



CROYDON

Final Internal Audit Report

Fairfield Halls Delivery – Brick by Brick Croydon Limited Management

November 2020

Distribution: Executive Director of Place
Head of Asset Management and Estates
Interim Director of Law and Governance

Assurance Level	Identified Issues	
No Assurance	Priority 1	3
	Priority 2	0
	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 Fairfield Halls is an arts, entertainment and conference center located in central Croydon which first opened in 1962. It contains a theatre, gallery and large concert hall. The Halls have regularly been used for BBC television, radio and orchestral recordings. These are part of the wider Fairfield, which includes 23 sites including Croydon College, and whose re-development is covered by the Fairfield Masterplan, which was developed by Wake Architects, Kinnear Landscape Architects, WSP, AECOM and Arcadis, and issued in December 2012 for adoption as Interim Planning Guidance.
- 1.2 Fairfield Halls were closed in July 2016 to undergo a £30 million refurbishment. This was originally due for completion by June 2018. The date for completion was subsequently revised to November 2018 and the latest date for completion was June 2019.
- 1.3 The refurbishment project is managed by Brick by Brick Croydon Ltd (BXB), the Council's wholly owned development company. The main works contractor is Vinci Construction Ltd. The contractor was appointed in May 2017 with the works commencing in September 2017.
- 1.4 This internal audit was part of the 2019/20 Internal Audit Plan for the Council. Although fieldwork for this internal audit was completed in February 2020 prior to the Covid-19 lockdown, the lockdown has delayed the resolution of queries and the final audit debriefing meeting.
- 1.5 The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 1 Issue

The licence for access to carry out works in respect of property at Fairfield, College Green issued to BXB did not include specific contract conditions relating to quality or deadline for delivery. **(Issue 1)**

The conditional sale of the Fairfield Car Park agreement was still in draft at the time of the substantive internal audit fieldwork in February 2020. **(Issue 2)**

The Executive Director Place, a director of BXB, was the chair of the Fairfield Board meetings which is a conflict of interests. **(Issue 3)**

3. Actions and Key Findings/Rationale

<u>Control Area 2: Contract Agreement</u>		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1	<p>It is accepted that the Licence did not specifically make reference to the quality but within the summary scope referred to in schedule 2 there is a requirement under section two of that document that the works delivered for Fairfield Halls are in line with the specifications referred to under a complete list of documents. As this forms part of the summary, whilst not specifically attached to the Licence, BBB would still be liable to comply with these requirements. What has not been done is a detailed reconciliation between this documentation and the works actually delivered but there is sufficient detail in the Licence to permit this to take place.</p> <p>In respect of the lack of a longstop date, this was not possible as BBB had not at this time negotiated one for their contract with Vinci. It would be normal practice to include this but given the lack of any date agreed with the</p>	<p>The report to Cabinet on 20 June 2016 (key decision 14/16/CAB) details that, '<i>Brick by Brick would complete the £30m package of improvement works to Fairfield Halls under licence.</i>'</p> <p>Examination of the signed copy of the 'Licence for access to carry out works in respect of property at Fairfield, College Green', confirmed that that this licence, dated 1 August 2016, was formally agreed between the Council and BXB. However, while examination of the License established that schedule 2 included the 'Outline Brief and Scope for License', there were no specific contract conditions relating to quality or deadline for delivery.</p> <p>Where the Brick by Brick is under license to complete the works, rather than the works being awarded through a competitive process and a formal contract being in place, the Council is limited in being able to specify the quantity and timescales for this work and therefore will have limited recourse where these renovations are not completed to the Council's time and quality expectations.</p>

	<p>developer this was not possible on this occasion.</p> <p>As this document has been completed it cannot be amended. However it is recommended that a full review of the works actually undertaken and any variation from those included within the original summary of works is conducted.</p>	
Responsible officer	Deadline	
Head of Asset Management and Estates	3 months	

<u>Control Area 2: Contract Agreement</u>		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
1	<p>The conditional Sale Agreement is still outstanding. Whilst it is accepted that there is a risk that BBB will feel they are not bound by this Agreement, the works have largely been completed and therefore the risk is considered to be minimal from the Council's perspective. The issues of the areas of land to be transferred by way of a long lease and freehold have been resolved as have the valuations ascribed to both elements and the document is agreed in its final form. However, given some of the issues around quality/scope of the refurbishment that are still outstanding, by not entering into the Agreement the Council's position is no worse than if the document had been completed as the value of the outstanding issues is much lower than the potential value of the land and therefore should encourage BBB to resolve outstanding matters more swiftly.</p> <p>In the current circumstances it is not proposed to complete the Agreement for Sale at this point in time but it is accepted that moving forward Option Agreements/Sale Agreements should</p>	<p>The report to Cabinet on 20 June 2016 (key decision 14/16/CAB) details that, '3.16 <i>As per the other sites suitable for immediate development across the borough, it is proposed to use the Brick by Brick structure to bring forward those elements of the College Green scheme where the council holds land interests and/or options. This will at least include Phase 1 (the refurbishment of Fairfield Halls, the initial residential development, the enabling works for the college facility and some public realm works) and Phase 2 (the delivery of the new college building, the redevelopment of the existing college land and the remainder of the public realm works).</i>' In order to commence works, the properties or licence access the properties needs to be transferred to BXB.</p> <p>While it was confirmed that 'Licence for access to carry out works in respect of property at Fairfield, College Green' was agreed on 1 August 2016, the conditional sale of the Fairfield Car Park was still in draft at the time of the substantive internal audit fieldwork in February 2020.</p> <p>It was explained that, '<i>The Council have been in a process of agreeing a conditional sale agreement with Brick by Brick since authority was granted to enter in to the transaction on 1 August 2016. The main reason why this was not formally completed was due to technical issues to do with design that made it difficult to discern which parts should be transferred by way of freehold sale to BxB, and which parts should be disposed of by way of leasehold to various operators. The changes in the design features of the College Green Slab also brought about additional issues in regards to the removal of car parking spaces, which had the knock on effect on the viability of the car park operator's model for turning a profit for the site.</i></p> <p><i>Discussions have been continuing over the extent of the demises and where the responsibility lies. BxB and the Council have remained confident that the issues will be agreed, and on that basis have continued to implement the development under the terms of the conditional sale agreement as if it was completed. Once the issues are fully resolved, the Council and BxB intend to complete the conditional sale</i></p>

	<p>be agreed at an earlier stage to allow a more robust process from both sides and work on this is already underway for proposed new sites.</p>	<p><i>agreement despite the fact that the building works would largely have been completed by then. This will demonstrate the basis of the land transaction and document the agreed position between the parties.</i></p> <p>Examination of the draft 'Conditional sale agreement' and the 'Draft Heads of Terms' notes that a premium of £6,250,000 will be paid for this leasehold interest if the refurbishment of the Fairfield Halls is not completed in line with the agreed specification.</p> <p>Where the 'Conditional sale agreement' is not completed and formally agreed, there is a risk that BXB may not consider itself bound to the terms of the draft agreement.</p>
<p>Responsible officer</p>	<p>Deadline</p>	
<p>Head of Asset Management and Estates</p>	<p>Complete</p>	

Control Area 5: Contract meetings and progress		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3
1	<p>Appointed as Non Executive Director (NED) on 29 January 2019.</p> <p>Informed Fairfield Board on 25 March – see attached notes under AOB.</p> <p>Attended first BxB Board meeting as NED on 8 April 2019 and conflict expressed.</p> <p>Stood down from the BxB Board 4 September 2020.</p>	<p>Fairfield Board meetings have been held since 24 May 2017, when the terms of reference for the Board were agreed. These detailed that the Managing Director of BXB would not be on the Board, but would provide regular updates on the Capital Project.</p> <p>Examination of the copies of Fairfield Board meeting minutes confirmed that meetings were generally held every month, with the Managing Director of BXB in attendance at each meeting. It was noted that, since the 30 August 2017 meeting, the Fairfield Board meetings were chaired by the Executive Director Place. Although the Executive Director Place became a director of BXB on 29 January 2019, she continued to chair the Fairfield Board meetings.</p> <p>Where the Executive Director Place is a director of BXB and also the chair of the Fairfield Board meetings, there is a conflict of interests.</p>
Responsible officer	Deadline	
Executive Director - Place	Complete	

TERMS OF REFERENCE

FAIRFIELD HALLS DELIVERY – BXB MANAGEMENT

1. INTRODUCTION

- 1.1 Fairfield Halls is an arts, entertainment and conference center located in central Croydon which first opened in 1962. It contains a theatre, gallery and large concert hall. The Halls have regularly been used for BBC television, radio and orchestral recordings. These are part of the wider Fair Field, which includes 23 sites including Croydon College, and whose re-development is covered by the Fairfield Masterplan, which was developed by Wake Architects, Kinnear Landscape Architects, WSP, AECOM and Arcadis, and issued in December 2012 for adoption as Interim Planning Guidance.
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- 1.3 The refurbishment project is managed by the Council's wholly owned development company, Brick by Brick Croydon Ltd (BxB). The main works contractor is Vinci Construction Ltd. The contractor was appointed in May 2017 with the works commencing in September 2017.

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 This audit will look at the delivery of the refurbishment of Fairfield Halls and included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Operational, and Management Requirements;	0	0	0
Contract formalities and extensions;	2	0	0
Monitoring and inspection;	0	0	0





Fairfield Halls Delivery– Brick by Brick Management 2019-20

Payments and budgetary control;	0	0	0
Contract meetings and progress; and	1	0	0
Management reporting.	0	0	0
TOTAL	3	0	0

DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

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 identified issues 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP 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 by any third party is entirely at their own risk.

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