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Dear Kevin

SDC Inquiry – Phase 2 evidence session – 5 June 2014

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

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

A written briefing is attached at Annex A.

I hope this information is helpful

Yours sincerely



SUSAN MCCARTY

Briefing to the Social Development Committee on:

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

This briefing takes into account:

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

Introduction

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

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

The role of the Board

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

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

Recommendations from DSD's Governance Review

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

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

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

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

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

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

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

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

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

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

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

The Board has been working closely with DSD in terms of oversight to ensure that recommendations from these reviews have been adopted and that the failings have been addressed. Following the Governance Review in 2010, the Board has been central in putting in place a robust governance structure which brings together the legislative requirements, governance principles and processes that all public bodies are expected to have in place. It is worth noting that the Board believes that new contractual arrangements for response and planned maintenance put in place by the Housing Executive for the management of future planned maintenance contracts address many of the control weaknesses.

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

- At the recommendation of the Board in December 2013 the management of response and planned maintenance programmes have been moved into one Asset Management Department under the Director of Landlord Services.
- The Board has revised the agenda of its monthly meetings so that it can: receive extensive information on operational risks, have more time to hold officers to account and to have a clearer sight of contractor's performance.
- The current Chairman and Board have specifically overhauled reporting arrangements for performance of response, planned, heating and grounds maintenance contractors. Detailed reports on performance are now reported to the Board every second month.
- In April 2013 the Audit Committee of the Board was reconstituted as the Audit and Risk Assurance Committee. Its Terms of Reference, procedures and membership were reviewed to ensure the Committee complied with Treasury, DFPNI and NIAO

guidance and had the necessary skills and expertise. New external membership has provided added skills of risk assurance and corporate governance.

- The Housing Executive's Corporate Assurance and Internal Audits Units now report directly to the Audit and Risk Assurance Committee.
- Following his appointment in November 2012, the Chairman raised concerns with officers about issues related to planned maintenance. He asked for a report into the matter and this was presented to the Board in May 2013. The Board then requested an external report.
- In June 2013 an external consultant was commissioned by the Chairman on behalf of the Board to review the management of planned maintenance contracts as a result of concerns about suspected overpayments to contractors. A comprehensive action plan has been put in place to address the weaknesses and culture which allowed this to happen and to ensure that recommendations are implemented efficiently and effectively. Progress is reported to the Board on a monthly basis.
- In 2013 the Board asked officers for assurance arrangements over all contracts and received a comprehensive presentation by the Director of Landlord Services in December 2013 confirming he was satisfied that the controls in place were adequate to manage maintenance contracts.
- The Board also asked for a review of skills within the teams responsible for managing contracts and what would be required in the future, to ensure these met the requirements to manage contracts. This is currently taking place.

Review of performance of the Board

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

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

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

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

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

Conclusion

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

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

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