

# Internal Audit Report

## Leisure Centre Project

### North Devon District Council

December 2020

#### Service Objective

To deliver the new Tarka leisure centre complex, including all core leisure centre facilities by April 2022, within the financial budget of approx. £13.8m. Delivery requires effective management of all partners and contractors who are involved in the leisure centre build and subsequent operation.

#### Audit Opinion







Reasonable Assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Direction of travel



#### Introduction

The Council has agreed a Design, Build, Operate and Maintain contract with Parkwood Leisure for the new Tarka Leisure Centre. Overall cost of the project is just under £14m, with the build scheduled to complete in March / April 2021. The Council has engaged Currie and Brown to manage the project, and to provide quality control confirmation. Parkwood has engaged contractors to deliver the build, with the main building contractor being Speller and Metcalfe. The bulk of the spend is funded by the Council, but £1.8m has been provided by Sport England, and £1.5m from the Coastal Communities Fund. Following completion of the build, Parkwood will operate and maintain the leisure centre for 20 years.

Assurance Opinion on Risks or Areas Covered - key concerns or unmitigated risks	Level of Assurance	Direction of travel
<b>1. Project structures, roles and responsibilities are not clearly defined and effective.</b>	Substantial	
<b>2. Project performance is not being reported and monitored effectively.</b>	Substantial	
<b>3. Risks and Issues arising are not being identified, managed, and resolved efficiently and effectively, so progress is slow.</b> - expansion of mitigating action detail. - identification of opportunity risk.	Reasonable Assurance	
<b>4. Financial Management is not effective in budgeting and forecasting spend on capital and other leisure centre costs</b>	Substantial	
<b>5. The project fails to identify and manage its Stakeholder effectively, reducing support for the project.</b> - stakeholder engagement and communications plan.	Reasonable Assurance	
<b>6. The project fails to effectively report on progress to the Council (officers and members).</b>	Substantial	

*These areas / risks combine to provide the overall audit assurance opinion. Definitions of the assurance opinion ratings can be found in the Appendices. The observations and findings in relation to each of these areas has been discussed with management, see the "Detailed Audit Observations and Action Plan" appendix A. This appendix records the action plan agreed by management to enhance the internal control framework and mitigate identified risks where agreed*

## **Executive Summary**

There is an effective oversight and monitoring framework for delivery of the Leisure Centre build, underpinned by a detailed contract setting out the requirements and standards to be met. The involvement of the Council's Leisure and Parks Team, Currie and Brown, and the Sport England representatives means there is significant expert monitoring and challenge of the work of the contractors to deliver the project to time and quality. There were also good measures to reduce the Council's exposure to financial risk where possible. We have identified some opportunities to improve the management of mitigating actions and opportunities on the risk register, and to consider more engagement with stakeholders particularly the general public. We provide a Reasonable Assurance as there is inherent risk now related to Brexit and Covid-19 that is very difficult to mitigate.

At this point, there is a very slight delay to the completion of the build (one to two weeks), although proposals are being considered to recover that delay. The significant work undertaken to create the business case has reduced the risk of changes being made to the build design and specification, which typically have a big impact on the time and cost to deliver. The monthly project meetings provide a good mechanism for review and management of project problems. We also note the range of experts involved, including the Council's managers, Currie and Brown, and Sport England means there is effective review and challenge of the contractors.

In our view, risks were being managed effectively, although we suggested more detail on mitigating action on the risk register. We also consider that further assurance be sought from the primary contractors (Parkwood, Speller Metcalfe) that they would not be impacted by 3<sup>rd</sup> party resilience risk from problems related to supplies of materials or sub-contractors over the next few months. We also suggested visibility of the risk register of the contractors related to the project to help visibility of risks they are managing. We note the good mechanisms to reduce financial risk as much as possible for the Council over the whole life of the contract. Finally, we suggest that opportunities be included on the risk register to help ensure they are identified and taken forward.

During the approval of the Leisure Centre project there has been processes to seek public input and comment into the project. However, the Covid-19 emergency impacted on opportunities to highlight this project to the public. For instance, the formal council event to publicise the start of the build was cancelled. It is now timely to consider creation of an engagement strategy and communications plan to ensure stakeholders are aware and are engaged. This will also support transition from the old to the new leisure facilities which will be important if revenue is to be maintained. This aspect should include engagement with individual councillors who are important champions to support this project.

Our audit work provides independent assurance on management of this project, rather than the quality and delivery of the build. Given the size of the project spend it is important that Council members and managers continue to obtain periodic updates and assurances for themselves on delivery of the build and subsequent opening of the facilities to the public. We have suggested a formal quarterly update to the Strategy and Resources Committee.

The detailed findings and recommendations regarding these issues and less important matters are described in Appendix A. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories and the assurance opinion ratings are provided in the Appendices to this report.

## **Value Added**

During the review we encouraged the project to seek further assurance from the contractors that they would not be impact by any delays due to shortages of materials / suppliers. Given the concerns expressed by any business areas over the delays in getting in materials through the ports, it is important to seek ongoing assurance that the contractors have undertaken a systematic review of material and contractor availability to ensure it did not impact on build delivery. We also raised an opportunity for the Council to consider the impact of the leisure centre on longer term provision of leisure strategy.

## **Issues for the Annual Governance Statement**

The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement. There are no issues from this review that warrant inclusion in the AGS

## **Acknowledgements**

We express our thanks and appreciation to all those who provided support and assistance during the audit.

**Robert Hutchins**  
**Head of Partnership**

## Detailed Audit Observations and Action Plan

1. Risk Area: 1. Project structures, roles and responsibilities are not clearly defined and effective.:				Level of Assurance
				Substantial
<b>Opinion Statement:</b>				
The detailed contract, work undertaken at the start of the build (including creation of a Project Communication Flow Chart), and the monthly project meetings meant that there was a good understanding of roles and responsibilities of those involved in the project. There was also a formal contract with Currie and Brown in respect to their role in managing the project on behalf of the Council. While Parkwood was responsible by contract for delivering the build to time and cost, arrangements and involvement of experts including the Council Leisure and Parks Manager, Currie and Brown, and Sport England representatives supported a good level of scrutiny of the contractors performance and progress to deliver.				
No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
1.1	While the project contract provides detail on the different parties involved in the project, including organogram diagrams, the Project Manager does not have current roles / responsibilities related to his responsibility to manage the project for the Council.	Low	The responsibilities of the project manager for the Council to deliver the Leisure Centre project should be detailed out.	The officer's current job description does include Facility Development as a main "Job Purpose" and includes "Operational Responsibility" for managing Parks, Leisure and Culture capital projects. The officer's current appraisal objectives include overseeing delivery of the new leisure centre. In light of this audit report, a project structure document, defining various roles for NDC officers and external colleagues will now be produced by end of Jan 2021 and added to existing project docs.
			Action Owner: Leisure and Parks Manager	Target Date: 31 Jan 2021

<b>2. Risk Area: 2. Project performance is not being reported and monitored effectively.:</b>	<b>Level of Assurance</b>
	<b>Substantial</b>

**Opinion Statement:**

The contract places responsibility to deliver the leisure centre build to Parkwood Leisure, and its subcontractors. That means the council does not have visibility of supporting labour and material plans that underpin the overall build plan. Within that framework, Currie and Brown, and the Council Leisure and Parks managers maintain good visibility of project delivery through review of the detailed project delivery plan which is discussed at the monthly project management meeting supported by site visits. Visibility of the quality and progress to deliver the work is also maintained through the work of the independent certifier who helps ensure work is only paid for when suitably completed. The involvement of Sport England representatives provides further experts to provide input, scrutiny and comment on project delivery and conformance to standards.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
2.1	A project plan is in place and is discussed at monthly project management meetings attended by all the key players. As it will be the mid project point for the project in February 2021, we suggest a formal review and lessons learnt exercise be undertaken to identify what has worked well, and any lessons to be captured.	Opportunity	As the mid-point of the project approaches, there is an opportunity to undertake a review of the project in February / March 2021 to identify lessons and consider what else could be done to improve delivery.	Curry & Brown will organise a review for February/March and findings will be presented to NDC's Strategy & Resources Committee as part of a quarterly update in March 2021.
			Action Owner: Leisure and Parks Manager	Target date: 31 March 2021

<b>3. Risk Area: 3. Risks and Issues arising are not being identified, managed, and resolved efficiently and effectively, so progress is slow:</b>	<b>Level of Assurance</b>
	<b>Reasonable Assurance</b>

**Opinion Statement:**

There is a good process to identify and manage risk to project delivery, although it needs to be given an ongoing priority to ensure that it is regularly discussed and updated as part of project meetings to keep it live. That said, risks and mitigating actions were discussed during the monthly project meetings and those officers we spoke to had good awareness of risks related to the project. Review of the project risk register indicates that it included all the appropriate risks that we would expect to see on the risk register. More detail on the risk register related to the mitigating actions would be useful to ensure risks were being systematically managed (although as noted previously these were discussed at project meetings). In addition, the register did not include opportunities. Inclusion of opportunities would show that these were being identified and considered systematically.

As a more immediate requirement we suggested that more assurance be obtained from the contractor to confirm that they have sufficient building materials to continue the build in the first months of 2021, despite the congestion at ferry ports due to Covid-19 and Brexit. This was subsequently discussed during the project meeting in December. This discussion highlights the range of different ways in which project delivery and cost could be impacted in the months ahead.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
3.1	There is broadly an effective process for risk management of the project, although more priority needs to be given to ensuring it is regularly discussed, updated, and specific mitigating actions are listed to provide assurance that appropriate actions were being taken forward.	Medium	The detail and quality of recorded mitigating actions on the risk should be improved and include target dates to implement them. While we have been told that these are addressed in project meetings, it would be useful to link them to the mitigating actions in the risk register.	A Risk Register review and update will now be a standing agenda item on monthly project meeting agendas. Curry & Brown will ensure that the monthly project minutes include actions to update the risk register mitigations. This should start with immediate effect and be noted in the minutes of the December 2020 project meeting.
			Action Owner: Leisure and Parks Manager	Target date: 31 December 2020
3.2	The risk register does not list / record opportunity risk to be investigated. This would support systematic consideration, and also provide an audit trail to show what changes were considered to make improvements.	Low	The risk register should include opportunities to improve delivery. We were told of various examples where opportunities had been identified to improve delivery or quality. These were not listed on the risk register or other document to aid learning of lessons.	Opportunities will be added to the current project risk register. This will be an action for completion at the January project meeting.
			Action Owner: Leisure and Parks Manager	Target date: 1 February 2021
3.3	It is good practice for there to be good awareness of risks held on contractor risk registers. There is therefore an opportunity to periodically review these risks and consider whether there is any action the project can take to mitigate them.	Opportunity	We suggest it would be useful for the project to have periodic sight of the Parkwood, and Speller Metcalfe Risk Registers related to this project to identify if there are any risks that could be included onto the overall project risk register.	At the December project meeting it was confirmed both Parkwood and Speller Metcalfe do have their own individual risk registers. Some of the financial information on the risk registers was commercially sensitive. Most agreed the current project risk register was adequate but agreed specific risk registers could be made available on request if required, with commercially sensitive information removed.

			Action Owner: Leisure and Parks Manager	For ongoing future consideration by the project
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<b>4. Risk Area: 4. Financial Management is not effective in budgeting and forecasting spend on capital and other leisure centre costs:</b>	<b>Level of Assurance</b>
	<b>Substantial</b>

**Opinion Statement:**  
We consider there are good controls that reduce the level of financial risk that the council is exposed to. The significant elements include:

- The fixed cost to design, build, operate and maintain (DBOM) spread over the 22 years provides a high level of certainty related to council finances.
- Payment of quarterly build costs is only made after independent certification on the level of work delivered on the build.
- The significant attention placed on the original design of the leisure centre has reduced the need for any subsequent design changes that typically result in additional cost or time delays.
- There are measures to reduce the financial and delivery impact arising in the event of the collapse of the DBOM contractor and building contractor. The Leisure and Parks Manager has maintained good visibility of the financial health of Parkwood, and measures to support it including through the government emergency grants.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
	No observations and recommendations recorded			

<b>5. Risk Area: 5. The project fails to identify and manage its Stakeholder effectively, reducing support for the project.:</b>	<b>Level of Assurance</b>
	<b>Reasonable Assurance</b>

**Opinion Statement:**

The Leisure Centre was subject to significant public review and consultations in the years up to formal approval of the DBOM. A range of stakeholders were effectively involved during that process to contribute funding (Sport England, Coastal Communities Fund), or just support to the project.

Since the start of the build the focus on stakeholder engagement has reduced. The Covid-19 emergency forced cancellation of the planned public ceremony to mark the start of the build of the centre, and the projects focus has been on taking forward the project build. The detail on the Council Intranet site is mainly about approval of the project, and not about the current build and progress. As a significant project we would expect a more systematic approach to stakeholder management, typically detailed in a Stakeholder Strategy and communications plan. While this has not been important during the initial build stages, it will become more important next year as it moves closure to completion and opening. We have raised a recommendation that the Council considers when and how to increase engagement with the public and the range of more specific stakeholders to advertise the good news story that the centre represents, and the additional facilities that will become available.

We also note the significant impact of the Leisure Centre on leisure provision and identify an opportunity to consider the impact on the longer-term strategy to provide leisure facilities.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
5.1	There needs to be more focus on engagement with stakeholders and communicating with the general public as the build progresses and comes closure to completion. The Council did not have a specific communications strategy related to progression and delivery of the new Leisure Centre. Given that this is a project delivering big benefits for the public, and the diverse range of stakeholders interested, there would be benefit in mapping out those stakeholders and creating a strategy to engage with them.	Medium	The Council should create an engagement strategy / communications plan. This work should include updating the North Devon website which does not have any current information on the build being undertaken.	A communication strategy had been prepared in 2019, but this only covered a period up until construction start on site. The plan was then somewhat derailed due to Covid 19. Following this audit, colleagues in NDC's Communications department have drafted an updated plan taking us through to the opening of the new centre. The Leisure and Parks Manager will now agree action dates with comms colleagues and sign off the new strategy (by Mid Jan 2020).
			Action Owner: Leisure and Parks Manager	31 January 2021

5.2	We note the significant impact of the Leisure Centre on leisure provision and identify an opportunity to consider the impact on the longer-term strategy to provide leisure facilities. There is significant detail on the impact on leisure facilities included in the DBOM Contract Delivery of the Leisure Centre. We have been told that this impact is not currently detailed in any other council document.	Opportunity	The main implications from delivery of the leisure centre on the Council's longer-term leisure strategy should be identified and included in relevant strategy documents.	The opportunity is noted and officers will ensure the impact of the new leisure centre is included in future corporate and strategic documents.
			Action Owner: Leisure and Parks Manager	For ongoing future consideration by the Council

<b>6. Risk Area: 6. The project fails to effectively report on progress to the Council (officers and members):</b>	<b>Level of Assurance</b> <b>Substantial</b>
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**Opinion Statement:**  
 There is a clear process for the Leisure and Parks manager to escalate concerns to the council senior management team for onward consideration by the Strategy and Resources Committee. While updates have been provided periodically to the Committee, this is not part of a scheduled agenda. As this is a significant project, we consider that there would be benefit in a quarterly update being provided to the Committee so they are aware of progress and can ask any questions.  
 The engagement strategy recommended within section 5 should also consider requirements to engage and get the support of specific councillors who will champion the project.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
6.1	There is evidence of periodic reporting to Council members to keep them up to date and aware of any issues. A more formal, quarterly reporting process to Strategy and Resources Committee would be beneficial to ensure they are aware of progress on this important project.	Low	The Leisure and Parks manager should provide a quarterly update to the Strategy and Resources Committee, to ensure that Council members are sighted on progress to complete the Leisure Centre build and open the new facilities,	The Leisure and Parks Manager will take a project update to the Strategy and resources committee in March 2021 and then each quarter until construction is complete. After construction is completed, future updates on the operational or "delivery" phase of the project will be timetabled in (Parkwood are obliged to provide updates under the DBOM contract terms).
			Action Owner: Leisure and Parks Manager	Target date: 31 March 2021



## Scope and Objectives

This audit will provide assurance on management of the project to deliver the North Devon Leisure Centre Complex. This audit will not review the process to develop and agree the project but will instead focus on current project management delivery. This will include:

Project roles and responsibilities;  
 Performance monitoring;  
 Risk and issue management;  
 Financial management;  
 Stakeholder management; and,  
 Reporting to the Council (officers and members).

## Inherent Limitations

The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

## Confidentiality under the National Protective Marking Scheme

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

### Marking

### Definitions

Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Official: Sensitive	A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL–SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.




## Definition of Recommendation Priority

High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.

## Devon Audit Partnership

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## Direction of Travel Indicators

Indicator	Definitions
	No Progress has been made. The action plan is not being progressed at this time, actions remain outstanding.
	Progress has been made but further work is required. The action plan is being progressed though some actions are outside of agreed timescales or have stalled.
	Good Progress has/is being made. Good Progress has continued.