Committee(s):	Date(s):
Risk Committee of the Barbican Centre Board	14th October 2013
Subject: Internal Audit Update Report	**Public**
Report of: The Chamberlain	**For Information**

Summary

The purpose of this report is to provide your sub-committee with an update on the progress of Internal Audit reviews undertaken at the Barbican Centre since the last report made in June 2013. Work on the 2012/13 Internal Audit Plan has now been completed, (a Schedule of the 2012/13 Internal Audit Work plan is included within Appendix 1). Work has commenced on the 2013/14 Internal Audit Plan for which a minor spot check review of cash collection has been completed to date (Schedule of Internal Audit Work 2013/14 Appendix 2).

Stocks and Stores review: Internal Audit can provide substantial assurance concerning the adequacy and effectiveness of internal controls exercised by the Barbican Centre's Stores management team. There are a large number of recommendations stemming from this review, but these have been given a "green" rating and do not relate to any significant control issues.

Annual ICT Strategy and Security review: The ICT practices were judged to be adequately controlled. A well-defined ICT strategy exists, with all the important ICT aspects covered, resulting in the strategy that should meet the operational requirements of the Barbican Centre. No significant control issues were identified, although some findings, related to the introduction of disaster recovery scenario planning, warranted prompt initiation.

Box Office Ticket System (ENTA): Internal audit can provide the Risk Committee of the Barbican Centre Board substantial assurance in the current ENTA application and the associated procedures and it was not necessary to recommend any control improvements. Internal Audit work established that the ENTA system provides considerable functionality and has been very stable since its implementation in 2001.

Business Continuity Management System (BCMS): Overall, the BCMS was found to be sound and, most importantly, the plan(s) would be operable in the event of a real incident. Furthermore, this opinion has been reinforced by the Directors and Managers, who represent the 'Emergency Management Team'; their views being elicited through questionnaires and interviews. The review did, however, identify, a number of areas were improvement can be made. A draft report has been issued and is currently under consideration by management.

Cash collection, Security & Banking: The finance office's control is satisfactory, audit trails are adequate to support the transfer of cash from the original site (such as the cinemas and library) to the cashiers and supporting documentation is available and complete. A few areas for improvement were identified concerning the audit trail for the reconciliation process, which warranted prompt action and were rated as 'Amber' priority.

It has been necessary to defer two full reviews until the next financial year (Business Events and Interim Valuations), and one spot check review until later in 2013/14 (Debt Management). It is stressed that the remaining audit work schedule for the Barbican Centre in 2013/14 provides good coverage, and given the amount of work undertaken in 2012/13 and 2013/14 to date, your sub-committee can place a high level of reliance on the assurance reported to date.

At the time of reporting, there are two open amber priority recommendations open relating to the recent Barbican ICT review which are due to be completed by the end of November 2013.

Recommendation

- Members are asked to note the work that internal audit have undertaken, the plans for the current year and offer any observations on the work undertaken.

Main Report

Background

1. This report provides an update on progress being made in finalising the 2012/13 Internal Audit Plan for the Barbican Centre, and the progress made in undertaking the 2013/14 plan to date. Four full reviews have been completed since the June 2013 update report to your sub-committee and one spot check review; details of the outcome of these reviews are included below. Where 'Amber' rated recommendations have been made, related to findings that require prompt action, an update has been sought from the Centre on their implementation status. Other 'Green' rated recommendations are subject to implementation at a later date, since these issues do not pose a significant risk to the control environment. These recommendations are subject to a follow-up review six to twelve months after the completion of the audit review to which they relate.

Internal Audit Plan Completion 2012/13

2. Work on the 2012/13 Internal Audit Plan has now been completed. There were seven full reviews undertaken within the year and the four of these have been completed, with recommendations agreed by Barbican Centre management, since the June update report to your sub-committee; summaries of the outcome of these reviews are included below. No significant control issues were identified during the course of these reviews, although some findings, related to the

introduction of disaster recovery scenario planning, warranted prompt initiation. A final schedule of the 2012/13 plan completion status is included in Appendix 1.

Stocks and Stores

Green Assurance

3. The Barbican Centre's Engineering Department administers the general day to day maintenance of the Centre's buildings. The stocks form part of the Building and Engineering Repairs budget for the Centre, stores expenditure within that budget is in the region of £25,000 (2013/14 prices). A software database called "Agility" is used for recording all stock movements.

4. The purpose of this audit exercise was to evaluate the adequacy of procedures and existing arrangements for all aspects of stock control. This included treatment of write-offs and disposal of obsolete items. The physical security of the stores was examined, together with the accuracy and completeness of stock records (held on database software). Compliance with the City's Financial Regulations was also examined. In addition, consideration was given to the value for money demonstrated by providing this type of in-house stores facility.

AREA	Red Recommendations	Amber Recommendations	Green Recommendations
Purchasing	0	0	1
Procedures	0	0	2
Security	0	0	2
Stores Administration	0	0	5
Write-Offs & Disposals	0	0	1
Issues & Returns	0	0	3
Record Keeping	0	0	3
TOTAL	**0**	**0**	**17**
AGREED	**0**	**0**	**17**

5. Internal Audit can provide substantial assurance concerning the adequacy and effectiveness of internal controls exercised by the Barbican Centre's Stores management team. Whilst there are a large number of recommendations stemming from this review, these do not relate to any significant control issues. Details of these areas of improvement are provided below.

6. There are no written procedures for the administration, operation and management of the stores. Staff may not be following appropriate procedures as a consequence. In addition, the Storeman was not aware of the City's

Financial Regulations. It was agreed that written procedures would be prepared and access to Financial Regulations given to all storekeeping staff.

7. A number of weaknesses were identified in respect of stock record maintenance: delivery notes were not being consistently retained; the requisition forms were not being retained in accordance with the City's Records Retentions policy; a separate log for recording returned items to the store was not in place; returns were not always witnessed or verified; and there was no evidence to support the receipt of the items when the stores are closed. These issues have now been resolved.

8. Independent spot checks to confirm the accuracy of information contained within the stock database system 'Agility' were not carried out regularly each year. In addition, reconciliations between the financial balance on the stock record database system and CBIS were not being undertaken, and the sale of obsolete items via the City of London Procurement Service had not been considered as an option for the disposal of items.

9. It was noted that there is no CCTV surveillance at the rear of the store and no absence cover for the storeman whilst on leave. It was agreed that surveillance issues will be resolved by 30th October 2013, but accepted that due to budget constraints there is no scope to employ additional storeman. More flexibility, however, of existing staff members duties will be considered.

10. An absence of division of duties was revealed when stock checks are undertaken and some sundry items of stock are not included within these checks. The Head of Engineering agreed to involve another member of staff in all future stocktakes and these will include all stock items.

11. Stock discrepancies following stock takes are not reported to the Head of Engineering as a matter of protocol. As such, stock variances amounting to £13,173 were not fully investigated prior to submitting the amount to the Finance Department for write-off. Some £10,539 of the variance was subsequently explained and adjusted following detailed audit examinations, leaving a balance of £2,634 yet to be identified. £13,173 was written off in the 2011/12 financial year by the Chamberlain's Department and therefore adjustments, as a result of these audit findings and recommendations, will be reflected in the current financial year 2013/14.

12. The Barbican Centre's Call Centre raises orders based on requests they receive from departments for in-house repairs and maintenance services. It was found that the Engineering Call Centre 'close down' works orders too early without prior notification being received by the Engineering Department that the works have been fully completed or that the full costs have been allocated to the works. Consequently, departments are not always charged the full cost of the works.

13. Finally, the Engineering Department Manager has explained that a constant VFM assessment of the store is undertaken, by remaining focused on the needs

of the Centre. It is felt that in view of the way in which the stores strategy is flexed in accordance with business needs, no specific value for money project is warranted.

14. Fieldwork was concluded in spring 2013 with the draft report issued in June 2013. The management response was provided in July 2013, with the final report issued in August 2013 following confirmation of an agreed management action plan.

15. Seventeen green priority recommendations have been agreed. Management have reported that fourteen recommendations were implemented with immediate affect or by the end of July. The remaining three priority recommendations will be implemented by the end of October 2013.

Annual IS Strategy and Security Review

Green Assurance

16. The responsibility of the ICT provisions rests with the Barbican Centre, where a dedicated Information Technology (IT) team exists. There is a growing relationship with the Guildhall School Music and Drama (GSMD) ICT team, including project sharing.

17. The previous Barbican ICT internal audit resulted in 39 recommendations (three red, eight amber, and 28 green), all have now been addressed, making the current ICT configuration more secure, with appropriate processes and policies.

18. The table below provides a summary of the areas reviewed by internal audit; as a result, three amber and three green priority recommendations were agreed with the ICT Manager.

AREA	Red Recommendations	Amber Recommendations	Green Recommendations	Total
ICT Strategy	0	0	0	0
Management Responsibility	0	0	0	0
Configuration & Infrastructure	0	0	0	0
Logical Security/Access Controls	0	0	0	0
Operational & Housekeeping Procedures	0	0	1	1
Resilience	0	3	2	5
TOTAL	**0**	**3**	**3**	**6**
AGREED	**0**	**3**	**3**	**6**

19. The ICT practices were judged to be adequately controlled. A well-defined ICT strategy exists, with all the important ICT aspects covered, resulting in the strategy that should meet the operational requirements of the Barbican Centre. Responsibilities are clearly defined and assigned with the management structure being appropriate for the scale of operations. The area of configuration and infrastructure as well as logical security was found to be well controlled, with suitable policies in place, including standards comparable to the leading industry practice. The third party connection policy is also well defined, and the procedure adequately documented, and controlled.

20. Operational and housekeeping procedures were found to be adequate, with one minor recommendation made to perform regular monitoring of the computer room physical access logs, ensuring that they are completed, and there are no unusual access events.

21. Resilience is in place, with the implementation of the last ICT audit recommendations, which included introducing an additional firewall. Additionally, security has been improved, with the introduction of annual external penetration tests. However, the Disaster Recovery (DR) arrangements need improving in a number of areas. For instance, the introduction of Disaster Recovery scenario plans. The IT team is aware of the areas requiring attention and a project is underway to investigate and remedy deficient areas.

22. Three amber and two green priority recommendations related to resilience have been agreed by Barbican Centre Management. The three amber risk areas seek to mitigate the threat of the total loss of the computer room by the introduction of Disaster Recovery scenario plans, carrying out user testing of a new remote DR solution (once introduced), and ensuring that all IT staff involved in the DR plan have access to DR plans from outside the Barbican ICT office environment.

23. The amber priority recommendations were agreed with the recommendation relating to ensuring access to the DR plan information already implemented. A project is underway to address the remaining two amber priority recommendations by end of November 2013. Three green priority recommendations have been also been accepted, with all recommendations agreed to be implemented by December 2013.

24. Fieldwork was concluded in June 2013 and the audit report issued in July 2013. The management action plan was confirmed in July 2013 and the audit subsequently finalised.

25. In line with the City of London Risk Management expectations, it is suggested that Service Committee Chairman should discuss this report with the relevant Chief Officer and seek assurances about the implementation of the recommendations, particularly where there are 'Red' or 'Amber' priority recommendations identified for implementation.

Box Office Ticket System (ENTA)

Green Assurance ✅

26. The Box Office Ticket system is a critical operation issuing in the region of 1.4 million tickets a year contributing to the Centre's overall income of over £18 million (2013/14 prices). The Box Office operates from 9:00 am until 9:30 pm, seven days per week for 363 days each year, and the system is available on-line 365 days per year.

27. The objectives of this review were to establish and assess: -

- Strategy.
- Management responsibility.
- Configuration.
- Logical security.
- Operational procedures.
- Resilience.
- System development.

28. Internal audit can provide the Risk Committee of the Barbican Centre Board substantial assurance in the current ENTA application and the associated procedures. The ENTA system provides considerable functionality and has been very stable since its implementation in 2001.

29. An agreed system development methodology is being applied and three new systems are currently being considered (including ENTA). A contract project manager has been appointed for the Ticketing system project with an expected implementation of early 2015.

Issues to include in the development process

30. Few material aspects were identified with only one relating directly to ENTA regarding password characteristics. The current ENTA password format does not offer sufficient complexity (i.e. upper case, lower case, numeric and non-alpha numeric), offering only one numeric and one alpha requirement. The IT team were already aware of this.

31. The other main issue concerns the Barbican Centres Disaster Recovery Plan and the IT team are aware of this issue and are currently addressing it.

32. The Internal Audit forwarded the 'CoL Internal Audit Systems Development – Security & Audit requirements' (December 2012) and commented on the draft specification (January 2013). These two documents addressed a number of pertinent issues identified as part of this review.

33. No audit recommendations have resulted from this review and therefore no formal response was required.

Business Continuity Management System

Green Assurance ✅

AREA	Red Recommendations 🔴	Amber Recommendations 🔺	Green Recommendations ✅	Total
Governance	0	0	3	3
BCP & Business Impact Analysis	0	1	3	4
Testing	0	0	1	1
Training	0	0	1	1
Salvage Strategy	0	0	1	1
Public Relations/ Communication	0	0	1	1
TOTAL	**0**	**1**	**10**	**11**
AGREED	**0**	**1**	**10**	**11**

34. The objectives of this review were to: -

- Evaluate the governance arrangements including the reviewing, reporting and responsibilities.
- Evaluate the formal elements and documentation of the BCMS including the ---Business Impact Analysis and the Business Continuity Plan.
- Evaluate the BCMS processes including training and testing.
- Evaluate everyday operational issues that could cause reputational damage including engineering/maintenance failures, fire, medical issues and security.

35. The internal audit review benchmark has been an amalgam of standards including ISO 27301 (formerly BS25999), City of London (CoL) Security & Contingency Planning guidelines and general leading practice. This has been tailored to the needs of the Barbican's objectives and risks where, as a cultural/commercial concern, one of the major impacts is reputational damage.

36. Overall, the BCMS was found to be sound and, most importantly, the plan(s) would be operable in the event of a real incident. Furthermore, this opinion has been reinforced by the Directors and Managers, who represent the 'Emergency Management Team'; their views being elicited through questionnaires and interviews. The review did, however, identify, a number of areas were improvement can be made, and as a resulted in eleven recommendations (one amber and ten green).

37. The governance arrangements were generally conducted properly with the Security Manager having a high level of understanding, both of the Barbican's operation and business continuity priorities. Many of the expected BCMS requirements are in place, most importantly a workable plan and adequate staff support. An area highlighted for consideration is formalised reporting to committee and establishing a documented meeting schedule with Directors and Managers for them to review their Departmental BCPs. There were two issues for consideration regarding development: a salvage strategy; and PR/Media response plan. The major issue is access to the BCPs (both central and departmental) in the event of an incident. A number of key staff rely on access via the computer held version (i.e. "P:/ drive"). If, however, the incident has affected the IT computer room, a remote access connection may not be possible. Furthermore, reliance is placed on being able to access a device to make the connection in the first instance.

38. The formal elements and documentation of the BCMS, including the Business Impact Analysis (BIA) and the Business Continuity Plan were reviewed. The last comprehensive BIA conducted (both corporate and departments) was for the Olympics (April 2012) and while it is recognised that BIAs are viewed annually, a recommendation has been given to make this a more formalised process, including central review. A similar recommendation was made regarding BCPs.

39. Testing has occurred (both planned and by virtue of ad hoc incidents), but it could be improved if organized on a regular and formal basis, and a recommendation has been made with examples of the tests that could be performed.

40. Training has occurred and many of the managers believe that this has been sufficient for their need. Furthermore, the induction course includes aspects of BCP, and a number of staff have attended high level continuity courses whilst employed by other organisations. Even so, a recommendation has been made to put in place training on a more regular and formalised basis.

41. The everyday operational issues that could cause reputational damage were reviewed, and the outcome was reassuring. Many issues occur on an ad hoc basis (e.g. electrical/mechanical failures, PR incidents, industrial action, security issues and performance cancelations) and these have all been handled well with both proactive forethought and employing existing procedures. Issues that may be considered outside the standard BCMS, but are important to the Barbican on a reputational basis, examples of which include dealing with a fire incident, or personal injuries have been well considered.

42. It should be noted that this review is current at draft report stage. Whilst ICT Management have accepted all the recommendations in principal, a final report, together with implementation dates for recommendations, has yet to be agreed with the Managing Director. This internal audit report is due for finalisation by the end of November 2013 following which a Member Briefing will be issued.

Internal Audit Plan Completion 2013/14

43. Work has commenced on the 2013/14 Internal Audit Plan. A minor spot check review of cash collection has been completed to date. This review has resulted in two amber rated recommendations which require prompt attention, in respect of income reconciliations. It should be noted that due to a number of resourcing issues faced by the Internal Audit Section, including the retirement of a Senior Auditor, and re-allocation of resources to enable higher priority special investigation work to be undertaken, it has been necessary to defer two full reviews until the next financial year (Business Events and Interim Valuations), and one spot check review until later in 2013/14 (Debt Management).

44. Additional interim internal audit resource is being procured and should be in place from the beginning of November to bring the internal audit plan back on track, and will be used to supplement full time auditor resources when staff turnover arises. Recruitment of two permanent senior internal auditors is already well advanced with interviews arranged for week commencing 13th October. The internal audit coverage of the Barbican is regularly risk assessed, and is balanced with other priority areas of internal audit coverage in other City of London Departments.

45. It is stressed that the remaining audit work schedule for the Barbican Centre in 2013/14 provides good coverage, and given the amount of work undertaken in 2012/13 and 2013/14 to date, your sub-committee can place a high level of reliance on the assurance reported to date. A revised schedule of the 2013/14 plan completion status is included in Appendix 2.

Cash collection, security and banking

Amber Assurance

AREA	Red Recommendations	Amber Recommendations	Green Recommendations	Total
Reconciliations	0	2	0	2
TOTAL	**0**	**2**	**0**	**2**
AGREED	**0**	**2**	**0**	**2**

46. The finance office's control of collecting, recording and banking cash is satisfactory. Audit trails are adequate to support the transfer of cash from the original site (such as the cinemas and library) to the cashiers and supporting documentation is available and complete. Cashing up of a sample of receipts from these sites did not identify any variances. Furthermore, the banking arrangements are sufficient to ensure that cash is held on site for a limited period of time and within the established insurance arrangements. The broader security arrangements, such as the number of officers who have access to the cash, the safes used and the installed alarm system, are also satisfactory. In addition, separation of duties is appropriate.

47. A few areas for improvement were, however, identified. In particular, the audit trail for the reconciliation process requires improvement. Evidence of reconciliations being conducted is not available to demonstrate that all cash received is banked; although it should be noted that limited sample testing conducted by Internal Audit did not identify any variances. In addition, the cashiers' reconciliation document, used to reconcile cash received and cash banked, is retained electronically and is accessible to a number of officers, including the officer responsible for reconciliation to the bank. As a result, the risk of manipulating the recorded amount of cash received requires mitigating action.

48. A sum of cash was observed on an empty desk at the time of the visit, which should have been secured when not being counted, and the safe combination has not been changed for approximately two years. Discussion with staff identified that G4S (the outsourced company responsible for banking cash) do not visit the office every day as stipulated by contract or the finance office is empty when they visit, although these occasions are rare, resulting in cash not being banked for two days. Finally, although security measures are generally satisfactory, the key to the safe was in plain sight on the day of the visit. These issues have been discussed with the Head of Finance and, considering the overall adequacy of control environment, including the restricted access to the Finance Office, it was agreed that these were not regular occurrences and constituted minor lapses in normal practice. Therefore, no formalised recommendations have been raised for these areas.

Recommendations Follow-up

49. All main audit reviews are subject to a formal audit follow-up exercise to evaluate the progress of management in the implementation of recommendations between six to twelve months after the main audit. These reviews will look to verify the evidence of action taken and may involve some transaction testing where compliance issues were a concern in the original audit review. Follow-up reviews will be undertaken later in 2013/14.

50. In addition to this formal audit follow-up process, internal audit obtains status updates from recommendation owners on a quarterly basis for any open red or amber priority recommendations. At the time of reporting, there are two open amber priority actions relating to the recent Barbican ICT review which are due to be completed by the end of November 2013.

Conclusions

51. The full Internal Audit plan for 2012/13 has been delivered and work is progressing on the completion of the 2013/14 plan. Internal Audit reviews reported to your sub-committee since the previous update report in June 2013 have not revealed any significant control issues. Some areas of improvement have, however, been identified warranting prompt action, for instance, the introduction of disaster recovery planning scenarios and improvements to the evidence supporting income reconciliations.

52. Due to Internal Audit resourcing issue, including the retirement of a Senior Auditor and the need to undertake higher priority un-planned projects, some less priority work has been deferred. It should be noted that the Barbican Centre has received a high level of audit coverage over the period 2012/13 and 2013/14 to date, with no significant control issues being identified. Given the low risk involved in reducing audit coverage for the remainder of this year, it has been necessary to divert resources to other higher risk areas of the overall City control environment. Additional permanent and interim internal audit resources are being recruited to ensure a good internal audit coverage is maintained.

Appendices

- Appendix 1 – Schedule of Internal Audit Planned Work 2012/13

- Appendix 2 - Schedule of Internal Audit Planned Work 2013/14

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