

## Final Internal Audit Report

### New Addington Leisure Centre & Housing Construction (Vertical Construction Contract Audit)

November 2018

**Distribution:** Executive Director of Place (Final Only)  
Director of District Centres and Regeneration  
Head of Homes, Schools and Capital Projects

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	1
	Priority 3	0

#### Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

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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## **1. Introduction**

- 1.1 In September 2014 Cabinet approved the redevelopment of Central Parade and Fishers Farm as part of the New Addington and Fieldway Place Plan. The consultant Project Manager was called off the Homes and Communities Agency, Multi-Disciplinary Panel Framework and the consultant Cost Advisor/QS off the single supplier SCAPE Building Environment Consultancy Services framework agreement. The Main works contractor was procured via a 2-stage Open Book Design and Build route called off the Southern Construction Framework.
- 1.2 The award of contracts to the project manager, cost consultant and main works contractor was noted at the Cabinet meeting dated 20 March 2017. The initial budget for the leisure centre works only was noted as £17.33M in the Cabinet Report dated 25 April 2016. This project was later expanded to include Housing works with a total budget of £24.76M as reported at the Cabinet meeting of 25 April 2016 with a recommendation to expand it further to £26.313 million. This budget was again expanded by £4 million on 5 February 2018 by the Head of Finance.
- 1.3 At the time of our audit, enabling works had begun and the wider project was nearly ready to proceed to the second stage of its 2 stage design and build contract.
- 1.4 This audit was undertaken as part of the Internal Audit Plan for 2017/18, as agreed by the Council's General Purposes and Audit Committee.

## **2. Key Issues**

### **Priority 2 Issues**

Formally entering into a Pre-construction Services Agreement remains outstanding due to disagreements over a clause. Agreement of the Parent Company Guarantee also remains outstanding. **(Issue 1)**.

3. **Actions and Key Findings/Rationale**

<b>Control Area 7: Pre-construction Services Agreement and Commercial Arrangements</b>	
<b>Priority</b>	<b>Action Proposed by Management</b>
2	<p>The Parent Company Guarantee wording has been agreed with both parties and is now being processed.</p> <p>We have confirmed with the contractor to remove the third party warranty from the PCSA contract regarding design services. However we have agreed to include within the main works contract the following addendum:</p> <p><i>Willmott Dixon Construction Ltd shall pay reasonable costs incurred by LBC if the leisure centre has to be closed due to a direct result of a defect from the design of our contract works.</i></p> <p>We feel that this is a positive outcome as this was not included within the original tendered documents for the project so the contractor could have not included any wording.</p> <p>As a note, the contractor has confirmed acceptance of all other parts of the PCSA agreement.</p>
	<p><b>Detailed Finding/Rational – Issue 1</b></p> <p>Ensuring that Invitation to Tender documents include all the Council's requirements helps ensure that contractors price them and cannot then later dispute their inclusion into contracts.</p> <p>We were informed that the Pre-construction Services Agreement (PCSA) had not yet been signed as there is ongoing dialogue with the contractor as to the inclusion of 3<sup>rd</sup> Party Warranties in the contract. The contractor had originally disputed this inclusion as the ITT (invitation to tender) documents had not required these. We were also informed that the contractor does hold sub-consultant warranties and has now agreed in principle that they should be included in the Council's contract with it, and that it is now just the value of the warranties with the Council that is left to resolve.</p> <p>It was also noted that there are issues relating to provision of a parent company guarantee in lieu of a performance bond. Whilst there is a standard framework agreement that may be used by agreement of the parties, the contractor is only prepared to use its own. We understand that the Council's external lawyers are examining both documents to understand any issues related to their differences prior to advising the Council of the way forward.</p> <p>There is a risk that the Council cannot protect itself in the event of non-performance.</p>

	The agreements are now being sent in hard copy for signing by all parties.		
<b>Responsible officer</b>	<b>Deadline</b>		
Education Programme Manager	November 2018		

## TERMS OF REFERENCE

### New Addington Leisure Centre and Housing Construction

#### Vertical Construction Contract Audit

#### 1. INTRODUCTION

- 1.1 As part of Croydon's Community Strategy 2016-21, the Council aims to ensure that local people benefit from Croydon's growth and regeneration by 'making Croydon an exciting place to visit, live and spend time in'.
- 1.2 A total of £24.76 million has been allocated within the Council's Capital Programme Budget for professional services, demolition and design and build costs for a new Leisure Centre, Community Centre and 8 homes in New Addington.
- 1.3 The Contract and Commissioning Board approved a procurement route of a two stage Design and Build contract called off via a mini competition from the multi supplier Southern Construction Framework Lot 3 (London) on 16<sup>th</sup> February 2017 (Ref: CCB1205/16/17).
- 1.4 A Cabinet Report dated 20 March 2017 notes the following with regards to a previously planned procurement process timeline:
- 'Timelines for the procurement process for both construction contractor and professional advisors are as follows:*
- *Deadline for Mini-competition 2 submissions Fri 17th March*
  - *Complete Evaluation and preferred contractor selection Fri 31st March*
- For the works elements for this procurement the following timelines have been set for the respective providers;*
- *Commence Demolition works via preferred contractor from May 2017*
  - *Complete RIBA Stage 3 & 4 in August 2017*
  - *Enabling works and pre construction mobilisation from Sept 2017'*
- The Council's aim is to have the works completed by November 2018.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

#### 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)
Gateways 1 and 2 - Pre-project Strategic Assessment and Business Justification (Strategic Outline Case);	0	0	0
Project Governance (including Change Authority);	0	0	0
Gateway Three - Single Option and Approach Approval;	0	0	0
Procurement and Appointment of Consultants;	0	0	0
Project Approach and Brief (Customer Quality Expectations and Acceptance Criteria;	0	0	0
Procurement and Appointment of Lead Contractor;	0	0	0
Pre-construction Services Agreement and Commercial arrangements;	0	1	0
Gateway Four - Commission Decision (Detailed Design and Production Information and Investment Decision;	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>0</b>

## 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:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	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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