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| <b>Committee:</b>                               | <b>Date:</b>           |
| Risk Committee of the Barbican Centre Board     | 10 June 2014           |
| <b>Subject:</b><br>Internal Audit Update Report | <b>Public</b>          |
| <b>Report of:</b><br>The Chamberlain            | <b>For Information</b> |

### Summary

The purpose of this report is to provide your Committee with an update on the progress of Internal Audit reviews undertaken at the Barbican Centre since the last report made in January 2014.

Since the last Committee update report the review of Variation Orders and Change Control Procedures has been finalised. In addition, one spot check reviews: Debt Management has been completed.

There were two Internal Audit staff vacancies during 2013/14 and it has been necessary to undertake higher risk reviews, including significant investigation work at the expense of lower priority work. Commencement of the bulk of the 2013/14 Internal Audit Plan has been deferred until Quarter 1 of 2014/15. (Schedule of Internal Audit Work 2013/14 - Appendix 1). Additional contractor resources have been retained for the next 3 months in excess of establishment, to enable completion of this planned review work.

Project Variation Orders and Change Control Procedures – Overall Amber Assurance – 3 Amber priority recommendations

As a result of this review Internal Audit recommended a further area for inclusion within the Barbican Centre's cost monitoring guidance to set out the requirement that significant project changes (whether resulting in additional or omitted work) should be subject to approval by Members prior to the corresponding variation order being issued to the contractor, as per the City's project procedure.

In respect of the documentation of contract variations on individual projects, a number of areas for improvement were identified which will reduce the risk that inaccuracies in interim valuations / final accounts go undetected. In addition, the precise basis for the pricing of variations was not always clear.

Three Amber rated recommendations were made and Barbican Centre Management have given assurances that these were implemented by 31st May 2014.

This report also includes the Internal Audit Plan Schedule for 2014/15. (Appendix 3)

### Recommendation

- Members are asked to note the outcome from recent internal audit work and progress against the internal audit planned work.

## **Main Report**

### **Background**

1. This report includes a summary of the status of all 2013/14 reviews (Appendix 1) and a schedule of planned Internal Audit work 2014/15 (Appendix 2). It also includes an update on the progress made in implementing Internal Audit recommendations resulting from 2013/14 work completed by the end of April 2014.

### **Internal Audit Plan 2013/14 Progress**

2. Since the last Committee update report, the review of Variation Orders and Change Control Procedures has been completed. Overall moderate amber assurance level was confirmed. Two full reviews: International Enterprises and Value Framework, included within the 2013/14 Barbican Centre Internal Audit Plan are scheduled for completion by 30<sup>th</sup> June 2014.
3. There were three spot check reviews in the 2013/14 Internal Audit work schedule for 2013/14. One of these: Cash Security, was completed in June 2013 and details of the outcome included within the October 2013 update report to your Committee. A spot check of Debt Management has been completed to draft management letter stage; and the remaining Expense Claims spot check will be completed by 30<sup>th</sup> June 2014. (Schedule of Internal Audit Work 2013/14 Appendix 1).
4. It has been necessary to defer until Quarter 1 of 2014/15 the remaining 2014/15 Internal Audit work planned for the Centre. This is due to two vacant posts, which have now been filled, a further Senior Auditor vacancy that has arisen since the last update report, and undertaking higher risk work in other City departments.

### **Variation Orders and Change Control Procedures**

5. This review sought to obtain reasonable assurance that there is an adequate control framework in place to ensure that contract variations are valid, properly recorded, subject to appropriate authorisation and that the valuation of variations is carried out in accordance with contract conditions.
6. The following projects were reviewed in forming an opinion on the adequacy of the control framework;
  - Concert Hall Backstage Refurbishment (Phase 1 – Wolfson) (c£700k)
  - Replacement of Barbican Theatre Systems (c£700k)
  - General Redecorations (c£100k)
7. Adequate guidance notes have been established in respect of variation orders, covering most of the areas expected; they have been communicated to all relevant Officers. Internal Audit recommended a further area for inclusion

within the Barbican Centre's cost monitoring guidance to set out the requirement that significant project changes (whether resulting in additional or omitted work) should be subject to approval by Members prior to the corresponding variation order being issued to the contractor, as per the City's project procedure.

8. Variations are generally properly recorded, through the issue of clear, sequentially numbered written variation orders by the Supervising Officer / Project Manager. Only valid variations and changes are made to the previously agreed works as instructed by the Project Manager / Supervising Officer.
9. In each of the three projects reviewed, variations amounted to less than 10% of the total tender sum (Concert Hall Backstage Refurbishment 8%, Replacement of Barbican Theatre Systems 2%, and General Redecorations 8%) which is considered reasonable.
10. The review of a sample of thirteen variations across the three projects found that overall variations are being priced (by the Quantity Surveyor or equivalent) in line with contract conditions and that the Barbican Centre was receiving adequate value for money in respect of these. However, there were two instances (15% of variations sampled) where it was not possible to determine the precise basis for the pricing of variations. An amber recommendation was agreed to remind Quantity Surveyors, or equivalent, of the requirement to fully document the basis upon which all variations are priced. The variations reviewed were appropriately approved by relevant Project Managers.
11. In respect of the documentation of contract variations on individual projects, a number of areas for improvement were identified which will reduce the risk that inaccuracies in interim valuations / final accounts go undetected (e.g. for the Concert Hall Backstage Refurbishment, the project Final Account did not separately record the value of some omitted items and five instances were identified where the value of omitted items was netted off against the value of corresponding additions). An amber recommendation has been agreed to improve the clarity of variations within project documentation.
12. Three Amber rated recommendations were agreed with Barbican Centre management and it has been verbally confirmed that there were all implemented by 31<sup>st</sup> May 2014.

| Recommendations  | Red | Amber | Green | Total |
|------------------|-----|-------|-------|-------|
| Number Made:     | 0   | 3     | 0     | 3     |
| Number Accepted: | 0   | 3     | 0     | 3     |

### Follow-up Reviews

13. Six follow-up reviews have been undertaken since the January 2014 update report (see table one below). All recommendations for these reviews had been implemented (31 recommendations in total). The remaining two follow-up reviews will be undertaken during 2014/15. Verbal assurances have been obtained that the three Amber recommendations resulting from the Variation Orders and Change Control Procedures Review were implemented by 31<sup>st</sup> May 2014 as agreed.

**Table One: Follow-up reviews to 31<sup>st</sup> March 2014**

| Audit Review   | Recommendations |       |       |       | Follow-up Date |
|--|-----------------|-------|-------|-------|----------------|
|  | Red             | Amber | Green | Total |                |
| Income Collection & Banking (all sources)                    | 0               | 0     | 2     | 2     | February 2014  |
| Retail Outlets   | 0               | 4     | 2     | 6     | March 2014     |
| Commercial Income & Expenditure (inc. Artifax)               | 0               | 0     | 4     | 4     | March 2014     |
| Stocks and Stores  | 0               | 0     | 17    | 17    | TBC            |
| Box Office Processes   | 0               | 0     | 3     | 3     | February 2014  |
| Cost Monitoring  | 0               | 0     | 3     | 3     | January 2014   |
| Annual IS Security & Strategy                                | 0               | 3     | 3     | 6     | November 2014  |
| Variation Orders   | 0               | 3     | 0     | 3     | TBC            |
| Construction Design Management (Health & Safety in projects) | 2               | 3     | 5     |       | February 2014  |
| <b>Total Agreed</b>  | 2               | 13    | 39    | 54    |                |

### Internal Audit Scheduled Plan 2014/15

14. The Internal Audit Scheduled Plan 2014/15 details are contained in Appendix 2. The plan includes four full assurance reviews: Control Self-Assessment (CSA) – Extensions of time on projects; CSA – Interim Valuations on projects;

Box Office (Income Target Setting and monitoring); Budget Setting/Financial Management. There are also two mini-assurance reviews: Annual Business Continuity Management System and ICT review. There will also be follow-up reviews of audits from the 2013/14 audit plan.

### **Full Reviews**

#### **CSA – EXTENSIONS OF TIME (15 days)**

This review will use Certified Self Assessment to consider the level of compliance with contractual and project management requirements

#### **CSA – INTERIM VALUATIONS (15 days)**

This review will use Certified Self Assessment to consider the level of compliance with contractual and project management requirements.

#### **BOX OFFICE (INCOME TARGET SETTING AND MONITORING) (15 days)**

This audit review will examine the process for determining how productions are priced so that costs can be recovered and audiences will be attracted to purchase tickets. It will examine the relationship between the target income to be achieved and the scope that the Centre has for setting prices in a competitive environment. Monitoring of income targets will also be examined.

#### **BUDGET SETTING/FINANCIAL MANAGEMENT) (10 days)**

The purpose of this review is to ascertain how the Barbican Centre sets a budget that is flexible at a time of economic uncertainty and addresses the commercial, artistic and educational aspects of the Centre's programme. It will also examine budget monitoring and the accuracy of financial performance reporting.

### **Mini-Assurance Reviews**

#### **Annual Business Continuity Management System and 2013 review follow-up (7 days)**

Standard BCMS review (includes organisational structure, policies, planning activities, responsibilities, procedures and resources) based on previous comprehensive baseline audit. Undertaken at the request of Barbican Risk committee.

#### **Annual ICT review + 2013 review follow-up 4 days**

Standard ICT review (Strategy, Security and Operational) based on a previous comprehensive baseline audit. Undertaken at the request of Barbican Risk committee.

## **Conclusion**

15. A review of the Barbican Centre Variation Orders and Change Control Procedures has provided a moderate assurance conclusion, with three amber priority recommendations were agreed for implementation by 31<sup>st</sup> May 2014.
16. Due to Internal Audit staff vacancies and higher risk work in other City departments, it has been necessary to defer two full reviews and two spot check reviews until Quarter 1 of 2014/15. Account has been taken in this decision of the overall view that the control and risk environment at the Centre is sound, and previous recent coverage of internal audit work.

## **Background Papers:**

Appendix 1 - Schedule of Internal Audit Work 2013/14  
Appendix 2 - Schedule of Internal Audit Work 2014/15

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