

Final Internal Audit Report

Leisure Contract Management

October 2018

Distribution: Executive Director of Place (Final only)
 Director of Streets
 Head of Environment and Leisure
 Leisure Contracts Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	2
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Executive Summary

1. Introduction

- 1.1 In November 2017, Greenwich Leisure Ltd (GLL) was awarded the concession to manage the Council's Sport, Physical Activity and Leisure Services contract replacing Fusion Lifestyle LTD from 1 March 2018 for 15 years with an option extend up to a maximum of a further 5 years. The Council's Leisure Contract includes the management of 8 leisure facilities, tennis courts and multi-use games areas (MUGAS) across 17 parks in the borough.
- 1.2 Greenwich Leisure Limited has been in operation, managing the Council's leisure facilities since 1 March 2018, however, a contract stating the terms and conditions had still not been signed at the time of audit at the end of June 2018. It is accepted that a 'Tenancy At Will' was signed between GLL and the Council on 28 February 2018 for all the facilities within the Contract, along with a 'Letter of Comfort' issued to GLL on 28 February 2018 signed by both parties. This was following advice from both legal parties to enable the commencement of the service.

2. Key Issues

Priority 2 Issues

While it was confirmed that detailed processes for the monitoring and administration of the contract were being put in place and accompanying templates for these were sighted, there were no accompanying procedure notes. **(Issue 1)**

Although regular meetings were being held to discuss operational and performance issues of the contract, including agreeing the mobilisation and business plans for each area, the monitoring of the contract had only just commenced and the performance measures to be used were not yet fully agreed. **(Issue 2)**

3. Actions and Key Findings/Rationale

<u>Control Area 1: Regulatory, Management and Organisational Requirements</u>	
Priority	Action Proposed by Management
2	<p>Only experienced Leisure Service Officers to carry out monitoring visits. These will have industry specific knowledge, experience and training. Monitoring visits are set up to be clear on what the level of acceptability is for each area.</p> <p>Contract Management Plan to be updated to reflect the parameters and framework used for auditing currently QUEST and how to deal with performance that does not meet the Contract requirements.</p>
	<p>Detailed Finding/Rationale – Issue 1</p> <p>Procedure notes provide staff with guidance on the process for completing tasks, to ensure they abide by the requirements of the Council and management.</p> <p>While it was confirmed that detailed processes for the monitoring and administration of the contract were being put in place and accompanying templates for these were sighted, there were no accompanying procedure notes.</p> <p>Discussion established that the processes were in place within the contract management plan and contract to cover the areas monitored on a monthly and quarterly basis. These were detailed under the frequency along with forming part of the actual structure of the reports. Furthermore, the reporting had not been required during the first quarter of the contract in order to establish baseline data; however, the structure had been followed and discussed.</p> <p>Notwithstanding, the above should be supplemented by guidance notes detailing, for instance, the levels of acceptability for each area, how to document and record the monitoring performed and how to deal with any non-conformities.</p> <p>Where procedure notes are not available, there is a risk that staff will not comply with the requirements expected by the organisation or legislation for important processes. This could lead to reputational damage where legislation is breached or a service user is negatively affected as a result of non-compliance.</p>
Responsible officer	Deadline
Leisure Services Manager	Monitoring is being carried out and will be expanded fully when permanent leisure team is in place which is expected to be by end of November 18.

Control Area 3: <u>Monitoring and Inspections</u>		Detailed Finding/Rationale – Issue 2
Priority	Action Proposed by Management	
2	<p>Completion of Leases by Estates department required in order to sign Lease.</p> <p>Schedule 6 of the Contract to be agreed by GLL and Council and signed with other Contract documents by 31 October 18.</p> <p>Baseline targets to be agreed on relevant KPI's in Schedule 6 by 31 July 2018.</p> <p>Permanent Recruitment full client team.</p> <p>(As per issue 1 above: Monitoring is being carried out and will be expanded fully when permanent leisure team is in place which is expected to be by end of November 18.)</p>	<p>Schedules 5 and 6 of the draft contract with Greenwich Leisure Limited relate to 'reporting and governance' and the 'performance management system'. Schedule 5, a copy of which was provided to Internal Audit details that monthly, quarterly and annual meetings are held with the contractor regarding performance of the contract on different aspects, such as 'usage', 'social value', 'quest', 'health', 'facilities management', 'health and safety', 'financial' and 'PR/Comms'.</p> <p>Final tweaking of Schedule 6 was being agreed as part of the final financial measures and adjustments of the Contract with GLL. It was intended that, where relevant, the KPI's with baseline targets would be agreed by end of July 18.</p> <p>Examination of copies of minutes of the weekly meetings held with Greenwich Leisure Limited confirmed that regular meetings were being held to discuss operational and performance issues of the contract, including agreeing the mobilisation and business plans for each area.</p> <p>However, formal evidence of monitoring of the contact was not available, although it was explained that monitoring of the Contract had started in line with Schedule 6 of the Contract. It was further explained that the format of the monitoring had also been agreed with by GLL and that from 1 July 2018 the bedding in period of the Contract will finish and the Service Failure Points will commence. It was intended that performance not in line with the Contract KPI's would be managed via the escalation procedure in Schedule 6 and that GLL would report on these from the start of Quarter 2.</p> <p>It was also explained that it was intended that the performance measures to be used would be agreed at the first quarterly meeting and that two additional staff were being recruited, which would be responsible for monitoring and maintaining the Leisure Contract. This would support further the work that has started and will see the Client team fully established.</p>
Responsible officer	Deadline	
Head of Estates / Senior Management Accountant / Leisure Contracts Manager / Head of Environment and Leisure	31 st October 18	

		Where comprehensive contract monitoring arrangements are not in place, there is a risk that contract breaches or poorly performing aspects of the contract will not be detected and consequent appropriate action/s taken.
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TERMS OF REFERENCE

Leisure Contract Management

1. INTRODUCTION & BACKGROUND

- 1.1 The Council appointed Greenwich Leisure Ltd in November 2017 to manage the Council's Sport, Physical Activity and Services Contract replacing Fusion Lifestyle LTD. The Council's Leisure Contract includes the management of 8 leisure facilities, tennis courts and multi-use games areas(MUGAS) across 17 parks in the borough
- 1.1 Leisure Centres are encompassed within the Environment and Leisure Service's combined budget for 2017/18 of £30.374m.
- 1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Management and Organisational Requirements	0	1	0
Contract Formalities	0	0	0
Monitoring and Inspections	0	1	0
Payments	0	0	0
Contract Meetings and Management Reporting	0	0	0
Budgetary Control	0	0	0
TOTAL	0	2	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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