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1 May 2014

Dear Kevin

### **SDC Inquiry – Phase 2 evidence session – 8 May 2014**

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

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

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

I hope this information is helpful

Yours sincerely



**SUSAN MCCARTY**

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

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

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

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

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

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

performance review meetings with the Chairman and Chief Executive on 23 February 2011 and 3 May 2011.

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

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

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

The review was completed in July 2012 and the opinion of the Review Team was that Senior Management within the Northern Ireland Housing Executive had not acted quickly enough to resolve the issue of the agreement of draft reports from the Repairs Inspection

Unit. In expending so much effort in debating the methodology used in producing the reports the Housing Executive had failed to focus on the significant findings in the reports. Time that could have been better spent addressing the issues identified had instead been lost in internal debate.

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

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

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

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

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

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