

# **BOROUGH OF BARROW-IN-FURNESS**

## **AUDIT COMMITTEE**

Special Meeting, Wednesday, 25th July, 2012  
at 2.00 p.m. (Committee Room No. 4)

### **A G E N D A**

#### **PART ONE**

1. To note any items which the Chairman considers to be of an urgent nature.
2. To receive notice from Members who may wish to move any delegated matter non-delegated and which will be decided by a majority of Members present and voting at the meeting.

3. **Admission of Public and Press**

To consider whether the public and press should be excluded from the meeting during consideration of any of the items on the agenda.

4. **Declarations of Interest**

To receive declarations by Members and/or co-optees of interests in respect of items on this Agenda.

Members are reminded that, in accordance with the revised Code of Conduct, they are required to declare any disclosable pecuniary interests or other registerable interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Members may however, also decide, in the interests of clarity and transparency, to declare at this point in the meeting, any such disclosable pecuniary interests which they have already declared in the Register, as well as any other registerable or other interests.

5. Apologies for Absence/Attendance of Substitute Members.

#### **FOR DECISION**

- (D) 6. Catering Contract.

**NOTE** (D) - Delegated  
(R) - For Referral to Council

## **Membership of Committee**

Councillors Burns (Chairman)  
Pointer (Vice-Chairman)  
W. McClure  
Murray  
Thurlow  
Wilson

### **For queries regarding this agenda, please contact:**

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<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 6</b>
<b>Date of Meeting: 25th July, 2012</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<p><b>Title: Catering Contract</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Internal Audit report for Catering Contract at The Forum was presented to this committee on the 6th March, 2012 by the Head of Internal Audit. Members raised several points and requested that the Assistant Director Community Services be invited to the next meeting to discuss the arrangements.</p> <p>The Assistant Director Community Services was away on Council business for the meeting of the Audit Committee on the 28th June, 2012 and a report was tabled with Item 7 of that Agenda, to provide an update for Members. However, Members felt that the tabled report did not provide the answers to their questions and it was resolved that a Special Audit Committee meeting be held specifically regarding this contract.</p> <p><b>Recommendations:</b></p> <p>Members are recommended to raise their questions relating to this item to the Assistant Director Community Services, in attendance today.</p>	

### Report

The Internal Audit report for Catering Contract at The Forum was presented to the Audit Committee held on the 6th March 2012 by the Head of Internal Audit (**Appendix A**). Members raised several points and requested that the Assistant Director Community Services be invited to the next meeting to discuss the arrangements.

The Assistant Director Community Services was away on Council business for the meeting of the Audit Committee on the 28th June 2012 and a report was tabled with Item 7 '*Restricted Assurance Levels and Attendance of Senior Officers*' on that Agenda (**Appendix B**), to provide an update for Members. However, Members felt that the tabled report did not provide the answers to their questions and it was resolved that a Special Audit Committee meeting be held specifically regarding this contract.

### Background Papers

Nil

**BARROW BOROUGH COUNCIL**  
**INTERNAL AUDIT FINAL REPORT 10-24**  
**CATERING CONTRACT – THE FORUM**

**Executive Summary**

**Introduction**

The Council has longstanding contractual arrangements with Sodexo, formerly Gardner Merchant, to manage several of its catering facilities. In 2009/10 Internal Audit reviewed the arrangements at the Dock Museum; the current review relates to The Forum, including catering provided to Barrow Town Hall. The company employs an on-site manager and several local staff on the contract.

In 2000 the Council entered into a five-year contract with Sodexo: in 2003 this was extended to May 2008, continuing thereafter until terminated by either party. The contract included provision for a guaranteed return and an income sharing arrangement at The Forum and for the company to invest in its facilities. A draft contract for the continuation of the service was drawn up by Sodexo in 2007: at the time of the audit review, this had not been agreed and finalised. In 2009 Internal Audit raised concerns/potential weaknesses with the draft contract relating to the Dock Museum; subsequently further concerns have been identified regarding the proposals for The Forum and the Park Leisure Centre, all of which have been reported to the Director of Corporate Services.

Sodexo manages the accounting arrangements for the contract, using its national systems with local access and input of data. Monthly trading statements are produced which form the basis of calculating income due to the Council. The Council is invoiced for events organised at The Forum, cleaning the building and catering supplied to the Town Hall.

In 2009/10, the Council received £21,000 income from The Forum contract in addition to the guaranteed annual return of £8,000 and paid £55,000 for cleaning the building. Catering costs for Barrow Town Hall amounted to £22,000.

**Audit Objectives**

An audit of this system forms part of the agreed 2010/11 programme. The audit objectives were to evaluate and test the internal controls over the catering contract. The scope and objectives of the audit were discussed and agreed in advance with Sandra Baines, Venue Manager for The Forum.

Audit work included ascertaining the risks associated with the contractual arrangements and testing the internal

**Key Points**

**Restricted Assurance**

**Two major issues**

**Six important issues**

**One minor issue**

controls. Details of the audit methodology are provided in Appendix 1.

### **Audit Conclusion – *Restricted Assurance***

The audit review involved accessing accounting data maintained by Sodexo. The company has not provided its local manager with on-line access to its accounting system so that, in certain cases, we were only able to examine summary information without the ability to “drill down” fully into detailed transactions to confirm amounts precisely.

However, as a result of the audit we have concluded that there are significant weaknesses which put some of the system objectives at risk. We have made two Priority 1 recommendations concerning:

- agreeing contractual terms with Sodexo that demonstrate value for money; or consider market testing the service provision in accordance with the Council’s Constitution; and
- appreciating the implications of the contract conditions relating to capital expenditure.

In addition, we have made three important recommendations relating to:

- confirming the investment made by Sodexo in the facilities at The Forum and the Dock Museum under its existing commitment;
- obtaining and periodically checking accounting information from the company; and
- obtaining the element of profit share for event income invoiced directly by Sodexo;

and three further important recommendations in respect of the provision of catering at Barrow Town Hall:

- understanding and rationalising the charging methods used by Sodexo;
- reviewing and monitoring the cost of the arrangements; and
- confirming that the arrangements represent value for money.

Finally, we have made one minor recommendation which concerns clarifying adjustments made by the company to invoiced charges.

### **Management Response**

We have received a constructive management response from Keith Johnson, Community Services Manager and Sandra Baines, Venue Manager accepting each of the recommendations and stating, in addition, that the Council are in a transition period with Sodexo at present. There is no current contract in place and the Council are just operating on a month-to-month arrangement. The Community Services Manager has been tasked by the Chief Executive to investigate how catering provision may be offered in future and it is likely that the new arrangement will be based on any supplier providing the Council with an annual fee to run catering services in the Borough.

## **Acknowledgement**

Internal Audit would like to thank staff for their co-operation and assistance during the review and also to acknowledge the help given by Sodexo's local manager.

<b>Recommendation 1</b>	<b>Responsibility: Chief Executive &amp; Community Services Manager</b>	<b>Priority:</b>	<b>1</b>
<p>The Council should endeavour to agree contractual terms with Sodexo that demonstrate value for money; or consider market testing the service provision in accordance with the Council's Constitution.</p>			
<p><b>Rationale</b></p>			
<p>The Council is currently in the process of negotiating a new contract with Sodexo for The Forum and other facilities. The current contract formally expired on 31st May 2008: this was an extension of the previous contract, which covered the period from June 2000 to May 2005.</p> <p>Internal Audit understand that a tender exercise for the catering function was last carried out in 1989: no suitable tenders were received and approval was given to openly negotiate with Gardner Merchant, following which a contract was awarded to the company in 1990.</p> <p>Subsequently, further negotiations with Gardner Merchant and its successor, Sodexo, have resulted in a number of additions and extensions to the contract.</p> <p>As the service has not been tendered for some twenty years, its costs have not been subject to market testing in that period and it is difficult to see how the Council could demonstrate that it is achieving value for money from the arrangement. Furthermore, the terms of the contract appear to be dictated by the contractor to a significant degree.</p> <p>This contractual issue needs to be resolved as soon as possible, if necessary terminating current arrangements/serving notice to ensure compliance issues and value for money are achieved.</p>			
<p><b>Management Response</b></p>			
<p>The Chief Executive, Community Services Manager and Venue Manager met with senior managers from Sodexo on Wednesday 24th November. The purpose of the meeting was to examine ways in which the contractual situation can be formalised. As the catering contract is a part B residual service, it does not require OJEU procurement procedures. The Chief Executive will ensure that a competitive process is followed to ensure best value for the council.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>1st April 2011</b>

<b>Recommendation 2</b>	<b>Responsibility: Community Services Manager</b>	<b>Priority: 1</b>
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) be fully aware of, and be satisfied with, its potential obligations in respect of capital expenditure under the proposed contractual arrangements, including the conditions relating to undepreciated expenditure, prior to agreeing those arrangements;</li> <li>b) ensure that it always agrees in advance the amount of any capital expenditure proposed by Sodexo;</li> <li>c) request Sodexo to provide evidence of its actual capital expenditure under the contract;</li> <li>d) ensure that investment is made early in the life of the new contract to avoid a large residual liability for undepreciated capital expenditure; and</li> <li>e) if the finalised contract states an amount of planned investment, clarify the liability for any amount expended in excess of that amount.</li> </ul>		
<b>Rationale</b>		
<p>The draft contract assumes that Sodexo will invest in the facilities at The Forum; however as noted in Recommendation 2, no set figure for capital investment by the firm is quoted. Amounts are to be agreed with the Council, although a detailed list at Schedule 10 suggests that the company has specific plans to invest in the venue(s). Any such expenditure would be capitalised by Sodexo and depreciated over its useful life.</p> <p>If the contract is terminated for any reason before the end of the depreciable life of the asset, the undepreciated capital expenditure would be charged to the Council, which would acquire title to the assets. This would mean that the Council would either be required to meet potentially sizeable expenditure or be placed in a position whereby that amount would effectively tie it to a renewal with Sodexo.</p> <p>A further potential difficulty could arise where the company invests more than any contractual commitment as the Council could find itself liable for undepreciated expenditure in excess of that committed in the contract. The terms of the proposed contract should be clarified and confirmed.</p> <p>The Council needs to appreciate the implications of the proposed contract conditions relating to capital investment. In order to minimise the potential risks, the Council should always agree in advance any capital investment proposed by Sodexo, while it would be preferable for investment to be made early in the contract period so that the majority of capital expenditure is depreciated before the end date.</p>		
<b>Management Response</b>		
<p>There is no signed contract at present and these issues will be dealt with in the new arrangement.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>1st April 2011</b>

<b>Recommendation 3</b>	<b>Responsibility: Community Services Manager</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should request from Sodexo:</p> <p>a) confirmation that the company has fulfilled its existing commitment to invest £70,000 in the facilities at The Forum and the Dock Museum; and</p> <p>b) details of the specific items of capital expenditure</p>			
<b>Rationale</b>			
<p>One of the benefits of the current contract with Sodexo is that it obliges the company to make a capital investment of £70,000 in the facilities at The Forum and the Dock Museum. In discussion during the audit review, Internal Audit was informed by Sodexo's local manager that the company had exceeded this commitment, however he did not have access to its corporate accounting system in order to confirm the actual amount. The Council should seek assurance that the full £70,000 has, in fact, been expended.</p> <p>It is understood that the capital investment by Sodexo involved permanent alterations to the two sites. As these are, or will become, the property of the Council, it should understand the nature of the works so that it can assess any liability and the maintenance programme required to maintain their condition.</p>			
<b>Management Response</b>			
<p>We will seek evidence from Sodexo of this expenditure and request this by end of January 2011.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>31st January 2011</b>

<b>Recommendation 4</b>	<b>Responsibility: Community Services Manager &amp; Venue Manager</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) ensure that Sodexo operates its intended open book policy by providing data from its accounting system on request; and</li> <li>b) periodically verify charges and income invoiced by the company to source transactions.</li> </ul>			
<b>Rationale</b>			
<p>Sodexo states that it operates an “open book” policy whereby it allows Council staff access to financial information supporting the charges and income sharing arrangements. However in practice this is limited to summary rather than source data because the company’s local manager does not have access to Sodexo’s corporate accounting system.</p> <p>As a result, transaction data may not be available for examination, although The Forum staff regularly check invoiced amounts to Sodexo’s weekly trading summaries. Similarly, although the audit review was able to conclude that, from the available information, the costs and income appeared reasonable, it was not possible to verify figures absolutely.</p> <p>Sodexo’s local manager is expecting to be given access to the accounting system; when this happens, Council staff should ensure that they are able to seek data from the system that will allow them to check detailed trading information supplied by the company.</p>			
<b>Management Response</b>			
<p>There is no signed contract at present and this will be dealt with in the new arrangement.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>1st April 2011</b>

<b>Recommendation 5</b>	<b>Responsibility: Community Services Manager &amp; Venue Manager</b>	<b>Priority: 2</b>
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) ensure that the Authority receives from Sodexo the contractual percentage return on income from future events where the charges are invoiced directly to customers;</li> <li>b) request the company to credit The Forum account with the return due on the invoice for the event highlighted by this audit; and</li> <li>c) consider whether it wishes to pursue recovery from the company in any similar past cases where the return has not been allowed to the Council.</li> </ul>		
<b>Rationale</b>		
<p>The current and proposed contracts with Sodexo provide for an income share whereby the company credits the Council with a 5% return on all sales at The Forum.</p> <p>Internal Audit tested a small sample of cash takings and concluded that the Council was being credited with the 5% share of this income and also that from an evening wedding party where the invoice for catering was paid by cash.</p> <p>In contrast, an invoice of £5,204.47 for meals and refreshments for the Boxing Club dinner in November 2009 was raised by Sodexo's regional office and paid directly. This income was not recorded in the accounts held locally and so had not been included in the calculation of the 5% return for that month. The cash bar takings for the event had been accounted for in the calculation of the return to the Council; this element therefore appeared to be accurate.</p> <p>Internal Audit further confirmed that no adjustment had been made in the following two months for the income of £260 due to the Council for this event. In discussion, Sodexo's local manager was unable to explain how the Council would receive the return on income invoiced and paid to the company's regional office.</p> <p>Unless Sodexo has a sound mechanism to identify invoiced income in its total figures, the Council will not have the assurance that its return on that income is accounted for accurately.</p>		
<b>Management Response</b>		
<p>We will ensure that this is complied with for future events. It may be superseded by any new arrangements.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>1st April 2011</b>

<b>Recommendation 6</b>	<b>Responsibility: Community Services Manager</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should:</p> <ul style="list-style-type: none"> <li>a) ensure that it has a good understanding of the method used by Sodexo to charge for catering at Barrow Town Hall, preferably including relevant documentation; and</li> <li>b) seek to simplify those charging arrangements to more clearly record actual costs.</li> </ul>			
<b>Rationale</b>			
<p>Internal Audit discussed the charges made by Sodexo to the Council for catering at Barrow Town Hall with the company's local manager.</p> <p>In discussion, the manager stated that labour was charged as a fixed number of hours weekly, while expenses included vending machine rentals and new or replacement crockery authorised by the Council. In respect of "internal issues" (e.g. refreshments for meetings), he stated that he had frozen the cost of teas and coffees since 2004 and gave a discount of 40% on simple items although larger events are charged at 100%; however none of this methodology appears to have been documented.</p> <p>It is not apparent whether the Council is party to the charging method described by the company's local manager. This area should be clarified and formalised in future arrangements to avoid potential misunderstandings.</p> <p>Further, the Venue Manager believes that the charging arrangements could be simplified, reducing administrative time for both the Council and Sodexo, if the company's invoices were based on a straightforward recharge of direct costs.</p>			
<b>Management Response</b>			
<p>There is no signed contract at present and these issues will be dealt with in the new arrangement.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>1st April 2011</b>

<b>Recommendation 7</b>	<b>Responsibility: Community Services Manager</b>	<b>Priority:</b>	<b>2</b>
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The Council should ensure that, for catering provided at Barrow Town Hall:

- a) Sodexo provides detailed information which is invoiced in a format which can be reconciled to aid understanding and verification; and
- b) it reviews and monitors the overall and detailed cost, including the identification of wastage.

### **Rationale**

Internal Audit reviewed a sample of invoices issued by Sodexo during 2009/10 for catering at Barrow Town Hall.

Analysis of the November 2009 invoice showed that the following amounts were charged to the Council:

	£
Food	1,000.98
Labour	774.40
Expenses	733.83
	<hr/>
	2,509.21
	<hr/>
Charged as:	
Internal Issues i)	1,178.15
Additional Costs ii)	1,331.06
	<hr/>
Invoiced Total	2,509.21
	<hr/>

- i) Internal issues are charges for identifiable catering, e.g. refreshments for meetings, which are allocated to various cost centres in the Council's accounts.
- ii) The net costs of the service after the identifiable internal issues are charged to the Council as additional costs.

It was not possible to verify the individual amounts of expenditure to Sodexo's accounting system as the company's local manager does not have access, however Internal Audit were provided with supporting trading information from which it appeared that the costs were justifiable.

Upon payment of the monthly invoice, the costs are spread over a large number of codes within the Council's accounts; and although the identification of the total cost charged is straightforward to identify, the amount charged as "additional costs" is not and therefore just absorbed.

It is not apparent whether Council staff monitor the amounts charged by Sodexo to ensure that they are accurate and reconcilable to recorded activity, nor whether they are reviewed to identify wastage, e.g. when a Committee is not fully attended.

<b>Management Response</b>		
There is no signed contract at present and these issues will be dealt with in the new arrangement.		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>1st April 2011</b>

**Recommendation 8**    **Responsibility: Community Services Manager**                      **Priority: 2**

The Council should satisfy itself that the arrangements for catering at Barrow Town Hall represent value for money.

**Rationale**

Internal Audit summarised the invoiced costs of Town Hall catering for the full year 2009/10 as follows:

	£	£
Internal Issues	21,381.38	
Invoiced externally*	<u>(5,653.14)</u>	15,728.24
Additional costs		<u>6,147.72</u>
Annual cost		<u>21,875.96</u>

\* Certain internal issues are rechargeable externally by the Council, e.g. mayoral events and meetings held by Unison.

It is not apparent whether Council staff review the catering arrangements for the Town Hall periodically to ensure that they represent value for money.

**Management Response**

The existing arrangement, although not signed, does have an exclusivity clause. This means that any internal event must be catered by Sodexo. Value for money in catering is highly subjective and whilst it appears reasonable, the arrangement can be tested in the forthcoming new arrangements.

**Accepted**

**Implementation Deadline: 1st April 2011**

<b>Recommendation 9</b>	<b>Responsibility: Venue Manager</b>	<b>Priority:</b>	<b>3</b>
<p>The Council should:</p> <p>a) clarify the invoiced charges made by Sodexo for events at The Forum in January and March 2010; and</p> <p>b) request that Sodexo formalise the method of showing adjustments to invoices.</p>			
<b>Rationale</b>			
<p>Sodexo invoices the Council monthly for catering at events held at The Forum. The invoices are supported by lists which enable the Council to bill external customers or allocate costs internally.</p> <p>Internal Audit checked the totals of the lists for January and March 2010 to the invoices raised by Sodexo. A discrepancy was apparent in both months:</p> <ul style="list-style-type: none"> <li>- For January 2010, the lists totalled £5,801.85; however the invoiced amount showed £5,821.26, an apparent overcharge of £19.41.</li> <li>- For March 2010, the lists totalled £1,356.96 and the invoiced amount showed £1,376.36, an apparent overcharge of £19.40.</li> </ul> <p>The Forum staff explained that they would query discrepancies between the invoice and the supporting lists; this particular instance may reflect an adjustment by Sodexo that has been applied the wrong way.</p> <p>Sodexo does not appear to record adjustments as separate items on its documentation: a clearer method of showing corrections would avoid potential misunderstandings.</p>			
<b>Management Response</b>			
<p>These amounts have been credited back. The Forum staff will check each invoice.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>1st April 2011</b>

## **AUDIT FRAMEWORK**

### **Coverage**

The review covered the following areas which were agreed as part of the preliminary planning stage:

- assessment of existing and proposed contract conditions;
- verification of income returns;
- recharges between the catering and cleaning contracts; and
- charges for Town Hall catering.

### **Methodology**

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- test internal controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

### **Performance**

Auditors: Keith Jackson and Jack Jones

The fieldwork was performed: June – July 2010

***All final Internal Audit reports are presented to the Council's Audit Committee.***

## APPENDIX 2

### CLASSIFICATIONS

#### Assurance Level

	<i>Evaluation</i>	<i>Testing</i>
<i>Unqualified</i>	There is an adequate system of controls designed to achieve the system objectives.	The controls appear to be consistently applied.
<i>Substantial</i>	While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
<i>Restricted</i>	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.	The level of non-compliance identified places the system objectives at risk.
<i>None</i>	Control is weak, causing the system to be vulnerable to error and abuse.	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

#### Audit Recommendations and Follow-up

	<i>Recommendation</i>	<i>Follow Up</i>
<i>Priority 1</i>	Major issues that we consider need to be brought to the attention of senior management.	Follow-up will be performed at specific dates agreed with senior management.
<i>Priority 2</i>	Important issues which should be addressed by management in their areas of responsibility.	Follow-up of the recommendations will be performed by the end of the next audit year.
<i>Priority 3</i>	Minor issues which provide scope for operational improvement.	Follow-up performed by the end of the next audit year.

<b>AUDIT COMMITTEE</b>	<b>Tabled with Agenda Item 7</b>
<b>Date of Meeting:</b> 28th June, 2012	
<b>Reporting Officer:</b> Assistant Director Community Services	
<p><b>Title: CATERING CONTRACT</b></p> <p>Although a new draft contract was developed in 2007 between the Council and Sodexo, which was aimed at continuing the relationship between both parties, this was never implemented. As such, the contractual relationship which existed prior to this point has been carried on, on a month-to-month. This is a complex arrangement which involves payments being made in both directions.</p> <p>Discussions have commenced with Sodexo to negotiate a new form of contractual arrangement for that organisation to provide catering services at the Forum, the Dock Museum and, to a lesser extent, the Park Leisure Centre. The underlying principle here will be to reduce the Council's expenditure in line with the Budget Reduction Strategy, whilst maintaining a good standard of services.</p> <p>Preliminary meetings have taken place with Sodexo and, at the time of writing, we are awaiting a proposal from Sodexo. If this is acceptable, we will look to develop a new contractual relationship with Sodexo following member approval. If the proposal is not acceptable, we will look to invite expressions of interest in a competitive exercise to find a new supplier.</p> <p>The development of this new arrangement is a key objective for the Council and will be concluded before the end of the current financial year.</p>	