

From: Jerry Krantz, Finance director
To: Senior corporate business analyst
Subject: Internal audit review findings

Good day

I have just received a report from the internal audit department which has identified several weaknesses in the internal control systems within our clubs. As you know, we allow club managers a lot of autonomy in order for them to make decisions which best suit their local needs. However, I am concerned that this may be impacting on the effectiveness of our control systems. The main issues identified were as follows:

1. About 20% of club managers are not reviewing regularly, or at all, the monthly performance reports sent out by head office. Some were not aware that they should in fact review these reports, nor had they any idea what the reports contained.
2. There are at least 150 fitness instructors employed in our gyms across Ceeland without the relevant qualifications or without having undergone the correct induction and training required by company policy.
3. On at least 300 occasions in the last three months, customers without the correct access requirements have been allowed to enter club premises without customer passes/access codes being checked. Security access systems in at least eight of our clubs are currently faulty. Despite all of the affected clubs' management being aware of the problems, no work to repair faulty access systems has yet been actioned in two of these clubs.
4. One club manager organised the refurbishment of their indoor swimming pool, at a significant cost to their club. The club manager authorised the work without following Optima's tender process. The company who carried out the refurbishment work was owned by the husband of the club manager and no authorisation from head office for this refurbishment was obtained before work commenced.

The report concluded that there appears to be a lack of clear leadership on the importance of an effective internal control system throughout the organisation.

I am meeting with the chief executive later to report on the internal auditor's findings and I will need your assistance in considering how we address these weaknesses in our internal control system.

Regards

Jerry