



## INTERNAL AUDIT

### FINAL REPORT

#### **Title: Review of Leisure Centre Income**

#### **Report Distribution**

For Action: Jayne Cox Leisure Facilities Officer

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## EXECUTIVE SUMMARY

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### Introduction

An audit of Leisure Centre Income was undertaken as part of the approved internal audit periodic plan for 2008/09.

All of the Borough's five leisure centres have been visited in rotation over a three year cycle. This year's audit focussed on the largest of the five leisure centres, Carlton Forum.

Budgeted income in 2008/09 for Carlton Forum Leisure Centre is £1.4 million out of a total of £3.0 million for all five leisure centres, and £4.7 million for the Leisure Services department as a whole.

Our previous audit report on leisure centre income, report IAR0708-06 issued in November 2007, provided limited assurance with respect to the adequacy and effectiveness of controls and contained 11 recommendations. At this current review, we found that eight of these recommendations have now been satisfactorily implemented. Renewed recommendations are included in this report in respect of the other three, two of which had been partially implemented and one had not been implemented.

### Principal Findings

	High	Medium	Low
Number of recommendations	0	1	8

The detailed findings and associated recommendations are provided in the second part of this report. The medium-risk recommendations relate to:

- VAT rules in respect of sales have recently been clarified by the department, and need to be implemented.

### Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

## INTRODUCTION

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### Objective & Scope

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The key risks associated with the system objectives are:

- Customers may be charged incorrectly, which could result in the loss of income to the authority.
- Income due to the authority may not be collected fully or efficiently.
- Loss of income due to fraud, theft and error.
- Uncontrolled access to IT systems could result in data being amended without authorisation.

The control areas included within the scope of the review were:

- Income - receipt, recording, banking and accounting;
- Security of money held prior to banking;
- Debtors;
- Financial Regulations and procedures;
- Access to IT systems.

The following limitations to the scope of the audit were agreed when planning the audit:

- We will not actively seek to detect fraud;
- We will not review the system for budgetary control;
- We will not review any associated feeder systems, other than control totals and the input / transfer of these;
- We will not form an opinion on the financial state of affairs of the Authority.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the Authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

### Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

**DETAILED FINDINGS**

<b>Observation</b>	<b>Risks</b>	<b>Recommendation</b>	<b>Management's Response</b>
<p><b>Recommendation 1 - Statements issued by Carlton Forum Leisure Centre</b></p> <p><b>Level of Risk - Low</b></p>			
<p>Carlton Forum Leisure Centre issues its own statements to some customers.</p> <p>The format of these statements does not prompt the issuer to enter a statement number, date or booking reference. Most statements that we examined had not been dated (although more recent ones tended to include the date).</p>			
	<p>Difficulties identifying and referencing statements and the services that they relate to.</p> <p>Because statements were undated we could not confirm that they were promptly issued.</p>	<p>The Carlton Forum statement format should be revised to prompt the recording of a statement number, date and booking reference.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Format to be amended. Staff to be informed and trained.</p> <p><b>Timescale:</b> 31<sup>st</sup> December 2008</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 2 - Debtor Reports</b> <b>Level of Risk - Low</b>			
<p>A recommendation (number 6) in our previous audit report on leisure centre income was for the debts relating to each leisure centre to be separately identifiable on debtor reports produced centrally.</p> <p>On this audit we obtained a debtor report at Carlton Forum leisure centre. This included debts relating to all leisure centres and other activities of the leisure services department. It was in alphabetical order of debtor name and did not easily enable the debts of each leisure centre to be separately identified.</p> <p>However, a development since the previous audit is that the department's Finance &amp; Administration Office issues the report to all sites and also monitors debtors who have debts across several sites. Leisure feel that issuing a list of all debtors has advantages as sites could check the list before taking new bookings.</p>			
<p>Lack of clarity over local debtors may weaken actions taken to recover debts, and to avoid problem debtors incurring further liabilities.</p> <p>Each leisure centre should be provided with debtor reports specific to their debts.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p> <p><b>Management Comment:</b> The Leisure Finance Officer has previously enquired about the possibility of having separate reports for each centre and understands that this cannot be done. A further enquiry about this will be made but if not possible then it is felt that the current system should be maintained</p> <p><b>Planned Corrective Action:</b> LFO to enquire about amended reports and implement if available</p> <p><b>Timescale:</b> 31<sup>st</sup> January 2009</p>			

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 3 - Leisure Centre Bookings (VAT Charges)</b></p> <p><b>Level of Risk - Medium</b></p>			
<p>The department has recently carried out a detailed review of VAT rules to ensure that it applies the correct rate of VAT to each sale.</p> <p>We understand that the VAT charge can be removed by varying the method of booking (by block booking for 10 or more sessions) and the timing of the payment (by requiring payment before the final session). It is possible for both the customer and the department to benefit from this – the customer benefits from paying less and the department benefits from prompt payment.</p>	<p>Failure to comply with VAT rules. Potential financial liabilities arising as a result.</p>	<p>The department should ensure that its sales comply with the VAT rules, which it has recently clarified.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Appropriate action has been taken</p> <p><b>Planned Corrective Action:</b> No further action required</p> <p><b>Timescale:</b> Implemented</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 4 - Postal Payments</b></p> <p><b>Level of Risk - Low</b></p>			
<p>Some customers pay by sending cheques in the post. When the post is opened at the Leisure Centre the cheques are handed to a receptionist for processing through one of the cash tills.</p> <p>No record of the cheques is made at the time of opening the post.</p>	<p>A lack of evidence of cheques received in case of disputes with customers.</p> <p>Incomplete controls to prevent cheques being misappropriated or credited to the wrong customer's account.</p>	<p>Remittance registers, recording payments received in the post, should be completed during post opening at all leisure centres.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> The numbers of cheques received in the post has reduced since the installation of Chip and Pin. (Approx X cheques per week). Any cheques received are paid straight into the till and are noted as paid on the booking system. It is therefore seen that recording the cheques is not necessary.</p> <p><b>Planned Corrective Action:</b> Manager to monitor the cheque numbers over the next few month to ascertain if there is a requirement to keep cheque payment available.</p> <p><b>Timescale:</b> 31<sup>st</sup> May 2009</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 5 - Till Recording (Cash and Cheque Receipts)</b>			
<b>Level of Risk - Low</b>			
<p>On ten out of 35 days that we examined, the income system, Flex, recorded a different mix of cash and cheques from that recorded on banking documentation.</p> <p>The banking documentation showed a higher proportion of cheques. The Leisure Centre management believe this is due to the till operators recording cheques as cash. (For cheques, the 'x' key on the till should be used. For cash the 'enter' key should be used).</p> <p>This issue was also included in our previous audit report on leisure centre income (recommendation number 9).</p>	<p>Failure to detect the cashing of personal cheques (which is disallowed by the financial regulations).</p>	<p>Till operators should be reminded about correctly identifying income as cheques or cash.</p> <p>If income is recorded incorrectly the transaction should be voided, a void slip completed, and then re-entered correctly.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed. Although staff have previously been reminded, and memo's issued about this and that it is listed in the Normal Operating Procedure it is an easy mistake to make.</p> <p><b>Planned Corrective Action:</b> Further Memo to be sent to all appropriate staff.</p> <p><b>Timescale:</b> 31<sup>st</sup> December 08</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 6 - Till Recording</b></p> <p><b>Level of Risk - Low</b></p>			
<p>At the end of each till operator's shift, a 'reception shift analysis sheet' is completed, analysing the cash and cheques in the till. This should be signed by the till operator and the duty officer. The sheet makes clear that the signatures are confirming that the cash is correctly recorded.</p> <p>We examined 21 'reception shift analysis sheets' from three different weeks. Seven contained only one or neither of these signatures.</p> <p>This issue was also included in our previous audit report on leisure centre income (recommendation number 10).</p>	<p>Inaccurate recording of cash received. Possible misappropriation of cash not recorded.</p>	<p>Each 'reception shift analysis sheet' should be signed by the till operator and the duty officer.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Further Memo to be sent to all appropriate staff.</p> <p><b>Timescale:</b> 31<sup>st</sup> December 2008</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 7 - Bank Paying-in Slips</b>			
<b>Level of Risk - Low</b>			
<p>We examined bank paying-in slips for three different weeks. None contained the signature or name of the person completing the slip. A general review of paying-in slips showed that they are only signed occasionally.</p> <p>This issue was also included in our previous audit report on leisure centre income (recommendation number 10).</p>	<p>Difficulty identifying those responsible for recording money received when investigating any discrepancy.</p>	<p>Bank paying-in slips should contain the signature or name of the person completing the slip.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Further Memo to be sent to all appropriate staff</p> <p><b>Timescale:</b> 31<sup>st</sup> December 2008</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 8 - Banking Analysis Sheets</b></p> <p><b>Level of Risk - Value for Money (Efficiency)</b></p>			
<p>Each week the Leisure Centre completes a banking analysis sheet, which shows the cash and cheques banked each day. This is sent to the Head Office whose staff check that the recorded bankings agree to the bank statements.</p> <p>Both paper and e-mail copies of each banking analysis sheet are sent to Head Office, which does not retain the paper copies.</p>	<p>Duplication of effort in unnecessarily sending both paper and electronic copies of the sheets.</p>	<p>Banking analysis sheets should be sent to Head Office by e-mail only. The paper copies should no longer be sent.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed and implemented</p> <p><b>Planned Corrective Action:</b> No further action required.</p> <p><b>Timescale:</b> Implemented</p>

<b>Observation</b>	<b>Risks</b>	<b>Recommendation</b>	<b>Management's Response</b>
<p><b>Recommendation 9 - Access to the Flex Income System</b></p> <p><b>Level of Risk - Low</b></p>			
<p>We examined the list of users with access to the leisure centres' income system, Flex. We confirmed that no ex-staff who previously worked at Carlton Forum remained as users on the system. However, some staff had more than one user-name through which they could access and use the system.</p>	<p>Potential misuse of unnecessary user accounts.</p>	<p>Surplus user-names to access the Flex system should be removed.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed. These duplications have arisen from training exercises.</p> <p><b>Planned Corrective Action:</b> Leisure Finance Officer to delete duplicates.</p> <p><b>Timescale:</b> 31<sup>st</sup> December 2008</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 10 - Flex Income System (Manual Back-up)</b> <b>Level of Risk - Low</b>			
<p>In case the computerised Flex income system fails, there is a manual system to back it up. During our audit there were two such system failures.</p> <p>Transactions are recorded manually on 'Flex Failure Back-Up System' forms. The forms record the name of the customer, the service they used, and the price charged. They do not record which member of staff completed the form.</p> <p>When the computerised system is later restored, the details from these manual forms are input to it. The forms do not record which member of staff inputs these details to the Flex system. The Finance &amp; Administration Officer also informed us that recording the date of input would help with accounting for bankings.</p> <p>After the cash in the till has been agreed to the computerised till reading, the manual forms are not retained.</p>	<p>Income collected during periods of system failure may be misappropriated.</p> <p>Difficulty identifying those responsible for recording money received when investigating any discrepancy.</p>	<p>The 'Flex Failure Back-Up System' form should record which member of staff (a) completed the form and (b) later input the detail to the Flex system, together with the date of input. The forms should be retained.</p> <p><b>Action:</b> Jayne Cox – Leisure Facilities Officer</p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Manual back up system to be amended so that forms list name of person taking the money and the person who later in put the information onto the computerised system. Sheets will then be retained with the daily cash sheets. NOP to be amended. Staff to be informed and trained.</p> <p><b>Timescale:</b> 31<sup>st</sup> January 2009</p>

**ANNEX A****Risk & Assurance – Standard Definitions****Audit Recommendations**

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	<b>High</b>	Action is essential to manage exposure to fundamental risks.
2	<b>Medium</b>	Action is necessary to manage exposure to significant risks.
3	<b>Low</b>	Action is desirable and should result in enhanced control or better value for money.

**Assurance Statement**

Each report will provide an opinion on the level of assurance that is provided with respect to the risk arising from the controls reviewed. The categories of assurance are as follows:

Category	Definition
<b>No</b>	The majority of the significant risks relating to the area reviewed are not effectively managed.
<b>Limited</b>	There are one or more significant risks relating to the area reviewed that are not effectively managed.
<b>Substantial</b>	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

## **What Happens Now?**

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

## **Any Questions?**

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Resource Services Manager on telephone number 0115 9013850 or via e-mail to [vince.rimmington@gedling.gov.uk](mailto:vince.rimmington@gedling.gov.uk)