Helen Walker (DoHR)

5.2 Response Maintenance – Post Inspections

Observation

The Housing Executive undertakes a sample of post inspections of completed response maintenance jobs. These post inspections are carried out on a daily basis by district maintenance officers and on a monthly basis by district maintenance managers. The results of these post inspections are held at each district and are not communicated back to Headquarters for further analysis.

The results of the work undertaken by the Repairs Inspection Unit have highlighted significant deficiencies within the inspection process. The Inspection (on site) criteria used by the Repairs Inspection Unit covers the quality of the contractor's work, accuracy of contractor's payments and the accuracy of the maintenance officer's post inspection. Further analysis of the scoring in this criteria identifies a total of 22 districts which would fall into the unacceptable rating and a further 7 districts would fall into the limited rating.

Following internal and external investigative work, the Housing Executive has identified a significant level of overpayments to a specific contractor. As a result the Housing Executive took the decision to terminate all its response maintenance contracts with this contractor and have taken steps to put in place contracts with other contractors. We understand that investigative work has also commenced on a second contractor involved in carrying out response maintenance work.

Implication

As a result of the deficiencies in the key controls over response maintenance we were unable to form an opinion whether the expenditure on response maintenance had been applied for the purposes intended by the Northern Ireland Assembly. We have therefore qualified our opinion on regularity on the 2010-11 financial statements.

Priority Rating

1.

Recommendation

The Housing Executive should examine the reasons why the inspection process has failed in each individual district and determine if any further action is required.

Management Response

Examination of the reasons for failure of the inspection process has been completed and as a result, training in relation to the inspection process has been provided to all inspectors at district offices. The effectiveness of the additional training which was completed in April 2011 will be measured through the RIU technical and management inspections.

The analysis of inspection failures and the evidence in the RIU report will be used to strengthen the competency based framework which is currently being developed for maintenance staff has a target completion date of June 2012.

Responsibility	
Harry Dornan	
Date of Implementation	Signed Off By:
December 2011	Helen Walker (DoHR)

5.3 Planned Maintenance –Scheme Inspection Unit Reports

Observation
<p>The Housing Executive undertakes an extensive annual programme of planned schemes including external cyclic maintenance, heating, revenue replacement and disabled adaptations. The work of the Scheme Inspection Unit provides assurance to the Housing Executive that work is being delivered in accordance with its procedures and guidelines, contract conditions and general good practice. The Scheme Inspection Unit undertakes site visits to inspect a random sample of dwellings on selected Schemes. A report is tabled at Audit Committee summarising the results of inspections undertaken by the Scheme Inspection Unit since the previous report.</p> <p>During 2010-11, the Scheme Inspection Unit provided a significant number of limited assurances on schemes visited over a number of geographical areas. A limited rating is provided when the project is not generally in compliance with Housing Executive procedures, guidelines, contract conditions and general good practice resulting in several issues for management action. Furthermore, the scheme inspection unit visited 5 schemes undertaken by 1 specific contractor during the course of 2010-11 and in each case the scheme received a limited rating. Despite this contractor receiving limited ratings in previous quarters there has been no improvement in the contractor's performance over the course of the year. As payments are made for completed elements of a scheme there are no retention amounts withheld.</p>
Implication
<p>Costs may have been incurred by the Housing Executive for sub-standard work on schemes which have not been subject to a further inspection by the Scheme Inspection Unit.</p>
Priority Rating
1.
Recommendation
<p>The Housing Executive should ensure that where schemes have been rated as being limited that appropriate and timely measures are put in place to improve the performance of the contractor.</p>
Management Response

1. It was noted that 5 schemes carried out by a single Contractor were classified as "limited" by Scheme Inspection Audit (SIU).
2. Two further schemes carried out by this contractor were audited by SIU in May and June 2011. Both schemes received a "Satisfactory" rating from SIU.
3. Contractors are given copies of the SIU Report and have to respond with how/what they are going to do about the deficiencies.
4. Additional costs are not incurred since the Contractors have to make good the defects that were highlighted. Additional checks are also carried out by Project Managers/COW on other dwellings in the scheme to ensure that this is not a recurring defect throughout the scheme.
5. The Scheme Inspection Unit (SIU) gave a series of Roadshow Presentations to all Areas and Contractors to highlight the findings/inadequacies raised by Audit about the quality of workmanship on site with particular emphasis on recurring defects.
6. Costs are adjusted at Financial Reconciliation/Final Account stage taking count of omissions/additions during the scheme.
7. An Audit of the follow up monitor has been sent out to all areas to ensure works have been completed in accordance with the SIU findings.
8. These will be inspected again on-site by COW/M&E Inspectors to ensure compliance with the findings.
9. These issues are also raised at management meetings and seminars.

Responsibility	
Maurice Leyden (ADoDPS)	
Date of Implementation	Signed Off By:
1 October 2011	Dolores Ferran (DoDPS)

5.4 Planned Maintenance – Scheme Inspection Unit Findings

Observation
The key control operated by the Housing Executive over the work carried out by contractors on planned maintenance schemes is the on-site inspection of completed works which is carried out by clerk of works. The clerk of works is required to inspect each dwelling at handover to ensure that it is completed to the agreed standard. A random sample of site checks is also carried out by area project managers. However the work of the Scheme Inspection Unit has identified serious shortcomings in this inspection process across a number of districts. During 2010-11, the Scheme Inspection Unit provided a significant number of limited assurances on schemes visited over a number of geographical areas.
Implication
Work not being carried out to the expected standard.
Priority Rating
1.
Recommendation
The Housing Executive should investigate the reasons why there has been a significant number of limited assurances in the inspection process. The Housing Executive should ensure that where schemes have been rated as being limited that appropriate and timely measures are put in place to improve the performance of the contractor.
Management Response
<ol style="list-style-type: none"> 1. It should be noted that the scheme inspection process sits alongside other controls to manage the planned maintenance programme. Included in this are a range of KPI's and one KPI in particular from the District Office as Client. Reported feedback on the quality and standard of kitchens from District and Area Managers is very positive and complaints from tenants are minimal. 2. The reasons for limited assurances scoring range from minor/major items related to quality of workmanship and also include working details/specification not being kept up-to-date by Policy and Standards. There was also a training issue required in respect of fire door installation. 3. A comprehensive list of problematic site issues was compiled based on the SIU findings across all Areas. These issues have been divided into two sections regarding Policy and Standards issues (H&R) and Operational (PS) issues. All these issues will be addressed and corrective action taken where required. 4. Monthly Performance meetings are held with contractors to discuss programme, budget, forthcoming works and any other issues that arise to ensure that they can plan their manpower and achieve programme targets. 5. Meetings are also held on site with the Contractor, Project Manager/Area Project Manager to discuss/clarify any specific issues raised by the Contractor. 6. Spikes in programmes mean Contractors have to hire squads at short notice. Where this situation arises the Area Project Managers, COW and Inspectorate are reminded to be extra vigilant during the course of the works.

7. SIU gave a series of Roadshow Presentations to all Areas and Contractors to highlight the findings/inadequacies raised by Audit about the quality of workmanship on site with a view to corrective action being taken.
8. Lack of access for CoW/Inspectorate is also an issue with multiple visits eliciting no response from the tenants so an inspection could not be carried out. This issue will be addressed as part of the new procurement documentation currently being prepared.
9. A marking system should be implemented by SIU on these schemes to give a more accurate overall picture of the extent of minor and major defects.
10. Some Tenants chose not to have their door closer fitted and asked the Contractor to remove same. Some others asked the Contractor not to fit it. The Contractor has been told that the door closer must be fitted otherwise a Fire Certificate will not be issued for the door.
11. The current planned maintenance contracts will end at 28th January 2012. While considerable efficiencies have been identified in the operation of the contract it is considered that a revised arrangement taking account of lessons learned in the current process and from the response maintenance procurement will facilitate improvements and will include for example a defects period and a related retention amount. Work has also commenced looking at the workload of the inspectorate and how this could be supplemented by use of external support as required. Technical Audit is now relocated to the Assurance Unit and will also be asked to make recommendations for the new contract arrangements.

Responsibility	
Maurice Leyden (ADoDPS)	
Date of Implementation	Signed Off By:
1 January 2012	Dolores Ferran (DoDPS)

5.5 Planned Maintenance – Breaches of Standing Orders

Observation	
<p>A number of breaches of Standing Orders were noted for a variety of reasons including expenditure being incurred prior to the proper approval being sought for contract adjustments.</p> <p>From a review of Chief Executive Business Committee minutes, it was noted that the committee had concerns regarding the level of Breaches in Standing Orders identified during the course of the year. Breaches included Contracts adjustments exceeding 25 per cent and schemes commencing prior to financial approval been given. We note that where breaches in standing orders were identified that appropriate approvals were sought retrospectively. Specific examples included</p> <p>Project Number: 2684 0569: Approval for second contract adjustment of £30,314.50 sought after the scheme totalling £721,146 was nearly complete; and</p> <p>Project Number: 1984 0135: Approval for contract adjustment of £138,500 sought after an element of the expenditure totalling £23,550 had been incurred.</p>	
Implication	
Breach of Standing Orders reflects poor contract administration and a lack of good project management skills.	
Priority Rating	
1.	
Recommendation	
Housing Executive should remind all staff of the importance of adhering to Standing Orders and implement appropriate controls to ensure that they are adhered to in all respects.	
Management Response	
<ol style="list-style-type: none"> 1. Standing Orders have been revised and issued to all concerned. They are effective from 27th July 2011. They have been place on the NIHE Portal. 2. In addition an edited version of those Standing Orders relating to Technical matters was circulated to staff with explanatory guidance notes. 3. The implications of these standing Orders were discussed at the September Property Services Managers meeting to ensure that all staff had been made aware of the implications and are implementing them as required. 4. A comprehensive list of Breaches has been identified and monitored monthly by the Centre and Area Offices 5. The monitor also provides an early warning of schemes that are close to breach. 	
Responsibility	
Maurice Leyden (ADoDPS)	
Date of Implementation	Signed Off By
1 October 2011	Dolores Ferran (DoDPS)

5.6 Heating Expenditure

Observation

There is no formal reporting of the inspection process in place for current Heating Schemes or Heating Maintenance expenditure incurred by the Housing Executive. In respect of Heating Installations the Housing Executive's Mechanical and Electrical Engineers carry out inspections on a sample of gas installations (20 per cent) and a sample of oil installations (10 per cent).

The Engineers only report by exception and if an issue is identified, a report is sent to the Contractor to rectify. A further inspection is carried out by the Mechanical and Electrical Engineer when the issue has been addressed by the Contractor. If the problem has been rectified no further action is taken.

Implication

No action may be taken against contractors performing poorly on a regular basis.

Priority Rating

1.

Recommendation

A formal reporting process should be put in place to monitor the performance of contractors and to ensure that underlying problems and issues identified through that reporting process are addressed.

Management Response

Both heat installations and servicing are managed through the Major Heat Contract, due to end in June 2012.

In relation to installations, there are inspections carried out on 10% of properties where oil heating is provided and 20% for gas.

The results of all of these inspections are provided to the Project Manager and filed in the Project file. The areas where concern is expressed/failures are identified are used as a risk based measure to identify further inspection needs.

Those inspections which identify failures are passed to the Contractor to rectify and it is our intention to include "penalties" for these in the new heating contracts which are being drawn up for commencement in June 2012; our current contract does not include this.

In addition, an inspection sheet is completed by the Contractor for every installation, to ensure that he is providing the quality control expected. The M&E Inspectors use this sheet when completing their 10% and 20% inspections.

In addition to these formal processes of reporting (From Contractor and M&E Inspectors) we request Tenant Satisfaction surveys. These confirm a high level of customer satisfaction. Complaints are very rarely received. Lastly, the Inspectors findings are used

in the KPI scoring..

In relation to servicing, the inspection levels are set at 5% for oil and SFRH and 10% for gas. These inspections are carried out by external Consultants who hold all records on their Project file. The results are discussed with the Contractors at a formal monthly meeting.

In addition, customer satisfaction is measured through telephone surveys carried out by our Customer Service Unit staff.

A formal reporting process which will review :

- Trends
- Common problems and issues
- Customer satisfaction
- Action taken

will be developed during the next procurement exercise, for introduction with the new contract and this will be communicated through the formal reporting process.

This reporting process is to the Director of Housing & Regeneration and then to the monthly Performance Review Group. The results of the reporting process will be reviewed by the Corporate Assurance unit which, in turn, reports to the Audit Committee.

Target for first reports - Sept 2012

Responsibility	
Harry Dornan (ADoHR)	
Date of Implementation	Signed Off By
September 2012	Helen Walker (DoHR)

5.7 Key Performance Indicators (KPI's)

Observation

Each year Internal Audit carried out a validation exercise of a number of KPI's. However in 2010-11 Internal Audit were unable to give an unqualified audit opinion on two of the five KPI's examined, i.e. housing relets and repairs as there were concerns over the accuracy of the reports provided to validate these key performance indicators.

In addition, the "Review of Corporate Governance" which was carried out at the request of the Minister for Social Development, noted that there was a clear disparity between the measurement of current KPI's relating to response maintenance contracts and the results of the work of the Repairs Inspection Unit. The Review Team found that for the period April to June 2010 the vast majority of the KPI's in each District were scored in Green, reflecting the highest measurement of performance with only three Key Performance Indicators scored in Amber, the middle score and no KPI's scored in Red, the lowest score. This was clearly at odds with the results of the work of the Repairs Inspection Unit (see 5.1 above).

Implication

That inaccurate data for Key Performance Indicators are being published.

Priority Rating

1.

Recommendation

The Housing Executive should review it's systems to ensure that KPI's are reported on an accurate basis and that information from various sources are collated and explanations sought for any anomalies.

District performance is being addressed in our value for money review of contract management in the Housing Executive and further recommendations may arise.

Management Response

A review of contract management in the Housing Executive has now been completed and a new procurement process with a February 2012 implementation date is in place. The process identifies ten replacement KPI's which are evidence based and will be automatically calculated by system live data. Six of the new KPI's introduced in April 2011 are found to be robust and provide management with an early warning if poor contractor performance occurs.

These six KPI's measure

1. Quality of the service – relates to on site post inspection results
2. Predictability of costs – relates to accuracy of contractor invoices.
3. Customer satisfaction with service – relates to customer surveys
4. Customer satisfaction with quality of work - relates to customer surveys

5. Timeliness – Relates to job completions within target dates.	
6.	
Customer perceived Service failure – relates to customer re calls to customer service staff.	
The KPI results are subject to review by Internal Audit.	
Responsibility	
Jan Sweeney (B&PM)	
Date of Implementation	Signed Off By:
30 November 2011	Helen Walker (DoHR)

5.8 Consultant Fees

Observation
We examined a payment to a consultant for work completed in relating to Project 14:88:058. The consultant's fee was based on a percentage of the contract. In this case the gross percentage was 9.35%. This rate was based on a line graph which awarded a lower percentage as the value of work increased. It was not possible using the line graph to agree the exact percentage payable of 9.35%.
Implication
Consultant fees may be paid at an inappropriate rate.
Priority Rating
1.
Recommendation
The rate at which consultants are paid should be supported with appropriate evidence.
Management Response
<ol style="list-style-type: none"> 1. Consultants are given a brief which describes the service that they must provide based on a fee i.e. Pre and Post Contract Services. 2. For older schemes, it is recommended that the graph is presented on a bigger scale using a stepped approach across the graph to make it more easily readable.

3. For more recent schemes, this Consultant Fee graph has essentially been superseded by Assembly Costs for ECM/Revenue Replacement schemes use on Egan schemes

Responsibility

Maurice Leyden (ADoDPS)

Date of Implementation

1 December 2011

Signed Off By:

Dolores Ferran (DoDPS)

5.9 Housing Benefit Overpayments

Observation

At 31 March 2011, the levels of housing benefit overpayments owed by claimants have increased by £3.5m to £26.9m (09-10, £23.4m).

A full review of the overpayments strategy has been undertaken and a plan drawn up addressing issues and actions to be taken to ensure the strategy remained focused and relevant in addressing this important issue. However these actions have not had the desired effect as the level of overpayments is still increasing and the rate at which overpayments are recovered has decreased. Further detail is given in the C&AG report at annex B.

We noted during our audit that there were ongoing issues regarding the functionality of the housing benefit software system provided by Northgate. Northgate were to undertake a major overhaul of its overpayment reporting functionality as it was found not to be providing verifiable information in some areas. It was expected that this work would have been completed by May 2010 but we found that there are still issues relating to the reporting of overpayments.

Our testing of specific overpayments identified the following issues

Case 6077780: An overpayment of £19,073.98 was raised in respect of this case which originated in May 2007. However at the time of audit no repayments have been made to reduce this debt. We were advised that an appeal had been submitted but this process has been subject to a number of delays.

Case 0013338: An overpayment of £12,803.55 was raised in respect of this case as a result of the 2009 NFI exercise. The Housing Executive enforced an agreement that the tenant should repay £10.00 per month even though this was less than the minimum repayment of £13.20 per week.

Case 3065352: An overpayment of £13,648.52 was raised in respect of this case and an agreement was put in place whereby the tenant agreed to repay £40 per month. However the agreed repayment is below the minimum repayment of £13.20 per week. It was discovered that tenant had £700,000 of undisclosed capital.

Implication

Increasing levels of overpayments may highlight process/control issues relating to housing benefit payments (getting it right first time) and may result in increasing levels of unrecoverability.

Priority Rating

1.

Recommendation

NIAO would encourage the Housing Executive to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments.

Where overpayments are identified recovery procedures should be initiated at the earliest opportunity and recovery subject to regular review.

The Housing Executive should use the minimum repayments as guidelines and seek the highest possible repayment in each case.

The functionality of the housing benefit software system should be improved as a matter of urgency.

Management Response

Through its HB Overpayments Strategy, the Housing Executive has and will continue to review its policies and procedures on the prevention and recovery of overpayments in a programme of continuous improvement.

The Housing Executive will continue to develop and review its policy to ensure prompt initial action and regular review of recovery cases. Compliance with this policy is subject to regular monitoring, reporting, inspection and audit.

In the setting of voluntary repayment rates the Housing Executive will take account of all relevant factors including the size of the debt and the debtor's circumstances in order to ensure that a sustainable repayment schedule is put in place.

The Housing Executive considers the improvement of the software functionality to be a priority matter and continues to press the provider for a solution.

In relation to the three cases the response is outlined below:

Case 6077780

An appeal against the overpayment decision was received in May 2007. The claimant has some severe medical condition and the appeal hearing was postponed on a number of occasions as a result. It was heard in April 2010 and the Executive's decision was upheld. However the hearing had gone ahead in the absence of the claimant and he subsequently lodged a request for a rehearing. The Tribunal Service has agreed to this request but has not yet set a date. While not explicit within the HB regulations, both the Tribunal Service and the Department's Decision-Making Service have made it clear that we should not attempt recovery on a case while the appeals process is ongoing as applies here. The delay in arriving at a final decision on the appeal is not on the part of the Executive but recovery action cannot be taken until this happens. We have been in contact with the Tribunal Service on a number of occasions to enquire on a date for the hearing but to no avail. As of today's date we have been informed that the appeal is "ready to list" but still has no date sent. Unfortunately we have little or no influence on the working of the Tribunal Service.

Case 0013338

The overpayment arose when it was discovered that the claimant was working while claiming benefit. Her benefit claim for JSA and HB was ended and, at the time the agreement was reached, the claimant only had income from earnings. As with all agreements, our staff review the debtor's financial circumstances (income and outgoings, to arrive at a reasonable repayment amount that can be sustained without undue financial

hardship. This resulted in the agreement amount reached in this case. The alternative is to pursue a potentially costly recovery process through the court which can take considerable time and carries no guarantee of an effective outcome. We are currently undertaking an exercise to examine the cost-effectiveness of recovery through the courts and EJO because of such issues. In this case the claimant has gone back onto benefits from May 2011 and clawback is being taken at the enhanced fraud deduction rate

Case 306352

The overpayment was raised in 2007 when it was discovered that the claimant had received a large compensation award in 2000. By the time recovery action was being taken the claimant had purchased his home and put the bulk of the remaining monies in long-term investments aimed at providing him with a regular income. Again the agreement rate was set at a rate that could be sustained and the debtor has kept to this amount since then reducing the debt by over £2000 to date.

Responsibility

Gerry Flynn (ADoHR)

Date of Implementation

1 December 2011

Signed Off By:

Helen Walker (DoHR)

5.10 Supporting People - Adult Supported Living Services

Observation

Selected Organisations PID 140 / SID 1124 and PID 46 / SID 324

Provider PID 140 is a private individual providing care for her son in his home. The provider is in receipt of £9,482.20 per annum from the Supporting People Programme.

Provider PID 46 is a private individual providing care for people with mild mental health problems, aged 50 to 59 in a shared supported permanent residence. The provider is in receipt of £10,315.56 per annum from the Supporting People Programme.

NIAO noted a number of issues as a result of our desktop review of files held at the Housing Executive.

Insufficient Financial Information

The Housing Executive do not maintain a Financial Monitoring file on either PID 140 or PID 324.

Site Visit

PID 140 – NIAO spoke with the provider by telephone on Wednesday 13 April 2011 to discuss a visit and inform her of the financial information NIAO was interested in viewing. She informed us that she has a copy of her funding agreement and the extension letters but does not produce annual accounts, management accounts or budgets. The Supporting People funding is not paid into a separate account but is paid through her personal account. She tries to retain invoices and receipts but does not have them filed and, if required, she would search around the house for some. She assured us that the money was spent on looking after her disabled son and spends the money running a car putting diesel into it and just recently had to spend £60 on something for his computer. She does not produce annual performance reports but these were discussed at one time with the Housing Executive but this process was never established.

No Contract Management information requested or maintained

PID 140 and PID 46 - There is no contract management information available for our selected services.

Background and Current Process regarding the Adult Supported Living Services

Discussions with Housing Executive staff and a paper on the Adult Support Living Services indicate that there are five services, awarded approximately £26.5k per annum. These services were commissioned at the start of the Supporting People Programme on the recommendation of the Health Service Trusts (HSST) operating at the time. The paper adds:

- Housing support is being provided by an individual;
- The Supporting People grant was only to be used to cover the service provider's remuneration;
- As there is no annual financial reporting they are passported through the accreditation process; and
- The services are subject to SP monitoring arrangements, but with an average annual value of less than £10k, they are not identified as priorities for Contract Management.

Implication

Without appropriate financial and budgetary information it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.

From our brief discussion with PID140, it would appear that the money is not being spent in accordance with the Funding Agreement and could be funding the purchase and running of a car that may be better or already funded through the DLA mobility component, that her son is also in receipt of.

With no contract management information it is difficult for the Housing Executive to ensure that the delivered service is in line with the Funding Agreement, the service is strategically relevant and it is delivering value for money.

Priority Rating

1.

Recommendation

Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provide evidence of continued need under the Supporting People Programme.

The Service Provider PID140 should be reminded of the purpose of the Supporting People grant, the service expected to be delivered as per the Funding Agreement and encouraged to maintain proper accounting records for Housing Executive scrutiny.

Potential ineligible spend should be investigated and clawed back from the Service Provider, where it is appropriate to do so.

All five Adult Supported Living schemes should be subjected to the Contract Management process.

The Housing Executive should put in place controls to ensure that there is no overlap or double funding with other benefits.

Management Response

While we understand the reasons for the recommendation that budgetary information should be provided for all services at the start of each financial year, we are not convinced that the recommendation would result in a significant improvement in control for the programme. Supporting People grant is paid to enable the provision of a housing support service on a continuing basis rather than only a fixed period which would end at the expiry of the current funding agreement. Services are monitored throughout the year by quarterly performance returns, quality assessments and contract management meetings. Renewal of funding at the end of a financial year is based on this monitoring.

Budgetary information would add little to assist in evidencing continued need for Supporting People funding.

However where there are specific concerns about the financial viability of either the service or the service provider, budgetary information is required to enable plans to be agreed to address the issues.

Funding for PID 140 was based on the provision of 21 hours of housing support per week at a cost of £8.86 per support hour, which has the potential to provide good value for money.

There are only 5 supported adult living services and we accept that they need to be subjected to the contract management process and reviewed to ensure that they provide housing support eligible for SP grant. Although they are relatively low cost services, they will be prioritised for review and funding arrangements scrutinised. Health & social services staff have been contacted to ensure that housing support is still required to supplement the provision of care.

Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By
March 2012	Clark Bailie (DoCS)

5.11 Social Housing Development Programme

Observation

Our testing of the Social Housing Development Programme identified the following issue:
Scheme 9582: It was noted that the Housing Association did not tender for professional services in relation to this Scheme. The value of the contract awarded to the building contractor was £956k.

Implication

Where tendering procedures have not been followed, Housing Associations cannot demonstrate that they are obtaining value for money.

Priority/Rating

1.

Recommendation

The Housing Executive should ensure that Housing Associations adhere to proper tendering procedures as outlined in the regulations.

Management Response

As part of the Scheme Approval process, housing associations self-certify that a range of compliance issues have been addressed. In the specific circumstances of seeking Project Approval from Development Programme Group (DPG) for this proposal, (SRN: 9582), representatives of the housing association provided the following certification: Certification 17: "The scheme will comply with the DSD's Design and Procurement requirements".

Given the nature of the self-certification system, no detailed information in support of this Certification was supplied as part of the association's Application for Project Approval that was submitted to DPG for assessment /approval.

DPG has raised the issue with DSD, and asked for the matter to be further investigated by DSD's Regulation & Inspection team as part of the next scheduled inspection of the housing association.

In the event that a scheduled inspection is not imminent, DPG will seek a written explanation from the housing association regarding the absence of a tender for professional services for this scheme, which will in turn be communicated to DSD. Furthermore, DPG will if necessary undertake Additional Assurance checks on forthcoming submissions of Application for Project Approval, and / or Housing Association Grant claims from the housing association, pending the satisfactory resolution of this matter.

Responsibility	
Roy Baillie (DPG)	
Date of Implementation	Signed Off By:
1 December 2011	Dolores Ferran (DoDPS)

6. International Standards on Auditing (ISA 260)

We are obliged under ISA 260 to bring to the attention of those charged with governance the following matters:

- Any significant facts and matters that bear upon the auditor's objectivity and independence. There are no such matters to report.
- Details of how we have managed personal data obtained during the audit including how it has been disposed of or retained. All personal data has been returned to the Housing Executive. NIAO have not retained any personal data.
- Details about our views on the qualitative aspects of the entity's accounting practices and financial reporting. We have nothing significant to report on these issues.
- Errors found during the course of our audit. The auditors must report material errors that are adjusted in the financial statements, if their occurrence has implications for the entity's control environment. They must also report all immaterial errors found during the audit that are not adjusted unless they are "clearly trifling". For the Housing Executive we have determined that "clearly trifling" is less than £100,000.

6.1 Adjusted Audit Differences

No adjustments other than presentational issues have been carried out to date on the accounts which were presented to NIAO on 17 May 2011. The final version of the accounts was signed by the Accounting Officer on the 29 June 2011.

6.2 Unadjusted Audit Differences

A schedule of unadjusted audit differences is provided below. The overall net adjustment is not considered material to the accounts. There are no matters arising from these audit differences that we wish to particularly draw to the Audit Committee's attention.

Description	Account Area	Statement of Financial Position £'000		Statement of Comprehensive I&E £'000	
		DR	CR	DR	CR
Post year sales invoice not included in 2010-11 accounts	Debtors	163			
	Income		163		
Purchase of Tipper Lorries incorrectly accrued	Non Current Assets		148		
	Accruals	148			
Overall Net		311	311		

- 7. Conclusion** The C&AG provided a qualified audit opinion on regularity on 30 June 2011. The C&AG produced a report to accompany his audit opinion.

We noted a number of weaknesses during our audit. The weaknesses have been reported to management and we await their responses.

We recommend that the Housing Executive considers the points included in this report alongside any subsequent management review so that positive actions can be taken to enhance the processes in critical areas of the Housing Executive's operations.

- 8. Complaints Procedures** NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, NIAO undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to a member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Accounting Officer of the audited body can then write directly to the C&AG. He will ensure that a further review of the case will be undertaken.

Annex A: Certificate of the Comptroller and Auditor General

Northern Ireland Housing Executive

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of Northern Ireland Housing Executive for the year ended 31 March 2011 under the Housing (Northern Ireland) Order 1981. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Northern Ireland Housing Executive, Chief Executive and Auditor

As explained more fully in the Statement of Chief Executive's Responsibilities, the Northern Ireland Housing Executive and the Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with the Housing (Northern Ireland) Order 1981. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Housing Executive's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Housing Executive and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

- **Basis for Qualified Opinion on Regularity arising from erroneous housing benefit awards and payment of fraudulent claims**

The total amount paid in housing benefit is £568.3 million. The level of fraud and error as reported in Note 31 to the accounts resulted in overpayments of £14.7 million and underpayments due to official error of £2.4 million. The housing benefit overpayments are irregular as the expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and also because fraudulent transactions are by definition irregular since they are without proper authority. In addition both over and underpayments arising because of official error are irregular because the Housing Executive is required to calculate benefits in accordance with the Regulations which specifies the entitlement criteria for housing benefit and the method used to calculate the amount of benefit to be paid.

I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

Basis for Qualified Opinion on Regularity on response maintenance expenditure

The total expenditure on response maintenance was £48.9 million. Significant weaknesses in control have emerged across a number of Districts and specifically with one major contractor, Red Sky, in respect of response maintenance expenditure incurred by the Housing Executive. I was unable to obtain sufficient evidence that the Northern Ireland Housing Executive's control of this response maintenance expenditure was adequate to ensure the expenditure had been applied for the purposes intended by the Northern Ireland Assembly. Because of this lack of evidence I was unable to form an opinion whether the expenditure of £48.9 million on response maintenance had been applied for the purposes intended by the Northern Ireland Assembly.

Basis for Qualified Opinion on Regularity on part of the Social Housing Development Programme expenditure

The Department for Social Development's ongoing inspection programme of Housing Associations has identified potentially serious issues in relation to Helm Housing Association. These issues are unlikely to be able to be concluded upon for some time and therefore I have been unable to obtain enough information to satisfy myself as to the regularity of the Social Housing Development Programme expenditure of £12.1 million in 2010-11 relating to Helm Housing Association.

I have qualified my audit opinion on regularity because I was unable to obtain sufficient evidence on whether the expenditure of £12.1 million on Social Housing Development Programme had been applied for the purposes intended by the Northern Ireland Assembly.

Qualified Opinion on Regularity

In my opinion except for the issues relating to £17.1 million of incorrect housing benefit payments attributable to fraud and error, response maintenance expenditure of £48.9 million and £12.1 million on Social Housing Development Programme expenditure, referred to above, in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of Northern Ireland Housing Executive's affairs as at 31 March 2011 and of its net expenditure, changes in statement of movement in taxpayers equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing (Northern Ireland) Order 1981 and Department for Social Development directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department for Social Development directions issued under the Housing (Northern Ireland) Order 1981; and
- the information given in Directors' Report, the Management Commentary and Remuneration Report included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect of the issues relating to response maintenance expenditure and part of Social Housing Development Programme expenditure referred to above I have not received all of the information and explanations that I considered necessary to confirm the regularity of the payments for the purposes of my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.
- My detailed observations are included in my Report attached to the financial statements.

K J Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

30 June 2011

Annex B: Report of the Comptroller and Auditor General

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Introduction

1. The Northern Ireland Housing Executive (the Housing Executive) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Social Development (DSD). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 90,000 dwellings.
2. This report reviews the results of my audit of the Housing Executive and sets out the reasons for my qualified audit opinions. For a considerable number of years I have qualified my audit opinion because of significant levels of fraud and error in housing benefit expenditure, and do so again this year. In addition I have qualified my audit opinion in relation to response maintenance expenditure and also to social housing development programme expenditure in so far as it relates to Helm Housing Association. The Housing Executive accounted for £568.7m in housing benefit expenditure, £48.9m in response maintenance expenditure and £12.1m of Social Housing Development Programme expenditure to Helm Housing Association during 2010-11.
3. This report also comments on a number of other matters in relation to my audit of the accounts of the Housing Executive.

Arrangements for reporting and monitoring of housing benefit

4. The Housing Executive administers housing benefit on behalf of the Department for Social Development. The Department's Standards Assurance Unit regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, the Standards Assurance Unit selects random samples of ongoing benefit claims and subjects them to detailed examination for evidence of official error or customer error or customer fraud. The results of this testing are then used to estimate the total level of fraud and error in all of the main benefits, which is presented in Note 31 (entitled 'Fraud and Error') to the annual accounts. The estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, DSD's testing on payment

accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.

5. I examined the work undertaken by DSD to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of DSD's case work during the year and also reviewed the methodologies applied by DSD in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

National Fraud Initiative

6. In February 2011, I published a separate report on the 2008-09 National Fraud Initiative for the whole of the Northern Ireland public sector. The National Fraud Initiative is an exercise to conduct data matching scans to assist in the prevention and detection of fraud. A matching exercise was carried out in September 2008 which identified over 14,000 housing benefit matches. A number of matches were passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service.
7. My report identified a number of examples where housing benefit overpayments had been identified as a result of the National Fraud Initiative. In one case the National Fraud Initiative identified a claimant who appeared to have been claiming weekly housing benefit in England since 2005 and in Northern Ireland since 2007. In another case a housing benefit claimant failed to properly declare a pension that had been in payment. When the housing benefit was recalculated back to 2003, which is as far back as the Housing Executive could check its records due to a system change, the overpayment totalled around £15,000.
8. To date, overpayments amounting to £1.7 million from 503 investigations by Housing Executive staff have been identified as part of this Initiative. Of the cases referred to the Benefit Investigation Service, fraud has been found in 48 cases. The 2010-11 National Fraud Initiative has recently commenced and I will report on this in due course.

Qualified opinion due to irregular housing benefit payments

9. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended

by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

10. The levels of fraud and error for housing benefit for the year 1 January 2010 to 31 December 2010, reported by the Standards Assurance Unit in March 2011 highlighted estimated levels of fraud and error of £14.7m overpayments (customer fraud £0.9m, customer error £4.0m and official error £9.8m) and £2.6m underpayments (customer error £0.2m and official error £2.4m), in total representing some 3.1 per cent of housing benefit expenditure.
11. I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly; and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

Level of housing benefit overpayments

12. The Housing Executive estimates that in 2010 losses of £14.7m million have arisen through the overpayment of housing benefit to claimants due to fraud and error, representing 2.6 per cent of housing benefit expenditure. This compares with losses of £9.3 million in 2009 which equates to 1.8 per cent of housing benefit expenditure. Housing benefit expenditure increased by £64.7 million (or 12.8 per cent) in 2010 compared to 2009.
13. I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. However I am concerned that the Housing Executive's performance in addressing the overall levels of overpayments appears to be inconsistent over the period, see Table 1. I would encourage the Housing Executive to continue to focus on strategies to reduce the overall levels of loss.
14. I am also concerned that overpayments due to official error have increased from £3.6 million in 2009 to £9.8 million in 2010. In 2006 the level of official error stood at £0.5m. I am disappointed in this increase as it is my view that this is the area where the Housing Executive continues to have the most control. I asked the Housing Executive to comment on this increase in official error and the Housing Executive told me that the figure of £9.8million is an estimate based on a statistical sampling methodology. Whilst acknowledging that the level of official error may have increased when compared to last year's estimate of £3.6 million, the Housing Executive would intend to explore

with Standards Assurance Unit how they might further refine the estimate for the level of official error going forward as the error bands associated with these estimates overlap which means that definitive conclusions cannot be drawn. Having said that, the Housing Executive recognizes the importance of minimising levels of official error and measures have already been put in place to drive up the quality of assessments and reduce the level of error. A quality assurance process is in place which checks the accuracy of assessments both during the various assessment stages and at the end of the process. Results of these checks are recorded and used to identify any particular problem areas or training needs. The results of these checks are now being reported quarterly to the Housing Executive's Performance Review Group to ensure that improvements are being achieved. In addition an exercise has been launched to examine the causes of every official error raised over a three month period, again to identify common causes and ways to reduce these. This exercise is due for completion by September 2011.

15. I welcome the overall reduction in underpayments from £3.8 million in 2009 to £2.6 million in 2010. However, the level of underpayments due to official error has increased from £0.5m in 2006 to £2.4m in 2010, see Table 1. The Housing Executive told me that the principles as described in paragraph 14 apply and this area will also be addressed in further discussion and meetings with Standards Assurance Unit and DSD.

Table 1: Trends in estimated overpayments and underpayments due to fraud and error in housing benefit expenditure

	2010 £million	2009 £million	2007 £million	2006 £million
Total Housing Benefit Expenditure	568.3	503.6	412.8	411.6
Overpayments				
Official Error	9.8	3.6	1.2	0.5
Customer Error	4.0	1.2	6.7	4.1
Customer Fraud	0.9	4.5	2.8	3.3
Total	14.7	9.3	10.7	7.9
% of Housing Benefit Expenditure	2.6%	1.8%	2.6%	1.9%
Underpayments				
Official Error	2.4	3.4	0.3	0.5
Customer Error	0.2	0.4	0.7	0.2
Total	2.6	3.8	1.0	0.7
% of Housing Benefit Expenditure	0.5%	0.8%	0.2%	0.2%

Source: Standard Assurance Unit Reports (Standard Assurance Unit did not carry out an exercise covering 2008 due to resourcing issues on their part.)

Recovery of housing benefit overpayments

16. At 31 March 2011, the levels of housing benefit overpayments owed by claimants have increased to £26.9m (09-10, £23.4m). A provision of £13.2m (09-10, £12.1m) has been set against this debt, resulting in a net figure of £13.7m (09-10, £11.3m). Housing Benefit overpayments written off in 2010-11 amounted to £1.8m (09-10, £1.3m).

Table 2: Trends in the recovery of Housing Benefit Overpayments

Year	Total amount to be recovered after Write-Offs £million	Total Amount Recovered £million	Level of Recovery %
2011	40.0	13.1	32.7%
2010	36.2	12.8	35.3%
2009	30.8	10.5	34.0%
2008	28.8	10.2	35.4%
2007	27.7	11.0	39.8%

Source: Housing Benefit Overpayment Returns.

17. I recognise that dealing with the recovery of housing benefit overpayments remains a priority for the Housing Executive. However I am concerned that the Housing Executive's performance in recovering the overall levels of overpayments has reduced over the period from 39.8 per cent in 2007 to 32.7 per cent in 2011, see Table 2.
18. A full review of the overpayments strategy has been undertaken and a plan drawn up addressing issues and actions to be taken to ensure the strategy remained focused and relevant in addressing this important issue. However these actions have not had the desired effect as the level of overpayments is still increasing and the rate at which overpayments are recovered has decreased. The Housing Executive told me that although the percentage recovery rate has dropped over the period, the actual amount recovered has increased by 28 per cent since 2007-08. The success of counter-fraud activities undertaken by the Housing Executive has an adverse effect on the percentage level of recovery as new overpayments created under these activities, at an average of £4,000 per debt, are four times larger than the overall average size of a housing benefit debt. As a consequence it takes longer to recover such overpayments considering that the clawback/recovery amounts are capped at a level prescribed by DSD annually. Furthermore, two new counter-fraud measures were introduced in the last two years (the National Fraud Initiative and the Housing Executive's own Case Compliance Programme) which have further added to the increase in the level of overpayments created and have also affected recovery rates. During 2010-11 approximately £5m was raised in overpayments from all counter-fraud activities. This is a 60 per cent increase on the amount raised in 2007-08. The Housing Executive informed me that it has robust policies and procedures in place to ensure that appropriate and timely action is taken to recover all debts even though, due to the size of some debts, it may now take longer to do so. Performance measures are in place to monitor recovery action and outcomes are reported regularly to

senior management and DSD. Steps are being taken to derive comparative housing benefit overpayment performance figures of local authorities within UK.

Qualified Opinion due to weaknesses in the control of expenditure on response maintenance

19. I have also qualified my opinion on the regularity of response maintenance expenditure because I was unable to gain sufficient evidence to enable me to confirm that the payments had been made for the purposes intended by the Northern Ireland Assembly. Response maintenance repair contracts are in place across each district to deal with requests from tenants for emergency, urgent and routine repairs. The total expenditure on response maintenance during 2010-11 was £48.9 million.
20. Following internal and external investigative work, significant weaknesses in control have emerged in respect of response maintenance expenditure incurred by the Housing Executive.
21. The Repairs Inspection Unit carries out technical and management inspections of each district maintenance section on an annual basis. The results are measured and presented in a summary report listing scores for four specific areas: Contract Management; Probity; Inspection (on site); and Procedures. Districts are rated according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial.
22. During 2010-11 each of the 35 districts were inspected by the Repairs Inspection Unit. Three districts were deemed to be unacceptable, eleven were rated limited, sixteen received a satisfactory rating and five received a substantial rating. In addition, a total of six re-visits were carried out on those districts that had previously received the lowest scores. Of the three that had previously received an unacceptable rating, one remained unacceptable while the other two were uplifted to a limited rating. Of the three districts that had previously received a limited rating, one remained limited, one received a satisfactory rating and the other received an unacceptable rating.
23. Prior to May 2010 the Repairs Inspection Unit fell within the remit of the Housing and Regeneration Division and was therefore not independent of the division on which it reported on. I am concerned that the results of the annual inspections were, for a number of years, not disclosed to the Housing Executive Board or to its Audit Committee. However I note that reports from the Repairs Inspection Unit are now reported to the Housing Executive's Audit Committee. It is intended that the Unit will form part of the new independent Compliance Unit which has been set up by the Housing Executive.

24. In addition, the Housing Executive Board terminated all of its contracts with a contractor, Red Sky, who are providing response maintenance services across a number of districts. This decision was based upon information contained within an external review of a sample of the work carried out by the contractor and the results of a number of maintenance inspection reports prepared by the Executive's Repairs Inspection Unit. I also had received complaints from MLAs and members of the public about the quality of this company's workmanship and had drawn these to the attention of the Chief Executive for investigation.
25. Based upon the external review, the Housing Executive identified overpayments totalling £386,108. Additional work undertaken by the Repairs Inspection Unit on more recent response maintenance work identified further overpayments totalling £110,791. The Housing Executive has so far recovered £262,560 and hopes to recoup the balance outstanding by the end of the contract.
26. The weaknesses outlined above are disclosed in the Housing Executive's financial statements within the Statement on Internal Control. The Housing Executive has stated that "as a result of serious issues identified during the reviews of response maintenance work carried out by the Repairs Inspection Unit of the Housing Executive, an internal report was passed to the Personnel department to consider whether or not disciplinary action is merited. An investigation is currently underway in line with the Disciplinary Procedures to examine the conduct of the maintenance officers involved".
27. I have qualified my opinion on the regularity of response maintenance expenditure because I was unable to obtain sufficient assurance that the Housing Executive's control of response maintenance expenditure of £48.9 million was adequate to ensure the payments had been applied for the purposes intended by the Northern Ireland Assembly. Because of the lack of evidence described above I was unable to form an opinion whether the expenditure of £48.9 million on response maintenance had been applied for the purposes intended by the Northern Ireland Assembly.

Further issues in relation to contract management

28. The Statement on Internal Control draws attention to the Housing Executive's investigation into alleged overcharging by certain contractors. This investigation relates to major adaptations to the Housing Executive properties carried out over the period 1999-2010. To date the Housing Executive has identified overpayments amounting to £133,000. However, it estimates that the total amount involved, based on a sample review of work completed and billed, could be up to £524,250, excluding legal and

professional fees estimated at £200,000. It is currently in discussions with the appointed project manager who was responsible for overseeing this work, their insurers and related contractors regarding recovery. I have not qualified my opinion on this matter in 2010-11.

29. In view of the seriousness of the issues raised and problems identified in the management of these specific contracts, I have initiated a value for money review of contract management in the Housing Executive. The scope of the review includes:

- the range of the Housing Executive contracts and extent of expenditure;
- an overview of the findings from recent external and internal reviews and investigations within the Housing Executive;
- how response maintenance and major adaptations work is contracted; and
- the management of response maintenance and major adaptations contracts, including monitoring of contractor performance, inspection of repairs and adaptations carried out, reporting arrangements for contract management within the Housing Executive.

30. In addition, my review will also examine and report on the Housing Executive's re-negotiation of its heating contracts following an internal review. Concerns about these contracts were also raised with me by a whistleblower. I intend to publish my findings in a report to the Northern Ireland Assembly later this year.

Qualified Opinion on the regularity of payments made to Helm Housing Association

31. DSD provides funding to the Housing Association sector which is distributed by the Housing Executive each year and this amounted to £165m during 2010-11. In order to satisfy itself that this money is being spent correctly, DSD's Regulatory and Inspection Unit conducts regular reviews of all Housing Associations in Northern Ireland examining governance, finance, property management and property development. Whilst I have not qualified my opinion on the serious issues identified by the Regulatory Inspection Unit across a number of Housing Associations I have reported on these matters more fully in my report on the Department's 2010-11 resource account.

32. In addition, in the latter half of 2010, DSD became aware of the breakdown of governance within Helm, the largest Housing Association in Northern Ireland, and had concerns regarding specific building schemes. The Department became aware of these issues through its inspection

programme and also as a result of whistleblower disclosures to both DSD and to my Office.

33. Helm has therefore been the subject of a detailed examination by the Regulatory and Inspection Unit and I have seen a draft copy of their interim report which raises some potentially very serious issues. The report is expected to be finalised over the next few months and I may report further in due course.
34. At this point in time I have been unable to obtain all the information and explanations necessary for me to satisfy myself as to the regularity of the £12.1m paid to Helm Housing Association in 2010-11 and I have therefore qualified my opinion in this matter.

Other matters

Land and Property Management

35. The Statement on Internal Control identifies the Housing Executive's management of its land and property as an area of significant risk. It also draws attention to concerns expressed by Internal Audit in 2009-10 and 2010-11 in relation to the adequacy of the Executive's Land Terrier, undeveloped land schedules and land acquisition issues. In addition, the Accounting Officer has, through the Statement on Internal Control, provided updates on a number of ongoing investigations. These include:
 1. a site zoned for social housing in North Belfast (with PSNI);
 2. the sale of land by the Housing Executive to a community group and subsequently sold to a third party (discussions with PSNI ongoing);
 3. the sale of land in Belfast to a developer; this investigation follows a finding of maladministration by the Northern Ireland Ombudsman against the Housing Executive and is intended to establish if fraud is present; and
 4. a review of a number of land and property transactions to determine whether they were managed in line with agreed policy/procedure and to highlight any cases of non-compliance.
36. Given that these investigations have or may identify potential fraud it is not possible for me to report on the detail at this time. Nevertheless, given their extent and significance I intend to keep this area under review and to provide a detailed report to the Northern Ireland Assembly at the earliest opportunity.

Supporting People

37. In last year's report I qualified my opinion on the regularity of grant payments in respect of £2.2m paid as Special Needs Management Allowance (SNMA) to 34 registered Care Homes from the supporting people budget. These payments had not been appropriately monitored by either DSD or the Housing Executive since 1 April 2003 when the scheme was transferred to the Housing Executive under transitional arrangements. The Department has now put in place monitoring and control procedures during 2010-11. An extensive desktop exercise was carried out by DSD followed by a number of site visits to the providers of this service. On the basis of this new evidence I have not qualified my opinion on this matter in 2010-11.

Kieran Donnelly
Comptroller and Auditor General

30 June 2011

Northern Ireland Audit Office
106 University Street
Belfast

Annex C: Other Management Recommendations

1. Planned Maintenance – Finalisation of Contracts

Observation	
Testing of contracts identified a number of contracts where following the completion of works there had been substantial delays before the final account could be agreed. For example, project 1984 0135 commenced in November 2003 but the final account was not agreed until February 2011. In another case project 2484 0093 commenced in November 2004 but the final account was not agreed until December 2010.	
Implication	
Substantial delays in the completion of final accounts reflects poor contract administration.	
Priority Rating	
2.	
Recommendation	
Outstanding accounts should be subject to more stringent monitoring to include a plan and timetable to reduce the number and value of outstanding final accounts.	
Management Response	
Final Accounts are reported monthly in reports developed from the new Financial Management Systems (Profess) and are issued to Property Services Managers. Five agency Quantity Surveyors have been appointed specifically to address the issue of outstanding final accounts and their progress monitored centrally.	
Responsibility	
Maurice Leyden (ADoDPS)	
Date of Implementation	Signed Off By
1 December 2011	Dolores Ferran (DoDPS)

2. Supporting People - Gap in Funding Agreement Contracts

Observation

Many of the Supporting People funding agreements expired around the 27 March 2011. The funding agreement extension letters issued to the service providers were dated 1 April 2011 and emailed to the service providers on the 31 March 2011. While the letters included retrospective start dates for the continued funding agreement cover the late issue of the letters resulted in a gap in funding agreement cover.

Discussions with Housing Executive staff and review of papers found that:

Signed funding agreements were put in place for services as part of a rolling programme from January 2006 and it was intended to apply 3 year period to the funding agreements, which could be extended prior to the agreement end date.

Due to the base-lining of the Supporting People budget the funding agreements have been extended for a maximum of one year for the last two years.

The decision to extend the funding agreements is normally taken in February each year by the Chief Executive Business Committee to allow for the letters to be issued, signed and returned before the first funding payment in April 2011. A paper was put to the Chief Executive Business Committee's 14th February 2011 meeting seeking approval for the extension of the 2011-12 Supporting People funding agreements for up to a maximum of one year to 25 March 2012. However it was decided that this decision should be brought to the attention of the Housing Executive Board and the paper was withdrawn.

A paper was put to the Housing Executive Board's 30 March 2011 meeting (after the funding agreements had expired), detailing the budget position for 2011-12, the breakdown of the budget and contingency funding & realigning existing funding. The approval was granted.

The Supporting People team then put a paper to the Chief Executive Business Committee's 4 April 2011 meeting seeking approval to continue Supporting People payments, for one payment period, to the service providers pending the return of the signed funding agreements. The approval was granted.

There has been no significant change in the annual Supporting People budget from previous years so the reason given for the change in the approval type that 'due to the significant funding associated with the programme it was decided to seek Board approval' appears to be at odds.

Implication

The change in the Supporting People budget approval process resulted in the funding agreement extension letters being issued after the cessation of the previous funding agreements. There was a period of a few days that was not covered by a funding agreement and this delay may have caused uncertainty regarding the continued funding of services among the providers.

Priority Rating

2

Recommendation	
The letters extending the funding agreements should be sent out in advance of the previous agreement's end date, to ensure there are no gaps and there is adequate time for the provider to sign and return the document.	
Management Response	
We accept the principal that funding agreements should be issued and agreed in advance of funding dates.	
<p>For this particular year, following the general review of governance arrangements within the Housing Executive, it was considered more appropriate, given the scale of expenditure involved (some £65 million each year over a 3 year agreement period), that Board approval should be obtained for the Supporting People programme. We believe that these revised scrutiny and approval arrangements, rather than being "at odds", improve and strengthen the governance position considerably.</p> <p>However, the decision to seek Board approval introduced a short delay to the issue of funding agreement letters. This was a 'one-off' and in future years a revised timetable will be applied to avoid this. We believe there was little or no risk to the funding arrangements for either the Housing Executive or providers. The SP grant is paid in arrears, the first payment under the extended funding agreements covered the 28 day period to 24th April 2011 and was covered by the Board approval on 30th March 2011. The CXBC paper of 4th April 2011 provides full transparency on how the 'transition period' was managed.</p>	
Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By
March 2012	Clark Bailie (DoCS)

3. Supporting People - Organisation PID 171 / SID 1237

Observation

Provider PID 171 is a voluntary organisation whose primary purpose is to support those most vulnerable to homelessness in the Cookstown, Dungannon and Portadown areas to access suitable accommodation and maintain their tenancies. The services aims to address social exclusion and assist the most marginalised and disconnected individuals and groups within the above areas to develop the capacity to identify their own needs and access information, expertise, experience, equality of opportunity and skills development in a way that enables and empowers them to become active participants in the social, cultural, and economic activity of the society and community in which they live.

NIAO noted a number of issues as a result of our desktop review of files held at the Housing Executive and from our site visit.

Insufficient Financial Information

Our review found no budgetary information for 2010-11 on the Housing Executive's financial monitoring file.

Funding Agreement extension letters

The Housing Executive funding agreement expired on the 21 June 2009 but a letter offering an extension to the funding agreement, included retrospective dates, was not issued until the 9 July 2009, resulting in a gap in the funding agreement cover. On the 10 July 2009 the organisation received a payment for £7,857.50 relating to the period 22 June 2009 to 19 July 2009.

Implication

Without appropriate budgetary information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.

The gaps in the funding agreements could result in a payment being made to an organisation without authorisation and a signed funding agreement from the provider.

Priority Rating

2.

Recommendation

Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provide evidence of continued need under the Supporting People programme.

The Housing Executive should issue all extensions to funding agreements well in advance of the cessation of the contract.

Management Response

We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would be unlikely to provide significant benefit for financial monitoring.

The funding agreement extension letter was not issued until after the end date of the agreement. The late issue of the extension letter reflects on-going work and discussions with this provider at that time. We would accept the principle of issuing extensions well in advance of funding agreement expiry dates.

In relation to the payment for the period 22.06.09- 19.07.09. Payment information was processed via the SP system on 15.07.09 following agreement with the provider and in anticipation of the signed extension letter being submitted. The extension letter, signed by the provider on 09.07.09, was received on 20.07.09. Payment was made to the provider's bank account on 21.07.09. We would accept the principle of payments being made only on the basis of a signed funding agreement from the provider being on file. (n.b. the payment date of 10.07.09 referred to in the audit comment relates to an authorization date in the SPOCC system).

Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By:
March 2012	Clark Bailie (DoCS)

4. Supporting People - Organisation PID 274 / SID 1460

Observation

Provider PID 274 is a voluntary organisation who offers temporary accommodation for men over 18 years old, who are homeless and have a history of drug and / or alcohol abuse / dependence and / or rough sleeping, and / or mental health problems. The Hostel aims to rehabilitate men into independent living. This organisation is almost solely funded from rental income and grants received from the Housing Executive (92%), of which approximately 69% comes from the Supporting People Programme. In 2010-11 this organisation received Supporting People funding amounting to £557,034.40 for the above named scheme. The Organisation has total reserves as at 31 March 2009 of £85k.

NIAO noted a number of issues as a result of our desktop review of files held at the Housing Executive and from our site visit.

Insufficient Financial Information

The latest annual accounts held in the financial monitoring file are for the year end 31 March 2009; this is in draft format and was received by the Housing Executive on the 8 February 2010. There are no annual audited accounts for the year ended 2009-10 with correspondence on file indicating they will not be available until the 19 April 2011 at the earliest. Our review of the financial monitoring file in May 2011 found the audited accounts had still not been received. The issue of annual audited accounts not being forwarded to the Housing Executive in a reasonable timeframe was raised at a contract management meeting on 9 February 2010 and recorded in the minutes.

We also found that the management accounts for 2009-10 were received after 1 June 2010, which is after the relevant financial year end and there was no budgetary information for 2010-11.

During the contract management meeting in February 2011 the financial circumstances of the scheme were discussed i.e. staff pay rises and staff turnover. The Provider was advised to report financial hardship to the Housing Executive and request deficit funding.

Site Visit

We selected a number of payments for testing and were able to trace the payment through the invoice and bank statements with the exception of the rental payments. We selected a £7,916.66 rental payment for January 2011. Discussions with the organisation's staff found that the rent is paid to its parent charity and landlord. There is no monthly invoice for this amount, no contract, and no rental agreement in writing. However, the building was subject to a valuation in May 2007 stating the rental figure of £95,000.

Food & Household Expenses

We found that the organisation spent just over £30,000 on food. From this expense type we selected a £993.16 payment for food dated 13 August 2010. We found the payment was made up from 15 invoices for meat. These 15 invoices were paid by a single cheque and agreed to the bank statement. The hostel staff are aware that the canteen is not self-financing and the charity and the Supporting People funding are required to subsidise it. The staff are also aware that the Supporting People funding is not to be used for the purchase of food but many of their guests (on-street drinkers) would not be served in shops or restaurants so the hostel provides meals, while the staff have to pay for any food consumed from the canteen. The food costs would not be eligible under the Supporting People Programme.

Implication
<p>Without proper budgetary and annual financial information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not the spend is for the purposes originally intended or that the Provider is in financial hardship and suitable for deficit funding.</p> <p>Without the full financial information available for inspection, during the site visit, it was difficult to establish if the Supporting People grant was being spent and accounted for as per the terms and conditions of the Funding Agreement.</p> <p>The Housing Executive may be funding spend which is ineligible under the Supporting People Programme.</p>
Priority Rating
2.
Recommendation
<p>Budgetary information should be provided before the start of the each financial year, if possible and certainly no later than the first quarter, to provide evidence of continued need under the Supporting People programme.</p> <p>Annual audited accounts should be provided within a reasonable timescale from the financial year end, to provide evidence of a financial viable organisation.</p> <p>The Housing Executive should put in place controls to ensure no ineligible expenditure is funded. Potential ineligible spend should be investigated and clawed back from the Service Provider were it is appropriate to do so.</p>
Management Response
<p>We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would be unlikely to provide significant benefit for financial monitoring.</p> <p>We accept that effectiveness of financial monitoring for this provider has been reduced by the unavailability of annual financial statements within a reasonable timescale. We advised the service provider of our concerns in this regard and we received the 2009/10 AFS in September 2011 and expect to receive the 2010/11 AFS in October 2011. Monitoring the service for quality, strategic relevance and value for money has continued through contract management activities and benchmarking of SP cost per unit against the cost of similar services. Claims of financial hardship by the provider will only be considered when the required financial monitoring information has been provided.</p> <p>The potential ineligible spend noted above under the comments on the site visit and food & household expenses will be examined when the 2010/11 financial returns are received. The 2008/9 financial information shows that this service received some £250k funding from other sources such as housing charges and service charges. The expenses noted by the auditor have been allocated against these income sources and not against SP grant. This will be examined again when 2010/11 analysis template and management</p>

accounts are reviewed.

We do not accept the recommendation that the Housing Executive should put in place additional controls to ensure no ineligible expenditure is funded. The current control is based on an analysis of management accounts and a comparison of costs with benchmarks to identify services requiring further investigation. This is a proportionate control, which balances compliance costs for service providers and monitoring costs for NIHE with the value of the grant provided.

Responsibility

Colm McQuillan (ADoCS)

Date of Implementation	Signed Off By:
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March 2012	Clark Bailie (DoCS)
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5. Supporting People - Organisation PID 95 / SID 626

Observation

Provider PID 95, is a voluntary organisation providing a comprehensive range of support, counselling, fostering, adoption and training services for more than 100,000 children, young people and their families.

This project's overall aim is to provide a range of accommodation and support services to young adults aged 16 – 25 leaving care, in order to prepare young adults for independent living. This project ceased operating in September 2010.

NIAO noted a number of issues as a result of our desktop review of files held at the Housing Executive and from our site visit.

Site Visit

The organisation provided us with limited financial information as it is a Northern Ireland Branch of a large UK organisation with most of the finances and payroll completed centrally in Headquarters, based in England. We selected a number of items for testing but for some payments were unable to trace the payment through the invoice and bank statements, for example:

Salary – All payroll information is held centrally and therefore we were unable to view the payroll system or bank statements;

Rental Cost – The rental charge is £5,700 per annum based on a rental value assessed by the organisation's Properties and Facilities Management Division. We viewed a letter confirming this rental value dated 14 June 2010. No rental agreement was viewed, no invoice was available and no bank statement was available. This notional charge is automatically taken from the project's annual budget;

Photocopying – We selected a payment for photocopying in August 2010. We viewed the invoice dated 26 August 2010 for £671.92. This amount was apportioned to the project based on the copies made by staff using the project's input code. The apportionment is on the front of the invoice. No bank statement was available.

Staff Medical/first aid – We selected a staff medical/first aid payment for May 2010. No invoice or bank statement was available. The organisation's staff explained that the majority of this payment would be for Occupational Health Services for staff on long-term sick and pre-employment medical checks. They added that it is difficult to judge the amount of this payment that would be associated with the funded project.

Implication

Without being able to view the invoices we are unable to determine if the Supporting People money is being spent in accordance with the Funding Agreement.

Priority Rating

2.

Recommendation	
The Housing Executive should put in place controls to ensure no ineligible expenditure is funded. Potential ineligible spend should be investigated and clawed back from the Service Provider where it is appropriate to do so.	
Management Response	
<p>The service selected for audit was closed in September 2010, which may have given rise to some difficulties in the verification of financial information.</p> <p>We do not accept the implication that without being able to view invoices (mainly because these are held in England due to the centralisation of the finance and payroll functions) auditors were unable to determine if Supporting People money was being spent in accordance with the funding agreement. The Supporting People financial monitoring approach is based on the analysis of management accounts and financial reports provided by the service provider rather than an investigation of invoices. Front-line staff costs make up the majority of SP eligible expenditure and a review of staffing levels provides a check on the staff costs allocated. Monitoring information provided for 2009/10 by this service provider indicated 73% of the SP grant was used to cover frontline staff costs and 27% was apportioned to direct costs, administration and overheads. The organisation employed 24 staff in its NI services, 37% of which (approx 9 full-time-equivalents) were funded by SP grant. Management account allocations to SP are in line with the agreed staffing levels. The allocation of photocopying costs and staff medical checks would be a normal overhead which, provided the total cost is reasonable, would not require any special investigation. It should also be noted that in 2009/10 the SP funding to the NI operations of this service provider only represented 27% of the NI funding. Most of the balance came from funding for care, which was supplemented by an allocation of central funds of £165k (14%) arising from charitable donations. Investigating the allocation of costs such as photocopying and staff medical aid would be unlikely to lead to improved value for money and a requirement to duplicate accounting records in NI for grant audit purposes would not be an "intelligent monitoring" approach.</p> <p>We will review the 2010/11 financial information returns to identify situations where ineligible costs have been included in the costs attributable to SP, resulting in overstatement of direct costs and overheads apportioned against SP grant.</p> <p>We do not accept the recommendation that the Housing Executive should put in place additional controls to ensure no ineligible expenditure is funded. The current control is based on an analysis of management accounts and a comparison of costs with benchmarks to identify services requiring further investigation. This is a proportionate control, which balances compliance costs for service providers and monitoring costs for NIHE with the value of the grant provided.</p>	
Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By
March 2012	Clark Bailie (DoCS)

6. Supporting People - Organisation PID 35 / SID 235

Observation

Provider PID 35 is a voluntary organisation providing temporary accommodation with support for homeless vulnerable women and women with children. The age range of the clients is from 16 to 65+ years.

Based on the annual accounts for the year ended 31 January 2010, this organisation receives the majority of its income from the Housing Executive (82%), made up from Housing benefit (10%) and Supporting People funding (72%).

NIAO noted an issue as a result of our site visit.

Site Visit

The organisation provided us with financial information for 2010-11 from which we selected a number of items for testing.

Sundries – We selected a payment under Sundries for £1,050.00 to a Hotel in December 2010. We were able to view this payment in the cheque journal, the invoice and on the relevant bank statement. Discussion with the financial staff found that this payment was for fourteen £75 gift vouchers given to the staff at Christmas.

Implication

It would appear that the Housing Executive funding is being used to provide gifts to the staff which is not in accordance with the Funding Agreement.

Priority Rating

2.

Recommendation

The Housing Executive should put in place controls to ensure no ineligible expenditure is funded. Potential ineligible spend should be investigated and clawed back from the Service Provider where it is appropriate to do so.

Management Response

We do not accept the recommendation that the Housing Executive should put in place additional controls to ensure no ineligible expenditure is funded. The current control is based on an analysis of management accounts and a comparison of costs with benchmarks to identify services requiring further investigation. This is a proportionate control, which balances compliance costs for service providers and monitoring costs for NIHE with the value of the grant provided.

In this case the service provider has advised us that the bonus was paid out of donations received by the organisation and was approved by the trustees in recognition of a good performance in reducing time lost due to sick leave. There would be no requirement to claw back this item if it has not been allocated against SP grant.

Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By:
March 2012	Clark Bailie (DoCS)

7. Supporting People - Organisation PID 111 / SID 704

Observation

Provider PID 111 is a voluntary organisation aiming for people to live as independently as possible, to be active in their local community and to enjoy life to the full. They have an extensive network of services and work in partnership with local authorities, housing association and trusts.

NIAO noted a number of issues as a result of our desktop review of files held at the Housing Executive and from our site visit.

Temporary Funding Agreement

This organisation has a temporary funding agreement dated 4 June 2007 for 2 units. Housing Executive staff informed us that the term 'temporary' does not relate to a period of time but is a term used to denote an agreement in which the Housing Executive have retained the power to cease the contract with only 7 days notice as opposed to a standard funding agreement with a 90 days cessation notice period. This also gives the Housing Executive the power to change the terms of the contract unilaterally with only 7 days notice. They added that at this time there is no plan to move this temporary funding agreement on to a standard funding agreement. There are approximately 70 other temporary funding agreements.

Our desk review found that the Service Validation Report dated 18 February 2010 considered the service had overall strategic relevance, was of appropriate quality and performance and the unit rate payable was above the benchmark average for similar sized services. We also found that the organisation has undergone Housing Executive accreditation; a renewal accreditation certificate was issued on 10 March 2010 and is valid for 3 years. The Housing Executive considers the organisation to have a high political / reputational risk, a low financial risk and a medium operational risk, with an overall medium risk.

Insufficient Financial Information

Our review found no budgetary information for 2010-11 on the Housing Executive Financial Monitoring file.

Site Visit

The organisation provided us with limited financial information as it is a Northern Ireland Branch of a large UK Organisation with all the finances and payroll completed centrally in the Headquarters, based in England. We selected a number of items for testing and for most were able to trace the payments through the systems.

Food and House Hold Expenses

Food - A payment for £881.90 in March 2011 under the expense head 'housekeeping general' with a description I Bell/DmCA/ G D was selected for testing. This payment was viewed in the nominal ledger but the invoice was self generated. The organisation's staff explained that the three tenants have a joint account for housekeeping from which they purchase food. The support worker who is on site for a few hours in the morning and from 4pm to 11pm and set hours over the weekend often eats the food in the house with the tenants. This staff consumption is replenished by paying an amount into the tenants' housekeeping account. This is paid via cheque and was viewed in the bank statements.

Implication
<p>It would appear that the Housing Executive decision to maintain this funding agreement on a 'temporary' basis is at odds with the results of the validation visit and accreditation process.</p> <p>Without appropriate budgetary information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.</p>
Priority Rating
2.
Recommendation
<p>Housing Executive review this temporary funding agreement to justify the retention of this status or offer the organisation a standard funding agreement.</p> <p>Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provide evidence of continued need under the Supporting People programme.</p> <p>Potential ineligible spend should be investigated and clawed back from the organisation, were it is appropriate to do so.</p>
Management Response
<p>We would accept the recommendation to review the 'temporary funding agreement' status for this service.</p> <p>We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would be unlikely to provide significant benefit for financial monitoring.</p> <p>SP funded 34% of this service in 2009/10 and the majority of the funding (59%) was provided by statutory funding for care. The expense allocation template showed that 76% of the SP funding was allocated to the payment of support staff costs and the allocation of direct costs and overheads to SP resulted in a deficit of £1,065 on the SP grant. Staff having meals with service users may well be an indication of a good quality service and reimbursement to service users for the cost of food consumed by staff at shared meals is a fair treatment of the expense. The cost is included in housekeeping expenses, which totalled £1,456 in 2009/10 and 39% of this was allocated against housing support costs. Apportioned housekeeping costs of £570 were included in the £4,029 direct costs allocated to housing support for 2009/10. These allocations will be reviewed in the 2010/11 financial monitoring activities.</p> <p>The eligibility of any portion of this expenditure allocated against SP funding will be considered when the 2010/11 management account apportionment templates are reviewed.</p>

Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By:
March 2012	Clark Bailie (DoCS)

8. Supporting People - Organisation PID 173 / SID 1266

Observation

Provider PID 173 offers long term support services to people with physical disabilities aged 18 to 59 years. This Service 1266 with 50 clients was closed on 25 April 2010.

Insufficient Financial Information

Our review found no budgetary information for 2010-11 on the Housing Executive Financial Monitoring file. Housing Executive staff told us that due to the providers accounting systems they are unable to provide the financial and budgetary information for the Supporting People funding. They added that they had requested financial and budgetary information from this Provider in August 2010.

Site Visit

The provider's staff told us that most of the clients in Scheme 1266 were discharged or moved to other providers before the service closed. The 16 remaining clients were moved to scheme 1258. Scheme 1258 was varied to include this increase in clients, evidenced by a Housing Executive letter dated 25 May 2010. However, according to the provider the Housing Executive pay £8,717.28 for the 16 clients under SID 1364 but they do not have any paperwork for this scheme, except the payment schedule created by Housing Executive. The payment is received in a block amount to the Western Trust as seen in their bank statements.

There is limited information on the nominal ledger as there are no transactions for scheme 1266, no performance reports, no contract management or Quality Assessment Framework reports, no management information and no invoices.

Confusion over the SID number and corresponding payment

The Housing Executive advised us that the confusion appears to be due to the misidentification of the service to young people funded under scheme 1364, as providing services to clients was previously supported by SID 1266. It added that these service users were funded by the extension of the SID 1258 services. The SID 1364 service has been funded at the same amount for the past 3 years and all the paperwork is in place.

Payments exceeding the Funding Agreement

Our review found that in 2008-09 the payments (£320,650) exceeded the Funding Agreement (£312,156) by £8,494.

Implication

Without appropriate budgetary information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.

With the confusion as to which projects are being funded under which number this could lead to expenditure being incorrectly allocated against a project.

With the payment exceeding the Funding Agreement this may lead to irregular payments.

Priority Rating

2.

Recommendation	
<p>Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provided evidence of continued need under the Supporting People programme.</p> <p>The Housing Executive should meet with the provider to ensure clear understanding of the projects and the associated funding under the Supporting People programme.</p> <p>The Housing Executive should review the 2008-09 payments made to this provider for Scheme 1266 and the Funding Agreement to investigate this possible overpayment and claw back, if it is appropriate to do so.</p>	
Management Response	
<p>We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would <i>be unlikely to provide significant benefit for financial monitoring.</i></p> <p>NIHE meets regularly with individual service providers as part of the contract management process. In this case the services are provided by 2 different directorates within the organization. Improvements in financial reporting are being discussed with the organization to ensure that financial monitoring arrangements are implemented. This will provide a clear understanding of requirements to account for SP funding.</p> <p>The observation 'Payments exceeding the Funding Agreement' is not correct as a general uplift to funding was awarded in April 2007, which increased the maximum funding available under the funding agreement. No overpayment occurred in 2008/9 as the amount paid was less than the maximum funding available for the year. The maximum amount payable under this funding agreement was £312,156 from 05/02/07 (06/07 year). However, this amount was increased to £321,516 when the 3 percent uplift for inflation was applied in April 07 (07/08 year). This funding amount continued to apply for the 08/09 year. The £320,650 paid during 08/09 was within this agreed amount.</p>	
Responsibility	
Coim McQuillan (ADoCS)	
Date of Implementation	Signed Off By
N/A	Clark Bailie (DoCS)

9. Supporting People - Financial Monitoring

Observation

Provider PID 177, SID 1325 - The provider offers an accommodation based service, for people with enduring mental health issues, aged 18 to 59.

Provider PID 97, SID 999 – The Housing Executive offers an accommodation based homeless hostel, for periods of over one year to homeless families with support needs of all ages.

Insufficient Financial Information

Our review found that the Housing Executive do not maintain a Financial Monitoring file on the above providers. Housing Executive staff told us regarding:

PID177 SID 1325, that due to the accounting systems within the provider they are unable to provide the financial and budgetary information for the Supporting People funding. However, this financial and budgetary information was requested from the provider in August 2010.

PID 97 SID 999, that the Supporting People team are currently in discussions with the Housing Executive Homeless Division about the possibility of gathering and maintaining financial information. There were minutes of a meeting on the 25 January 2011 in the Contract Management file regarding proposed changes to the future Contract Management process for this scheme.

Implication

Without appropriate budgetary information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.

Priority Rating

2.

Recommendation

Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provided evidence of continued need under the Supporting People programme.

Management Response

We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would be unlikely to provide significant benefit for financial monitoring.

Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By:
N/A	Clark Bailie (DoCS)

10. Supporting People - Insufficient Financial Information

Observation	
<p>Provider PID 186, SID 1414 provides housing accommodation primarily for the elderly.</p> <p>Provider PID 5, SID 1200 provides services to women and children who have been abused as a result of domestic violence, floating support.</p> <p>Insufficient Financial Information</p> <p>Our review found there was no budgetary information for the 2010-11 year on the Financial Monitoring files.</p>	
Implication	
<p>Without appropriate budgetary information being provided it is difficult for the Housing Executive to carry out a proper assessment of the individual scheme needs and determine whether or not spend is for the purposes originally intended.</p>	
Priority Rating	
2.	
Recommendation	
<p>Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provided evidence of continued need under the Supporting People programme.</p>	
Management Response	
<p>We do not accept the recommendation in regard to budgetary information. SP financial monitoring is currently based on management accounts, apportioned between funding streams using an analysis template, which reconcile to the most recent annual financial statements. Budgetary information is required where there is a concern about the funding level of a specific service or the financial viability of a service provider but a general requirement for all services to provide this information before the start of each year would be unlikely to provide significant benefit for financial monitoring.</p>	
Responsibility	
Colm McQuillan (ADoCS)	
Date of Implementation	Signed Off By
N/A	Clark Bailie (DoCS)

11. Missing Documentation

Observation	
A payment in respect of Security Cover for premises at Adelaide Street, Belfast was examined. It was found that the timesheets relating to this payment had been disposed of and therefore we could not verify the number of hours worked as recorded on the invoice.	
Implication	
We could not verify hours worked as recorded on the invoice.	
Priority Rating	
3.	
Recommendation	
Supporting documentation should be held for audit scrutiny.	
Management Response	
Managers have been instructed of the need to retain documentation in accordance with the Organisation's retention policy.	
Responsibility	
Ian McCrickard (ADoPMS)	
Date of Implementation	Signed Off By
1 October 2011	Maureen Taggart (DoPMS)

12. Bank Reconciliations

Observation	
<p>When examining bank reconciliations prepared by Housing Executive at year end, we noted that on a number of accounts the cut off date used was 1st April 2011 instead of 31st March 2011.</p> <p>We noted that when examining the bank reconciliation for the Housing Benefit Landlord account there were a number of journal adjustments some of which dated as far back as 2000. Whilst the adjustments were not material the issues should have been resolved on a more timely basis.</p>	
Implication	
That account areas within the financial statements could be materially misstated.	
Priority Rating	
3.	
Recommendation	
<p>Whilst not material to the 2010-11 accounts, the correct cut-off should be applied to year-end bank reconciliations.</p> <p>Adjustments should be resolved at the earliest opportunity.</p>	
Management Response	
<p>With Prawl, transactions were posted on a Friday for transactions which occurred for the week up to and including the Friday. This was done through a batch total rather than individual transactions being processed. Therefore, as the 1st April 2011 was on a Friday, an extra day of receipts received was included in the batch total for Year end 31 March 2011. With batch totals being posted weekly on a Friday it was difficult to isolate receipts which related only to this extra day. However the introduction of a new Income Management System facilitates the identification of an individual day's transactions resulting in correct cut-off procedures being applied in the future at year end.</p> <p>Adjustments will be cleared on a timely basis.</p>	
Responsibility	
Helena Carty (ADoF)	
Date of Implementation	Signed Off By:
1 October 2011	David Lamb (DoF)

Kennedy, Alan (DSD)

From: Kennedy, Alan (DSD)
Sent: 14 February 2014 10:27
To: DSD Private Office; Lundie, Fiona; McCavana, Caroline; Howland, Marie
Cc: Haire, Will; Hamilton, Andrew (DSD); Wilkinson, Jim; Ward, Deirdre; Martin, Stephen (DSD); Sleator, Norman (DSD); Burns, Kim; McCourt, John; Moore, Martin; Murray, Emma (DSD); McCarty, Susan
Subject: COR/91/2014 - Margaret Mulholland - Double glazing
Attachments: FW double glazing.msg; COR 91 2014 - Cleared reply.tr5; COR 91 2014 - Cleared reply.DOCX

Dear all
Please see cleared briefing attached.
Alan

NIAO NIHE Report to those charged with Governance Year ended 2012



Northern Ireland Audit Office

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Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

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The Comptroller and Auditor General, Mr Kieran Donnelly, is an Officer of the Northern Ireland Assembly. He is the Head of the Northern Ireland Audit Office, which employs some 150 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information please contact:

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Northern Ireland Housing Executive AUDIT OF 2011-2012 FINANCIAL STATEMENTS

FINAL REPORT TO THOSE CHARGED WITH GOVERNANCE

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Executive Summary

Introduction

1. This report summarises the key matters arising from our audit of the 2011-12 financial statements for the benefit of those charged with governance¹. We would like to thank the Director of Finance and his staff for their co-operation during the audit process.
2. The examination of the 2011-12 financial statements was undertaken in accordance with auditing standards issued by the Auditing Practice Board (APB), taking into account the UK Auditing Practice Board's Practice Note 10 (Revised); Audit of Financial statements in Public Sector Bodies in the United Kingdom. Our approach to the audit was planned and executed in accordance with the Audit Strategy presented to the Audit Committee in March 2012.
3. This report has been prepared for the sole use of the Northern Ireland Housing Executive although it will be shared with the Department for Social Development. Our prior consent should be sought before any distribution (including web publication) either in full or in part is made. The Northern Ireland Audit Office (NIAO) does not accept responsibility to any third party for losses arising from reliance being placed on this report.
4. Once certification has taken place the Annual Report and Accounts should be laid in the Assembly as soon as possible in line with good accountability practice. The document laid may be a photocopy of the certified version of the Annual Report and Accounts, but if Northern Ireland Housing Executive intends to lay a final printer's proof or a printed version of the Annual Report and Accounts instead we will need to receive a copy of this document prior to laying. In any event our approval will be required before the Annual Report and Accounts are published in hard copy or on the web since it contains the C&AG's audit opinion. Northern Ireland Housing Executive will therefore need to provide us with a copy of the final printer's proof together with the soft copy file to be placed on the Northern Ireland Housing Executive website for our consideration. Responsibility for thoroughly proofing these documents however remains with Northern Ireland Housing Executive. In line with Practice Note 10 (Revised) as auditors we continue to have responsibilities to consider material events after the reporting period until the date that the Annual Report and Accounts have been laid in the Assembly. Northern Ireland Housing Executive therefore also needs to notify us of the date that the Annual Report and Accounts have been laid as soon as possible thereafter.

Actions for those charged with governance

5. Those charged with governance are invited to review the findings set out in this report, including the letter of representation, audit certificate and the C&AG's report included in Annex A and Annex B and Annex D respectively.
6. A number of reclassification adjustments were made to the financial statements and are detailed in Section 3.

Status of audit

7. The audit is complete.

Overall conclusion and opinion

8. The Comptroller and Auditor General (C&AG) reported his opinion to the Assembly in the format set out in Annex B – Audit Certificate. The C&AG's certificate includes an opinion as to the truth and fairness of the financial statements and that the expenditure and income have been applied to the purposes intended by the Assembly and that the transactions conform to the authorities which govern them ('regularity'). The C&AG's certificate also includes an opinion on the part of the Remuneration Report to be audited has been properly prepared and that certain information given in the Annual Report is consistent with the financial statements.

¹ In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Executive Summary

9. The C&AG certified the 2011-12 financial statements with a clear financial audit opinion and a qualified regularity audit opinion. The latter was due to the levels of estimated fraud and error in housing benefit payments and significant issues relating to contract management of response and planned maintenance. The C&AG produced a Report (see Annex D) to accompany his audit opinion.

Audit judgements

10. A number of significant audit judgements have been taken in reaching our audit opinion:
- Issues relating to the management of response and planned maintenance contracts. Weaknesses identified from our audit work were considered to be of such significance that the regularity audit opinion covering this area of expenditure has been qualified;
 - Housing Associations. The payment of Housing Association Grant to HELM last year resulted in a qualification of our audit opinion following the issue of a critical draft report by the Department for Social Development. The report was published in January 2012 and while important governance issues exist in this sector we do not consider them to be significant to the regularity audit opinion. The issues are referred to in the C&AG's Report;
 - Supporting People. Following allegations by a whistleblower serious governance issues were identified in a service provider that was funded mainly by the Housing Executive. We concluded that although the issues might be replicated in other such service providers supported by the Housing Executive the impact was not likely to be significant enough to impact on the regularity audit opinion. This issue is further considered at point 8 in the Audit Findings;
 - Overall audit opinion. Due to the issues relating to housing benefit, response and planned maintenance, Supporting People, Housing Associations and others we had considered disclaiming our audit opinion. We concluded that although the issues are significant they are not pervasive through all areas of the accounts and we have instead issued qualifications relating to specific areas of expenditure.

Audit findings

11. In Section 2 we outline the quality, effectiveness and transparency of Northern Ireland Housing Executive's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to regularity and the internal control environment.
12. No significant issues were identified in respect of the quality, effectiveness and transparency of Housing Executive's financial reporting and accounting.
13. The changes in accounting treatment of Government Grants and Donated Assets as per IAS 20² and capital grant in kind have been treated as changes in accounting policy and have been disclosed in note 2 to the financial statements. We are content that the remaining accounting policies used by the Housing Executive in the preparation of the financial statements were complete, accurate and complied with the relevant standards.
14. We identified the following significant internal control weaknesses³
- Significant weaknesses in internal controls exist in the Housing Executive's management of response maintenance and planned maintenance contracts. The weaknesses within these areas of expenditure are considered to be systemic and this has led to a qualification on the regularity of response maintenance (£55m) and planned maintenance (£107m) expenditure.
15. We reviewed the format and content of the Statement on Internal Control to ensure that it complies with DFP disclosure requirements and that it is consistent with our knowledge of the client.

² Accounting for Government Grant and Disclosure of Government Assistance.

³ In accordance with ISA 265, it is the auditor's responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

Executive Summary

16. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

17. In the course of the audit misstatements were identified which have been adjusted in the financial statements, as detailed in Identified Misstatements in Section 3. As a result of our audit, a number of insignificant adjustments were made to the first draft financial statements presented for audit. The adjustments totalling £39k were considered to be clearly trivial.
18. A number of other significant adjustments were made to the financial statements and these have been detailed at Section 3 which also details uncorrected misstatements.

Section 1

Audit Risks

Significant risks

- 1.1. In our Audit Strategy presented to the Audit Committee in March 2012 our assessment of Northern Ireland Housing Executive's operations and control environment identified a number of significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.
- 1.2 The table below describes how we addressed these matters through our audit process.

Significant risks of material misstatement

Risk 1 Contract Management/Procurement
<p>Following internal and external investigative work, significant weaknesses in control were identified in respect of response maintenance expenditure of £48.9m incurred by NIHE during 2010-11. We gave a qualified opinion on regularity due to the weaknesses in controls over response maintenance. A substantial level of overpayments has now been recovered from one specific contractor and its response maintenance contracts with NIHE have now been terminated.</p> <p>We have now become aware of potentially significant issues relating to planned maintenance expenditure. These issues are currently being investigated by NIHE and we await further developments.</p> <p>In addition, there is a risk across the public sector that contracts may not be awarded in accordance with best practice and we will therefore need to ensure the requirements of regularity have been fulfilled by NIHE.</p>
Audit Response
<p>We</p> <ul style="list-style-type: none"> • liaised with Internal Audit on work completed on procurement; • kept under review emerging issues from ongoing investigations; • reviewed the work and findings of the Corporate Assurance Unit and other sources where appropriate; • carried out a review of procurement arrangements and management of contracts; and • tested a sample of contracts to ensure that NIHE is following best practice.
Outcome
<p>During 2011-12 the Housing Executive incurred expenditure of £162 million on response and planned maintenance. In 2010-11 the C&AG qualified aspects of his regularity opinion in respect of response maintenance expenditure whilst concerns were raised in relation to planned maintenance expenditure. Concerns relating to response maintenance have continued and issues identified during the audit are set out at section 2.14.</p> <p>Whilst weaknesses in control had been identified in planned maintenance expenditure in the 2010-11 audit, the issues arising during the 2011-12 audit were much more significant and are set out at section 2.14.</p> <p>Based on all of the issues identified, the C&AG qualified his audit opinion on the regularity of both response and planned maintenance expenditure as he was unable to obtain sufficient assurance that the Housing Executive's control of this expenditure was adequate. Because of the limitations in the evidence available to him he was unable to form an opinion whether the expenditure of £162 million on response and planned maintenance had been applied for the purposes intended by the Northern Ireland Assembly.</p> <p>Further detail can be found in the C&AG's report at Annex D.</p>

Section 1

Audit Risks

Risk 2 Housing Associations
The 2010-11 accounts were qualified as NIHE was unable to provide sufficient evidence to confirm the regularity of housing association grant payments made to Helm Housing Association. In 2010-11 the C&AG reported on the significant problems within the Registered Housing Association sector in Northern Ireland in his report accompanying the financial statements.
Audit Response
<p>We</p> <ul style="list-style-type: none"> Reviewed the final RIU report on HELM and assessed the impact on the 2011-12 audit; Considered the impact on NIHE of RIU's inspection of other Housing Associations during 2011-12; On a sample basis, tested and examined grants paid to Housing Associations. We visited Housing Associations in receipt of Housing Association Grant to ensure they had complied with the requirements of the Housing Association Guide; and Examined and tested the new procedures and controls over grants payments to suspended Housing Associations introduced by NIHE during 2011-12.
Outcome
<p>The Northern Ireland Housing Executive pays grants on behalf of the Department to the Housing Association sector each year and this amounted to £139 million during 2011-12. In order to satisfy itself that this money is being properly spent, the Department arranges for its Governance and Inspection Team (the Team) to conduct regular reviews of all housing associations in Northern Ireland examining governance, finance, property management and property development.</p> <p>Last year the C&AG qualified an aspect of his regularity opinion in respect of payments made to Helm Housing Association as DSD's Governance and Inspection Unit had issued a draft report raising serious issues. DSD published its report on Helm in January 2012 and issued a "No assurance" rating, highlighting a number of significant failures across all areas, indicating substantial failings by the Senior Management Team of Helm and a failure by the Board to offer an adequate challenge function to the decision-making process within the Association. In response to the significant concerns raised in the Helm report, the Department asked the Team to carry out targeted inspections of the seven main housing associations involved in building new houses (namely Apex, Clanmil, Fold, Trinity, Connswater, Oaklee and Ulidia) to provide assurance that the issues identified in the Helm report were not prevalent in these Associations and that they were "fit for purpose". Results of these targeted inspections and the usual round of inspections have indicated that the issues that had been identified in Helm are not widespread and consequently the regularity opinion has not been qualified this year.</p> <p>The associations which obtained limited or no assurance in the second round of inspections are included within the nine associations currently suspended from carrying out development work. However these suspended housing associations still received housing association grant of £25.6 million during 2011-12 of which Helm received £21.5 million. We understand that these grants relate to schemes that had been approved prior to the Associations being suspended and which the Department were content to allow to be progressed as the schemes were already sufficiently advanced. Additional controls were implemented for £15.6 million of this spend as guidance was agreed after payments of £10 million had already been made.</p> <p>Issues identified during the audit are set out at section 2.14. Further detail can be found in the C&AG's report at Annex D.</p>

Section 1

Audit Risks

Risk 3 Level of Housing Benefit Fraud and Error	
Based on a continuing history and as demonstrated by the testing of the Social Security Agency's Standards Assurance Unit (SAU), there is a risk of significant levels of estimated fraud and incorrectness in housing benefit. Such fraud and error results in irregular expenditure.	
Audit Response	
<p>We</p> <ul style="list-style-type: none"> • Re-performed a random sample of the caseload selected and tested by the SAU. This was designed to satisfy ourselves as to the financial accuracy results as reported by SAU. We reviewed the SAU annual report on the Levels of Fraud and Error for Housing Benefit. • Reviewed controls over the administration of housing benefit; • Reviewed the outcome of the work on the National Fraud Initiative; • Reviewed the disclosure of housing benefit fraud and error in the financial statements; and • Reviewed the work of Internal Audit and other sources where appropriate. 	
Outcome	
<p>Estimated levels of fraud and error for Housing Benefit are reported on a calendar year by the Analytical Services Unit of the Department for Social Development. Their report produced in May 2012 covered the period 1 January 2011 to 31 December 2011. The report estimated that the levels of fraud and error for Housing Benefit were £10.2 million (overpayments) and £3.6 million (underpayments). For 2011-12, the C&AG qualified his opinion on the regularity of housing benefit expenditure because of the estimated level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly; and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.</p> <p>The Housing Executive has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll and occupational pension details with its housing benefit records. A number of matches were passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service (the Agency). The first matching exercise identified 6,000 cases to be investigated and resulted in 1,238 fraud investigations. To date, overpayments of £2.3 million have been identified in 1,033 cases and 52 cases resulted in Court convictions. Work is continuing on the remaining 205 cases. The second NFI data matching exercise produced 9,100 cases to be investigated. To date the Agency has examined 5,826 of these cases resulting in errors being identified in 176 cases with overpayments of £248,300 and underpayments of £6,000. A further 382 cases are currently awaiting investigation for potential fraud.</p> <p>Further detail can be found at the C&AG's report at Annex D.</p>	

Section 1

Audit Risks

Risk 4 Land Disposals
Concerns have been raised in previous years regarding the controls operating over surplus land disposals.
Arising out of these and other concerns, NIHE set up a dedicated review team to examine a number of land transactions to ensure that NIHE policies and procedures were being adhered to. This review has referred a number of land transactions to the NIHE Counter-Fraud and Security Unit for further investigation. The PSNI is also currently conducting investigations reviewing certain land transactions.
Audit Response
We <ul style="list-style-type: none"> Carried out a review of the land disposals process and examine high level controls in this area; On a sample basis, tested and examined land disposals and ensure that appropriate protocols have been followed. We will also ensure compliance with the requirements of MPMNI; and Considered the impact of any reports/investigations on this area.
Outcome
The number and value of land disposals has decreased significantly in recent years and testing of land disposals in 2011-12 has not identified any significant issues.
There are a number of reports/investigations currently underway into the Housing Executive's management of its lands and property, some of which are subject to police investigation. The C&AG has commented more fully on a number of land issues in his report at Annex D.

Risk 5 Housing Benefit Overpayments
The counter-fraud activities undertaken by NIHE have successfully identified increasing levels of Housing Benefit fraud. However, it would appear that the Housing Executive's performance in recovering overpayments has actually reduced over the past number of years.
In previous audits, we have also identified uncertainty over the completeness, accuracy and collectability of Housing Benefit overpayment balances.
Audit Response
We <ul style="list-style-type: none"> Reviewed the overall level of overpayments and the level of recovery; Tested and examined a sample of overpayments and overpayments written off during the year; Reviewed the accounting treatment and disclosure of Housing Benefit overpayments; and Reviewed the work of Internal Audit.
Outcome
Benefit overpayments arise whenever benefits are paid in error to customers. During the year the gross level of housing benefit overpayments owed by claimants has increased to £45.4 million from £41.8 million in 2010-11. This level of increase has been the trend in recent years.
It is recognised that better identifying of Housing Benefit fraud leads to an increase in the level of Housing Benefit Overpayments to be recovered. However the Housing Executive's performance in recovering overpayments when compared to the amount owing has actually reduced over the past number of years. Further information is outlined in the C&AG's report at Annex D.
Issues identified during the audit are set out at section 2.14.

Section 1

Audit Risks

Risk 6 Year on Year Rent Arrears

The value of rent arrears at year end decreased from £13.3 million at 31 March 2010 to £12.7 million at 31 March 2011. As in previous years we have noted that that in many of the cases examined that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants.

A proportion of the historic arrears debt is actually Housing Benefit overpayment or Housing Benefit fraud. NIHE cannot provide a breakdown of these amounts. This also affects the analysis of write-offs as it is impossible to split the substantial sums written off each year between true rent arrears and Housing Benefit overpayments or Housing Benefit fraud.

Audit Response

We

- Carried out a review and tested high level controls over rent arrears;
- Examined the process for collecting rent arrears and for approving write-offs;
- On a sample basis, tested and examined rent arrears and write-offs; and
- Reviewed the work of Internal Audit where appropriate.

Outcome

During the financial year 2011-12 rent arrears increased by £1.3 million to £13.9 million. Whilst the current economic conditions may have had an impact on the level of rent arrears the Housing Executive must ensure that rent arrears are kept to the absolute minimum.

The level of rent arrears write-offs decreased from £953,000 in 2010-11 to £470,000 in 2011-12. Issues identified during the audit are set out at section 2.14.

Section 1

Audit Risks

Risk 7 Economic Climate	
<p>Given the current economic climate there is an increased risk of fraud across NIHE. In the recent past a number of instances have been identified where processes have not been properly applied and proper procedures have not been followed. This has resulted in the C&AG qualifying his regularity opinion. If a robust control environment is not in place at all levels within NIHE the risk of fraud increases and may lead to further qualifications.</p>	
Audit Response	
<p>We</p> <ul style="list-style-type: none"> • Liaised with NIHE on the number of frauds, incidents of whistle blowing, and internal data protection incidents reported during the year; • Reviewed fraud notifications passed to the C&AG and the outcomes of the investigations; • Kept under review the findings and issues emanating from the various investigations; and • Reviewed areas of previous non-compliance with proper procedures and processes. 	
Outcome	
<p>The Statement on Internal Control (SIC) provides an update on 10 ongoing investigations that were disclosed in the previous year's SIC. A further two investigations arose during the year and these are also disclosed in the SIC.</p> <p>Concerns relating to response maintenance have continued and the C&AG has once again qualified his regularity opinion in respect of response maintenance expenditure in 2011-12. Whilst weaknesses in control had been identified in planned maintenance expenditure during the 2010-11 audit, the issues arising during the 2011-12 audit were much more significant. These concerns resulted in the C&AG also qualifying his regularity opinion in respect of planned maintenance expenditure. Further detail on the issues identified is provided at Risk 1. For 2011-12, the C&AG also qualified his opinion on the regularity of housing benefit expenditure because of the estimated level of overpayments attributable to fraud and error.</p> <p>NIAO have also been undertaking a value for money review of Housing Executive management of response maintenance contracts which will be published in a report to the Northern Ireland Assembly in September 2012. In addition there are a number of ongoing investigations into the alleged overcharging by contractors providing planned and response maintenance services.</p> <p>There are a number of reports/investigations currently underway into the Housing Executive's management of land and property disposals made within previous years, some of which are subject to police investigation. The C&AG has commented on some of these land issues in his report at Annex D.</p> <p>We will keep under review any developments in the investigations that are currently underway.</p>	

Section 2

Audit Findings

Financial Reporting and Accounting Policies

- 2.1 The Annual Report and Accounts are required to comply with the Government Financial Reporting Manual (FRM) in accordance with the Accounts Direction issued by the Department for Social Development.
- 2.2 In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Annual Report.
- 2.3 Although there were a number of corrections and amendments to the first draft version of the Annual Report and Accounts, there were no significant issues identified in respect of the quality, effectiveness and transparency of financial reporting and accounting, other than the audit findings outlined in the observations and recommendations below.
- 2.4 In addition we have considered:
- Details of changes in accounting policies relating to the Government Grant Reserve and the Donated Assets Reserve and Capital Grant in Kind are set out at note 2 to the financial statements. All other accounting policies have remained consistent with the prior year. We are content with the appropriateness of the accounting policies judged against the objectives of relevance, reliability, comparability and understandability.
 - No significant issues were identified in our audit testing in respect of the timing of transactions and the period in which they are recorded.
 - Details of a change in accounting estimate relating to the recognition of costs are detailed at note 2 to the financial statements. No significant issues were identified as part of our audit testing in respect of the appropriateness of accounting estimates and judgements.

Review of information in the Annual Report

- 2.5 We review information in the Annual Report only to the extent that we confirm it is consistent with the financial statements and our understanding of the business.
- 2.6 The Annual Report was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements.

Regularity, propriety and losses

- 2.7 Significant weaknesses in internal controls exist in the Housing Executive's management of response maintenance and planned maintenance contracts. The weaknesses within these areas of expenditure are considered to be systemic and this has led to a qualification on the regularity of response maintenance and planned maintenance expenditure.
- 2.8 The C&AG also qualified his opinion on the regularity of housing benefit overpayments attributable to the estimated levels of fraud and error.

Internal Control

- 2.9 We reviewed the format and content of the Statement on Internal Control to ensure that it complies with DFP disclosure requirements and that it is consistent with our knowledge of the client.

Section 2

Audit Findings

Remuneration Report

- 2.10 The Remuneration Report has been properly prepared in accordance with Department for Social Development directions issued under the Housing (Northern Ireland) Order 1981 and the information given in the Directors' Report, the Management Commentary and Remuneration Report included in the Annual Report is consistent with the financial statements.

Observations & Recommendations

- 2.11 This section outlines the findings arising from our audit, as well as management's response and target date for implementation to these recommendations.

- 2.12 We have included the significant, important and best practice findings arising from our audit which are defined as:

- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
- Priority 2 – important issues to be addressed by management in their areas of responsibility.
- Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature will be discussed in due course with the Director of Finance.

- 2.13 As outlined in our Audit Strategy our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Index of recommendations

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Section 2 Audit Findings

2.14 Issues raised during final audit

1. Weaknesses in management of response maintenance contracts

Observation	
<p>The following issues which are described in more detail in the C&AG's report in Annex D were noted relating to response maintenance expenditure:</p> <ul style="list-style-type: none"> The Corporate Assurance Unit (CAU) is an independent unit set up to provide management with assurance on all areas of contract management. Unfortunately, due to competing pressures they have been unable to complete their full programme of work across the 35 districts by the time of our audit. Where inspections have been completed performance appears to have deteriorated and the findings to date have been very concerning. Nine of the 12 districts for which inspections have been completed to date have received unacceptable ratings; The Housing Executive is currently investigating significant potential overpayments with respect to a contractor providing response maintenance services. Early indications are that there may have been overpayments made to the contractor of £240,000 over a three year period; and An internal audit review of heating (response maintenance) completed during the year was assigned an unacceptable rating due mainly to significant control weaknesses being identified and non-compliance in management of contractors. In a number of cases there were issues of poor quality of work or value for money concerns over work that had been invoiced for payment. 	
Implication	
Expenditure is irregular.	
Priority Rating	
1.	
Recommendation	
<p>The Housing Executive should:</p> <ul style="list-style-type: none"> Ensure that the CAU has appropriate resources and support from management to enable it to complete its full programme of work within a reasonable time frame; Investigate the reasons why performance across the districts appears to have deteriorated; Ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected; and Ensure that the recommendations of Internal Audit raised within the heating (response maintenance) report are implemented in a timely manner. 	
Management Response	
<p>Accepted</p> <ul style="list-style-type: none"> CAU is being reviewed to determine the best possible use that can be made of the Unit. This will include an assessment of staffing requirements. Maintenance Improvement Plan in place. Overpayments to Contractors being recovered where proven. Heating Audit Recommendations being implemented. 	
Target for Implementation	
During 2012/13.	

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2. Inappropriate payment on account

Observation	
<p>NIAO examined a payment on account of £249,600 made in August 2011 to a contractor providing response maintenance services. We were told that the payment related to response maintenance work that had been completed by the contractor but which was awaiting payment as the Housing Executive had experienced delays in its inspection process. There was no formal agreement between NIHE and the contractor covering the terms of the repayment nor was this payment approved at Board level. We also found that repayment of the payment on account was not initiated until March 2012, some seven months later, but by the year end only £47,000 had been repaid to the Housing Executive.</p> <p>Department of Finance and Personnel (DFP) guidelines are clear that advance payments to contractors should be exceptional and only be made on the basis of good value for money. The guidelines also point out that such advance payments are novel and contentious and normally require DFP approval which was not sought in this case.</p>	
Implication	
Expenditure is irregular and may not be recovered.	
Priority Rating	
1.	
Recommendation	
<p>Advance payments should only be made in exceptional circumstances. If the Housing Executive considers there to be a need for an advance payment in the future it must ensure that the rationale for the decision is fully documented and formally approved by its Board, DSD and DFP.</p> <p>Furthermore controls over promptness of inspections may need to be enhanced to obviate the need for such payments.</p>	
Management Response	
<p>Accepted.</p> <p>The decision to make a payment on account was taken because at that time there had been a significant backlog of claims for payment for maintenance jobs which had been submitted by the contractor but not yet examined by the Housing Executive. The contractor was claiming that the alleged failure by the Housing Executive to process these claims for payment within the required timescale constituted a potential breach of contract and was having an adverse impact on its business. The backlog had arisen because staffing issues at the district had caused delay to the inspection and approval of these jobs. The payment on account made to the contractor represented a proportion of the estimated value of jobs awaiting approval and was considerably less than that requested by the contractor.</p> <p>A formal recovery arrangement was put in place with the contractor and the payment on account has been fully repaid. In the unlikely event that a requirement to make a payment on account should arise in the future, the appropriate Board, DSD and DFP approvals, in line with the existing guidelines, will be obtained before any payment is made.</p> <p>The comment with regard to the promptness of inspections is noted.</p>	
Target for Implementation	
Immediate.	

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3. Weaknesses in management of planned maintenance contracts

Observation	
<p>Whilst weaknesses in control had been identified in planned maintenance expenditure during the 2010-11 audit, the issues arising during the 2011-12 audit were much more significant. These issues include the following:</p> <ul style="list-style-type: none"> • Inspections completed within districts by the CAU have identified deterioration in the standard since the previous year. 11 of the 20 scheme inspection unit reports completed to date have been designated as unacceptable or limited; • In November 2011 CAU reviewed five kitchen replacement schemes, one from each geographical area. This sample was selected from a total of 112 schemes covering over 8,000 individual dwellings. The CAU identified potential overpayments to contractors in those five schemes of approximately £500,000. The extent of overpayments to contractors was disputed by Housing Executive management and as a result Internal Audit was asked to carry out a detailed examination to determine the validity of the estimated overpayment. At the time of audit internal audit have not finalised their opinion on the magnitude of the potential overspend. No action has yet been taken to recover the potential overpayment nor have other similar schemes been examined to determine if there is further potential for overpayments; and • Agreement has now been largely reached on a quantified level of overcharging in relation to major adaptations to NIHE properties which is now the subject of recovery procedures. Other planned maintenance schemes that this agent was involved in, also need to be examined once this has been resolved. 	
Implication	
Expenditure is irregular.	
Priority Rating	
1.	
Recommendation	
<p>The Housing Executive should:</p> <ul style="list-style-type: none"> • Ensure that the CAU has appropriate resources and support from management to enable completion of its full programme of work within a reasonable time frame; • Investigate the reasons why performance across the districts has deteriorated; and • Ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected. In particular the issues surrounding the kitchen replacement schemes needs to be addressed as a matter of urgency. 	
Management Response	
<p>Accepted</p> <ul style="list-style-type: none"> • CAU is being reviewed to determine the best possible use that can be made of the Unit. This will include an assessment of staffing requirements. • The Director of Design & Property Services (DDPS) will monitor CAU recommendations monthly to manage the delivery of performance improvements. Note that planned maintenance is not managed at district level. • DDPS will meet monthly with contractors to discuss the recommendations and requirement for improvement. • Specifications will be revised by Policy & Standards and issued to CAU and districts to ensure consistency of approach • DDPS has issued a letter out to all contractors with respect to overpayment and meetings to take place to discuss recoupment on the basis of overpayment or closure on schemes where evidence is supplied to the contrary. • An independent appointment of a quantity surveying team is being made to carry out a sampling of all contractors to make a determination on write off to the accounts or litigation with regard to the identified kitchen schemes. 	

Section 2 Audit Findings

Target for Implementation

March 2013.

4. Challenge to Independent Assurance Units

Observation
<p>Formal written management responses are now provided to the reports prepared by the Corporate Assurance Unit (CAU) in a format similar to Internal Audit reports. However, many of the management responses to the findings of CAU appear to be unnecessarily detailed and there appears to be an excessive level of challenge exercised by management over the issues being raised in both CAU and Internal Audit reports. For example:</p> <ol style="list-style-type: none"> 1. District inspections – by early May 2012 only two of the 12 inspection reports completed by CAU on response maintenance had been finalised; 2. Kitchen replacement schemes – Despite this issue being highlighted by CAU in November 2011 it still has not been concluded. Internal Audit are involved in reconciling figures between management and CAU and have also had to use an independent QS to further review CAU technical assumptions; and 3. Heating response maintenance – This Internal Audit report was drafted in November 2011 but the final report was not agreed until May 2012. <p>The Review of Governance in NIHE commissioned by the DSD emphasised the importance of the Board being fully informed of the results of internal inspections and of taking quick and decisive action when the results of these inspections identified potential weakness in control. In many cases such action has not been possible because of the extent of debate over the results of the various reports.</p> <p>DSD have advised that they are in the process of conducting an independent review into action being taken by NIHE in implementing the findings of the Review of Governance.</p>
Implication
The independence of these units is being undermined. Issues are not being resolved promptly. Where problems are identified these need to be dealt with promptly.
Priority Rating
1.
Recommendation
It is essential that the Housing Executive takes action to ensure that the independence of these units is not undermined and takes the appropriate action to address issues raised, if any, by DSD as a matter of urgency.
Management Response
<p>Accepted</p> <p>A fundamental feature of all inspection or audit processes is the need to clarify and confirm any errors or control failures identified during the review. This is normal and should be expected as part of the management response to the draft report submitted for consideration. Management must be afforded an opportunity to challenge findings which they believe to be inaccurate or incorrect but in all cases responses should be timely. We accept that in some cases there has been considerable internal discussion and exchange of views around these important matters which has delayed the response and the release of the final report. We regret that this has led to any perception of excessively robust challenge by management.</p> <p>The Housing Executive is happy to state, without any equivocation, that its management is fully committed to and appreciative of the valuable contribution that all its internal monitoring and inspection functions provide in terms of improving controls and supporting effective assurance processes. These functions are a fundamental element of the internal governance framework established by management and overseen by the Board.</p> <p>We note and accept your comments about responding to issues promptly and ensuring the Board is kept fully apprised of all significant matters. We are committed to ensuring these points are addressed</p>

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effectively.	
We also note your comments about the DSD's review of the implementation of recommendations flowing from the Governance Review. We can confirm that we will respond to any further recommendations issued by DSD in an appropriate and timely manner.	
Target for Implementation	
Immediate and ongoing.	

5. Level of final account reconciliations outstanding

Observation	
A report of current contracts with outstanding final account reconciliations was requested from Housing Executive financial planning. The report showed that there were a total of 70 contracts that had commenced prior to the 2010-11 financial year but are still awaiting final account reconciliation. Some of these contracts date as far back as 1996. NIAO recognise that work is ongoing to bring these contracts to final account reconciliation but much work still needs to be done.	
Implication	
Delays in reconciliations may lead to difficulties in recouping any identified contractor overpayments and impact on the Housing Executive's ability to complete a post-contract assessment.	
Priority Rating	
1.	
Recommendation	
Reconciliations should be carried out shortly after the contract has been fully completed to identify any under or overpayments to the contractor.	
Management Response	
Accepted, a quantity surveyor team has been established and is closing out on accounts.	
Target for Implementation	
March 2013.	

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6. Housing Benefit Overpayments issues

Observation	
The following issues were identified:	
(i) At 31 March 2011 the gross level of housing benefit overpayments owed by claimants have increased by £3.6 million to £45.4 million (2010-11 £41.8 million). This level of increase has been the trend in recent years.	
(ii) The Housing Executive has put in place a Housing Benefit Overpayments Strategy addressing both the recovery and the prevention of housing benefit overpayments. The strategy was presented and approved at audit committee in June 2010 and included the compilation of Housing Benefit Fraud and Error Reports. Internal Audit conducted a review of the fraud and error reports presented to the audit committee and assigned a limited rating as the underlying data was not robust. In their June 2012 report Internal Audit again provided limited assurance.	
Implication	
Increasing levels of overpayments may highlight process/control issues relating to housing benefit payments (getting it right first time) and may result in decreasing levels of recoverability.	
Priority Rating	
1.	
Recommendation	
<ul style="list-style-type: none"> • NIAO encourage the Housing Executive to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments. • Where overpayments are identified recovery procedures should be initiated at the earliest opportunity and recovery subject to regular review. • The recommendations of Internal Audit relating to the Housing Benefit Fraud and Error Report should be implemented in full within a reasonable time frame. 	
Management Response	
<ul style="list-style-type: none"> • Accepted - During 2011/12 the Housing Executive implemented the Atlas system of electronic notification of new and amended awards of Tax Credits and benefits designed to prevent the occurrence of Housing Benefit overpayments. Performance on recovery is monitored monthly at the Performance Review Group and the procedures for the recovery of overpayments are subject to regular review throughout the year. • Accepted - Systems have been put in place to ensure recovery processes begin at the creation of an overpayment and for regular and timely action to be prompted and monitored through the ongoing recovery process. • Accepted - The Internal Audit recommendations have been implemented. 	
Target for Implementation	
Already implemented.	

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7. Social Housing Development Programme – conditional approvals

Observation	
Key Performance Indicator 4.2.1 sets out a target of 1,400 new starts in the 2011-12 New build programme. The Housing Executive has achieved this target this year however 726 (over 50 %) of the starts were not approved until March 2012.	
It is noted that 14 schemes, with associated resource spend of £11.7m, were approved by the Housing Executive but only were conditionally approved by DSD by the year end. Conditions outstanding on these schemes included:	
<ul style="list-style-type: none"> • Community consultation; • DSD approval of Economic Appraisals; • DSD awaiting satisfactory responses from housing associations in relation to queries raised; • Review of tenders/costs by DSD; and • Review of an Advance Land Purchase by DSD. 	
There is a risk that schemes are being accrued without detailed scrutiny to ensure targets are achieved and the allocated budget is spent.	
While we are content that the process for identifying accruals is reasonable we intend to examine this issue in greater detail in the 2012-13 audit.	
Implication	
Schemes may not be subject to full scrutiny.	
Priority Rating	
1.	
Recommendation	
The Housing Executive should have a greater focus on achieving this target throughout the year to reduce the level of conditional approvals at the year end and the potential for reduced scrutiny.	
Management Response	
Accepted. The system for delivery needs to be improved to reduce the back loading of the programme with the associated risk. PEDU review report will provide recommendations for implementation.	
Target for Implementation	
Delivery risks will be reduced by December 2013.	

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8. Supporting People – potential gap in regularity assurance

Observation
<p>In line with Managing Public Money (NI) the Accounting Officer is responsible for the propriety and regularity of the public finances for which he is answerable. The Housing Executive spent approximately £65 million on Supporting People (SP) during 2011-12 on behalf of the Department for Social Development. To ensure that such monies are being used properly the Housing Executive completes a desktop review of the information provided by the relevant organisations which includes reviewing quarterly returns, annual assessment forms and annual accounts.</p> <p>NIAO considers there to be a gap in the regularity assurance that is currently obtained in that the Housing Executive site visits do not look at the individual organisation's financial records which may identify any potential governance weaknesses. It is acknowledged that this year three financial verification visits were completed, one of which was to the organisation below. However there is no regular formal programme for such visits nor is coverage as comprehensive as that of the site visits.</p> <p>The potential gap is illustrated this year by an issue that arose in one of the hostels that receives over 70% of its funding from the Housing Executive. Following whistleblower allegations the Housing Executive agreed with the Charities Commission (CCNI) that they would complete a review of financial matters relating to funding provided by NIHE Supporting People. This review was completed by Internal Audit who, while not identifying evidence of fraud, did highlight issues of poor governance and financial irregularities and concluded that unless steps were taken to correct the issues and improve internal control and governance there was a risk of funding from Supporting People being expended inappropriately. The amount of irregular expenditure relating to 2011-12 is less than £5,000.</p> <p>NIHE are currently liaising with the organisation to determine future action and possible recoupment of funds. An action plan was agreed by the Hostel Board on 15 May 2012 to address all of the issues arising from the investigation and we note that a number of recommendations have already been implemented.</p>
Implication
Expenditure may be irregular
Priority Rating
1.
Recommendation
<p>The Housing Executive should investigate whether the governance issues identified within this service provider are indicative of a more widespread problem across its service providers. This could perhaps be done by introducing a regular programme of financial verification visits or extending the current remit of the validation visits to cover these areas of governance in service providers considered to be of higher risk.</p> <p>Appropriate steps must also be taken to recover any monies that have been spent inappropriately by the service provider</p>
Management Response
Accepted – management will amend the current contract management approach to identify corporate governance issues which increase the risk of SP grant being used for ineligible purposes. In addition, contact will be made with the Charities Commission Northern Ireland to examine the potential for an information sharing protocol. Arrangements are already under discussion with the provider to make good/recoup monies ineligible for SP funding.
Target for Implementation
September 2012.

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9. Supporting People Guidance

Observation	
<p>In April 2010 the Department of Social Development (DSD) produced an evaluation of NIHE funding, governance and accounting arrangements for Supporting People and made 13 recommendations for the future delivery of the programme. Recommendation 5, to be taken forward by DSD, required them to develop detailed guidance on the terms and conditions of eligible/ ineligible costs for Supporting People Grant and also include guidance on restricted reserves. To date formal guidance has not been issued. NIAO carried out a desktop review of 10 of the 112 providers and selected one service per provider. Issues were identified in eight of the 10 cases examined and included the following:</p> <p>(i) <u>Reserves</u> Annual accounts submitted by service providers do not always separately identify restricted reserves in respect of SP funding. Following queries by NIAO on the level of surpluses being held by service providers NIHE have been more proactive in reviewing the level of reserves retained within their service provider's accounts since 2009-10. However the funding that accumulated from 2003-04 to 2009-10 in respect of SP grant may be considerable and there is a risk that it may not have been used for the purposes intended. Furthermore until DSD issue formal guidance in this area it is unclear whether NIHE's current policy regarding the retention of reserves is in line with DSD policy.</p> <p>(ii) <u>Under Occupancy</u> We examined the occupancy rates for 10 cases over a 21 month period and found that the average ranged from 71% to 100% occupancy with two of the cases below 75% occupancy. Under the funding agreements NIHE are entitled to reduce funding by up to 20% should the occupancy rates fall below the recommended level of 75% over a period of time. We are unaware of any cases where NIHE have actually reduced funding as a result of low occupancy levels. Where the decision is taken not to reduce funding the rationale for doing so should be clearly documented on the file.</p> <p>(iii) <u>Variances</u> We noted variances between the management accounts provided by the organisations in receipt of Supporting People and the amount the finance team stated had been paid in year. These variances were not always investigated as NIHE advised us that variances are subject to investigation if they exceed a judgemental limit of 5% unless there is a particular concern about the accuracy of the information. The rationale for this is that valid accounting adjustments may result in differences between grants paid and the amounts brought to account by the service provider. NIAO have not seen any internal policy or guidance supporting the decision not to investigate variances unless they exceed 5%.</p>	
Implication	
Expenditure may be irregular / Service providers may underperform if not monitored under the terms of their funding agreements.	
Priority Rating	
1.	
Recommendation	
<p>(i) Guidance in this area, particularly for reserves, needs to be formally issued by DSD as a matter of urgency. The Housing Executive should engage with the Department to resolve any issues that are leading to delays in this guidance being formally issued.</p> <p>(ii) NIHE should also ascertain the level of reserves in respect of Supporting People grants being held by all organisations, since the commencement of the programme, to ensure the risk of monies being used inappropriately by service providers is minimal.</p> <p>(iii) The rationale for all key decisions should be clearly documented on file.</p> <p>(iv) Where there is no formal guidance and NIHE's approach has evolved, through custom and practice, such policies and procedures should be formally ratified by the CXBC.</p>	
Management Response	
(i) Accepted – DSD guidance issued 18 th June to the sector, SP team to develop working arrangements for implementation.	

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(ii) Accepted – Identification of levels of Reserves to be included in the working arrangements above.
(iii) Accepted – Rationale for key decisions to be documented on file.
(iv) Accepted – all policies and procedures, not subject to CXBC sign off, to be formally ratified.
Target for Implementation
March 2013.

10. General contract management

Observation	
<p>Good contract management can be facilitated by the maintenance of a comprehensive database of all general contracts held by an organisation. In the absence of such a database there is a greater risk of contracts expiring and being rolled forward indefinitely. This may lead to poor VFM and potential breaching of EU regulations.</p> <p>For example, in a recent report Internal Audit highlighted that:</p> <ul style="list-style-type: none"> the contract with ISB is dated 11 June 1999 and has not been updated or negotiated since then; discussions have taken place with ISB and Housing Benefits staff on the existing Service Level Agreement, and the extent to which this might be enhanced regarding performance measures, but there has been no formal input from legal services, procurement, IT or Finance; there does not appear to be any formal penalty or claw back clauses for non-delivery or poor performance of service within the existing contract, although management have advised that informal arrangements exist to recover costs or receive additional services; and there are no performance indicators included in the contract in relation to delivery. <p>The I -World system which is owned by Northgate is used by the Housing Executive to manage, maintain and administer Housing Benefit. ISB are contractually obliged to host, manage and administer this system on the Housing Executive's behalf and have a contract with Northgate. For 2012-13 the cost of this contract is £1.5 million. We recognise that Housing Benefit may be transferred from the NIHE to another Government department as part of the introduction of the Universal Credit arrangements.</p>	
Implication	
Inadequate service delivery /poor value for money.	
Priority Rating	
1.	
Recommendation	
The Housing Executive should consider creating a comprehensive database of all general contracts to facilitate good contract management. At the very least it should conduct a review of other similar contracts to ensure they are being proactively managed and monitored. Internal Audit recommendations in respect of this contract should be implemented in line with the agreed target dates. .	
Management Response	
The NIHE holds a contracts register which informs the procurement process. It is accepted that the ISB Contract is not included on this register for historical reasons. This will be added and the register will be reviewed with Directors to ensure that it is comprehensive.	
Target for Implementation	
30 December 2012.	

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11. Warm Homes

Observation	
The Warm Homes scheme offers a range of insulation measures to households on a qualifying benefit. We identified the following issues:	
(i) Recommended works are carried out by appointed contractors and their work is inspected to ensure that contractors are providing the best service. Where Housing Executive inspectors find this not to be the case, the job is failed. All failed jobs are sent to the Scheme Manager to ensure that issues identified during the inspection are rectified. We found that only a sample of failed jobs is revisited by Housing Executive inspectors to ensure all issues identified have been rectified; and	
(ii) As part of the preparation of the financial statements, the Housing Executive request the Warm Homes Unit to submit information relating to the number and value of jobs that have been substantially completed at year end. This information is used to arrive at an appropriate accrual for the Warm Homes scheme. Information is provided to the Warm Homes Unit by the scheme managers which are based on on verbal instructions provided by the Housing Executive's Financial Planning Branch at routine meetings. When this information is received from the scheme managers the Warm Homes Unit passes this information for inclusion in the financial statements without performing checks on the amounts provided.	
Implication	
Risk that not all issues identified during the inspection process are rectified by the contractor. Accruals maybe misstated in the accounts.	
Priority Rating	
1.	
Recommendation	
NIHE should	
<ul style="list-style-type: none"> ensure all failed jobs are re-inspected to ensure that all issues identified during the inspection process are rectified; consider formalising the instructions provided to Scheme Managers for capturing Warm Home accruals by producing written guidance; and consider performing checks on a sample of jobs included in the year-end accrual to verify they are genuine accruals and that the estimated value of work is reasonable. 	
Management Response	
<p>Recommendation: Ensure all failed jobs are re-inspected to ensure that all issues identified during the inspection process are rectified.</p> <p>Recommendation not accepted for the following reason. Internal audit carried out technical inspections of 42 completed Warm Homes jobs. In these 42 jobs they found only one minor defect – a valve missing at an F&E tank. (Note: NIHE inspectors had not post-inspected this house). The only effect of this valve missing is that when servicing the F&E tank the water would have to be turned off at another location. This means that a very high standard of workmanship is being achieved and enforced through our inspection regime i.e. our present inspection regime is working very well. It is therefore important to continue to dedicate our resources to this aspect rather than to re-inspecting some very small defects when the technical audit shows are being remedied in any case.</p> <p>It is important to note that the defects uncovered by our inspections are very minor defects, such as “screw missing in the front cover of a boiler”, “Cylinder thermostat set to 80 degrees rather than 70 degrees”, “cable entry into consumer unit not sealed with silicone” and so on.</p> <p>It is also important to note that we can inspect only a percentage of Warm Homes heating installations. It is therefore not good value for money to re-inspect all minor defects at the expense of first time inspections of full installations, especially as the technical audit did not suggest any reason to do so.</p> <p>Recommendation: Consider formalising the instructions provided to Scheme Managers for capturing Warm Homes accruals by producing written guidance.</p>	

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Recommendation Accepted

Recommendation: Consider performing checks on a sample of jobs included in the year-end accrual to verify they are genuine accruals and that the estimated value of the works is reasonable.

Recommendation Accepted. The jobs listed on the accruals are subsequently checked when the invoices are received by the Housing Executive, and these are fully checked against the accruals list provided by the Scheme Managers. However, the Housing Executive will seek from the Scheme Managers more detailed information on a sample of cases, including detailed works surveys, to ensure that they are accurately reported and completed.

Target for Implementation

To be actioned for 2012 /13 and subsequent accounts.

12. Social Housing Fraud

Observation

The Housing Executive does not have a dedicated social housing fraud strategy. In 2010-11 the Housing Executive confirmed that there were no actual cases of social housing tenancy fraud. Furthermore, the Housing Executive does not employ staff dedicated specifically to the investigation of potential social housing fraud e.g. unlawful sub-letting and non-occupation as principal home.

Information on 'No access' visits from maintenance service providers may help to indicate incidents of tenancy abuse and this approach has been adopted by some Local Authorities in the UK. Data on 'no access' visits could be obtained from the Housing Executive's maintenance providers. The data obtained on 'no access' visits, when cross referenced with Housing Benefit data, could be used as part of a risk based approach to the selection of property for investigation under the Housing Benefit fraud criminal/compliance routes. The C&AG's report at Annex D refers to the impact of other types of housing benefit fraud including that of tenancy fraud.

Implication

Increasing levels of fraud and error.

Priority Rating

1.

Recommendation

Housing Executive should

- ensure that there is an adequate response to social housing tenancy fraud;
- consider assigning dedicated investigation teams to help detect potential social housing tenancy fraud; and
- Consider the use of 'No Access' visits as part of a risk based approach to the selection of property for investigation under the Housing Benefit fraud criminal/compliance routes.

Management Response

Accepted.

Issue regarding resourcing of dedicated investigating teams. Will revisit this depending on level of Fraud identified.

Target for Implementation

March 2013

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13. Rent Arrears

Observation	
During the financial year 2011-12 rent arrears increased by £1,331k to £13,988k. Whilst the current economic conditions may have had an impact on the level of rent arrears the Housing Executive must ensure that rent arrears are kept to the absolute minimum. As in previous years, we noted, from reviewing a number of cases that the rate of repayment is so low that the proposed period of recovery exceeds any reasonable life expectancy of many of the tenants. In one case examined, a tenant who owed £14.5k in rent arrears is currently repaying £3.40 per week. This debt will take a further 82 years to be repaid in full.	
Implication	
Increasing levels of arrears may result in decreasing levels of recoverability.	
Priority Rating	
1.	
Recommendation	
The Housing Executive must ensure that appropriate action is taken to ensure that rent arrears are kept to the absolute minimum.	
Management Response	
The recommendation is accepted. The NIHE will continue to ensure that appropriate action is taken to address rent arrears.	
Target for Implementation	
Immediate.	

14. Voluntary Severance Scheme

Observation	
NIHE have accrued an amount of £2.8 million for costs relating to a voluntary severance scheme. The terms and conditions of the scheme have been communicated to staff. However DFP have not yet given approval to the scheme in its present format and have suggested that NIHE alter the terms of the package offered. This may lead to the cost reducing to approximately £2.1 million. NIAO note that as no formal offers have been made to specific staff the amount should have been included as a provision rather than as an accrual in line with accounting standards. In addition the provision should be recorded as £2.1 million as this is currently the best estimate available. These differences have been treated as unadjusted in Section 3.	
Implication	
Risk of irregular expenditure if DFP approval is not obtained. Misstatement of accruals /provisions within the financial statements.	
Priority Rating	
1.	
Recommendation	
DFP approval should be gained as soon as practicably possible. In future, in similar instances, full consideration should be given to the appropriate accounting treatment.	
Management Response	
Accepted DFP approval for the Business case was received on 6 August 2012. Staff were always advised that no-one could be released until the business case was approved. The original accounting treatment was considered appropriate on the basis of the circumstances when the accounts were prepared. The subsequent delay in obtaining DFP approval introduced an element of uncertainty which now indicates a provision, rather than the original accrual, would have been more appropriate.	
Target for Implementation	
DFP approval received 6 August 2012.	

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15. Review of the Undeveloped Land Schedule

Observation	
The Undeveloped Land Schedule review undertaken in 2011-12 involved reviewing the development potential for sites marked as "Retain for future use". Many of these sites had not been reviewed since their initial evaluation in 2004-05. The review identified 72 sites valued at £7.2 million which were no longer considered to have development potential for a variety of reasons including PPS 8 or significant site constraints such as size, location, topography or services. These sites were transferred from the Undeveloped Land Schedule to existing open space in 2011-12.	
Implication	
Assets may be inappropriately disclosed and therefore valued incorrectly in the financial statements.	
Priority Rating	
2.	
Recommendation	
Housing Executive should ensure that a programme of regular reviews is established to ensure that its assets are appropriately disclosed and valued in the financial statements.	
Management Response	
Accepted - in March 2012 the Board approved revised procedures for reviewing the Undeveloped Land Schedule which included proposals to carry out Economic Appraisals for ULS sites (other than sites required for the Social Housing Development Programme). The development potential of each ULS site will be reviewed as part of the Economic Appraisal process and any changes in site potential will be reflected in the valuation of the ULS. The ULS will continue to be subject to an annual review	
Target for Implementation	
Ongoing.	

- 2.15 In accordance with International Standards on Auditing we have to consider significant weaknesses identified in our prior year audit. We have therefore reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those charged with Governance. Our findings are set out in Annex C – Implementation of Prior Year Recommendations. The Audit Committee should continue to track progress on all recommendations, including Priority 2 and Priority 3 points.

Section 3 Identified Misstatements

3.1 This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted misstatements which are not considered material in the context of the financial statements as a whole.

3.2 We do not consider that the adjusted or unadjusted misstatements indicate a significant weakness in accounting or control which needs to be reflected in the Statement on Internal Control.

Significant adjustments made to the financial statements

3.3 As a result of our audit, a number of insignificant adjustments were made to the first draft financial statements presented for audit. The adjustments totalling £39k were considered to be clearly trivial and have not been shown.

3.4 The presentation of adjustments enables those charged with governance to assess the extent to which the draft financial statements presented for audit have been subject to change as a result of the audit process. The following adjustments to the financial statements were also carried out:

- Note 10: Income - £399k of income originally disclosed as Disposal Proceeds Fund Income was reanalysed to Income from Sold Flats;
- Note 10: Income - £1,776k of income originally disclosed as Miscellaneous Income was reanalysed to Dwellings & Garages rental income and to Travellers, Hostels and Req. Properties; and
- Note 15: Trade Receivables - £135k relating to rent paid in advance originally disclosed as Other receivables was reanalysed to Prepayments and accrued income.

Audit adjustments⁴

3.5 We have also made a number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM.

- Third column introduced to the Statement of Financial Position to comply with the requirements of IAS 1;
- Note 22: Commitments under Leases – disclosures relating to total future minimum operating lease payments were updated;
- Note 23: Financial Instruments – figures relating to financial liabilities and non consolidated loans fund were updated; and
- Note 24: Provisions – net expenditure charge which had originally been shown gross was separated out to show provisions provided and utilised during the year.

Unadjusted misstatements or uncertainties arising from the audit

3.6 We are obliged to bring to your attention the misstatements found during the course of the audit that have not been corrected, unless they are 'clearly trivial', which we have identified as below £58k. The following misstatements have not been adjusted in the financial statements:

⁴ Above the clearly trivial threshold of £58k defined in the Audit Strategy.

Section 3
Identified Misstatements

Description of adjustments	Account area	SoCNE		SoFP	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
1. Voluntary severance pay (Vsp) incorrectly accrued (see point 14, 2.14)	Vsp Accruals			2,800	
	Vsp Provisions				2,800
2. Voluntary severance pay over provided.	Vsp Provisions			700	
	Other Expenditure		700		
3. Accrual understated as incorrect rating was used	Other Expenditure	168			
	Asbestos Accrual				168
4. Provision overstated as incorrect rating was used	Asbestos Provision			155	
	Other Expenditure		155		
Overall Total		168	855	3655	2968
Net effect			687	687	

Section 4

Other Matters of Governance Interest

- 4.1 International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

Fraud and Regularity

- 4.2 We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. We found no such instances during our testing.
- 4.3 Significant weaknesses in control have continued to emerge in the Housing Executive's management of response maintenance contracts and this year similar weaknesses have emerged for planned maintenance. These weaknesses have resulted in significant overpayments to contractors being identified. These weaknesses within these areas of expenditure are considered to be systemic and this has led to a qualification on the regularity of this expenditure.

- 4.4 In the course of our audit we have not identified any suspected or non-compliance with the laws and regulations.

Going concern

- 4.5 In the course of our audit, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the entity's ability to continue as a going concern.

Management of information and personal data

- 4.6 DFP issued guidance in 2008 regarding the management of information and personal data, and government entities were required to review their compliance arrangements and to disclose any specific data incidents. Those charged with governance should ensure they have made sufficient enquiries of management to form a view on the Housing Executive's progress in implementing DFP recommendations, and that the disclosures in the Statement on Internal Control reflect this. Additionally those charged with governance should seek assurance on any data related incidents which may require disclosure. We are unaware of any data handling incidents during the year. Confirmation of this is sought within the letter of representation (Annex A).

Statement on personal data

- 4.7 During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in accordance with the requirements of the Data Protection Act 1998.

Disagreements with management

- 4.8 There are no audit disagreements with management, about matters that individually or in aggregate could be significant to the financial statements to report.

Co-operation with other auditors

- 4.9 In accordance with ISA 620 we carried out a review of work undertaken by other assurance units to place reliance on their work:
- Corporate Assurance Unit – assurance on inspections carried out on response and planned maintenance expenditure incurred by NIHE; and
 - Social Security Agency's Standards Assurance Unit (SAU) - assurance on the estimated levels of benefit fraud and error reported in the financial statements.

Section 4

Other Matters of Governance Interest

- 4.10 As part of the Department of Social Development audit and in accordance with ISA 620 we carried out a review of the Governance and Inspection Unit to provide assurance on grants paid to Housing Associations.

Independence, integrity & objectivity of auditors

- 4.11 The NIAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Strategy. Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.
- 4.12 We have complied with APB Ethical Standards and, in our professional judgement, we are independent and our objectivity is not compromised. There are no relationships between NIAO and the Housing Executive that we consider to bear on our objectivity and independence.

Reliance on other experts

- 4.13 We have relied on the work of the actuary who has valued the pension scheme assets and liabilities. We carried out a review of the actuary in accordance with International Standards on Auditing ISA 620 Using the work of an expert.

Other matters of interest

- 4.14 We are not aware of other issues to be raised.

Complaints procedure

- 4.15 NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Accounting Officer of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken.

Annex A – Letter of Representation

[Client Letterhead]

The Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
BELFAST
BT 7 1EU

LETTER OF REPRESENTATION: NORTHERN IRELAND HOUSING EXECUTIVE 31 MARCH 2012

I acknowledge as Accounting Officer of the Housing Executive my responsibility for preparing accounts that give a true and fair view of the state of affairs, net expenditure, financial position and cash flows of the Housing Executive for the year ended 31 March 2012.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Department for Social Development (DSD), including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Housing Executive will continue in operation.

I confirm that for the financial year ended 31 March 2012:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money Northern Ireland, except for the issues that have given rise to aspects of the C&AG's regularity opinion being qualified in relation to:
 - Housing Benefit
 - Response Maintenance
 - Planned Maintenance;
- having considered and enquired as to the Housing Executive compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Housing Executive to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Housing Executive have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Board Members and other senior staff of the Housing Executive have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

Annex A – Letter of Representation

INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with DFP guidance on the Statement on Internal Control.

The Statement on Internal Control contains a number of significant ongoing issues. While I recognise that there are considerable challenges in addressing some of the issues outlined in the Statement on Internal Control, the Northern Ireland Housing Executive remains completely committed to resolving the issues in a timely and robust manner.

FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

Note 30 to the Accounts provides disclosure of estimated losses incurred through confirmed fraud and error. In addition to these cases, our Fraud Register, which has been regularly provided to your officers as attendees of the Audit Committee, provides information on other cases of suspected fraud which are currently being investigated. You have also raised your concerns about the risk of fraud in certain maintenance contracts managed by the Housing Executive. Apart from these matters, I am not aware of any other fraud or suspected fraud which would affect the financial statements presented to you.

I can confirm that all suspected frauds that arose during the course of the year have been notified to the Department.

ASSETS

General

All assets included in the Statement of Financial Position were in existence at the reporting period date and owned by the Housing Executive and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Statement of Financial Position includes all non-current assets owned by the Housing Executive.

Non Current Assets

All assets over £2,000 are capitalised. They are revalued annually as follows:

- Housing Stock has been valued on the basis of open market value for existing use. The Housing Executive uses the Beacon approach to determine the open market value of housing stock. This exercise requires an internal inspection of a sample of properties called beacons. Under this approach, the value of a group of assets is determined by valuing a sample of the assets and using the mean as the average value for the group. A full valuation was carried out by Land and Property Services at 31 March 2009 where valuations were placed after an internal inspection of each sample dwelling was carried out. At 31 March 2012 the housing stock was subject to a 'desk-top' revaluation by Land and Property Services to reflect changes in stock numbers and local price indices.
- Land was revalued at 31 March 2012 on the basis of open market value by Land & Property Services. The valuation is in accordance with the Royal Institution of Chartered Surveyors appraisal and evaluation manual.
- Offices, Commercial Properties, Travellers Sites and Hostels have been revalued and relifed at 31 March 2010 by Land and Property Services, using fair value for existing use. Indices provided by Land and Property Services have been used to revalue these properties at 31 March 2012.

Annex A – Letter of Representation

Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Housing Executive operations.

Other Current Assets

On realisation in the ordinary course of the Housing Executive's operations the other current assets in the Statement of Financial Position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to Housing Executive which are known, or may be expected, to be irrecoverable.

Assets Held for Resale

All assets held for resale have been classified as such as they meet all of the recognition conditions in IFRS 5. All of these assets are available for immediate resale in their present condition, are being currently actively marketed at a reasonable price, the sales will be completed or are expected to be so within one year from the date of classification and actions required to complete the planned sale have been taken.

LIABILITIES

General

All liabilities have been recorded in the Statement of Financial Position. There were no significant losses in the year and no provisions for losses were required at the year end.

Provisions

Provision is made in the financial statements for all liabilities which are expected to materialise. The following amounts have been provided for in the 2011-12 financial statements:

- £1.71m in respect of amounts due to compensate previous owners in areas that have been vested by the Northern Ireland Housing Executive;
- £0.77m in respect of contractual claims issued against the Northern Ireland Housing Executive;
- £2.29m in respect of public liability claims; and
- £5.93m in respect of the costs of surveying and managing asbestos.

As Accounting Officer I believe that the provisions are accurately calculated based upon the information held to date and there is a probable outflow of Northern Ireland Housing Executive resources in the future in respect of these provisions.

Contingent Liabilities

There are a number of legal claims or potential claims against the Housing Executive the outcome of which cannot at present be estimated with certainty. Full provision is made in the financial statements for all liabilities which are expected to materialise.

I am not aware of any pending litigation which may result in significant loss to the Housing Executive, and I am not aware of any action which is or may be brought against the Housing Executive under the Insolvency (Northern Ireland) Order 1989 and the Insolvency (Northern Ireland) Order 2005.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Housing Executive, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

Annex A – Letter of Representation

The following errors are unadjusted in the financial statements:

- NIHE have accrued an amount of £2.8m for costs relating to a voluntary severance scheme. However the Department of Finance and Personnel have as yet not given approval to the scheme and therefore the amount should have been provided for rather than accrued. In addition the Provision should be recorded as £2.1m as the best estimate available. Therefore Accruals are overstated by £2.8m, Provisions understated by £2.1m and Other Expenditure overstated by £0.7m; and
- The asbestos accrual is understated by £168k and the asbestos provision is overstated by £155k owing to an incorrect rating being used.

Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting period date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Northern Ireland Housing Executive
Chief Executive

June 2012

Annex C – Implementation of Prior Year Recommendations

NORTHERN IRELAND HOUSING EXECUTIVE

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Northern Ireland Housing Executive for the year ended 31 March 2012 under the Housing (Northern Ireland) Order 1981. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Northern Ireland Housing Executive and Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to examine, certify and report on the financial statements in accordance with the Housing (Northern Ireland) Order 1981. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Housing Executive's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Housing Executive and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Basis for Qualified Opinion on Regularity arising from erroneous housing benefit awards and payment of fraudulent claims

The total amount paid in housing benefit is £558.5 million. The level of fraud and error as reported in Note 30 to the accounts resulted in overpayments of £10.2 million and underpayments due to official error of £3.6 million. The housing benefit overpayments are irregular as the expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and also because fraudulent transactions are by definition irregular since they are without proper authority. In addition both over and underpayments arising because of official error are irregular because the Housing Executive is required to calculate benefits in accordance with the regulations which specifies the entitlement criteria for housing benefit and the method used to calculate the amount of benefit to be paid.

I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

Basis for Qualified Opinion on Regularity arising from weaknesses in control of expenditure on response and planned maintenance

Annex C – Implementation of Prior Year Recommendations

The total expenditure on response and planned maintenance was £162 million. Significant weaknesses in control have emerged in a number of areas in respect of this maintenance expenditure incurred by the Housing Executive. I was unable to obtain sufficient evidence that the Northern Ireland Housing Executive's control of this response and planned maintenance expenditure was adequate to ensure the expenditure had been applied for the purposes intended by the Northern Ireland Assembly. Because of this lack of evidence I was unable to form an opinion whether the expenditure of £162 million on response and planned maintenance had been applied for the purposes intended by the Northern Ireland Assembly.

Qualified Opinion on Regularity

In my opinion, except for the issues relating to £13.8 million of housing benefit payments attributable to fraud and error, and, except for response and planned maintenance expenditure of £162 million, in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Northern Ireland Housing Executive's affairs as at 31 March 2012 and of the net expenditure, cash flows and changes in taxpayers' equity for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing (Northern Ireland) Order 1981 and Department for Social Development directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department for Social Development directions made under the Housing (Northern Ireland) Order 1981; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect alone of the issue relating to response and planned maintenance expenditure referred to above I have not received all of the information and explanations that I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.

My detailed observations are included in my Report attached to the financial statements.

KJ Donnelly
Comptroller and Auditor General

29 June 2012

Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Annex C – Implementation of Prior Year Recommendations

We have not yet fully reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those Charged with Governance. We have summarised the response and provided our evaluation, based on the audit work we have undertaken on points reviewed to date.

No.	Recommendation	Management Implementation
5.1	<p>Response Maintenance – Repairs Inspection Unit Reports</p> <p>The Housing Executive should ensure that where districts are given either a limited or unacceptable rating that appropriate action plans are put in place to improve the performance of that district within a reasonable timeframe.</p> <p>The results of post inspections should be communicated back to Headquarters to enable an analysis of the issues arising from post inspections to be carried out.</p> <p>The Housing Executive should undertake a fundamental review of how response maintenance expenditure is managed given the deficiencies in the inspection process and the range of issues identified in the reports by the Repairs Inspection Unit.</p>	<p>This issue has arisen again this year. See point 1, Audit Findings.</p> <p>Management has advised that an Intervention Team has been established, a report produced and Districts given 3 months to correct failings.</p> <p>Revised approach to RIU Methodology for next round is also being finalised.</p>
5.2	<p>Response Maintenance – Post Inspections</p> <p>The Housing Executive should examine the reasons why the inspection process has failed in each individual district and determine whether further action is required.</p>	See response to 5.1
5.3	<p>Planned Maintenance –Scheme Inspection Unit Reports</p> <p>The Housing Executive should ensure that where schemes have been rated as being limited that appropriate and timely measures are put in place to improve the performance of the contractor.</p>	<p>This issue has arisen again this year. See point 3, Audit Findings.</p> <p>Management have advised that the existing contract has deficiencies for applying the appropriate performance penalties. This has now been robustly dealt with in the new framework documentation.</p> <p>Scheme Inspection Unit findings outlining the failings were presented to Area Property Teams, Contractors, Central Procurement Unit, Housing and Regeneration, and Standards staff.</p> <p>Increased inspection regime/quality checks have been defined within the processes. Check list tick sheets have been introduced to accurately identify actual works completed.</p> <p>Additional staff, quantity surveyors, have been employed for each Area to enable robust pre-contract scrutiny of Contractors works assembly / project price lists and post contract re-measurement of works executed.</p>

Annex C – Implementation of Prior Year Recommendations

5.4	<p>Planned Maintenance – Scheme Inspection Unit Findings</p> <p>The Housing Executive should investigate the reasons why there have been a significant number of limited assurances in the inspection process.</p> <p>The Housing Executive should ensure that where schemes have been rated as being limited that appropriate and timely measures are put in place to improve the performance of the contractor.</p>	<p>This issue has arisen again this year. See point 3, Audit Findings.</p> <p>Management comments are as for 5.3 above.</p>
5.5	<p>Planned Maintenance – Breaches of Standing Orders</p> <p>Housing Executive should remind all staff of the importance of adhering to Standing Orders and implement appropriate controls to ensure that they are adhered to in all respects.</p>	<p>Further explanatory guidance has been issued and Finance Division are preparing a Financial Procedure for circulation.</p> <p>Breaches are reported directly to the CXBC with appropriate action recommended to Property Services Managers.</p>
5.6	<p>Heating Expenditure</p> <p>A formal process should be put in place to monitor the performance of contractors and to ensure that the underlying problems and issues identified through that reporting process are addressed.</p>	<p>Management have advised that the new heating contracts amended with performance damages now introduced.</p>
5.7	<p>Key Performance Indicators (KPIs)</p> <p>The Housing Executive should review its systems to ensure that KPIs are reported on an accurate basis and that information from various sources is collated and explanations sought for any anomalies.</p> <p>District performance is being addressed in our value for money review of contract management in the Housing Executive and further recommendations may arise.</p>	<p>Management have advised that the suite of KPIs has been revised as part of the implementation of new response maintenance contracts and is now being implemented. This will provide for more rigorous monitoring with financial sanctions for poor contractor performance contained within the new payment model. In addition, KPI information is presented on a regular basis to the Risk and Performance Committee to provide a further level of scrutiny.</p>
5.8	<p>Consultant Fees</p> <p>The rate at which consultants are paid should be supported with appropriate evidence.</p>	<p>Management are considering this recommendation as part of the arrangements for the new multi-disciplinary consultant framework.</p>
5.9	<p>Housing Benefit Overpayments</p> <p>NIAO would encourage the Housing Executive to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments. Where overpayments are identified recovery procedures should be initiated at the earliest opportunity and recovery subject to regular review.</p> <p>The Housing Executive should use the minimum repayments as guidelines and seek the highest possible repayment in each case.</p>	<p>This issue has arisen again this year. See point 6, Audit Findings.</p> <p>In addition to the above responses, the Housing Executive continues to press their software supplier for an effective solution to the issue relating to the reporting of overpayment figures. The interim contingency arrangements continue to be used to ensure that performance on overpayments is reported accurately.</p>

Annex C – Implementation of Prior Year Recommendations

	The functionality of the housing benefit software system should be improved as a matter of urgency.		
5.10	<p>Supporting People - Adult Supported Living Services</p> <p>Budgetary information should be provided before the start of each financial year, if possible and certainly no later than the first quarter, to provide evidence of continued need under the Supporting People Programme.</p> <p>The Service Provider PID140 should be reminded of the purpose of the Supporting People grant, the service expected to be delivered as per the Funding Agreement and encouraged to maintain proper accounting records for Housing Executive scrutiny. Potential ineligible spend should be investigated and clawed back from the Service Provider, where it is appropriate to do so.</p> <p>All five Adult Supported Living schemes should be subjected to the Contract Management process.</p> <p>The Housing Executive should put in place controls to ensure that there is no overlap or double funding with other benefits.</p>	<p>Management have advised:</p> <p><u>Budgetary Information</u></p> <p>At present the continued need for supporting people funding is monitored by using occupancy/usage statistics for services to ensure that the service is being utilised and financial information in management accounts and Annual financial statements to assess how the grant has been used. If the financial information gives rise to concern that the service is either being overfunded or is at risk from underfunding, budgets and management account projections would be requested to inform further consideration of the specific case. However a general requirement for all service providers to provide budgets at the start of each financial year would increase administration considerably and would be unlikely to provide significant benefit for financial monitoring.</p> <p><u>Adult Supported Living Schemes</u></p> <p>All 5 Supported Adult Living Services have been subject to the contract management regime. Payment to 2 of the 5 has ceased and 2 of the remaining 3 have submitted additional financial monitoring information with the remaining 1 providing a tax return with SP declared. (Please note that this latter provider receives £2,400 per annum only); All providers have been reminded to retain proper records and to evidence that SP used for purpose intended.</p>	
5.11	<p>Social Housing Development Programme</p> <p>The Housing Executive should ensure that Housing Associations adhere to proper tendering procedures as outlined in the regulations.</p>	<p>Tendering procedures are self-certified as appropriate by Housing Associations in line with the Housing Association Guide. DPG seek Housing Association Board assurance on all procurement activities if a suspended association is claiming grant.</p>	

The Audit Committee should ensure that it is content that other recommendations made in our prior year Report to those Charged with Governance have been actioned by management. The Audit Committee should also ensure that adequate arrangements are in place to track all recommendations.

Annex D – C&AG's Report

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Part 1: Introduction

1. The Northern Ireland Housing Executive (the Housing Executive) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Social Development (DSD / the Department). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 90,000 dwellings.
2. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.
3. This report reviews the results of my 2011-12 audit of the Housing Executive and sets out the reasons why I have qualified my audit opinion on the regularity of expenditure in the following areas:
 - **Housing Benefit**

The Housing Executive spent £603 million on housing benefit in 2011-12. Significant levels of fraud and error in housing benefit expenditure continue to arise and I have qualified my opinion on this for a number of years. (See Part 2); and
 - **Response and Planned Maintenance Expenditure**

The Housing Executive spent £55 million in response maintenance expenditure and £107 million in planned maintenance expenditure during 2011-12. Considerable problems have been identified relating to Housing Executive controls over work done by contractors on its response and planned maintenance programme. (See Part 3).
4. This report also comments on a number of other matters in relation to my audit of the accounts of the Housing Executive which have not led me to qualify my audit opinion:
 - Sale of Housing Executive land to developers (See Part 4); and
 - Payments to Housing Associations (See Part 5).

Annex D – C&AG’s Report

Part 2: Housing Benefit

Qualification of regularity opinion due to fraud and error in housing benefit payments

Arrangements for reporting and monitoring of housing benefit

5. The Housing Executive administers housing benefit on behalf of DSD. The Department’s Standards Assurance Unit (SAU) regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, the SAU randomly selects samples of ongoing claims and subjects them to detailed examination for evidence of official error, customer error or customer fraud⁵. The results of this testing are used to produce a range of likely fraud and error in housing benefit and the midpoint of this range is used within note 30 to the annual accounts to estimate the monetary value of the fraud and error in the year.
6. The estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing but do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, SAU’s testing is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.
7. I examined the work undertaken by the SAU to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of the case work during the year and also reviewed the methodologies applied by the SAU in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the housing benefit system.

Qualified opinion due to irregular housing benefit payments

8. The entitlement criteria and the method to be used for payment of housing benefit is set out in legislation. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to housing benefit, or is paid at a rate which differs from that specified in the legislation, the payments made are not in conformity with the governing legislation and are therefore irregular.
9. The levels of fraud and error for housing benefit for the year 1 January 2011 to 31 December 2011, estimated by the Standards Assurance Unit, are set out in Note 30 to the accounts and in total represent some 2.6 per cent of housing benefit expenditure (including 0.2 per cent relating to underpayments due to customer error which are not part of my qualification).
10. Table 1 below shows the housing benefit payments made during the calendar year of 2011 and the estimated amounts of fraud and error in relation to these payments, based on the work completed by SAU. The table shows that the total amount paid in the 2011 calendar year was £558.5 million with estimated irregular payments of £13.8 million comprising:
 - overpayments of £10.2 million (1.8 per cent of housing benefit payments); and

⁵Official error arises when housing benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the NIHE. Customer error occurs when customers make inadvertent mistakes with no fraudulent intent. Customer fraud arises when customers deliberately seek to mislead NIHE.

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- underpayments due to official error of £3.6 million (0.6 per cent of housing benefit payments expenditure).

All of the overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular. Underpayments due to customer error of £0.8 million are not deemed irregular as customers are not required to conform to governing legislation when making their benefit claims.

Table 1: Trends in estimated overpayments and underpayments due to fraud and error in housing benefit expenditure

	2011 £million	2010 £million	2009 £million	2007 £million	2006 £million
Total Housing Benefit Expenditure*	558.5	568.3	503.6	412.8	411.6
Overpayments					
Official Error	2.6	9.8	3.6	1.2	0.5
Customer Error	4.8	4.0	1.2	6.7	4.1
Customer Fraud	2.8	0.9	4.5	2.8	3.3
Total	10.2	14.7	9.3	10.7	7.9
% of Housing Benefit Expenditure	1.8%	2.6%	1.8%	2.6%	1.9%
Underpayments					
Official Error	3.6	2.4	3.4	0.3	0.5
% of Housing Benefit Expenditure	0.6%	0.4%	0.7%	0.1%	0.1%

*This amount is the population from which a sample was examined by the Standards Assurance Unit. It is based on amounts paid in the calendar year and will therefore differ from amounts in the financial statements which are based on financial years.

Source: Standards Assurance Unit Reports (Standards Assurance Unit did not carry out an exercise covering 2008 due to resourcing issues.)

11. I consider the estimated levels of fraud and error in housing benefit expenditure to be material and I have therefore qualified my audit opinion on the regularity of this expenditure.
12. I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. However I am concerned that the Housing Executive's performance in addressing the overall levels of overpayments appears to be inconsistent over the period. I would encourage the Housing Executive to continue to focus on strategies to reduce the overall levels of loss, particularly in relation to customer error and customer fraud.
13. I note that the level of overpayments due to official error appears to have reduced significantly compared to last year, from £9.8 million to £2.6 million. The size of this reduction in the estimated level

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of overpayments due to official error indicates that the high level of error in 2010 may have been atypical and discussions with the SAU have highlighted that a large part of the reduction may have been due to improvements in the way that the Housing Executive have responded to SAU's requests for information.

14. In 2010 in several cases selected for sampling the Housing Executive did not provide responses within a reasonable time and these cases were therefore deemed to be in error. In 2011 there has been a considerable effort to minimise the impact of this by providing all information to SAU promptly. I asked the Housing Executive to comment on the impact the reduction in deemed errors might have had in reducing the overall level of estimated overpayments due to official error. It told me that while the elimination of deemed errors, of which there had been five in 2010, had contributed to the reduction in the estimate of the level of official error, it had also implemented a range of additional measures during 2011 following a major review of its causes which also contributed to the change in the estimate for the year.
15. The estimated level of customer fraud has increased substantially from £0.9 million to £2.8 million this year, although the figure is less than that estimated in 2009. The Housing Executive has advised that this increase stems from successful detection activity, including the outworking of the National Fraud Initiative (NFI). I asked the Housing Executive to comment on the initiatives it is undertaking to try to reduce this figure in the future and it told me that it will continue its efforts to prevent and detect housing benefit fraud and will review the content of its counter-fraud strategy to ensure that effective measures are in place to address this issue. These include the introduction of the Atlas system of electronic notification of changes in benefits and tax credit and a new area of data-matching involving the use of data held by a credit reference agency. The Housing Executive accepted that customer fraud at 0.5 per cent of housing benefit expenditure for the year was higher than in 2010, but pointed out that the percentage was actually lower than in the five years prior to 2010.
16. I also note that the estimated level of underpayments due to official error has increased by 50 per cent from £2.4 million to £3.6 million. While this is consistent with the figure in 2009 I note that there appears to be an increasing trend and the figure is significantly more than the levels of underpayments due to official error achieved in 2007 and 2006. I asked the Housing Executive to comment on these figures and what it is doing to reduce them in the future and it told me that as part of its review of the causes of official error it identified the main causes of such error, including those relating to underpayments, and guidance was issued to staff on steps to be taken to reduce them. Furthermore the Housing Executive intends to consider the measures taken as part of the review of its fraud and error strategy during the current year. In addition, the Housing Executive considers that the automatic processes of updating benefit and tax credit information associated with the Atlas system should assist in reducing the potential for error.

Other types of housing benefit fraud

17. Tackling fraud is currently seen as one of the major sources of improved efficiency in the UK public sector and the Audit Commission⁶ considers housing tenancy fraud to be the largest category of fraud affecting local government services. Tenancy fraud is the possession of a social housing tenancy by someone who is not entitled to it. This deprives those on housing waiting lists of the chance of a permanent home and gives rise to additional costs for temporary accommodation and additional house

⁶ Audit Commission: Protecting the Public Purse 2011: Fighting fraud against local government (10 November 2011)

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building. It is estimated that tenancy fraud costs the public purse £1 billion a year in England and Wales. To date NIHE's counter fraud work has not addressed this irregular activity and its implications for those in need. I asked the Housing Executive to explain how it intends to address this important area of potential fraud and it told me that a number of years ago over 30,000 Housing Executive properties were visited and tenancy details checked with occupants of the property and 262 Abandonment Notices⁷ were served during 2010-11.

18. The Housing Executive accepted that enhanced tenant profiling is required and that it would, in tandem with initiatives within Welfare Reform, pilot an exercise later this year to verify occupancy. This will require its staff to visit approximately 1,100 dwellings in one district area and establish, along with other issues, who is currently occupying the property. Once this exercise is completed it told me that an evaluation will be conducted and measures identified and introduced to provide it with comprehensive and collated information on tenants, households and properties.

Benefit overpayments to be recovered

19. Benefit overpayments arise whenever benefits are paid in error to customers. During the year the gross level of housing benefit overpayments owed by claimants increased to £45.4 million from £41.8 million in 2010-11. Table 2 below shows the total value of benefit overpayments to be recovered by the Housing Executive as at 31 March for each of the last five financial years.

Table 2: Trends in the recovery of Housing Benefit Overpayments

£million	2012	2011	2010	2009	2008
Gross debt recoverable in year	45.4	41.8	37.5	31.8	30.4
Written off	(1.3)	(1.8)	(1.3)	(1.0)	(1.6)
Provided for	(15.8)	(13.1)	(12.1)	(10.8)	(11.1)
Recovered	(13.9)	(13.1)	(12.8)	(10.5)	(10.2)
Net debt at year end	14.4	13.8	11.3	9.5	7.5
Recovery %	31.4%	32.7%	35.3%	34.0%	35.4%

Source: Housing Benefit Overpayment Returns and NI Housing Executive financial statements

20. The Housing Executive has examined this gross level of benefit overpayments and assessed how much of this debt may not be recovered from the customer (i.e. is written off) based on a number of factors. It told me that levels of recovery are typically very high while a customer is in receipt of housing benefit and recovery can be made from ongoing benefit payments. Once payment of housing benefit ceases, it commented that the percentage recovered decreases significantly although a high percentage of this group will claim housing benefit again in the future and direct recovery can be implemented again. Based on this assessment, the gross level of housing benefit overpayments recoverable in the year of £45.4 million has been written down by £17.1 million this year through amounts being written off and

⁷ An Abandonment Notice is a notice served on a tenant where it is believed that the tenant is no longer occupying the named property. This is the first step in the possession recovery process.

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provided for. As £13.9 million was recovered during the year the amount of housing benefit overpayments due on the 31 March 2012 is £14.4 million.

21. I recognise that dealing with the recovery of housing benefit overpayments remains a priority for the Housing Executive. However I am concerned that the Housing Executive's performance in recovering the overall levels of overpayments has continued to reduce this year. Over five years recovery has dropped from 35.4 per cent in 2008 to 31.4 per cent in 2012. I asked the Housing Executive to comment on this reduction and it told me that it is extremely difficult for the percentage of recovery to increase in line with the increasing overpayments balance as recovery levels are restricted and the write-off criteria requires it hold some overpayment cases for 20 years before abandonment. Currently there is over £4 million of overpayments awaiting write-off which equates to 13 per cent of the outstanding overpayment balance. The Housing Executive commented that while actual monies recovered in respect of overpayments has improved each year over the past five years the Housing Executive is not complacent and will continue to prioritise the recovery of overpayments.
22. The recovery of benefit debt is complicated by the significant restrictions that are placed by legislation on the amounts that can be recovered, particularly in the case of those customers who are still on benefits who are often only able to repay very small amounts each week and therefore will take many years to fully repay the debt. Nevertheless it is important that the Housing Executive is doing all it can to manage this debt and this is an area which I will continue to examine closely in future years.
23. I also note that in February 2012, the Cabinet Office published a report, 'Tackling Debt Owed to Central Government – An Interim Report of the Fraud, Error, Debt Taskforce'. This report highlighted that benefit debt was significant and suggested a number of actions necessary to improve collection levels, one of which is the appointment of a 'Debt Controller' to develop strategic direction and increase recovery. In response to this report, the Housing Executive told me that it is currently in the process of moving the management of overpayments recovery into their Housing Benefit offices from the accounts' team and this has been shown to be successful to date. The Housing Executive commented that it would consider further measures through the year to ensure recovery is managed effectively in the offices and performance is maintained and improved where possible. It noted that the policy for overpayment recovery is managed within the Housing Benefit Policy Unit where strategies are produced and reviewed for implementation by all staff managing overpayments.
24. I commented in my report last year that the Housing Executive was taking steps to derive comparative housing benefit overpayment performance figures of local authorities within the UK. When asked what progress had been made in this area the Housing Executive told me that benchmarking with a number of GB authorities was undertaken on performance levels for 2010-11 and measured against the following two DSD Key Performance Indicators in Table 3 below:

Table 3: Debt recovery key performance indicators

Key Performance Indicator	NIHE target	NIHE performance	Average for participating authorities in GB
Value of overpayments recovered as a % of overpayments created during the year	85%	71.29%	68.57%

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Value of overpayments recovered as % of overpayments created during year plus amount outstanding at beginning of year	45%	31.3%	28.57%
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Source: NI Housing Executive

25. The Table shows that the Housing Executive performed marginally better than the average for participating authorities against these indicators however it has not managed to achieve the targets set by the Department. I asked the Housing Executive why it has not been able to achieve this target and it told me that the Department accepts that these targets are not a true reflection of the actual recovery action taken. It advised that one of the issues regarding the percentage targets is with the high levels of counter fraud overpayments raised, for example, over £4 million in 2012-13, and the comments noted in paragraph 22. The Housing Executive considers this to present an anomaly for this target and advise that it has agreed a target for 2012-03 with the Department of the recovery of £13 million on all outstanding overpayments.

National Fraud Initiative

26. The National Fraud Initiative (NFI) is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that the Housing Executive has fully engaged with this process. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.
27. The Housing Executive has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll and occupational pension details with its housing benefit records.
28. A number of matches⁸ were passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service (the Agency). The first matching exercise identified 6,000 cases to be investigated and resulted in 1,238 fraud investigations. To date, overpayments of £2.3 million have been identified in 1,033 cases and 52 cases resulted in Court convictions. Work is continuing on the remaining 205 cases.
29. The second NFI data matching exercise produced 9,100 cases to be investigated. To date the Agency has examined 5,826 of these cases resulting in errors being identified in 176 cases with overpayments of £248,300 and underpayments of £6,000. A further 382 cases are currently awaiting investigation for potential fraud.

⁸ These figures relate to housing benefit data matches only. The Housing Executive is also investigating matches in other data sets, for example, creditors and payroll.

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Part 3: Response and Planned Maintenance

Qualified opinion due to weaknesses in the control of expenditure on response maintenance and planned maintenance

30. Last year I qualified my opinion on the regularity of response maintenance expenditure⁹ because I was unable to gain sufficient evidence to support this opinion. My concerns in respect of this expenditure have not been resolved and now also extend to expenditure on planned maintenance¹⁰. The total expenditure on response maintenance and planned maintenance during 2011-12 was £55 million and £107 million respectively.
31. Significant weaknesses in control have continued to emerge in the Housing Executive’s management of response maintenance contracts and this year similar weaknesses have emerged for planned maintenance. I consider weaknesses within these areas of expenditure to be systemic and this has led me to qualify my opinion on the regularity of this expenditure.
32. I have also been undertaking a value for money review of Housing Executive management of response maintenance contracts which will be published in a report to the Northern Ireland Assembly in September 2012. This report is currently at draft stage.

33. The basis of my concerns is set out below:

33.1 Response Maintenance

- (a) The response and planned maintenance work undertaken by the Executive covers a huge range of expenditure and I therefore seek to rely on their internal controls to ensure that all work is properly inspected and payments are not made until the work has been satisfactorily completed. One of the key controls in ensuring that proper inspections are taking place within district maintenance sections is the Repairs Inspection Unit (RIU), now part of the Corporate Assurance Unit (CAU). This unit selects samples of maintenance work done and re-performs the checks that have already been carried out in each of the districts. This year the work of the unit has identified a large number of instances where inspections carried out by the district offices are failing to identify poor standards of work or work that has not been carried out.

Normally the unit seeks to examine all 35 districts within the Housing Executive every year and present a report for each district listing scores for four specific areas¹¹ rating them according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial. I was disappointed to note that this year only 12 of the 35 districts had been inspected and reported on by the date of this report. The Housing Executive told me that this was partly due to the RIU programme being put on hold during a large part of the year in order to accelerate investigation work referred to in paragraph 33.1 (c) below.

However I also note that it has taken an increasingly long time for many of the reports produced by the unit to be agreed with management following their publication in draft. In many cases this has taken more than six months and, in my view, reflects an excessive degree of challenge to RIU’s work

⁹ Response maintenance relates to work that is undertaken in response to problems identified by tenants

¹⁰ Planned maintenance relates to schemes that are planned from time to time to maintain or upgrade a property

¹¹ Contract Management; Probity; Inspection (on site) and Procedures

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by management given the importance of that unit's work and the serious issues that are being identified. This is discussed further at paragraph 35.

The results of the work of the unit that has been completed to date show that, in general, the standard of inspections in each of the districts has deteriorated over the year with more of their reports being classified as either limited or unacceptable. These results are summarised below:

Table 4: Results of inspection work by the Repairs Inspection Unit

Rating	Number of districts	
	2011-12	2010-11 ¹²
Substantial	-	5
Satisfactory	1	16
Limited	2	11
Unacceptable	9	3

Source: NI Housing Executive

Included within these reports are numerous issues that appear to indicate poor management of the work of contractors. Examples of these issues have included:

- Wall units not being securely fixed to walls;
- Smoke detectors being claimed for and paid but not fitted;
- Cistern overflow warning pipes not piped externally or securely fitted; and
- Glass being fitted inside out to a front door.

While each of these examples are not individually significant, it is the number of these type of issues that are being found coupled with the fact that they were not identified through Housing Executive inspections before the work was paid for, that is particularly concerning.

- (b) In July 2011 the Housing Executive Board terminated all of its contracts with a contractor, Red Sky, who was providing response maintenance services across a number of districts. In their 2011-12 Statement on Internal Control the Housing Executive notes that a number of staff have received disciplinary penalties in relation to this matter. I reported last year that the Housing Executive had recovered £262,560 from identified overpayments of approximately £500,000. I asked the Housing Executive what progress had been made in recovering the remaining overpayments. It told me that by July 2011 it had withheld a total of £506,000 (excluding VAT), representing the full estimated overpayment, from payments due to Red Sky. However, on 18 April 2011 the Red Sky Group went into administration and the court appointed administrators have questioned deductions made after the date of administration. The Housing Executive is currently seeking legal advice on this matter.

Following the identification of the significant overpayments involving Red Sky the Department commissioned a firm of accountants to carry out an independent review. The scope of this review is a forensic investigation into the work of a sample of maintenance contractors performing response maintenance work for the Housing Executive. The Department has advised me that a report will be published later this year.

¹² Following revisits to 6 of the districts the overall change in ratings was a shift of one to satisfactory from limited.

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- (c) The Housing Executive is also currently investigating significant potential overpayments with respect to a further contractor. Concerns surrounding these payments were initially identified in August 2011. In their May 2012 report RIU have indicated that overpayments of £240,000 may have been made to the contractor over three years representing around 3.2 per cent of contract spend over the period. It is my view that the nature of these overpayments is such that they should have been prevented by controls within the Housing Executive, particularly if inspections had been properly carried out and appropriate action taken.

I also note that in August 2011 the Housing Executive paid £250,000 to this contractor as a payment on account against completed work invoices which had been submitted but not yet inspected or approved for payment. The Housing Executive has told me that this payment was made because there were a significant number of jobs awaiting inspection at that time. However I note that at 31 March 2012 only £47,000 from this advance to the contractor had been repaid.

Department of Finance and Personnel (DFP) guidelines are clear that advance payments to contractors should be exceptional and only be made on the basis of good value for money. The guidelines also point out that such advance payments are novel and contentious and normally require DFP approval which was not sought in this case.

I am very concerned that the Housing Executive made such a large payment in advance to a contractor that it was investigating in relation to potential overpayments and that it did not seek approval of this unusual transaction from the Department or DFP. I asked the Housing Executive to explain why it had done this and it told me that the decision to make a payment on account was taken because at that time there had been a significant backlog of claims for payment for maintenance jobs which had been submitted by the contractor but not yet examined by its staff.

Furthermore the Housing Executive commented that the contractor was claiming that its alleged failure to process these claims for payment within the required timescale constituted a potential breach of contract and was having an adverse impact on its business. The Housing Executive informed me that the backlog had arisen because staffing issues at the district had caused delay in the inspection and approval of these jobs. Furthermore it said that the payment on account to the contractor represented a proportion of the estimated value of jobs awaiting approval and was considerably less than that requested. The Housing Executive noted that while the payment on account was approved internally, the requirement to obtain separate DFP approval had not been identified and this was regretted. In the unlikely event that a similar circumstance should arise in the future the Housing Executive has assured me that it will obtain all the necessary approvals from DSD and DFP before any payment on account is agreed and made.

The Housing Executive told me that as at 18 June 2012 a total of £233,157 had been recovered against the payment on account and arrangements are in place to recover the remaining balance of £16,443 by the end of June 2012.

- (d) An internal audit review of heating (response maintenance) completed during the year was assigned an unacceptable rating due mainly to significant control weaknesses being identified and non-compliance in management of contractors. In a number of cases there were issues of poor quality of

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work or value for money concerns over work invoiced for payment. Examples of the issues found in the report included:

- contractor wrongly charging for repairs when they had to return for a second time to fix something they had previously repaired shortly before;
- excess and incorrect charging for the installation of radiators;
- servicing charged for but not actually carried out; and
- poor quality insulation work.

33.2 Planned Maintenance

(a) The Schemes Inspection Unit (SIU), which is also part of the CAU, performs a similar role to the RIU in respect of planned maintenance schemes¹³. During 2011-12 20 scheme inspections were completed which led to nine limited classifications and two unacceptable classifications. Examples of issues identified through these inspections were:

- tenants' fireplace / fire reused but the contractor charged and was paid for new ones;
- fire valve sensors not secure or not the required distance from the boiler; and
- loft insulation and ventilation not properly installed.

(b) In November 2011 the SIU reviewed five kitchen replacement schemes, one from each geographical area. This was out of a total of 112 schemes covering over 8,000 individual dwellings. The SIU identified potential overpayments to contractors in those five schemes of approximately £500,000. Issues identified by this inspection included:

- cupboards being attached to walls before the new plaster was fully dried out;
- meter boxes not adequately fire lined; and
- metal trims not properly fitted to worktops with protruding edges.

The extent of overpayments to contractors was disputed by Housing Executive management and as a result Internal Audit was asked to carry out a detailed examination to determine the validity of the estimated overpayment by looking in detail at one of the schemes where the overpayment had been estimated at £90,000. Internal Audit had not finalised their opinion on the magnitude of the potential overspend at the time of audit. No action has yet been taken to recover the potential overpayment nor have other similar schemes been examined to determine if there is further potential for overpayments.

The Housing Executive told me that the Audit Committee had previously considered a paper on potential over-charging in a review of five kitchen replacement schemes and that one of the key concerns, arising from this paper, was the difference in views that existed regarding the scale of potential overpayments between the various parties (Internal Audit, Corporate Assurance Unit, Design and Property Services and the contractor). It advised that in an effort to bring this matter to a conclusion an officer from the Housing Executive's Contract Claims' Unit had conducted an analysis indicating a sum of £27,000 as a potential overpayment. Furthermore it told me that Internal Audit are reviewing these findings and will have a finalised report for consideration at the September 2012 Audit Committee. The outcome of this exercise will inform the Housing Executive on what further investigation needs to be carried out and actions to be taken.

¹³In 2011-12 the unit completed audits on kitchen replacement schemes, windows replacement scheme, external cyclical maintenance schemes, heating replacement schemes and major heating schemes.

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The Housing Executive has advised that in respect of SIU findings to do with health and safety, for example the firelining of meter boxes, there is no statutory duty requiring it to upgrade fire regulations within planned kitchen schemes. However, as an organisation, it has always attempted to introduce a betterment provision. It told me that the health and safety measures identified in the SIU reports are inconsistent with the original specification on a couple of schemes and this specification will be rectified. For example, the firelined meter box in the original specification now applies to newbuild schemes and is being assessed on refurbished properties. The Housing Executive asked me to note that they are satisfied there is no risk to tenants in these dwellings.

- (c) I reported last year that the Housing Executive was investigating alleged overcharging by certain contractors in relation to major adaptations to Housing Executive properties carried out over the period 1999-2010. These contractors were managed by an agent on behalf of the Housing Executive. Estimates of the total amount involved were more than £500,000 excluding legal and professional fees estimated at £200,000. The Housing Executive has disclosed in its Statement on Internal Control that agreement has been largely reached on a quantified level of overcharging which is now the subject of recovery procedures. Once this issue is resolved the Housing Executive has assured me that it will also investigate other planned maintenance schemes with which this agent was involved.
- (d) Internal Audit reported during the year that a number of external maintenance schemes, some dating back to December 2008, with a gross value of £17.3 million have not been subject to final account reconciliations¹⁴. These reconciliations should be carried out shortly after the contract has been fully completed to identify any under or overpayments to the contractor. Delays in reconciliations may lead to difficulties in recouping any identified contractor overpayments and impact on the Housing Executive's ability to complete a post-contract assessment¹⁵. I asked the Housing Executive why it has taken so long to complete these reconciliations and how lessons could be learnt from previous contracts when assessments were not completed promptly. It told me that it accepts that a number of planned maintenance schemes have not yet been financially reconciled. It advised that its records show that there are 245 external cyclical maintenance and revenue replacement schemes under the auspices of current Egan contracts for the period 2008 - 2012. Of these, 102 have been reconciled and 143 remain to be reconciled. The Housing Executive told me that in order to expedite the currently unreconciled schemes a dedicated team of quantity surveyors has been set up to work solely on closure of these schemes, albeit with a few cases which will be live up to termination of contract. Furthermore a new control has been introduced with the Assistant Director now required to sign off project managers' preliminary SIU reports and the Director of Design and Property Services required to sign off project managers' final reports.
34. In general in relation to planned maintenance the Housing Executive told me that SIU reports have highlighted a number of issues to do with the current specification for aspects of planned maintenance work. It considers it to be clear that modifications are required to the specification particularly as replacement contracts are scheduled to be in place from February 2013 onwards. A Chief Executive led

¹⁴ At the end of each contract reconciliations should be prepared to ensure that the total work completed on the contract is in line with payments that have been made – this could result in payments being recovered from contractors or additional payments being due to the contractors.

¹⁵ These assessments include an appraisal of cost predictability, quality assessment, health and safety and time predictability.

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team is considering policy and standards and specification revisions will be considered by the Chief Executive's Business Committee (CXBC) for approval. Those SIU reports highlighting quality defects will be addressed with the contractors.

35. I am concerned with the time taken to clear various RIU, SIU and Internal Audit reports and the level of challenge exercised by management over the issues being raised. The governance report commissioned by the Department¹⁶ emphasised the importance of the Board being fully informed of the results of internal inspections and of taking quick and decisive action when the results of these inspections identified potential weakness in control. In many cases such action has not been possible because of the extent of debate over the results of the various reports and it is essential that the Housing Executive takes action to address this in future to ensure that the independence of these units is not undermined.
36. I asked the Housing Executive to explain why it considered that the current level of management challenge to the work of CAU and Internal Audit was appropriate. The Housing Executive told me that it accepts there has been considerable internal discussion and exchange of views around these important matters and regrets that this has led to any perception of excessively robust challenge by management. The Housing Executive believes it is therefore entirely appropriate for it to state, without any equivocation, that its management is fully committed to and appreciative of the valuable contribution that all its internal monitoring and inspection functions provide in terms of improving controls and supporting effective assurance processes. These functions are a fundamental element of the internal governance framework established by management and overseen by the Board.
37. Based on all of the issues above I have therefore qualified my opinion on the regularity of both response and planned maintenance expenditure because I was unable to obtain sufficient assurance that the Housing Executive's control of this expenditure of £162 million was adequate to ensure the payments had been applied for the purposes intended by the Northern Ireland Assembly.

¹⁶ Review of Governance in the Northern Ireland Housing Executive (8 December 2010)

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Part 4: Sale of Housing Executive land to developers

38. The Statement on Internal Control identifies the management of land and property as a key risk, and refers to the investigation of several questionable land deals undertaken over a number of years and the findings of an internal review which has identified more widespread problems of a similar nature. These problems have occurred over a number of years. I did not however find that the issues were replicated in disposals made during 2011-12.

39. Because these matters are, or may be, subject to police investigation it has not been possible for me to report in the detail I would wish. However, they have been referred to in successive Statements on Internal Control and given the significance of the problems identified I feel it is important to draw them to the Assembly’s attention at this stage.

Nelson Street

40. A site at Nelson Street in Belfast was included in the Housing Executive’s Social Housing Programme prior to 2004 and subsequently zoned for social housing in the Belfast Metropolitan Area Plan at its request. Following an internal investigation concerning the Housing Executive’s response to a planning application, details of the case were referred to the Police Service in Northern Ireland (PSNI) in March 2010. A police file was passed to the Public Prosecution Service in May 2011 and is currently under consideration.

Hardcastle Street

41. In September 2010 the Ombudsman issued a report on the Housing Executive’s conduct of the sale of land at Hardcastle Street in Belfast. The Ombudsman found in favour of the complainant who had been denied the opportunity to bid for the land on the open market and recommended that he should receive a payment of £20,000 and a letter of apology from the Chief Executive. The complainant did not accept this award and initiated legal action against the Housing Executive. The total cost to the Housing Executive of an out of court settlement, including legal fees, was £73,000.

42. In 1998 the Housing Executive was approached by the original developer of the apartment block at Hardcastle Street to vest a piece of land to allow him to provide car parking for the apartments. In September 1999, before the sale was completed, the developer applied for planning permission for four apartments. Planning approval was granted and in January 2000 a second potential buyer (the complainant) expressed an interest in purchasing the site. Consequently in July 2000, the CXBC approved a sale on the open market to obtain the best price.

43. Little progress was made in the next four years. In July 2000 the developer threatened legal action against the Housing Executive because of the decision to put the land on sale on the open market, then in 2002, indicated that he would revert to the car parking option. In June 2003 the developer indicated that he no longer wished to purchase the land and would withdraw litigation if his costs were paid. In April 2004, CXBC again approved sale on the open market with planning permission.

44. However, in November 2004, the land was sold to the developer for £98,000 (based on a valuation for car parking) in direct contravention of the CXBC decision. The Housing Executive also paid the

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developer's planning costs of £16,500. The complainant later indicated that, based on the value of the town houses which were subsequently built; he would have been prepared to pay up to £250,000 for the site.

Sale to a Community Group

45. A third case concerning the sale of property to a community group and subsequent sale to a third party was the subject of a whistleblowing report to NIAO. I provided details to the Housing Executive who referred the case to the PSNI in 2012. Because of an ongoing police investigation I am unable to give further details at this time.

DSD Review of Governance

46. In response to the issues raised by these sales and other governance concerns, the Department set up a team to carry out a review of governance in NIHE which reported in December 2010 (also referred to in paragraph 35). The review found that:
- not all sales were being presented for appropriate Board or Chief Executive approvals. Six out of ten cases examined had not been approved;
 - information was being withheld from Board and Chief Executive meetings; and
 - Internal Audit had given repeated limited and unacceptable ratings to land and property systems.

The review recommended that further analysis of the specific cases highlighted should be undertaken and that the Housing Executive Board may wish to ask Internal Audit to examine a sample of disposals "to ensure there are no issues with the disposals where specific approval had not been sought."

Land Disposals Review Project

47. In January 2011 the Housing Executive set up a team to carry out a review of land disposals since 2004 with the following terms of reference:

"To review a number of land and property transactions to determine whether they were managed in line with agreed policy / procedure and to highlight any cases of suspected fraud. Where there is evidence of suspected fraud to prepare a report which meets the requirement of the agreed protocol with PSNI for submission in such cases."

The project has been undertaken in two phases. Phase I identified breaches of policy and procedures. Phase II is assessing the evidence for criminal wrongdoing and is still ongoing.

48. Phase I identified disposals between 2004 and 2010 with a total value of £84 million. The Housing Executive has a statutory duty¹⁷ to obtain "best consideration" for land disposals, except with the Department's consent, and its Land and Property Manual states that this means selling on the open market by way of public tender. However, a significant proportion of these disposals were sold "off-

¹⁷ Housing (NI) Order 1981 Article 88

Annex D – C&AG's Report

market" to preferred buyers. Phase I examined 27 disposals in detail, and reported a range of compliance issues including:

- Favouritism towards buyers in most off-market sales. Interest from other parties was not declared or considered;
- No justification for off-market sales. No exceptional circumstances were given to justify the off-market approach, no other options were considered and economic appraisals were only carried out in those cases where properties were vested;
- Disposals without proper valuations. These included cases where there were no valuations, out-of-date valuations, reduced valuations negotiated by buyers and valuations only obtained after approval had been given for the sale;
- Disposals without proper approval. Housing Executive procedures require Board approval for sales over £100,000 and CXBC approval over £50,000. The review found sales of up to £8 million approved at Director level; and
- Board and Chief Executive approvals without key information or with wrong information.

Twenty-one cases including Hardcastle Street were passed to the Counter Fraud and Security Unit for Phase II of the review to consider whether actions constituted fraud or misconduct. Three cases have been referred to PSNI and a further eleven cases are still under consideration.

Financial Losses

49. Based on independent valuations commissioned by the Housing Executive there are indications that financial losses in some of the cases examined could be significant. There are also indications that higher than normal values were paid for social housing subsequently built on these sites by developers. This in turn resulted in higher rates of Housing Association Grant being paid by the Housing Executive.
50. Given the significance and extent of these matters I intend to keep this area under review and to provide a detailed report to the Assembly at the earliest opportunity.

Annex D – C&AG's Report

Part 5: Payments to Housing Associations

51. The Northern Ireland Housing Executive pays grants on behalf of the Department to the Housing Association sector each year and this amounted to £139 million during 2011-12. In order to satisfy itself that this money is being properly spent, the Department arranges for its Regulatory and Inspection Team (the Team) to conduct regular reviews of all housing associations in Northern Ireland examining governance, finance, property management and property development.
52. Last year, I was unable to satisfy myself as to the regularity of £12.1 million issued to Helm Housing Association as a result of a draft report prepared by the Team which raised some very serious issues and I qualified my opinion on this matter. Since then the Team published its report on Helm in January 2012 and issued a "No assurance" rating, highlighting a number of significant failures across all areas, indicating substantial failings by the Senior Management Team of Helm and a failure by the Board to offer an adequate challenge function to the decision-making process within the Association. These issues are currently being addressed and I have reported in greater detail on this in my report accompanying the Department's 2011-12 accounts.
53. In response to the significant concerns raised in the Helm report, the Department asked the Team to carry out targeted inspections of the seven main housing associations involved in building new houses (namely Apex, Clanmil, Fold, Trinity, Connswater, Oaklee and Ulidia) to provide assurance that the issues identified in the Helm report are not also prevalent in these Associations and that they are "fit for purpose". Results from the targeted inspections to date have been largely reassuring showing that one housing association received substantial assurance; five housing associations received satisfactory assurance, while one, Connswater, received limited assurance.
54. The Team has also continued with its usual round of inspections during 2011-12 and in addition to the seven targeted inspections, a further ten inspections were completed. Of these only four housing associations received satisfactory assurance while four received limited assurance and two no assurance.
55. The associations which obtained limited or no assurance in the second round of inspections are included within the nine associations currently suspended from carrying out development work. I was concerned to find that these suspended housing associations still received housing association grant of £25.6 million during 2011-12 of which Helm received £21.5 million. The Housing Executive has explained this by saying that these grants relate to schemes that had been approved prior to the Associations being suspended and which the Department were content to allow to be progressed as the schemes were already sufficiently advanced.
56. Given the serious breakdown in controls at Helm in particular, I am surprised that such a large amount of housing association grant was awarded to it during 2011-12 and I asked the Executive what controls it has in place to ensure this grant is spent correctly. The Housing Executive told me that the figure of £21.5 million paid to Helm is an accruals based figure and actual cash paid to the Association was £11 million. Furthermore it commented that the money paid was in recognition of additional costs associated with continuing work on schemes already progressing on site before the Helm suspension was announced and that any payments to Helm after June 2011 have not been sanctioned until a full additional assurance check has been satisfactorily completed by its staff.
57. Although I still have concerns relating to the governance of the Housing Association sector, I recognise the work undertaken by the Department during the year in its inspection regime across all Housing Associations. I also noted that the Executive has put additional checks in place before it makes any payments to suspended housing associations in respect of schemes commenced before they were suspended. I have therefore not qualified my audit opinion on this area of expenditure, but I will continue to monitor this area and may report further in due course.

Annex D – C&AG's Report

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29 June 2012

NIAO NIHE Report to those charged with Governance Year ended 2013



Northern Ireland Audit Office

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Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

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The Comptroller and Auditor General, Mr Kieran Donnelly, is an Officer of the Northern Ireland Assembly. He is the Head of the Northern Ireland Audit Office, which employs some 150 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Northern Ireland Housing Executive AUDIT OF 2012-2013 FINANCIAL STATEMENTS

REPORT TO THOSE CHARGED WITH GOVERNANCE

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Executive Summary

Introduction

1. This report summarises the key matters arising from our audit of the 2012-13 financial statements for the benefit of those charged with governance¹. We would like to thank the Director of Finance and his staff for their co-operation during the audit process.
2. The examination of the 2012-13 financial statements was undertaken in accordance with auditing standards issued by the Financial Reporting Council (FRC), taking into account the UK Auditing Practice Board's Practice Note 10 (Revised); Audit of Financial statements in Public Sector Bodies in the United Kingdom. Our approach to the audit was planned and executed in accordance with the Audit Strategy presented to the Audit Committee in March 2013.
3. This report has been prepared for the sole use of the Northern Ireland Housing Executive although it will be shared with the Department for Social Development. Our prior consent should be sought before any distribution (including web publication) either in full or in part is made. The Northern Ireland Audit Office (NIAO) does not accept responsibility to any third party for losses arising from reliance being placed on this report.
4. Once certification has taken place the Annual Report and Accounts should be laid in the Assembly as soon as possible in line with good accountability practice. The document laid may be a photocopy of the certified version of the Annual Report and Accounts, but if Northern Ireland Housing Executive intends to lay a final printer's proof or a printed version of the Annual Report and Accounts instead we will need to receive a copy of this document prior to laying. In any event our approval will be required before the Annual Report and Accounts are published in hard copy or on the web since it contains the C&AG's audit opinion. Northern Ireland Housing Executive will therefore need to provide us with a copy of the final printer's proof together with the soft copy file to be placed on the Northern Ireland Housing Executive website for our consideration. Responsibility for thoroughly proofing these documents however remains with Northern Ireland Housing Executive. In line with Practice Note 10 (Revised) as auditors we continue to have responsibilities to consider material events after the reporting period until the date that the Annual Report and Accounts have been laid in the Assembly. Northern Ireland Housing Executive therefore also needs to notify us of the date that the Annual Report and Accounts have been laid as soon as possible thereafter.

Actions for those charged with governance

5. Those charged with governance are invited to review the findings set out in this report, including the letter of representation, audit certificate and the C&AG's report included in Annex A and Annex B and Annex D respectively.

Status of audit

6. Our audit is complete and the C&AG certified these accounts on the 2 July 2013.

Overall conclusion and opinion

7. The Comptroller and Auditor General (C&AG) reported his opinion to the Assembly in the format set out in Annex B – Audit Certificate. The C&AG's certificate includes an opinion as to the truth and fairness of the financial statements and that the expenditure and income have been applied to the purposes intended by the Assembly and that the transactions conform to the authorities which govern them ('regularity'). The C&AG's certificate also includes an opinion on the part of the Remuneration Report to be audited has been properly prepared and that certain information given in the Annual Report is consistent with the financial statements.
8. The C&AG certified the 2012-13 financial statements with a clear financial audit opinion and a qualified regularity audit opinion. The latter is due to the levels of estimated fraud and error in housing benefit payments

¹ In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Executive Summary

and significant issues relating to contract management of response and planned maintenance. The C&AG's Report (see Annex D) accompanies his audit opinion.

Audit judgements

9. A number of significant audit judgements have been taken in reaching our audit opinion:
 - Issues relating to the management of response and planned maintenance contracts. Weaknesses identified from our audit work were considered to be of such significance that the regularity audit opinion covering this area of expenditure has been qualified;
 - Overall audit opinion. Due to the issues relating to housing benefit & response and planned maintenance we had considered disclaiming our audit opinion. We concluded that although the issues are significant they are not pervasive through all areas of the accounts and we have instead issued qualifications relating to specific areas of expenditure.

Audit findings

10. In Section 2 we outline the quality, effectiveness and transparency of Northern Ireland Housing Executive's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to regularity and the internal control environment.
11. No significant issues were identified in respect of the quality, effectiveness and transparency of Housing Executive's financial reporting and accounting.
12. The change in accounting treatment of rates income and expenditure have been treated as a change in accounting policy and a prior period adjustment has been disclosed in note 2 to the financial statements. We are content that the remaining accounting policies used by the Housing Executive in the preparation of the financial statements were complete, accurate and complied with the relevant standards.
13. We identified the following significant internal control weakness²:
 - Significant weaknesses in internal controls continue to exist in the Housing Executive's management of response maintenance and planned maintenance contracts. The weaknesses within these areas of expenditure are considered to be systemic and this has led to a qualification on the regularity of response maintenance (£51.4 million) and planned maintenance (£94.2 million) expenditure.
14. We reviewed the format and content of the Governance Statement to ensure that it complies with DFP disclosure requirements and that it is consistent with our knowledge of the client.
15. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

16. In the course of the audit a number of insignificant misstatements were identified which have been adjusted in the financial statements. The net effect of these adjustments was nil.
17. Section 3 also details uncorrected misstatements which have a nil impact on the accounts. Management have not corrected these misstatements as they do not consider them material in the context of the financial misstatements.
18. No significant adjustments were made to the financial statements.

² In accordance with ISA 265, it is the auditor's responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

Section 1 Audit Risks

Significant risks

1.1. In our Audit Strategy presented to the Audit Committee in March 2013 our assessment of Northern Ireland Housing Executive's operations and control environment identified a number of significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.

1.2 The table below describes how we addressed these matters through our audit process.

Significant risks of material misstatement

Risk 1 Contract management and procurement of planned and response maintenance contracts	
<p><i>Account Area: Expenditure – Dwelling Related Costs</i></p> <p>(i) Following the identification of significant weaknesses in controls over response maintenance C&AG qualified his regularity audit opinion covering this aspect of expenditure in 2010-11. This regularity qualification was extended in 2011-12 to also cover planned maintenance.</p> <p>There continue to be potentially significant issues relating to planned maintenance expenditure in 2012-13. Contractor overpayments have been identified in kitchen replacement schemes and are currently being investigated by NIHE. These relate to historic kitchen replacement schemes and the original expenditure was incurred in earlier financial years.</p> <p>(ii) In 2012-13 new contracts were due to be awarded for planned and response maintenance. There is a risk that these contracts may not have been awarded in line with procurement guidance.</p>	
Audit Response	
We	<ul style="list-style-type: none"> Reviewed the work of Internal Audit and the Corporate Assurance Unit on planned and response maintenance expenditure. Reviewed progress on the investigation of overpayments on the planned maintenance kitchen replacement scheme. Reviewed work and reports produced by Moore McDonald on the 20 kitchen replacement schemes being subject to independent technical review. Reviewed NIHE's progress in completing outstanding and historic final accounts. Reviewed NIHE's progress with completing recent final accounts. Tested a sample of planned and response maintenance payments, relating to both old and new contracts to ensure that payments are in accordance with the appropriate contract. Completed a review of the procurement arrangements for the new response maintenance contracts.
Outcome	
<p>During 2012-13 the Housing Executive incurred expenditure of £145.6 million on response and planned maintenance. Serious concerns relating to response and planned maintenance have continued and issues identified during the audit are set out in section 2 and in the C&AG's report at Annex D.</p> <p>Based on the issues identified, the C&AG qualified his audit opinion on the regularity of both response and planned maintenance expenditure as he was unable to obtain sufficient assurance that the Housing Executive's control of this expenditure was adequate. Because of the limitations in the evidence available to him he was unable to form an opinion whether the expenditure of £145.6 million on response and planned maintenance had been applied for the purposes intended by the Northern Ireland Assembly.</p> <p>No issues were identified in relation to the procurement process followed for the new response maintenance contracts during 2012-13.</p>	

Section 1

Audit Risks

Risk 2 General procurement and contract management

Account Area: Expenditure – all areas except dwelling related costs

There is a risk across the public sector that contracts may not be awarded in accordance with best practice or subsequently managed and monitored appropriately.

Audit Response

We

- Liaised with Internal Audit on any work completed on procurement.
- Reviewed the work and findings of the Corporate Assurance Unit and other sources.
- Carried out a review of procurement arrangements and management of contracts.
- Tested a sample of contracts to ensure that NIHE is following best practice.

Outcome

No significant issues were identified from our review in this area.

Risk 3 Level of Housing Benefit Fraud and Error

Account Area: Expenditure – Housing Benefit

There remains an ongoing risk of significant levels of estimated fraud and error in housing benefits, which result in irregular expenditure.

Audit Response

Assurance was provided by NIAO DSD audit team on SAU and its work. We also:

- Reviewed the SAU annual report detailing the Levels of Fraud and Error for Housing Benefit.
- Reviewed the work of Internal Audit on NIHE's controls over housing benefit and other sources where appropriate.
- Reviewed the outcome of work on the National Fraud Initiative.

Outcome

Estimated levels of fraud and error for Housing Benefit are reported on a calendar year by the Analytical Services Unit of the Department for Social Development. Their report produced in May 2013 covered the period 1 January 2012 to 31 December 2012. The report estimated that the levels of fraud and error for Housing Benefit were £20.8 million (overpayments) and £4.7 million (underpayments). For 2012-13, the C&AG qualified his opinion on the regularity of housing benefit expenditure because of the estimated level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly; and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities. Further detail can be found in the C&AG's report at Annex D.

The total estimated levels of fraud and error have increased by around 50 per cent this year. While recognising that these are estimates which have a margin of error, the C&AG has noted his concern at this increase and asked for an explanation in his report (see Annex D).

Section 1 Audit Risks

Risk 4 Payments to Housing Associations

Account Area: Expenditure – Social Housing Development Programme

In 2010-11 the accounts were qualified as NIHE was unable to provide sufficient evidence to confirm the regularity of housing association grant payments of £12.1 million made to Helm. In 2011-12 nine Housing Associations received £25.6 million of Housing Association Grant (HAG), while being suspended from carrying out development work. Until these suspensions are lifted there is a greater risk to regularity for this spend.

Furthermore the fact that problems continue to be identified by DSD's Governance and Inspection Team in relation to the Housing Association sector generally also increases the risk in relation to HAG paid by NIHE.

Audit Response

Our work has largely relied on the Department's Governance and Inspection Team which reviews the governance, financial management and development procedures of all Housing Associations. We have tested and reviewed the work of this team to ensure we can place reliance on their work.

Outcome

The work of the Department's Governance and Inspection Team has identified some improvement in the performance and governance of the Housing Association sector in general. While some issues do still exist, particularly in relation to Advance Land Purchase grant, they have been referred to in the C&AG's report on the Department only.

Section 2

Audit Findings

Financial Reporting and Accounting Policies

- 2.1 The Annual Report and Accounts are required to comply with the Government Financial Reporting Manual (FReM) in accordance with the Accounts Direction issued by the Department for Social Development.
- 2.2 In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Annual Report.
- 2.3 We noted that a number of the dates for submission of draft documentation for audit by the Housing Executive were later than in the agreed client liaison schedule. This included the submission of the draft annual report, remuneration report and draft governance statement, although the late submission of the documents has not led to significant delays to our work this year. One improvement we intend to request next year is that the NIHE formally submit its draft annual accounts and report to us under cover of a letter from the Chief Executive as is the practice in most other public sector bodies.
- 2.4 Although there were a number of minor corrections and amendments to the first draft version of the Annual Report and Accounts, there were no significant issues identified in respect of the quality, effectiveness and transparency of financial reporting and accounting.
- 2.5 In addition we have considered:
- Details of changes in accounting policies relating to the rates income and expenditure. All other accounting policies have remained consistent with the prior year. We are content with the appropriateness of the accounting policies judged against the objectives of relevance, reliability, comparability and understandability.
 - No significant issues were identified in our audit testing in respect of the timing of transactions and the period in which they are recorded.
 - No significant issues were identified as part of our audit testing in respect of the appropriateness of accounting estimates and judgements.

Review of information in the Annual Report

- 2.5 We review information in the Annual Report only to the extent that we confirm it is consistent with the financial statements and our understanding of the business.
- 2.6 The Annual Report was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements.

Regularity, propriety and losses

- 2.7 Significant weaknesses in internal controls continue to exist in the Housing Executive's management of response maintenance and planned maintenance contracts. The weaknesses within these areas of expenditure are considered to be systemic and this has again led to a qualification on the regularity of response maintenance and planned maintenance expenditure.
- 2.8 The C&AG also qualified his opinion on the regularity of housing benefit overpayments attributable to the estimated levels of fraud and error.

Section 2 Audit Findings

Internal Control

- 2.9 We reviewed the format and content of the Governance Statement to ensure that it complies with DFP disclosure requirements and that it is consistent with our knowledge of the client.

Remuneration Report

- 2.10 The Remuneration Report has been properly prepared in accordance with Department for Social Development directions issued under the Housing (Northern Ireland) Order 1981 and the information given in the Directors' Report, the Management Commentary and Remuneration Report included in the Annual Report is consistent with the financial statements.

Observations & Recommendations

- 2.11 This section outlines the findings arising from our audit, as well as management's response and target date for implementation to these recommendations.

- 2.12 We have included the significant, important and best practice findings arising from our audit which are defined as:

- Priority 1 – significant issues for the attention of senior management which may have the potential to result in material weakness in internal control.
- Priority 2 – important issues to be addressed by management in their areas of responsibility.
- Priority 3 – issues of a more minor nature which represent best practice.

Other issues of a more minor nature will be discussed in due course with the Director of Finance.

- 2.13 As outlined in our Audit Strategy our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Index of recommendations

Issues raised at Interim audit

No.	Description	Priority
	Issues that may impact on the year end accounts	
1	Accounting for Rates Income	1
2	Month End Accruals	2
	Progress against risk factors	
3	Housing Benefit Overpayment Recovery	2
4	Rent Arrears Outstanding Balances	2
	Contract / Lease Management	
5	Lease of car park spaces	2
	Good practice	
6	Rotation of Internal Audit Staff	3

Section 2

Audit Findings

Issues raised at Final audit

No.	Description	Priority
1	Weaknesses in management of response maintenance contracts	1
2	Weaknesses in management of planned maintenance contracts	1
3	Impact of contractor overpayments on the accounts	1
4	Delivery of Internal Audit programme	1
5	Best use of the Corporate Assurance Unit (CAU)	1
6	Final account reconciliations	1
7	Supporting People – review by Internal Audit	1
8	Special Purchase of Evacuated Dwellings	1
9	Social Housing Development Programme	1
10	Governance arrangements within NIHE	2
11	Accounting issues	2

2.14 Issues raised during Interim audit

1 Accounting for Rates Income

Observation	
Land and Property Services (LPS) bill NIHE for the rates payable in respect of all their properties. NIHE pay the bill less the discount they normally receive for early payment.	
Historically NIHE has accounted for its rates bill and associated income received from tenants through its Statement of Financial Position as trade receivables and trade payables. In the Statement of Comprehensive Net Expenditure NIHE discloses the discount allowance it receives as income but not the gross rates collected. The rates bill for 2012-13 is £39 million and the associated allowance is expected to be £4 million.	
It is our view that the accounts do not currently disclose the true nature of the underlying transactions because the income and expenditure in the accounts is understated. The correct way to show these figures would be to show the full cost of the rates and then show the discount and the income from tenants separately.	
Implication	
Inappropriate disclosures in the Accounts.	
Priority Rating	
1	
Recommendation	
NIHE should consider recognising the full rates bill and associated income from their tenants gross through their Statement of Comprehensive Net Expenditure.	
Management Response	
Accepted	
Target for Implementation	
This has been implemented in the final accounts for 2012-13.	

Section 2 Audit Findings

2 Month End Accruals

Observation	
At each month end NIHE posts a system generated Purchase Order Processing (POP) auto accrual journal. The value of the accrual ranges from £100k to £200k every month. While reviewing these accruals NIAO found one instance where the accrual related to equipment hired in December 2011 which had no record of being received. NIHE may be accruing costs on orders placed rather than when the good/service is received.	
Implication	
POP accruals may include orders which have not been correctly cleared or matched by the system.	
Priority Rating	
2	
Recommendation	
NIHE should investigate the issue above to ensure this is not indicative of a wider systemic issue and routinely check all unfulfilled orders.	
Management Response	
Accepted.	
The majority of the accrual relates to DLO expenditure (>90%). DLO management has advised that they will put a system in place to routinely check unfulfilled or un-invoiced orders and where appropriate have these cleared from the Purchase Order Processing system.	
The balance of the accrual relates to EROS stationery orders and the Finance Department will put in place a process to review orders that have been received but remain uninvoiced. Finance will liaise with the Corporate Procurement Unit, as owners of the EROS system, to agree a process for management of unfulfilled orders.	
Target for Implementation	
To be completed by 31/7/2013 Responsible Officer: Director of Finance	

3 Recovery of Housing Benefit Overpayments

Observation	
In the 2012-13 Audit Strategy NIAO identified 'Housing Benefit Overpayment Balances' as a risk factor. At Interim stage we note that:	
(i) The total housing benefit overpayment written off in the ten month period to 31 January 2013 was £1m of which £444k (43%) was due to NIHE error and £129.5k (12.5%) due to insufficient evidence. This may potentially impact on the accuracy of the HB Overpayment debt figure in the year end accounts which may contain a level of debt related to NIHE errors which have not been identified as such or written off yet.	
(ii) NIAO examined 5 overpayments of housing benefit that had been written off in 2012-13. In one of these cases the overpayment had been written off due to insufficient evidence but it was not clear from the files why this decision was taken.	
Implication	
Public money may be lost if housing benefit procedures and systems are not adequate / followed.	
Priority Rating	
2	
Recommendation	
(i) NIHE should ensure that the reasons for housing overpayments due to NIHE error are being analysed and corrective action taken.	
(ii) For cases where the reason for write-off is insufficient evidence the NIHE Decision Officer should fully record why this is the case thereby ensuring a full audit trail has been retained.	
Management Response	
Accepted.	

Section 2

Audit Findings

(i) HB Managers are already required to review reasons for all Official errors in their offices however a central analysis of Official Errors reported during 2012/13 will be undertaken.	
(ii) Decision sheets will be amended to record why there is insufficient evidence to recover a debt being written off.	
Target for Implementation	
30 June 2013 Responsible Officer: Director of Housing and Regeneration	

4 Rent Arrears Outstanding Balances

Observation	
(i) In the 2012-13 Audit Strategy NIAO identified 'Rent Arrears Outstanding Balances' as a risk factor. During the interim audit NIAO reviewed the level of rent arrears and noted that these have continued to increase from £13.9 million at 31 March 2012 to £14.1 million in January 2013 and this is likely to increase further by 31 March 2013.	
(ii) In terms of NIHE's management of these rent arrears an Arrears Action Plan was developed and implemented by NIHE. For the 2012-13 financial year to date £1.1 million of outstanding rent arrears has been written off. This compares to £1.9 million of rent arrears written off in 2011-12.	
(iii) NIHE has already revealed in the media (8 March 2013) that almost a third of its tenants are currently in rent arrears, i.e. 25,000 of its 88,000 tenants owe rent. The average debt is just under £500 per household.	
(iv) NIHE's review and consideration of the potential impact of the proposed Welfare Reform changes include modelling estimates of the implications of the under occupancy rule and direct payments. With the under occupation rule NIHE has estimated that rent arrears could increase in the first year from anywhere in the range of £2.8 million (best case scenario) to £8.4 million (worst case scenario). In addition the estimates for the increase in rent arrears if direct payments are introduced could be in the range of £32.5 million (best case scenario) to £97.5 million (worst case scenario).	
Implication	
The impact of Welfare Reform changes could see the rent arrears grow significantly and therefore it is essential that procedures for recoveries of arrears are as robust as possible.	
Priority Rating	
2	
Recommendation	
NIHE should ensure that procedures for the collection of rent arrears are robust enough to prevent arrears rising significantly and that these are being applied consistently.	
NIHE should continue to consider and evaluate the potential implications of the impact of Welfare Reform on its rent arrears and other related areas.	
Management Response	
Accepted	
Target for Implementation	
31 March 2014 Responsible Officer: Director of Housing and Regeneration	

5 Lease of Car park Spaces

Observation	
In September 2012 NIHE paid £15k to lease 34 car park spaces for the period 1 July 2012 to 31 December 2012. For 33 of the car park spaces leased the agreement between NIHE and the car park licensor had expired on 30 June 2011. NIHE were unaware of this until NIAO brought it to their attention during the interim audit.	
Implication	
Payments made by NIHE outside of contract/lease terms.	

Section 2 Audit Findings

Priority Rating	
2	
Recommendation	
Immediate steps should be taken to ensure that the car park lease is renewed for an appropriate period of time based on NIHE needs.	
NIHE should ensure that procedures are in place so that all payments are based on valid contracts/leases and those nearing the end of their tenure are reviewed on a timely basis and actioned as appropriate.	
Management Response	
Accepted	
The NIHE was unable to renew this lease in June 2012 as we were made aware by Planning Service that there was a challenge on the right to lease out these car parking spaces as they were meant to be for the use of residents of the apartments and not for commercial rent. Apparently another car park firm had brought this to the Planning Service's attention. It took most of the next year to resolve the issue and we were looking at alternative options when we received clarification that the land lord was permitted to lease them out. We then renewed the lease, back dating it to the previous June.	
NIHE has procedures in place to manage leases and payments and will ensure that these are applied in all cases.	
Target for Implementation	
30 June 2013	Responsible Officer: Director of Personnel and Management Services

6 Rotation of Internal Audit Staff

Observation :	
(i) There is no staff rotation of responsibilities and duties with the Internal Audit team. (ii) Internal Audit do not have any specialist IT skills to permit the auditing of application controls within the various computer systems used by NIHE. To date they have no IT specialist with these skills.	
Implication :	
(i) Risk of over-familiarity. (ii) Lack of adequate IT audit coverage and associated assurances for NIHE.	
Priority Rating	
3	
Recommendation	
(i) As best practice the Internal Audit staff resources should be reviewed and arrangements put in place to rotate staff responsibilities and duties on a regular basis. Sufficient time should be allowed within each specialist work area for staff to develop their knowledge and skills without a degree of over familiarity setting in. (ii) Internal Audit along with senior IT management in NIHE should consider whether it would be beneficial to bring in independent IA audit expertise to perform systems audits on key computer systems.	
Management Response	
(i) Audit Rotation: Accepted. Internal Audit has adopted staff rotation as a policy aim. However, due to unforeseen staff unavailability through one-off maternity, close family bereavement and retirements, it has not been possible to rotate managers and staff from their usual work assignments during 2012-2013. It is hoped that in 2013-2014, following a period of staff stability, that opportunities for staff rotation will be explored. (ii) IT Audit expertise: Accepted. It is acknowledged that Internal Audit could make use of greater IT expertise in our assignments. We are currently hoping to procure IDEA audit interrogative software through the NIHE IT department. This remains work-in-progress. However, where external IT expertise would be suitable for a one-off assignment, Internal Audit would hope that resources would be made available to support such work, subject to a business need being established.	
Target for Implementation	
By 31 March 2014	Responsible Officer: Head of Internal Audit

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2.15.1 Issues raised during final audit

1. Weaknesses in management of response maintenance contracts

Observation	
NIHE spent £51.4 million on response maintenance contracts during 2012-13.	
The following issues, described in more detail in the C&AG's report in Annex D, were noted in 2012-13:	
<ul style="list-style-type: none"> The Corporate Assurance Unit (CAU), an independent unit set up to provide management with assurance on all areas of contract management, has visited a total of 26 districts (out of 35) over the past two years and has assessed the standard of the response maintenance contract inspection work as being limited or unacceptable in 62% of them; and NIAO reported on C&AG's concerns relating to NIHE's management of response maintenance contracts in September 2012 and the Public Accounts Committee further reported on this matter in February 2013. These concerns related to issues such as quality of workmanship and overcharging by contractors. 	
Implication	
Expenditure is being incurred on response maintenance work that has not been carried out in accordance with the contract and therefore spend is irregular and poor value for money has been achieved.	
Priority Rating	
1	
Recommendation	
The Housing Executive should:	
<ul style="list-style-type: none"> Investigate the reasons for the limited/unacceptable performance across the districts inspected to ascertain if they have arisen due to gaps in procedures or non-compliance with existing procedures; Address any gaps that are identified in procedures and ensure compliance with procedures is monitored regularly; Ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected; and 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. 	
Management Response	
Accepted	
<ul style="list-style-type: none"> Response Maintenance Intervention Team (RMIT) set up May 2012. All Offices with a limited / unacceptable performance have undergone a series of visits from the RMIT with a requirement to devise actions planes to address the issues raised. All 16 offices identified have undergone this process with revisits to the Offices to ensure actions are being implemented and complete. A comprehensive competency training programme has been delivered to all Maintenance Officers; a similar programme tailored for Maintenance Managers is nearing completion. The 10 Point Improvement Plan for Response Maintenance is being delivered, the Maintenance policy manual has been revised, enhancements to the computer system have been introduced and continue to be reviewed, a mobile working pilot based around hand held devices has been completed and a Business Case for implementation prepared for Board approval. Restructuring of response maintenance into the new Asset Management Division should be concluded within the current financial year. Overpayments are monitored as part of the monthly contract meetings and can be escalated through the Tier 2 process to identify wider possible application. Overpayments can be subject to low performance damages and escalation procedures. In addition to this inspection based approach, overpayments can be identified through desk top analysis with prompt investigation and recovery procedures in place. CAU are just finishing a major restructuring programme. During the year 2013/14 all areas will be 	

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inspected and reported on in relation to response maintenance, their role having been expanded to include assisting areas / districts on how to address issues when identified. In addition, a qualified gas safety inspector has been recruited and an annual heating inspection programme produced and underway.
Target for Implementation
As noted above, a range of actions has already been implemented and those currently underway will be completed within 2013/14. Responsible Officer: Director of Housing and Regeneration / Head of CAU

2. Weaknesses in management and procurement of planned maintenance contracts

Observation
NIHE spent £94.2 million on planned maintenance contracts during 2012-13.
The issues identified during the 2011-12 audit continued this year and include the following:
<ul style="list-style-type: none"> CAU scheme inspections in 2012-13 identified deterioration in the quality of scheme performance since the previous year. 22 of the 36 scheme inspection unit reports (61% compared to 55% last year) completed to date have been designated an unacceptable or limited rating; and In this report last year NIAO noted that CAU had identified potential overpayments to contractors in five schemes of approximately £500,000 in November 2011. As a result of disputes over the level of overpayment action had not been taken to recover the potential overpayment nor had other similar schemes been examined to determine if there was further potential for overpayments. Since then an external chartered surveyor has been appointed to independently review 20 kitchen replacement schemes. This review has completed and confirmed significant weaknesses in the management of these schemes. NIHE has looked at other similar schemes and estimates the level of contractor overpayment across planned maintenance, of which the majority relates to kitchen replacements, to be £18 million.
NIAO also notes that Internal Audit have provided an unacceptable rating on a report on Lifts Maintenance due to weaknesses in controls over existing procurement and contract management arrangements, for example, terms, conditions and specifications of contracts had been set by the service providers and they have never been competitively tendered.
Implication
Expenditure is being incurred on planned maintenance work that has not been carried out in accordance with the contract and therefore spend is irregular and poor value for money has been achieved.
Priority Rating
1
Recommendation
The Housing Executive should:
<ul style="list-style-type: none"> investigate the reasons why performance across the districts has deteriorated to ascertain if it has arisen due to gaps in procedures or non-compliance with existing procedures; address any gaps that are identified in procedures and ensure compliance with procedures is monitored regularly; ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected. In particular the issues surrounding the kitchen replacement schemes need to be addressed as a matter of urgency; ensure that the planned review of the operation of the new procurement process for lifts and the effectiveness of contract management arrangements is completed promptly and any issues arising are addressed; and ensure that, for future planned maintenance expenditure, lessons are learned and contracts are properly managed.

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Management Response	
The recommendation is accepted. It is worth noting that five inspections relating to the 2012/13 CAU annual programme were completed after NIAO cut off of the 31 st March 2013. Five out of the seven were rated substantial and reflects the improvements in performance achieved during the year.	
Target for Implementation	
31 March 2014 Responsible Officer: Director of Design and Property Services	

3. Impact of contractor overpayments on the accounts

Observation	
<p>Since 2001 a number of instances of overpayments to contractors in both response and planned maintenance have emerged in the NIHE.</p> <p>(i) Overpayments in <u>response maintenance</u> have been identified in a number of reviews, including:</p> <ul style="list-style-type: none"> • Red Sky contracts; and • payments to six other contractors adjacent to Belfast through the ASM review. <p>(ii) Overpayments in <u>planned maintenance</u> have been identified in:</p> <ul style="list-style-type: none"> • kitchen replacement schemes based on the work of the external chartered surveyor appointed to review a sample of schemes which indicates an average in excess of 20% of the amounts paid to contractors; • final account reconciliations of external maintenance schemes; and • contracts in relation to major adaptations to NIHE properties carried out over the period 1999-2010 which were managed by an agent. <p>The Housing Executive have now estimated the potential overpayment on planned maintenance at around £18 million and has begun a process of seeking recovery of this amount from the contractors. However the potential overpayment in respect of response maintenance contracts has not yet been finalised and there may be further overpayments arising out of heating response maintenance or other contractors not examined by ASM.</p> <p>As disclosed in Note 26 to the accounts until there is greater certainty over the value of overpayments and the timing and likelihood of the recovery these amounts have not been accounted for within the accounts.</p>	
Implication	
Expenditure is irregular and receivables may be understated in the accounts.	
Priority Rating	
1	
Recommendation	
<p>It is imperative that NIHE</p> <ul style="list-style-type: none"> • addresses all instances where contractor overpayments have arisen as a matter of urgency and without undue challenge; • develops and implements a proactive strategy to deal with further potential contractor overpayments that may emerge to improve the timeliness of response to such issues; and • are in a position to conclude on the level of contractor overpayments that can be recovered as soon as possible. 	

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Management Response
<p>Response Maintenance</p> <p>Accepted</p> <ul style="list-style-type: none"> • Overpayments are, where confirmed, recouped through a formal procedure which deducts from the next available payment to the relevant contractor. • Monthly Contract meetings monitor performance, including overpayments, and can escalate through the Tier 2 process issues that may require further investigation. Desk Top Analysis based upon risk assessments enable potential further areas to be identified. • All appropriate overpayments relating to ASM have been recouped with the exception of Leeway which is in Administration. In relation to Red Sky, the matter has been concluded and a resolution reached with the administrator and secured creditor. <p>Planned Maintenance</p> <p>Accepted</p> <ul style="list-style-type: none"> • NIHE has identified a broad based estimate of £18m of overpayment on the planned maintenance schemes. Further sampling work is being carried out to refine this estimate. • A “without prejudice” meeting has taken place with each of the contractors to agree a process for resolution of the issue. All parties have agreed to carry out further sampling work. Contractors will be given the opportunity to present for consideration their claims for compensation events/ variations. • The Board will be presented in August 2013 with a paper of the progress being made and it is hoped that this will bring a resolution to what monies are outstanding to each of the parties. • If this is unsuccessful the legal strategy will be implemented to recover monies.
Target for Implementation
<p>Response Maintenance – 31 March 2014 Responsible Officer: Director of Housing and Regeneration</p> <p>Planned Maintenance – 31 March 2014 Responsible Officer: Director of Design and Property Services</p>

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4. Delivery of Internal Audit programme

Observation	
Internal Audit is a key governance and management control and plays an important role in ensuring high standards of accountability. The Head of Internal Audit's opinion is a key element of the framework of assurance which the Chief Executive relies on when completing his Governance Statement.	
In their recent report the Public Accounts Committee noted that it expected the NIHE Board and Audit Committee to uphold the independence of Internal Audit and ensure that its annual programme of audits is completed.	
At 31 March 2013 22 audit assignments planned for the 2012-13 financial year had not been completed and were due to be presented to the June 2013 Audit Committee. Subsequently five of these assignments have been deferred. This will undoubtedly have repercussions for the delivery of the audit programme for 2013-14.	
Delays in delivery may be partly attributable to the number of investigations assigned to Internal Audit in addition to their agreed work programme. Furthermore delays in clearing draft reports also impact on Internal Audit's available resource time. For example the final report for Lifts Maintenance was brought to the March Audit Committee with an unacceptable rating then withdrawn. It has subsequently reissued in May with the same opinion.	
Implication	
Reduced internal audit coverage limits the assurance that can be provided to the Chief Executive and clearance delays mean that issues may not be promptly addressed.	
Priority Rating	
1	
Recommendation	
The additional work being referred to Internal Audit and its impact on the approved Internal Audit Plan must be reviewed regularly to ensure that assurance to the Chief Executive is not limited in key areas.	
Arrangements need to be put in place if the current Internal Audit staff resources are not considered sufficient to provide the planned level of audit coverage.	
The Chief Executive and Head of Internal Audit must ensure that management are reminded of the need to respond and clear draft internal audit reports promptly.	
Management Response	
Accepted. Additional resource will be allocated in 2013-2014 to enable timely completion of all planned work. This is to be done through substantive recruitment for unfilled posts, temporary agency resource and the development of an externally procured, call-off contract for professional audit services.	
Target for Implementation	
By 31 March 2014 Responsible Officer: Head of Internal Audit	

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5. Best use of the Corporate Assurance Unit (CAU)

Observation	
<p>The CAU is an independent Unit within the Corporate Services Department which incorporates inspections of response maintenance, grants, and schemes and provides an assurance and improvement function.</p> <p>The DSD Governance Review in 2010 contained a number of recommendations in relation to CAU including:</p> <ul style="list-style-type: none"> the Board should ensure that the best use possible is made of the information generated by this unit; the Board should consider how the unit will provide independent assurance on the adequacy of management controls over heating; and NIHE should ensure are recommendations made by the unit are effectively implemented in a timely manner. <p>In July 2012 DSD advised NIHE that they did not consider that best use possible had been made of this unit or of the information it provided and further action was needed to improve this. DSD also asked that actions be undertaken to ensure that CAU was properly resourced to allow it to fully deliver its remit.</p> <p>In our opinion there are several indications which point to the Unit still not being adequately resourced including:</p> <ul style="list-style-type: none"> In previous years CAU inspected each of the 35 districts annually and, given the nature of the concerns relating to response maintenance, NIAO would have expected this to continue. However only a total of 26 districts have been inspected over the past two years; No inspections of the new response maintenance contracts, in place since August /September 2012, have been completed and reported yet. Given the ongoing issues management should have ensured that inspections of the new response maintenance contracts were completed as soon as possible to provide them with assurance over their operation; CAU have been asked by the Housing & Regeneration Directorate to review a sample of the work of 2 of the previous heating contractors. The fieldwork was completed before mid May but the report has not yet been drafted because of resourcing issues; No inspections of the new heating response maintenance contracts, in place since June 2012, have been completed and reported yet; Again given the unacceptable opinion provided by Internal Audit on heating response maintenance last year this should have been given greater priority; and NIAO note that in some cases it has taken 3-6 months for the CAU to issue draft reports on scheme inspections from the date of their inspection. CAU has advised this has been due to resource pressures. <p>The work of the CAU is a very important internal control, particularly given the experience of serious contract management failings in recent years. It is essential that the Unit is properly resourced and supported by management.</p> <p>We also place reliance on the technical expertise of CAU in our review of the management of maintenance expenditure. In the last few years C&AG has qualified his opinion on the regularity of maintenance expenditure as he has insufficient evidence that the controls in place over this expenditure are robust. It is likely that this qualification will continue until CAU are able to fully complete their programme of work and this work provides evidence that controls over this expenditure have improved and are operating effectively.</p>	
Implication	
<p>Management have insufficient assurance that the improvements they are trying to implement in the management of contracts are actually having an impact if sufficient CAU inspections are not happening on a regular basis.</p>	

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Priority Rating	
1	
Recommendation	
NIHE must ensure that the CAU has appropriate resources and support from management to enable it to complete its full programme of work within a reasonable time frame.	
Management Response	
Accepted	
CAU are just finishing a major restructuring programme. While the majority of the technical posts have been filled, they are still in the process of filling a number of vacancies for its Assurance and Improvement team. This was advertised as an external trawl with interviews scheduled for the end of July 2013. Currently agency staff are filling the void. There is one vacancy in terms of Scheme Inspection. This is on temporary hold pending an analysis of the scheme inspection staffing requirements in relation to the new contracts. In addition, a qualified gas safety inspector has been recruited and an annual inspection programme produced and underway. During the year 13/14 all areas will be inspected in relation to response maintenance. The performance measurement position has also been filled. Resource is available to carry out inspections when required. A quality control function is currently being put in place.	
Target for Implementation	
31 March 2014 Responsible Officer: Director of Corporate Services / Head of CAU	

6. Final account reconciliations

Observation																												
Last year a report of current contracts with outstanding final account reconciliations was requested from the Housing Executive. The report showed that there were a total of 70 contracts that had commenced prior to the 2010-11 financial year but were still awaiting final account reconciliation. Some of these contracts dated as far back as 1996.																												
An update was obtained this year from Design and Property Services who have assigned the task of bringing these accounts to a close to a group of Quantity Surveyors, the Central Cost Group. As at mid May 2013 the position is as follows:																												
<ul style="list-style-type: none">• 22 of the 70 contracts that had commenced before 2010-11 have now been reconciled;• there are a total of 469 schemes under the Egan partnership contract which includes a number of live schemes;• of these 469 schemes final accounts have been submitted for 96 (£32.2 million) of them;• of the remaining 373 schemes, 300 are live or being worked on and 46 potential overpayments have been identified in the remaining 73 schemes, some of which relate to kitchens, and are included within the £18 million figure estimated for planned maintenance.																												
The 373 schemes under the Egan partnership contracts that have not yet been reconciled are set out below broken down by year they are due to finish or have finished and by value.																												
<table border="1"><tr><th>Position</th><th>No.</th><th>Value £m</th></tr><tr><td>Schemes finished /due to finish</td><td></td><td></td></tr><tr><td>2008-09</td><td>6</td><td>1.6</td></tr><tr><td>2009-10</td><td>22</td><td>8.8</td></tr><tr><td>2010-11</td><td>32</td><td>12.9</td></tr><tr><td>2011-12</td><td>69</td><td>27.9</td></tr><tr><td>2012-13</td><td>135</td><td>49.9</td></tr><tr><td>2013-14</td><td>109</td><td>38.6</td></tr><tr><td>Total</td><td>373</td><td>139.7</td></tr></table>	Position	No.	Value £m	Schemes finished /due to finish			2008-09	6	1.6	2009-10	22	8.8	2010-11	32	12.9	2011-12	69	27.9	2012-13	135	49.9	2013-14	109	38.6	Total	373	139.7	
Position	No.	Value £m																										
Schemes finished /due to finish																												
2008-09	6	1.6																										
2009-10	22	8.8																										
2010-11	32	12.9																										
2011-12	69	27.9																										
2012-13	135	49.9																										
2013-14	109	38.6																										
Total	373	139.7																										

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Implication	
Delays in reconciliations may lead to difficulties in recouping any identified contractor overpayments and impact on the Housing Executive's ability to complete a post-contract assessment.	
Priority Rating	
1	
Recommendation	
It is acknowledged that progress is being made in this area. NIHE must ensure that focus continues to be directed in this area so that reconciliations are carried out as promptly as possible after the contract has been fully completed to identify any under or overpayments to the contractor.	
Management Response	
Accepted, it is hoped that a resolution can be achieved with contractors which will lead to closure of these accounts.	
Target for Implementation	
31 March 2014	Responsible Officer: Director of Design and Property Services

7. Supporting People – review by Internal Audit

Observation	
<p>The Housing Executive administers the Supporting People (SP) programme in Northern Ireland. This programme spent £67.5 million in 2012-13 to provide housing based assistance to allow vulnerable individuals to live independently. During the year Internal Audit carried out a review of the award and contract management of a scheme in which SP funding had been withdrawn from an SP provider, Provider A. A number of points were raised by this review:</p> <p>(a) NIHE paid another SP provider, Provider B, £19,500 to provide support and assistance to Provider A in producing an action plan. It could be argued that this payment was more in the nature of consultancy advice and therefore should have been subject to the normal procurement process and DSD approval. It is likely that there are other instances of such expenditure;</p> <p>(b) It is unclear why Provider B was provided with funding to develop an action plan when the outcome of the action plan does not appear to have been a consideration in NIHE's decision to cease funding; and</p> <p>(c) While Internal Audit were content with the initial award of funding to Provider A they:</p> <ul style="list-style-type: none"> found evidence of significant non-compliance with the formal contract management process, for example the follow-up to a service review in 2006 was not found to be robust, service failures were only partially addressed between 2006 and 2011 and evidence was not available of on-going contract meetings prior to 2011; and had concerns over the evidence available to support the decision to withdraw funding, for example, inconsistency between Board and CXBC papers, failure to provide written notice and the rationale for withdrawal of funding was considered unsound. 	
Implication	
Expenditure may be incurred inappropriately. Contract management of supporting people providers may be inadequate.	
Priority Rating	
1	
Recommendation	
<p>NIHE should:</p> <p>(a) consider whether treating payments to one SP provider to support another one as outside the normal procurement rules is in line with MPMNI. If not a wider review of SP expenditure needs to be carried out to</p>	

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<p>ensure there are no other similar areas of spend;</p> <p>(b) provide clarification on why the expenditure of £19,500 was considered necessary; and</p> <p>(c) reinforce compliance with procedures to ensure that in future there is a clear audit trail documenting the rationale for significant judgements made in this area.</p>	
Management Response	
<p>Accepted in principle</p> <p>Recommendation (a): Supporting People funding is considered to be a discretionary grant and as such is not subject to normal procurement arrangements. This is reflected in NIHE's Standing Orders. It should be noted that management submit an annual paper to NIHE's Board seeking approval for the SP budget and highlight innovation and capacity building as a separate sub heading. In the case highlighted above, separate Board approval was given for the payment. The request was considered as reasonable and was in respect of costs associated with a secondment of staff from one organisation to another, not professional consultancy support. The approach to support the sector and the capacity of providers is acknowledged best practice and is not considered to be contrary to the principles of MPMNI.</p> <p><i>NIAO Comment: We continue to have concerns that payments to another Supporting People provider for consultancy type work may be outside normal supporting people funding and therefore should be considered as procurement. We recommend that NIHE liaise with the Department and ensure they are content with their interpretation of MPMNI going forward.</i></p> <p>Recommendation (b): In the instance quoted, a failing provider requested assistance for support after receiving a second below standard inspection report. The provider advised that they did not have the wherewithal to fund the support and subsequently made a request for aid. This was supported by NIHE in an attempt to establish whether or not the organisation could continue to provide a service which remained eligible for funding.</p> <p>Recommendation (c) This is accepted. An external review of SP processes will be commissioned which will include an examination of decision documentation. Further to this review, NIHE will ensure that any recommendations arising from the findings will be implemented.</p>	
Target for Implementation	
31 March 2014 Responsible Officer: Director of Corporate Services	

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8. Special Purchase of Evacuated Dwellings

Observation	
<p>The Housing Executive operates the Scheme for the Purchase of Evacuated Dwellings (SPED). This assists owner occupiers who are forced to leave their homes because of threat or intimidation. The Land & Property Services Agency (LPS) provides NIHE with formal valuations on acquisition and disposal of SPED properties.</p> <p>(i) We bench-marked valuations of five properties acquired during 2012-13 against the LPS/NISRA Report on Residential Property dated February 2013 which sets out price indices covering the period 2005 to 2012. We found that LPS valuations for these five properties were significantly higher than expected. While the LPS valuations are not necessarily wrong, there is no evidence that NIHE has exercised any challenge function over valuations provided by LPS in the past despite the fact that valuations appeared to sometimes be inconsistent with the substantial decline in the housing market.</p> <p>(ii) Our review of SPED disposals highlighted an increase in the percentage loss on resale over the past three years. During 2012-13 a total of 20 SPED properties were disposed of resulting in losses totalling £1.1 million in 19 of the cases and a profit of £15,500 in the remaining case. This does not include costs associated with acquisition or disposal. Of these disposals, in the majority of cases a loss of more than 30% of the respective acquisition cost was incurred. We understand that the level of losses arising from SPED disposals have not previously been subject to regular review.</p>	
Implication	
NIHE has not been achieving value for money in relation to SPED disposals.	
Priority Rating	
1	
Recommendation	
The Housing Executive should review its procedures in relation to SPED so that in future it critically assesses the valuations provided by LPS and monitors the extent of any losses on disposal, so that action can be taken where necessary.	
Management Response	
Accepted in principle	
<p>The Housing Executive accepts the recommendations of NIAO and will seek to review its procedures in terms of seeking further assurance from the instructed valuers in relation to the basis for valuations provided to the Housing Executive in its administration of the Scheme for the Purchase of Evacuated Dwellings (SPED). The Housing Executive will also further consider the monitoring arrangements in place for the review of disposal of properties formerly acquired under SPED. With this in mind a request has been submitted to DSD seeking approval to introduce a 30% loss threshold for all SPED resales to ensure that VFM is achieved.</p>	
Target for Implementation	
By 31 March 2014	Responsible Officer: Director of Corporate Services

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9. Social Housing Development Programme

Observation	
<p>A key target for the Housing Executive is the agreement of 1,325 new starts (including 325 supported housing starts) and completion of 1,200 units. The Housing Executive has had 1,379 new build starts this year (including 163 supported housing starts) and 1,254 completions.</p> <p>Of these 1,379 new build starts we noted that 1,108 (80 %) were not approved until the final month of the year. We also noted that out of the total budget of £85 million, £40 million was spent in the final five days of the year. This is similar to last year when we noted that 726 of the 2011-12 starts (over 50%) were not approved until March 2012.</p> <p>In April 2012 the Minister for Social Department commissioned the Performance and Efficiency Delivery Unit (PEDU) to conduct a Delivery Review of the Social Housing Development Programme (SHDP) and the Unit reported in January 2013. The report made a number of recommendations including:</p> <ul style="list-style-type: none"> • producing the SHDP programme earlier so Associations can start planning; • improving the NIHE process for establishing need and specifically reduce the number of steps in the process; and • incentivise the associations to deliver. <p>It is noted that NIHE has addressed the first recommendation this year.</p>	
Implication	
Schemes may not be subjected to full scrutiny when they are being approved at such a late stage in the year.	
Priority Rating	
1	
Recommendation	
The Housing Executive should, in conjunction with DSD, consider and implement PEDU recommendations.	
Management Response	
Accepted.	
Target for Implementation	
Implementation is underway. Responsible Officer: Director of Design and Property Services	

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10. Governance arrangements within NIHE

Observation
<p>In our recent VFM report on the management of response maintenance contracts we noted that the NIHE Board and Audit Committee meetings covered a wide range of issues and that agendas for meetings included large numbers of papers which did not necessarily focus on key strategic issues. We highlighted the risk that the large volume of papers and lengthy agenda meant it was difficult for important business and scrutiny of performance to get due attention.</p> <p>We note that a review of the workings of the Board and Audit Committee is currently underway. Specifically in relation to the Audit Committee we suggest the following:</p> <ul style="list-style-type: none"> the establishment of a formal forward work programme which sets out the key business for each meeting; consider whether the number of meetings convened during the year are adequate to address this programme (especially given the ongoing issues relating to contract management); assigning times to individual agenda items; introducing exception reporting to ensure that there is enough time to address key issues properly, for example reporting limited or unacceptable audit opinions only; reducing the volume of audit committee papers provided through preparation of high level summaries; consideration of whether the members have the necessary skills required and if there are any training needs; high level summary of recent guidance, for example, all PAC recommendations to ensure that lessons learnt from other bodies are applied if necessary; and ensuring papers are sent out sufficiently in advance to allow members to read them.
Implication
The governance arrangement within the Housing Executive may not be adequate to allow sufficient consideration of key issues.
Priority Rating
2
Recommendation
NIHE should consider the points raised above when reviewing the Audit Committee workings.
Management Response
Accepted by Professor Peter Roberts as Chair of the Audit Committee.
Target for Implementation
During 2013/14

11. Accounting issues

Observation
<p>We note the following issues arising from the accounts:</p> <p>(i) NIHE has disclosed a parcel of land valued at £0.8m as an asset held for sale within note 13 to the accounts. As there is a court injunction on this asset preventing its sale we do not consider that it meets the criteria for such an asset under accounting standards or NIHE's accounting policy at 1 (i). This has been treated as an unadjusted misstatement in Section 3;</p> <p>(ii) Last year we noted that NIHE trade payables included a historic amount of £216k owing to DSD and were advised this would be offset against monies due in 2012-13. This issue has yet to be resolved; and</p> <p>(iii) It is also noted that Houses purchased under the SPED schemes are considered to be current assets as it is</p>

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anticipated that such houses will be sold within 12 months of purchase. At 31 March 2013, of the 38 houses in stock, 15 houses with a market value of £1.8 million had been purchased between December 2009 and March 2012. It therefore may not be appropriate to account for these assets as current.	
Implication	
Non-compliance with standards / Potential misstatement in the accounts	
Priority Rating	
2	
Recommendation	
NIHE needs to ensure compliance with accounting standards in respect of the matters raised and resolve the trade payables issue with DSD.	
Management Response	
(i) Accepted. NIHE will ensure assets held for sale are accounted for correctly in accordance with IFRS 5.	
(ii) Confirmation from DSD that this amount is not outstanding by NIHE is required. NIHE will ensure that this amount will be removed from trade payables if confirmation is received from DSD.	
(iii) Accepted. We will review the accounting treatment to ensure it is appropriate.	
Target for Implementation	
Will be completed for implementation in 2013 / 14 accounts Responsible Officer: Director of Finance	

- 2.16 In accordance with International Standards on Auditing we have to consider significant weaknesses identified in our prior year audit. We have therefore reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those charged with Governance. Our findings are set out in Annex C – Implementation of Prior Year Recommendations. The Audit Committee should continue to track progress on all recommendations, including Priority 2 and Priority 3 points.

Section 3 Identified Misstatements

3.1 This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted misstatements which are not considered material in the context of the financial statements as a whole.

3.2 We do not consider that the adjusted or unadjusted misstatements indicate a significant weakness in accounting or control which needs to be reflected in the Governance Statement.

Significant adjustments made to the financial statements

3.3 As a result of our audit, a number of insignificant adjustments were made to the first draft financial statements presented for audit. An adjustment relating to the reclassification of provisions totalling £117k was considered to be clearly trivial and has not been shown.

3.4 The presentation of adjustments enables those charged with governance to assess the extent to which the draft financial statements presented for audit have been subject to change as a result of the audit process. There were no significant adjustments.

Audit adjustments³

3.5 We have made a few other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM.

Unadjusted misstatements or uncertainties arising from the audit

3.6 We are obliged to bring to your attention the misstatements found during the course of the audit that have not been corrected, unless they are 'clearly trivial', which we have identified as below £119k. The following misstatements have not been adjusted in the financial statements:

Description of adjustments	Account area	SoCNE		SoFP	
		Debit	Credit	Debit	Credit
		£'000	£'000	£'000	£'000
Reclassification of asset held for sale	Current asset – AhfS				800
	PPE - Operational			800	
Total				800	800
Net Impact				-	-

³ Above the clearly trivial threshold of £119k defined in the Audit Strategy.

Section 4

Other Matters of Governance Interest

- 4.1 International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

Fraud and Regularity

- 4.2 We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. Other than in relation to estimated levels of fraud in Housing Benefit expenditure, we found no instances of fraud during our testing.
- 4.3 Significant weaknesses in control have continued to emerge in the Housing Executive's management of response maintenance and planned maintenance contracts. These weaknesses have resulted in significant overpayments to contractors being identified. The weaknesses within these areas of expenditure are considered to continue to be systemic and this has led to a qualification on the regularity of this expenditure.
- 4.4 In the course of our audit we have not identified any suspected or non-compliance with the laws and regulations.

Going concern

- 4.5 In the course of our audit, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the entity's ability to continue as a going concern.

Management of information and personal data

- 4.6 DFP issued guidance in 2008 regarding the management of information and personal data, and government entities were required to review their compliance arrangements and to disclose any specific data incidents. Those charged with governance should ensure they have made sufficient enquiries of management to form a view on the Housing Executive's progress in implementing DFP recommendations, and that the disclosures in the Governance Statement reflect this. Additionally those charged with governance should seek assurance on any data related incidents which may require disclosure. We are unaware of any data handling incidents during the year.

Statement on personal data

- 4.7 During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in accordance with the requirements of the Data Protection Act 1998.

Disagreements with management

- 4.8 There are no audit disagreements with management, about matters that individually or in aggregate could be significant to the financial statements to report.

Co-operation with other auditors

- 4.9 In order to be able to place reliance on the work of other we carried out a review of work undertaken by:
- Internal Audit (in accordance with International Standard on Auditing 610);
 - Corporate Assurance Unit – assurance on inspections carried out on response and planned maintenance expenditure incurred by NIHE; and
 - Social Security Agency's Standards Assurance Unit (SAU) - assurance on the estimated levels of benefit fraud and error reported in the financial statements.

Section 4

Other Matters of Governance Interest

- 4.10 As part of the Department of Social Development audit we also carried out a review of the Governance and Inspection Unit to allow us to place reliance on their work and provide assurance on grants paid to Housing Associations.

Independence, integrity & objectivity of auditors

- 4.11 The NIAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Strategy. Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.
- 4.12 We have complied with FRC Ethical Standards and, in our professional judgement, we are independent and our objectivity is not compromised. There are no relationships between NIAO and the Housing Executive that we consider to bear on our objectivity and independence.

Reliance on other experts

- 4.13 We have relied on the work of the actuary who has valued the pension scheme assets and liabilities. We carried out a review of the actuary in accordance with International Standards on Auditing ISA 500 Using the audit evidence.

Other matters of interest

- 4.14 We note that DSD are currently conducting a follow up to their 2010 Review of Governance in the NIHE and this is expected to be finalised within the next few months.

Complaints procedure

- 4.15 NIAO seeks to ensure that, when carrying out its audit work, it complies with the principles developed by the Public Audit Forum in its paper "What Public Sector Bodies can expect from their Auditors".

NIAO also wishes to gauge public sector bodies' perceptions of its audit processes in order to promote continuous improvement. In particular, it undertakes to act quickly on any complaint and ensure that the underlying causes of problems are addressed to prevent them recurring. In the first instance, complaints can be addressed to the member of the Directorate responsible for the audit within which the concern has been raised.

Failing resolution of the problem to the satisfaction of the complainant, the Accounting Officer of the audited body can then write directly to the Comptroller and Auditor General. He will ensure that a further review of the case will be undertaken.

Annex A – Letter of Representation

[Client Letterhead]

*The Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
BELFAST
BT 7 1EU*

LETTER OF REPRESENTATION: NORTHERN IRELAND HOUSING EXECUTIVE 31 MARCH 2013

I acknowledge as Accounting Officer of the Housing Executive my responsibility for preparing accounts that give a true and fair view of the state of affairs, net expenditure, financial position and cash flows of the Housing Executive for the year ended 31 March 2013.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Department for Social Development (DSD), including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Housing Executive will continue in operation.

I confirm that for the financial year ended 31 March 2013:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money Northern Ireland, except for the issues that have given rise to aspects of the C&AG's regularity opinion being qualified in relation to:
 - Housing Benefit;
 - Response Maintenance; and
 - Planned Maintenance.
- having considered and enquired as to the Housing Executive compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Housing Executive to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Housing Executive have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Board Members and other senior staff of the Housing Executive have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

Executive Summary

and significant issues relating to contract management of response and planned maintenance. The C&AG's Report (see Annex D) accompanies his audit opinion.

Audit judgements

9. A number of significant audit judgements have been taken in reaching our audit opinion:
- Issues relating to the management of response and planned maintenance contracts. Weaknesses identified from our audit work were considered to be of such significance that the regularity audit opinion covering this area of expenditure has been qualified;
 - Overall audit opinion. Due to the issues relating to housing benefit & response and planned maintenance we had considered disclaiming our audit opinion. We concluded that although the issues are significant they are not pervasive through all areas of the accounts and we have instead issued qualifications relating to specific areas of expenditure.

Audit findings

10. In Section 2 we outline the quality, effectiveness and transparency of Northern Ireland Housing Executive's financial reporting and its accounting policy selection, and our audit findings including any issues identified relating to regularity and the internal control environment.
11. No significant issues were identified in respect of the quality, effectiveness and transparency of Housing Executive's financial reporting and accounting.
12. The change in accounting treatment of rates income and expenditure have been treated as a change in accounting policy and a prior period adjustment has been disclosed in note 2 to the financial statements. We are content that the remaining accounting policies used by the Housing Executive in the preparation of the financial statements were complete, accurate and complied with the relevant standards.
13. We identified the following significant internal control weakness²:
- Significant weaknesses in internal controls continue to exist in the Housing Executive's management of response maintenance and planned maintenance contracts. The weaknesses within these areas of expenditure are considered to be systemic and this has led to a qualification on the regularity of response maintenance (£51.4 million) and planned maintenance (£94.2 million) expenditure.
14. We reviewed the format and content of the Governance Statement to ensure that it complies with DFP disclosure requirements and that it is consistent with our knowledge of the client.
15. Further issues of interest are set out in the Other Matters of Governance Interest section.

Identified misstatements

16. In the course of the audit a number of insignificant misstatements were identified which have been adjusted in the financial statements. The net effect of these adjustments was nil.
17. Section 3 also details uncorrected misstatements which have a nil impact on the accounts. Management have not corrected these misstatements as they do not consider them material in the context of the financial misstatements.
18. No significant adjustments were made to the financial statements.

² In accordance with ISA 265, it is the auditor's responsibility to communicate appropriately to those charged with governance and management, deficiencies in internal control identified in an audit of financial statements that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

Annex A – Letter of Representation

INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with DFP guidance on the Governance Statement.

The Governance Statement contains a number of significant ongoing issues. While I recognise that there are considerable challenges in addressing some of the issues outlined in the Governance Statement, the Northern Ireland Housing Executive remains completely committed to resolving the issues in a timely and robust manner.

I confirm there have been no data security incidents during the year that require referral to the Information Commissioner's Office.

FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

Note 29 to the Accounts provides disclosure of estimated losses incurred through confirmed fraud and error. In addition to these cases, our Fraud Register, which has been regularly provided to your officers as attendees of the Audit Committee, provides information on other cases of suspected fraud which are currently being investigated. You have also raised your concerns about the risk of fraud in certain maintenance contracts managed by the Housing Executive. Apart from these matters, I am not aware of any other fraud or suspected fraud which would affect the financial statements presented to you.

I can confirm that all suspected frauds that arose during the course of the year have been notified to the Department.

ASSETS

General

All assets included in the Statement of Financial Position were in existence at the reporting period date and owned by the Housing Executive and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Statement of Financial Position includes all non-current assets owned by the Housing Executive.

Non Current Assets

All assets over £2,000 are capitalised. They are revalued annually as follows:

- Housing Stock has been valued on the basis of open market value for existing use. The Housing Executive uses the Beacon approach to determine the open market value of housing stock. This exercise requires an internal inspection of a sample of properties called beacons. Under this approach, the value of a group of assets is determined by valuing a sample of the assets and using the mean as the average value for the group. A full valuation was carried out by Land and Property Services at 31 March 2009 where valuations were placed after an internal inspection of each sample dwelling was carried out. At 31 March 2013 the housing stock was subject to a 'desk-top' revaluation by Land and Property Services to reflect changes in stock numbers and local price indices.
- Land was revalued at 31 March 2013 on the basis of open market value by Land & Property Services. The valuation is in accordance with the Royal Institution of Chartered Surveyors appraisal and evaluation manual.

Annex A – Letter of Representation

- Offices, Commercial Properties, Travellers Sites and Hostels have been revalued and relifed at 31 March 2010 by Land and Property Services, using fair value for existing use. Indices provided by Land and Property Services have been used to revalue these properties at 31 March 2013.

Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Housing Executive operations.

Other Current Assets

On realisation in the ordinary course of the Housing Executive's operations the other current assets in the Statement of Financial Position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to Housing Executive which are known, or may be expected, to be irrecoverable.

Assets Held for Resale

All assets held for resale have been classified as such as they meet all of the recognition conditions in IFRS 5. All of these assets are available for immediate resale in their present condition, are being currently actively marketed at a reasonable price, the sales will be completed or are expected to be so within one year from the date of classification and actions required to complete the planned sale have been taken.

Contingent Assets

There is an estimated £18 million due to the NIHE in respect of potential contractor overpayments. Until there is greater certainty over the value of these overpayments and the timing and likelihood of their recovery, these amounts will not be recognised as trade receivables within the accounts.

LIABILITIES

General

All liabilities have been recorded in the Statement of Financial Position. There were no significant losses in the year and no provisions for losses were required at the year end.

Provisions

Provision is made in the financial statements for all liabilities which are expected to materialise. The following amounts have been provided for in the 2012-13 financial statements:

- £1.07 million in respect of amounts due to compensate previous owners in areas that have been vested by the Northern Ireland Housing Executive;
- £0.77 million in respect of contractual claims issued against the Northern Ireland Housing Executive;
- £2.29 million in respect of public liability claims; and
- £5.93 million in respect of the costs of surveying and managing asbestos.

As Accounting Officer I believe that the provisions are accurately calculated based upon the information held to date and there is a probable outflow of Northern Ireland Housing Executive resources in the future in respect of these provisions.

Contingent Liabilities

There are a number of legal claims or potential claims against the Housing Executive the outcome of which cannot at present be estimated with certainty. Full provision is made in the financial statements for all liabilities which are expected to materialise.

Annex A – Letter of Representation

I am not aware of any pending litigation which may result in significant loss to the Housing Executive, and I am not aware of any action which is or may be brought against the Housing Executive under the Insolvency (Northern Ireland) Order 1989 and the Insolvency (Northern Ireland) Order 2005.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Housing Executive, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

The following error was unadjusted in the financial statements:

- An asset valued at £0.8m was found not to have met the conditions for classification as a non-current asset held-for-sale and should therefore have been classified as a non-operational current asset.

Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting period date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Dr John McPeake

Northern Ireland Housing Executive
Chief Executive

26 June 2013

Annex B– Audit Certificate

NORTHERN IRELAND HOUSING EXECUTIVE 2012-13

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Northern Ireland Housing Executive for the year ended 31 March 2013 under the Housing (Northern Ireland) Order 1981. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of Northern Ireland Housing Executive and Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to examine, certify and report on the financial statements in accordance with the Housing (Northern Ireland) Order 1981. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Housing Executive's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Housing Executive and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for Qualified Opinion on Regularity arising from erroneous housing benefit awards and payment of fraudulent claims

The total amount paid in housing benefit is £632 million. The level of fraud and error as reported in Note 29 to the accounts resulted in overpayments of £20.8 million and underpayments due to official error of £4.7 million. The housing benefit overpayments are irregular as the expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and also because fraudulent transactions are by definition irregular since they are without proper authority. In addition both over and underpayments arising because of official error are irregular because the Housing Executive is required to calculate benefits in accordance with the regulations which specifies the entitlement criteria for housing benefit and the method used to calculate the amount of benefit to be paid.

I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

Annex B– Audit Certificate

Basis for Qualified Opinion on Regularity arising from weaknesses in control of expenditure on response and planned maintenance

The total expenditure on response and planned maintenance was £145.6 million. Significant weaknesses in control have continued to emerge in a number of areas in respect of this maintenance expenditure incurred by the Housing Executive. I was unable to obtain sufficient evidence that the Northern Ireland Housing Executive's control of this response and planned maintenance expenditure was adequate to ensure the expenditure had been applied for the purposes intended by the Northern Ireland Assembly. Because of this lack of evidence I was unable to form an opinion whether the expenditure of £145.6 million on response and planned maintenance had been applied for the purposes intended by the Northern Ireland Assembly.

Qualified Opinion on Regularity

In my opinion, except for the issues relating to £25.5 million of housing benefit payments attributable to fraud and error, and, except for response and planned maintenance expenditure of £145.6 million, in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Northern Ireland Housing Executive's affairs as at 31 March 2013 and of the net expenditure, cash flows and changes in taxpayers' equity for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing (Northern Ireland) Order 1981 and Department for Social Development directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department for Social Development directions made under the Housing (Northern Ireland) Order 1981; and
- the information given in the Chief Executive's Management Commentary, sections on Delivering Better Homes, Supporting Independent Living, Building Stronger Communities, Delivering Quality Services and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect alone of the issue relating to response and planned maintenance expenditure referred to above I have not received all of the information and explanations that I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- the Governance Statement does not reflect compliance with Department of Finance and Personnel's guidance.

Annex B– Audit Certificate

My detailed observations are included in my Report attached to the financial statements.

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

2 July 2013

Annex C– Implementation of Prior Year Recommendations

We have not yet fully reviewed management's implementation of Priority 1 recommendations made in our prior year Report to those Charged with Governance. We have summarised the response and provided our evaluation, based on the audit work we have undertaken on points reviewed to date.

No.	Recommendation	Management Implementation
5.1	<p>Weaknesses in management of response maintenance contracts</p> <p>The Housing Executive should:</p> <ul style="list-style-type: none"> • Ensure that the CAU has appropriate resources and support from management to enable it to complete its full programme of work within a reasonable time frame; • Investigate the reasons why performance across the districts appears to have deteriorated; • Ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected; and • Ensure that the recommendations of Internal Audit raised within the heating (response maintenance) report are implemented in a timely manner. 	<p>ONGOING</p> <p>Similar issues have been raised again this year.</p>
5.2	<p>Inappropriate payment on account</p> <p>Advance payments should only be made in exceptional circumstances. If the Housing Executive considers there to be a need for an advance payment in the future it must ensure that the rationale for the decision is fully documented and formally approved by its Board, DSD and DFP.</p> <p>Furthermore controls over promptness of inspections may need to be enhanced to obviate the need for such payments.</p>	<p>IMPLEMENTED</p> <p>No evidence of any such payments has been found in 2012-13.</p>
5.3	<p>Weaknesses in management of planned maintenance contracts</p> <p>The Housing Executive should:</p> <ul style="list-style-type: none"> • Ensure that the CAU has appropriate resources and support from management to enable completion of its full programme of work within a reasonable time frame; • Investigate the reasons why performance across the districts has deteriorated; and <p>Ensure that investigations are carried out promptly and robustly where overpayments to contractors are suspected. In particular the issues surrounding the kitchen replacement schemes needs to be addressed as a matter of urgency.</p>	<p>ONGOING</p> <p>Similar issues have been raised again this year.</p>

Annex C– Implementation of Prior Year Recommendations

5.4	Challenge to Independent Assurance Units It is essential that the Housing Executive takes action to ensure that the independence of these units is not undermined and takes the appropriate action to address issues raised, if any, by DSD as a matter of urgency.	ONGOING Similar issues have been raised again this year.	
5.5	Level of final account reconciliations outstanding Reconciliations should be carried out shortly after the contract has been fully completed to identify any under or overpayments to the contractor.	ONGOING Similar issues have been raised again this year.	
5.6	Housing Benefit Overpayments issues <ul style="list-style-type: none"> • NIAO encourage the Housing Executive to continue to develop and improve the means of preventing and recovering Housing Benefit overpayments. • Where overpayments are identified recovery procedures should be initiated at the earliest opportunity and recovery subject to regular review. • The recommendations of Internal Audit relating to the Housing Benefit Fraud and Error Report should be implemented in full within a reasonable time frame. 	ONGOING Similar issues have been raised again this year. IMPLEMENTED	
5.7	Social Housing Development Programme – conditional approvals The Housing Executive should have a greater focus on achieving this target throughout the year to reduce the level of conditional approvals at the year end and the potential for reduced scrutiny.	ONGOING Similar issues continue to be raised with the approval of schemes being concentrated in the last month of the year.	
5.8	Supporting People – potential gap in regularity assurance The Housing Executive should investigate whether the governance issues identified within this service provider are indicative of a more widespread problem across its service providers. This could perhaps be done by introducing a regular programme of financial verification visits or extending the current remit of the validation visits to cover these areas of governance in service providers considered to be of higher risk.	IMPLEMENTED	
5.9	Supporting People Guidance Appropriate steps must also be taken to recover any monies that have been spent inappropriately by the service provider. (i) Guidance in this area, particularly for		

Annex C– Implementation of Prior Year Recommendations

	<p>reserves, needs to be formally issued by DSD as a matter of urgency. The Housing Executive should engage with the Department to resolve any issues that are leading to delays in this guidance being formally issued.</p> <p>(ii) NIHE should also ascertain the level of reserves in respect of Supporting People grants being held by all organisations, since the commencement of the programme, to ensure the risk of monies being used inappropriately by service providers is minimal.</p> <p>(iii) The rationale for all key decisions should be clearly documented on file.</p> <p>(iv) Where there is no formal guidance and NIHE's approach has evolved, through custom and practice, such policies and procedures should be formally ratified by the CXBC.</p>	<p>DSD guidance on reserves has been discussed with DSD and incorporated into SP's financial monitoring procedures.</p> <p>ONGOING</p> <p>Similar issue has been raised again this year.</p> <p>ONGOING</p>
5.10	<p>General contract management</p> <p>The Housing Executive should consider creating a comprehensive database of all general contracts to facilitate good contract management. At the very least it should conduct a review of other similar contracts to ensure they are being proactively managed and monitored. Internal Audit recommendations in respect of this contract should be implemented in line with the agreed target dates.</p>	IMPLEMENTED
5.11	<p>Warm Homes</p> <p>NIHE should</p> <ul style="list-style-type: none"> ensure all failed jobs are re-inspected to ensure that all issues identified during the inspection process are rectified; consider formalising the instructions provided to Scheme Managers for capturing Warm Home accruals by producing written guidance; and consider performing checks on a sample of jobs included in the year-end accrual to verify they are genuine accruals and that the estimated value of work is reasonable. 	<p>IMPLEMENTED</p> <p>Monthly inspections are being carried out. Written formal instructions on accruals were issued to Scheme Managers in March 2013.</p>
5.12	<p>Social Housing Fraud</p> <p>Housing Executive should</p> <ul style="list-style-type: none"> ensure that there is an adequate response to social housing tenancy fraud; consider assigning dedicated investigation teams to help detect potential social housing tenancy fraud; and Consider the use of 'No Access' visits as part of a risk based approach to 	<p>PARTIALLY IMPLEMENTED</p> <p>There is an issue regarding the resourcing of dedicated investigating teams. It will be revisited depending on the level of fraud identified.</p> <p>Tenancy Fraud Strategy was presented to the April Board with range of proposals to be rolled out in 2013/14.</p> <p>The C&AG will issue a short report on this area</p>

Annex C– Implementation of Prior Year Recommendations

	the selection of property for investigation under the Housing Benefit fraud criminal/compliance routes.	within the next few months.
5.13	Rent Arrears The Housing Executive must ensure that appropriate action is taken to ensure that rent arrears are kept to the absolute minimum.	ONGOING Similar issues have been raised again this year.
5.14	Voluntary Severance Scheme DFP approval should be gained as soon as practicably possible. In future, in similar instances, full consideration should be given to the appropriate accounting treatment.	IMPLEMENTED Approval obtained.

The Audit Committee should ensure that it is content that other recommendations made in our prior year Report to those Charged with Governance have been actioned by management. The Audit Committee should also ensure that adequate arrangements are in place to track all recommendations.

Annex D– C&AG’s Report

NORTHERN IRELAND HOUSING EXECUTIVE

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Part 1: Introduction

1. The Northern Ireland Housing Executive (the Housing Executive) is a Public Corporation sponsored by the Department for Social Development (DSD / the Department). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 90,000 dwellings.
2. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly (the Assembly) and the financial transactions conform to the authorities which govern them.
3. This report reviews the results of my 2012-13 audit of the Housing Executive and sets out the reasons why I have qualified my audit opinion on the regularity of expenditure in the following areas:
 - Response and Planned Maintenance Expenditure (Part 2)

The Housing Executive spent £51.4 million on response maintenance expenditure and £94.2 million in planned maintenance expenditure during 2012-13. Considerable problems continue to be identified relating to Housing Executive controls over work done by contractors on its response and planned maintenance programme; and
 - Housing Benefit (Part 3)

The Housing Executive spent £632 million on housing benefit in 2012-13. Significant levels of estimated fraud and error in housing benefit expenditure continue to arise and I have qualified my opinion on this for a number of years.
4. I reported last year on issues relating to land disposals. These issues continue to be the subject of police investigations and therefore at this stage I cannot report further. I intend to keep these matters under review and may report further to the Assembly at a later stage. In addition I have not included issues relating to Housing Associations in this report as I consider these issues to be more relevant to my report on the Department’s 2012-13 accounts.

Annex D– C&AG’s Report

Part 2: Response and Planned Maintenance

Qualified opinion due to weaknesses in the control of expenditure on response maintenance and planned maintenance

5. Last year I qualified my opinion on the regularity of both response maintenance expenditure⁴ and planned maintenance expenditure⁵ because I was unable to gain sufficient evidence to support this opinion. Since then significant weaknesses in control have continued to emerge in the Housing Executive’s management of response and planned maintenance contracts which have led me to qualify my opinion on the regularity of this expenditure again. The total expenditure on response maintenance and planned maintenance during 2012-13 was £51.4 million and £94.2 million respectively.

6. The basis of my concerns on response maintenance expenditure is set out below:

(a) Repairs Inspection Unit (RIU) inspections

Response maintenance work undertaken by the Housing Executive covers a large range of expenditure. I therefore seek to rely on the Housing Executive’s internal controls to ensure that all work done by their contractors is properly inspected and payments are not made until the work has been satisfactorily completed. One of the key controls in ensuring that proper inspections are taking place within district maintenance sections is the RIU, now part of the Corporate Assurance Unit (CAU). This Unit selects samples of maintenance work done and re-performs the checks that have already been carried out in each of the districts. This year the Unit continued to identify a large number of instances where inspections carried out by the district offices are failing to identify poor standards of work or work that has not been carried out.

In previous years the Unit examined all 35 districts within the Housing Executive every year and presented a report for each district listing scores for four specific areas⁶ rating them according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial. Last year I noted that only 12 of the 35 districts scheduled for inspection had been visited. This year I have been advised that a further 14 of those districts not examined have now been visited and, following a risk based review, a decision was taken not to visit the remaining nine districts as previous inspections indicate they are the better performing districts. The results of the work of the Unit are summarised in Table 1 below:

Table 1: Results of inspection work by the Repairs Inspection Unit

	2012-13	2011-12	Total
Rating	Number of districts		
Substantial	-	-	-
Satisfactory	7	3	10
Limited	4	1	5
Unacceptable	3	8	11
	14	12	26

Source: NI Housing Executive.

NB: Results reported for three of the districts in 2011-12 have been revised upwards by CAU since I reported last year.

⁴ Response maintenance relates to work that is undertaken in response to problems identified by tenants.

⁵ Planned maintenance relates to schemes that are planned from time to time to maintain or upgrade a property.

⁶ Contract Management; Probity; Inspection (on site) and Procedures.

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I am concerned by the fact that the Housing Executive CAU team has visited only 26 districts over two years. Given the level of concern relating to the district management of contractors ideally I would expect that each district should be visited annually. Furthermore of the 26 districts visited by CAU in 2011-12 and 2012-13, 16 (62%) have had the standard of their contract inspection work judged as either limited or unacceptable. I asked the Housing Executive to comment on this performance and it told me that the CAU inspection programme was risk based. It considered previous performance and applied a targeted approach focusing on higher priority districts and this broad approach was approved by the Risk and Performance Committee.

The Housing Executive advised that it took indicators of poor contract performance very seriously and noted that:

- the current contracts contain a range of Key Performance Indicators (KPIs) which provide ongoing measurement of contractor performance and cover four broad areas: quality of work, payment accuracy, timeliness and customer satisfaction;
- there is a robust and structured contract management regime, with clear lines of responsibility and accountability, and defined escalation arrangements to deal with disputes and performance issues;
- a statistically based sampling procedure is used to select jobs for inspection by Housing Executive maintenance inspectors;
- the results of these inspections are used to calculate some of the indicators;
- the contracts also contain Low Performance Damages clauses which are applied if a contractor fails to meet the required KPI targets. This is backed by a requirement for Contractor Improvement Plans which are formally monitored; and
- failure to meet KPIs and / or deliver the required improvements can result in termination of the contract.

I note that the types of weaknesses found by the CAU inspections include:

- over measurement where the quantity of the materials paid to the contractor is excessive compared to the materials required or used;
- work being paid for twice as there was confusion on the part of some staff over what was deemed to be included in the contract;
- work being paid for twice as contractor claimed for work that should have been completed at no additional cost as it fell within the 6 month defect liability period; and
- claims for work not completed by the contractor.

To address these issues the Housing Executive has undertaken a number of steps. One of the key responses has been the establishment of Response Maintenance Intervention Teams (RMIT) in May 2012 to visit all districts receiving limited or unacceptable ratings from CAU and devise detailed action plans to address the issues identified. The Housing Executive told me that as at May 2013, the RMIT had visited 16 offices and local action plans had been developed for each office. Furthermore the RMIT re-visits each office to confirm that the agreed actions have been implemented and that improvements are being delivered.

In addition the Housing Executive has delivered seminars to Maintenance Officers on the typical failings being identified by CAU and developed a competency training programme for all Maintenance Officers to attend. The Housing Executive told me that another key step was the 10 point Contract Management Improvement Plan for Response Maintenance which was approved in July 2012 and subsequently refined into 4 main themes around addressing the source of failure, addressing skills and training, structural issues and system enhancements. Also it told me that to support inspectors in their work:

- there has been a comprehensive review of the guidance and supporting materials used by them;
- the computer system has been amended to provide additional prompts and controls;
- greater use is being made of technology to allow better access to these materials;

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- a pilot to evaluate the benefit of mobile hand held devices for survey and inspection purposes has been successfully completed; and
- new training courses have been developed to improve competences.

The Housing Executive has informed me that the Board has approved restructuring within it to allow the establishment of a new Asset Management Division which will be responsible for all maintenance and works activity. This will provide a refocusing of this critical function. Because of this work the Housing Executive expects to see a considerable improvement by the time of the next round of CAU inspections in 2013-14.

(b) Ongoing investigations into response maintenance contractors

I have previously reported my concerns relating to the Housing Executive's management of contractors carrying out response maintenance⁷ and the Public Accounts Committee (PAC) also reported on this matter in February 2013⁸. These concerns related to issues such as quality of workmanship and overcharging by contractors. Initially problems were identified in relation to one contractor, Red Sky, who provided response maintenance services across a number of districts, and as a result the contract with Red Sky was terminated in July 2011. Further examination was then carried out, both by my staff and the Department who commissioned a firm of accountants to report to the Minister. Both of these examinations have identified significant and systemic issues relating to the management of contractors.

7. The basis of my concerns on planned maintenance expenditure is set out below:

(a) Schemes Inspection Unit (SIU) inspections

SIU, which is also part of the CAU, performs a similar role to the RIU in respect of planned maintenance schemes⁹. The results of the 2012-13 inspections are set out in Table 2. During 2012-13 36 scheme inspections were completed which led to 11 schemes being classified as having limited quality and a further 11 being classified as having unacceptable quality (61%). In the previous year of the 20 schemes inspected nine had a limited rating and two were unacceptable (55%). It is concerning that these results indicate deterioration in performance, particularly in relation to the kitchen replacement scheme where issues have been known about for some time.

Table 2: Results of inspection work by the Schemes Inspection Unit

Scheme:	Rating			TOTAL
	Substantial/Satisfactory	Limited	Unacceptable	
External Cyclical Maintenance	1	-	-	1
Windows Replacement	8	1	1	10
Kitchens Replacement	5	10	10	25
TOTAL	14	11	11	36

Source: NI Housing Executive.

I asked the Housing Executive to comment on this and it told me that any SIU Reports which presented limited or unacceptable findings have been further evaluated to highlight any common issues or trends. As a

⁷ NIHE Management of Response Maintenance Contracts, NIAO, 4 September 2012.

⁸ Report on the Northern Ireland Housing Executive: Management of Response Maintenance Contracts, NIA 99/11-15, 20 February 2013.

⁹ In 2012-13 the Unit completed audits on kitchen replacement, windows replacement and external cyclical maintenance schemes. In 2011-12 the Unit also looked at heating replacement schemes and major heating schemes.

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result of this analysis, management has recognised and accepted that there are shortcomings in some aspects of electrical works, fire doors and egress windows. These issues are being addressed and have been brought to the attention of contractors who have been notified that work will not be accepted and paid for unless it meets the standards required under the specifications set by the Housing Executive.

It also told me that further significant work has been carried out by the Design and Property Services (DPS) division and CAU to deliver improvements throughout the year. This included:

- all Clerks of Works and Inspectors receiving training on the Housing Executive's policy and standard specifications, particularly when new specifications were introduced;
- a quarterly forum being established to apprise relevant staff about key inspection findings and to identify and agree where improvements will be made;
- SIU reports being a standing agenda item at monthly contractors' meetings;
- contractors being regularly informed that the Housing Executive will not accept any substandard work; and
- within DPS, a new Policy and Liaison role has been created to strengthen engagement between CAU, DPS and contractors. This is to identify any potential areas of disagreement or dispute, and to agree and bring forward solutions.

The Housing Executive recognises that, despite these efforts, the results of improvement plans can take time to become fully embedded and capable of being evidenced. An element of the SIU reporting is therefore reflecting previous practices which are known to be problematic. This has been reviewed and schemes are now being assessed on handover. However it has advised that it feels there have been recent positive indicators especially with the latest kitchen scheme reviewed by SIU being given a "substantial" rating.

It told me that during the 2012-13 year a new SIU methodology was approved by the Risk and Performance Committee and Board on the basis that it would be "road tested" before being applied more widely. This has highlighted further improvements which, when implemented, will make the inspection process more robust.

(b) Overpayments in respect of kitchen replacement schemes

Last year I reported on work ongoing within the Housing Executive to identify the extent of potential overpayments to contractors for a number of kitchen scheme replacement contracts. This was following on from a review by CAU in November 2011¹⁰ of five kitchen replacement schemes, one from each geographical area which identified potential overpayments to contractors of approximately £500,000. As 112 kitchen replacement schemes had been completed at that point this meant that there was potentially a very significant overpayment.

At the time of my report last year the level of overpayment was being disputed by Housing Executive management who had also arranged for their own analysis to be carried out which appeared to show that the potential for overpayment had been considerably overstated. These disagreements led to delays in progressing this issue but in late 2012 the Housing Executive finally appointed an external chartered surveyor company to provide an independent, sample based, assessment of a further 20 kitchen replacement schemes. This assessment has now been completed and has confirmed that there were significant weaknesses in the Housing Executive's management of these contracts.

One of the key issues identified by the assessment was in respect of payments made to contractors on the basis of a standard 'Project Price List' (PPL). The PPL was effectively the bill of quantities for each kitchen replacement scheme. However the Housing Executive made the mistake of assuming that the same work would be done for each house type when in fact requirements often varied significantly from one house to

¹⁰ This review pulled together the results of a number of individual inspection reports that had been prepared by the SIU and reported during 2010. At this stage the financial implications were not clear and issues were not followed up.

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another. For example tenants may have undertaken additional work at their own expense such as installing floor and wall tiles, removing kitchen units to allow installation of new appliances or purchasing their own kitchen extractor units.

In fact the PPL only provided an indicative estimate of the cost of each piece of work and the contractor should have carried out ‘remeasurement’ to identify and cost the variation between the work actually completed at each dwelling and the PPL indicative cost. This remeasurement was generally not carried out and as a result contractors may have been paid for work which had not been done. Limited numbers of inspections were carried out by Housing Executive staff on the work done by the contractors but these were generally visual and did not include inspections by quantity surveyors.

The assessment by the external surveyors found that, in general, normal contract management arrangements had been set aside in favour of more relaxed procedures based on partnership, trust and mutual co-operation which meant that effective checking and inspection was not being carried out and consequently potential overpayments were not identified.

The work done by the external surveyors on the sample of 20 kitchen replacement schemes (out of a total of 242 schemes undertaken to date) found potential overpayments of £1.319 million out of a total cost for all schemes examined of £6.259 million. The proportion of estimated overpayments ranged from 2 per cent to over 40 per cent depending on the scheme and contractor involved. The Housing Executive has now used this work, together with work undertaken by its own Central Cost Group, as a basis for estimating the potential overpayments across all of its planned maintenance work since 2008 (the period of its current contracts). This estimate has been prepared largely by extrapolating the estimated error rates and has estimated the potential total contractor overpayment to be around £18 million.

The Board has now arranged for an external independent review of the Housing Executive’s handling of planned maintenance contracts to review how the overpayments arose, the reliability of the estimate on overcharging and the actions taken to recover the overpayments. The Housing Executive is also examining, through its legal advisers and by ongoing liaison with the contractors, how these potential overpayments might be recovered.

I am very concerned that the Housing Executive’s seemingly lax controls appear to have resulted in such a large potential loss of public money. I am also disappointed that these issues were not addressed earlier, either when they were first identified by SIU in 2010 or when the issues were raised again in CAU’s review in November 2011. Unfortunately there was a considerable degree of challenge by Housing Executive management to the findings of CAU which delayed the appointment of external surveyors until late 2012.

I asked the Housing Executive to comment on how such substantial overpayments in respect of the kitchen replacement schemes were allowed to arise and the likelihood of any recovery from contractors being achieved. The Housing Executive told me that it has already undertaken a substantial body of work to investigate this issue and to provide an estimate of the potential financial implications arising from it. A number of critical contributory factors have been identified, particularly with regard to how the contracts were implemented, the approach taken to inspection and approval of work, and how the Housing Executive engaged with contractors. These factors were considered in more detail in a report submitted to the Board. The Housing Executive informed me that that the Board is extremely concerned about how planned maintenance contracts have been managed and how the suspicions of overcharging have been dealt with. Accordingly, an independent external investigation was recently commissioned by the Chairman on behalf of the Board which is due for completion by October 2013.

With regard to recovery, the Housing Executive told me that its intention is to seek full repayment of all overpayments made to contractors and a legal recovery strategy, approved by the Board, has already been implemented. The first step of this has involved formal adjudications based on the independent evidence prepared by the external surveyors but further legal action cannot be ruled out. Given that the matter is currently being pursued through a defined legal process, the Housing Executive considers it inappropriate to make further comment at this stage.

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I also asked the Housing Executive to explain how its controls have been strengthened to ensure that similar issues do not recur in future planned maintenance schemes. It told me that it has already taken action to put in place a range of improved controls and arrangements to address the weaknesses and behaviours which allowed the overcharging to happen. This includes:

- increasing the number of professional officers available to inspect and pass work for payment;
- retraining all relevant staff to emphasise the need for effective checking and monitoring of schemes; and
- the establishment of a Central Cost Group to provide an additional layer of scrutiny with regard to the approval of PPLs and certification of claims for payment submitted by contractors.

Looking ahead to the new contract framework for planned maintenance work (the former contracts expired in January 2013) the Housing Executive told me that it has redesigned the delivery model to include the use of external consultants as scheme managers. Within this new monitoring and control regime, which will measure the performance of both the consultants and contractors, they note there is a facility to impose, if required, financial sanctions for poor performance. It told me that this approach has been developed to provide a better transfer of risk, at the same time maintaining its overall accountability and responsibility for the stewardship of public funds. In addition, the future management of planned maintenance contracts will be informed by the findings of the independent external review.

Conclusion on response and planned maintenance expenditure

8. Based on the issues above I have qualified my opinion on the regularity of response and planned maintenance expenditure totalling £145.6 million in 2012-13. I was unable to obtain sufficient evidence that the Housing Executive's control of this expenditure was adequate for the purposes of ensuring that these payments had been applied for the purposes intended by the Assembly.

Other issues relating to planned and response maintenance

PAC Report on Management of Response Maintenance Contracts (February 2013)

9. Based on my review of Housing Executive management of response maintenance contracts (September 2012) the PAC held an Evidence Session and subsequently reported in February 2013. The Committee made ten recommendations, four of which are noted below:
 - the Department and Housing Executive should use the bedding-in period for the new response maintenance contracts let in August 2012 to critically evaluate how they are working in practice;
 - detailed information on the results and timeliness of inspections should be reported to the Housing Executive Board and Audit Committee who must also assure themselves that payments are being made promptly to all contractors;
 - Corporate Assurance Unit's independence from operational divisions must be recognised and upheld and its work should not be undermined; and
 - necessary investigations must be undertaken to establish the full extent of the contract management problems and the potential exposure in financial terms to ensure weaknesses are identified and eradicated.

The Housing Executive has informed me that there is an action plan in place to meet the PAC Recommendations. Many actions have already been completed and others are currently being implemented.

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10. Both the Department and the Housing Executive have advised me that improvements have been made in the structure of the contracts and the way in which they are managed. Financial penalties can now be applied when contractors do not perform to the standard expected and these changes are expected to lead to improvement in performance and value for money. The Housing Executive also told me that clear escalation procedures are now in place in order to address occasions, should they arise, where unsatisfactory performance persists and that the new contracts will be critically evaluated through an Office of Government Commerce Gateway Review, operations review and benefits’ realisation, which is scheduled for August 2013.
11. The Committee also noted their concerns that the failure to secure contracts at sustainable prices increases the risk that contractors may:
 - attempt to cut corners;
 - look for additional payments from the contracts; or
 - run into financial difficulty and in some cases go out of business.
12. In light of this I note with concern that in April 2013 a response maintenance contractor responsible for providing services to North and East Belfast and Lisburn went into administration and another contractor who initially terminated a contract in West Belfast subsequently went into administration in June 2013. This affected contracts in Shankill, South Belfast, Lisburn Dairy Farm and Portadown. The Housing Executive told me that the following action is being taken:
 - for the North Belfast, East Belfast and Lisburn contracts the service is being delivered through the utilisation of adjacent “back up” contractors in conjunction with the in-house Direct Labour Organisation (DLO) contractor.
 - in West Belfast, the service is being delivered by the in-house DLO contractor.
 - it is the Housing Executive’s intention to take over contracts for Shankill, South Belfast, Lisburn Dairy Farm and Portadown, using the DLO, and discussions are ongoing with the Administrator.
13. I understand that CAU intends to issue response maintenance inspection reports for each of the twelve new areas and the first report should be drafted by the end of June. Given the fact that the new response maintenance contracts have been operating since August 2012 I am surprised that the Housing Executive has not pushed harder to receive independent assurance earlier. I also note that in some cases there have been delays of between 3-6 months in the issue of draft reports post scheme inspection visits. This is particularly concerning given the assurances by the Housing Executive that CAU’s role has been developed and strengthened. The Housing Executive told me that:
 - while the new response maintenance contracts have been operating since August 2012, there was a “bedding in” period in relation to the key performance indicators;
 - following that, in order to “road test” the CAU methodology, CAU inspected 3 districts, and the findings from these inspections were used to confirm the methodology;
 - the 2013 -14 Programme of CAU inspections commenced in May 2013 and will cover all the response maintenance contracts;
 - CAU will carry out the annual inspection programme and report on an area basis in line with the timeframes outlined in the revised methodology;
 - the programme will be delivered by CAU within the agreed time frame; and
 - management will ensure there is a timely response in relation to issuing findings to the area, holding exit meetings, providing area responses to CAU’s observations and issuing the Final Report.

The Housing Executive assured me that there is an ongoing commitment to ensure the effectiveness of both the role of CAU and the value obtained in terms of improved response maintenance management.

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The Housing Executive accepts that there were some delays in implementing last year's routine programme. However, this was due, in large part, to the urgent need to reprioritise CAU's Repairs Inspection Unit resources towards investigatory work in response to concerns around a number of specific contractors together with additional workload which was identified following receipt of the accountant's report commissioned by the Department. It acknowledges that further work needs to be done to ensure assurance reports are responded to promptly and within the required timescales and this is clearly a management responsibility.

Benchmarking of repairs costs

14. I welcome the fact that a number of benchmarking exercises have been carried out within the Housing Executive throughout the year. In the 2011-12 Housemark¹¹ repairs value for money benchmarking exercise the Housing Executive's performance was compared to 27 other organisations¹².

Table 3: Extract from 2011-12 Repairs Benchmarking Exercise

	2011-12	2010-11	Recommended or median
Volume of work categorised			
• Emergency	37%	44%	10%
• Urgent	26%	23%	20%
• Routine	37%	33%	70%
Average cost of repairs per property	£432	£386	£418
Costs of managing contracts	10.9%	12.3%	10.2%
% of Repairs passing inspection	91.3%	79.8%	96.3%

Source: NI Housing Executive.

15. I note the following:
- the volume of work categorised as emergency repairs by the Housing Executive continues to be well in excess of other organisations;
 - the average cost of repairs per property has risen by 12 per cent this year and is in excess of the median;
 - while contract management costs have reduced since 2010-11 they remain high in comparison to the median for other organisations and maintenance management has been considered as part of the Gateway and Governance Reviews; and
 - the apparent poor post inspection pass rate, although significantly improved since last year, is still lower than the median performance.

¹¹ NIHE is a member of Housemark which is a subscription-based benchmarking service.

¹² It is noted that only 2 of these 27 had housing stock over 20,000 and in 50% of the group the repairs service is provided by an in-house contractor.

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Part 3: Housing Benefit

Qualification of regularity opinion due to estimated levels of fraud and error in housing benefit payments

16. The Housing Executive administers housing benefit on behalf of DSD. The Department’s Standards Assurance Unit (SAU) regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, the SAU randomly selects samples of ongoing claims and subjects them to detailed examination for evidence of official error, customer error or customer fraud¹³. The results of this testing are used to produce a range of likely fraud and error in housing benefit and the median of this range¹¹ is used to estimate the monetary value of the fraud and error in the year.
17. The estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing but do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, SAU’s testing is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.
18. I examined the work undertaken by the SAU to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of the case work during the year and also reviewed the methodologies applied by the SAU in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the housing benefit system.
19. The entitlement criteria and the method to be used for payment of housing benefit is set out in legislation. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to housing benefit, or is paid at a rate which differs from that specified in the legislation, the payments made are not in conformity with the governing legislation and are therefore irregular.
20. The levels of fraud and error for housing benefit for the year 1 January 2012 to 31 December 2012, estimated by the SAU, are set out in the accounts¹⁴ and in total represent some 4.2 per cent of housing benefit expenditure (including 0.3 per cent relating to underpayments due to customer error which are not part of my qualification).
21. Table 4 shows the housing benefit payments made during the calendar year of 2012 and the estimated amounts of fraud and error in relation to these payments, based on the work completed by SAU. The table shows that the total amount paid in the 2012 calendar year was £612 million with estimated irregular payments of £25.5 million comprising:
 - overpayments of £20.8 million (3.4 per cent of housing benefit payments); and
 - underpayments due to official error of £4.7 million (0.8 per cent of housing benefit payments expenditure).

All of the overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular.
22. Underpayments due to customer error of £1.7 million are not included in the figures above and are not deemed irregular as customers are not required to conform to governing legislation when making their benefit claims.

¹³ Official error arises when housing benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the NIHE. Customer error occurs when customers make inadvertent mistakes with no fraudulent intent. Customer fraud arises when customers deliberately seek to mislead NIHE.

¹⁴ Note 29 to the accounts: Payment Accuracy.

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Table 4: Trends in estimated overpayments and underpayments due to fraud and error in housing benefit expenditure

	2012 £million	2011 £million	2010 £million	2009 £million	2007 £million
Total Housing Benefit Expenditure*	612	558.5	568.3	503.6	412.8
Overpayments					
Official Error	6.8	2.6	9.8	3.6	1.2
Customer Error	4.8	4.8	4.0	1.2	6.7
Customer Fraud	9.2	2.8	0.9	4.5	2.8
Total	20.8	10.2	14.7	9.3	10.7
% of Housing Benefit Expenditure	3.4%	1.8%	2.6%	1.8%	2.6%
Underpayments					
Official Error	4.7	3.6	2.4	3.4	0.3
% of Housing Benefit Expenditure	0.8%	0.6%	0.4%	0.7%	0.1%

*This amount is the population from which a sample was examined by the SAU. It is based on amounts paid in the calendar year and will therefore differ from amounts in the financial statements which are based on financial years.

Source: SAU Reports (SAU did not carry out an exercise covering 2008 due to resourcing issues.)

23. The figures in Table 4 show considerable volatility in the level of estimated fraud and error over the past number of years. To some extent this results from the sampling methodology which provides a range of likely fraud and error (within a 95% confidence interval). The figures represent the median within the range which is 3.4 per cent in 2012 and 1.8 per cent in 2011. However the possible range of estimated fraud and error is between 1.2 per cent and 5.9 per cent in 2012 and 0.6 per cent and 3.4 per cent in 2011. Nevertheless I consider that using the median provides a reasonable basis for comparisons of performance between years.
24. I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. However I am concerned to note the considerable increase in the estimated levels of fraud and error this year with estimated overpayments having increased by almost 50 per cent.
25. Worryingly the level of overpayments due to official error appears to have increased substantially, although it is still less than the comparable figure in 2010. As official errors arise from mistakes by the Housing Executive these errors are within its control and it is best placed to reduce them. In some cases the errors can be hard to identify and consequently the cumulative impact can be considerable. Reasons for official errors include:
- incorrectly recording a customer's income;
 - incorrectly applying complex benefit rates; and
 - making errors in establishing the customer's status (such as single status, etc).
26. In addition, I also note that the estimated level of underpayments due to official error has increased substantially, when compared with 2011, by 30 per cent to £4.7 million. This is a considerable increase in a figure which is now 0.8 per cent of total housing benefit expenditure compared to 0.1 per cent in 2007.
27. I asked the Housing Executive why it thought that the level of over and underpayments arising from official error have risen so significantly. It told me that:
- there has been a continuing increasing caseload due to the prevailing economic conditions (Housing Benefit caseload has risen by over 10 per cent in the last four years);

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- there was a substantial increase in workload following the full introduction of the Atlas¹⁵ system at the start of the year as the volume of notifications has been extremely high with the system prompting approximately two million individual transactions (which affected about half a million claims during the year);
 - during the first six months of operation the majority of the notifications from the Atlas system had to be processed manually and each case was suspended while this was done; and
 - the processing of these transactions were given priority to prevent delays in payments to customers which meant that other work was affected. For example, an annual exercise to review earnings' cases, which is one of a number of counter-fraud activities, had to be postponed for the year.
28. Furthermore the Housing Executive told me that the pressure of the additional workload also undoubtedly affected the accuracy levels of assessments. During the year it told me that work was undertaken:
- to identify ways to automate the actions prompted via Atlas and it ultimately succeeded in automating approximately 80 per cent of these transactions; and
 - additionally, from October 2012, additional resources were introduced via an overtime facility to deal with the backlog of work that had built up over the first half of the year.
29. The Housing Executive considers that both of these measures meant that by the end of the year, workflow, although still at a higher level than in previous years, had been regularized which should help in addressing, and reducing, Official Error. Furthermore before the end of the first quarter of the current year, an exercise will be completed to examine the principal causes of Official Error over the full 2012-13 year which is expected to help improve performance in this area.
30. Customer error relates to situations where customers have made mistakes in claiming the benefit which are not judged to have arisen from fraudulent intent. This would include situations where errors arise because:
- customers cannot properly navigate the complex housing benefit system;
 - customers are unaware of rules on capital, investments or redundancy payments;
 - customers do not understand the requirement to report any changes in their circumstances; and
 - many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.
31. I note that estimated customer error is unchanged from last year. I asked the Housing Executive to comment on this and it told me as part of the strategy to prevent overpayments, it introduced the Atlas system to capture information on some changes in claimants' circumstances at an earlier stage to reduce the potential of customer error. In addition, annual exercises are undertaken to update information on earnings and occupational pensions to do likewise. Unfortunately it informed me that these latter exercises were postponed for 2012-13 due to the workload associated with the introduction of Atlas so the full benefits of these activities were not achieved. The Housing Executive anticipates that with all three systems running in 2013-14, improvement will be seen in this area.
32. The estimated level of customer fraud continues to increase substantially and at £9.2 million is more than three times higher than last year. Most commonly customer fraud arises from:
- under declaration of assets;
 - falsely stating the level of their own or partner's earnings;
 - undeclared and under declared occupational pensions;
 - customers working but not disclosing this; and

¹⁵ This system provides authorities with electronic notification of all awards and changes in Tax Credits and the main Social Security benefits of HB customers.

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- non-disclosure of customer's living arrangements where, for example, the customer has a partner but is claiming and receiving housing benefit as a single person.

33. This means that the level of fraud now more appears to be higher than at any time in the previous five years. This is particularly disappointing as it had been expected that the new Atlas system of electronic notification of changes in benefits this year would result in a decrease in fraud and error levels. I asked the Housing Executive to explain why it thought the estimated levels of fraud had increased so significantly in the current year. The Housing Executive told me on the basis of the cases identified as fraudulent by SAU it is possible that the postponement of the annual earnings exercise for 2012 has influenced the findings. It advised me that this exercise has been reinstated for 2013-14 and the impact of the introduction of Atlas has been previously referred to.

Conclusion on housing benefit expenditure

34. I consider the estimated levels of fraud and error in housing benefit expenditure to be material and I have therefore qualified my audit opinion on the regularity of this expenditure.

Other issues relating to Housing Benefit

Benefit overpayments to be recovered

35. Benefit overpayments arise whenever benefits are paid in error to customers. During the year the gross level of housing benefit overpayments owed by claimants increased from £45.4 million to £46.9 million. Table 5 shows the total value of benefit overpayments to be recovered by the Housing Executive as at 31 March for each of the last five financial years.

Table 5: Trends in the recovery of Housing Benefit Overpayments

£million	2013	2012	2011	2010	2009
Gross debt recoverable in year	46.9	45.4	41.8	37.5	31.8
Written off	(1.3)	(1.3)	(1.8)	(1.3)	(1.0)
Provided for ¹⁶	(15.5)	(15.8)	(13.1)	(12.1)	(10.8)
Net debt recoverable	30.1	28.3	26.9	24.1	20
Recovered	(13.9)	(13.9)	(13.1)	(12.8)	(10.5)
Recovery %	30.5%	31.4%	32.7%	35.3%	34.0%
Net debt at year end	16.2	14.4	13.8	11.3	9.5

Source: Housing Benefit Overpayment Returns and NI Housing Executive financial statements

36. I note that both the gross and net debt due from benefit overpayments has increased substantially over the last five years. My analysis above has shown a downward trend over the same period in the amounts recovered each year as a proportion of the amounts that are judged by the Housing Executive to be recoverable. I asked the Housing Executive if it considered that it had been less successful in recovering overpayments in recent years and also what it is doing to ensure that it is maximising the amounts it recovers. The Housing Executive told me

¹⁶ Provided for relates to debts that the Housing Executive consider may not be recovered but which are not yet in a position to be written off.

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that its capacity to recover housing benefit overpayments is constrained by a number of factors, including debtor's ability to repay, set deduction rates for some recovery methods and the lack of effectiveness of other methods. However, through the Housing Benefit Overpayment Strategy, the Executive reviews its performance regularly and seeks new and better ways to prevent and recover debt. The Housing Executive noted that, in terms of gross debt, the increase in 2012-13 was the lowest in the last five years and the amount recovered (£13.9 million) exceeded the target set for the Executive by the Department (£13 million).

Rent arrears

37. The Housing Executive has an annual rental income of £269 million. Table 6 shows the trends in the level of arrears over the past five years. I note that the level of arrears had started to reduce in 2010 and 2011 but by 2012 were back to the 2009 levels and have increased by a further £0.5 million in 2012-13. I asked the Housing Executive why this was the case. It told me that current economic conditions continue to impact adversely on tenants' living expenses and subsequently on their ability to pay rent and arrears. Furthermore in March 2013 approximately £500,000 of debt was reinstated for recovery action.

Table 6: Trends in the recovery of rent and rate arrears

	2013	2012	2011	2010	2009
Collectable rental income £million	305	287	285	279	275
Debt at year end £million	14.6	14	12.7	13.3	13.9
Arrears expressed as a % of collectable income	4.8%	4.9%	4.5%	4.8%	5.1%
No. of tenants > 13 weeks in arrears	3,342	3,339	2,988	3,170	3,603

Source: NI Housing Executive and NI Housing Statistics 2011-12

38. In May 2009¹⁷ I reported on rent arrears in the Housing Executive and this was followed by a PAC Report in October 2009¹⁸. PAC made nine recommendations specifically for the Housing Executive which were accepted by DSD. I am aware that the Housing Executive's Internal Audit Unit has reviewed progress in implementing these recommendations. However I have concerns that a number of them relating to debtor profiles, performance reporting and information systems may not have been addressed in the way the Committee intended. My concern has arisen because a number of figures requested during my audit relating to management of arrears (including an aged analysis of debtors) were not readily available. While the Housing Executive acknowledges that at the present time an aged analysis of debtors is not used, it advised me that a number of other analytical tools, which it considers to be useful, are available and used. I intend to examine this area in more detail in future years.

¹⁷ The Management of Social Housing Rent Collection and Arrears, NIA 104/08-09, 6 May 2009

¹⁸ Report On The Management of Social Housing Rent Collection and Arrears, 16/09/10R Public Accounts Committee.

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Welfare Reform

39. The increasing balance in arrears is particularly concerning given the proposed changes to the housing benefit scheme under the Welfare Reform Act 2012. From 1 April 2003 changes to the benefits system, including housing benefit, have been introduced in England for all tenants in council homes and housing associations. A further challenge for the Housing Executive will arise if Direct Payment of housing benefit reverts directly to tenants as is proposed for Great Britain.
40. This legislation is still under discussion in the Assembly. Pilot Projects run in GB since June 2012 have identified considerable increases in arrears and costs of obtaining rent from tenants. The Housing Executive has been evaluating the impact of the proposed changes and estimates that 25,000 tenants will under occupy their homes under the proposed changes and rent arrears are likely to increase significantly.
41. The challenge for the Housing Executive will be in dealing with tenants who cannot pay their rent as it is also responsible for providing emergency housing/homelessness accommodation to those in need. The Housing Executive has advised me that it is investing in services to improve rent collection and arrears recovery such as face to face interviews with vulnerable tenants, referrals to partner agencies and signposting to specialist agencies, updated information booklets on money advice, establishment of Telephone Contact Centre and liaison with DSD, NI Court Service and EJO on deductions and new debt cases.

Tenancy fraud

42. In my 2011-12 report I referred to tenancy fraud and how the Audit Commission¹⁹ considered it to be the largest category of fraud affecting local government services. Tenancy fraud is the possession of a social housing tenancy by someone who is not entitled to it. This deprives those on housing waiting lists of the chance of a permanent home and gives rise to additional costs for temporary accommodation and additional house building. It is estimated that tenancy fraud costs the public purse £1 billion a year in England and Wales. I have prepared a separate report highlighting good practice in this area which I will publish shortly. The Housing Executive has now developed a strategy to address this issue.

National Fraud Initiative

43. The National Fraud Initiative is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that the Housing Executive has fully engaged with this process. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.
44. The Housing Executive has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll and occupational pension details with its housing benefit records and preliminary work has been undertaken for a third exercise.
45. The second exercise identified 23,500 matches, of which just over 80 per cent related to Housing Benefit. Some of these matches²⁰ are passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service (the Agency). The Housing Executive has processed nearly 9,000 matches itself and has identified 26 instances of Housing Benefit fraud with a value of £190,000 and 197 errors with a value of £644,000.

¹⁹ Audit Commission: Protecting the Public Purse 2011: Fighting fraud against local government (10 November 2011).

²⁰ These figures relate to housing benefit data matches which are sent to the Agency where personal information on passported claimants is required to process the match as this data is not held within the Housing Executive. The Housing Executive also investigates matches in other data sets, for example, creditors and payroll.

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Part 4: Conclusion

46. I have qualified my regularity opinion on the Housing Executive's 2012-13 accounts for two reasons:
- Significant weaknesses continue to be identified in the Housing Executive's controls over work done by contractors on its response and planned maintenance programme; and
 - Material levels of estimated fraud and error in housing benefit expenditure.



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2 July 2013



Northern Ireland
Assembly

Appendix 7

Procedural Fairness

Committee approach to procedural fairness

Committee for Social Development

Room 412,
Parliament Buildings,
Stormont,
Belfast BT4 3XX

Tel: 028 9052 1864

To: Committee for Social Development

From: Dr Kevin Pelan, Clerk to the Committee for Social Development

Date: 13 November 2013

Subject: Briefing on Procedural Fairness in Inquiry

Background

In preparing for its inquiry the Committee commissioned legal advice on a number of issues including procedural fairness.

The Committee discussed the advices and recognised the need to be cognisant of the issues they raised as the inquiry proceeded and to seek further legal advice as and when required.

Members will note that the primary aim of the inquiry is to make findings of fact which will inform consideration by the Assembly of matters set out in the Committee's terms of reference. The Committee's findings of fact may carry considerable weight particularly where they make findings about the actions of individuals. The Committee should be aware of the potential impact any findings may have on the reputation of an individual and seek to ensure that procedural fairness is afforded to individuals who will be affected by its findings.

Procedural fairness is a shorthand for a number of steps which may be taken to ensure fairness in an administrative decision-making process.

In seeking to minimise the risk of legal challenge to the Committee's findings and procedures and ensure witnesses are treated fairly, the Committee is asked to agree the following approach as to how the inquiry will be conducted.

Proposed approach to ensure procedural fairness

The Committee's role is to consider and evaluate evidence in the context of its agreed terms of reference and report its findings to the Assembly. It is suggested that —

- I. All witnesses should be made aware in advance of their appearance before the Committee of the issues on which they are likely to be questioned and (where necessary) there should be disclosure of evidential material sufficient to enable the witness to give meaningful and focused answers. COMMITTEE FOR SOCIAL DEVELOPMENT Room 412, Parliament Buildings, Stormont, Belfast BT4 3XX Tel: 028 9052 1864
- II. Witnesses should be advised in advance of any meeting at which an oath or affirmation will be required.
- III. Witnesses should be afforded a fair opportunity to put their own cases and to correct or contradict any statement which is inconsistent with evidence previously received by the Committee.

- IV. Where the Committee's findings refer adversely to an individual, and those findings are to be included in the Committee's report to the Assembly, the Committee may wish to give that person the opportunity to comment on those findings before publication.
- V. Members should declare any interest relevant to proceedings.
- VI. Where a member of the Committee has evidence relating to the inquiry this should be shared with all Members prior to any witness session.
- VII. The Committee should not normally consider any evidence provided anonymously.



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