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| Committee: | Date: |
| Risk Committee of the Barbican Centre Board | 29 June 2016 |
| Subject: Internal Audit Update Report | Public |
| Report of: Head of Internal Audit and Risk Management | For Information |

Summary

This report provides an update on Internal Audit activity undertaken at the Barbican Centre since the last report made in January 2016 and in summary for 2015-16.

All planned work for 2015-16 has been concluded with the exception of the review of Box Office (Pricing) which is in the process of being finalised. Delivery of 2015-16 reviews, including outcomes, is analysed at Appendix 1.

Since the last Committee update report three pieces of audit work have been progressed to completion: Artifax System Controls (moderate assurance), Bars (moderate assurance) and Membership Schemes (substantial assurance). These audits have resulted in three amber priority and six green priority recommendations being raised and all have been agreed by Barbican management. .

As of April 2016, Pat Stothard from Mazars was engaged as the Head of Audit and Risk Management (HARM) for a two year period following expiration of the contract with RSM (formerly Baker Tilly). Internal Audit processes are being kept under review and it is anticipated that recommendation follow-up arrangements will be subject to revision in the short term in order to provide timely assurance to Members in respect of the degree of implementation.

There are no outstanding red priority recommendations as at mid-May 2016; there are five live amber priority recommendations awaiting follow-up, recognising that a further two amber recommendations had not been agreed by management (as reported previously to this Committee).

There has been liaison between Internal Audit and Barbican management to determine suitable timing and potential areas of focus for planned 2016-17 audit reviews. Delivery progress and target timescales in respect of 2016-17 reviews are outlined at Appendix 2.

Recommendation(s)

Members are asked to note: the final delivery position for the 2015-16 Internal Audit Plan including audit review outcomes since the last Internal Audit Update Report in January 2016 and the details of the 2016-17 delivery position.

Main Report

Background

1. This report provides an update on audit work progressed since 20th January 2016 Committee and includes a final summary of the status of all 2015-16 reviews (Appendix 1). Three audits have been finalised since the last meeting of this Committee, resulting in three amber priority and six green priority recommendations being raised. As at the middle of May 2016 there are no live red priority recommendations and five amber priority recommendations awaiting formal follow-up. The Internal Audit Plan for 2016-17 is attached at Appendix 2 and outlines the status of reviews and target delivery timescales.

Internal Audit Review Outcomes 2015-16

2. All planned work for 2015-16 has been concluded with the exception of the review of Box Office (Pricing) which is in the process of being finalised. A summary of the status and outcomes of audit reviews relating to 2015-16 is attached at Appendix 1.

Other Relevant Assurance Work

3. Delivery of the plan of corporate and key systems reviews across the City's departments is on-going, providing assurance over a range of arrangements relevant to the Barbican Centre. A schedule of corporate reviews in the 2015-16 internal audit plan is attached at Appendix 2. Summary audit outcomes will be reported to this Committee where appropriate. No audit recommendations were made directly in respect of the Barbican Centre.

Delivery of Internal Audit Work

System Controls: Artifax System – Moderate Assurance

4. This review of Artifax, the Venue and Event Management system, was focused on the adequacy of arrangements to restrict system access to authorised personnel through the use of password controls and system access rights.
5. The version of Artifax in use at the time of audit fieldwork had inadequate controls in place over passwords, for example:
 - No requirements in respect of the 'complexity' of passwords set;
 - Regular password changes not enforced
 - User accounts not locked out after inactivity or disabled upon input of incorrect passwords multiple times
6. It was noted that there were compensatory controls in place as access to Artifax was via a 'Terminal Server', requiring staff to be granted access to this in order to log in to the system. The passwords used to gain access to the Terminal Server were synchronised to those used by staff to access their Microsoft Windows accounts.
7. Audit testing confirmed that the IT department had implemented best practice controls in place in respect of Microsoft Windows passwords. A moderate

residual risk was noted in terms of staff accessing the Terminal server and gaining unauthorised access to Artifax accounts of other staff Members. An amber priority recommendation was raised to address this and Barbican management undertook to address this in the short term by introducing additional controls such as a database script to enforce requirements in respect of password length and maximum use periods. In the longer term (by end of January 2017) it is understood that the Barbican will be upgrading to Artifax version 4.

8. The audit identified through testing of new users accounts that adequate access controls were in place to ensure that appropriate levels of access are granted to Artifax system users. Adequate controls were also in place to ensure that only authorised users gain access to the Terminal Server, the server upon which the Artifax system is located.

Bars – Moderate Assurance

9. This review sought to obtain assurance that there are adequate arrangements in place in respect of cash income received by the Barbican's bars, that income was recorded and banked in full and that bar stock was appropriately managed. The audit also focused on reporting arrangements in respect of bar income and stock levels held.
10. Overall, there was scope to improve arrangements in place to ensure that cash income is collected, recorded and banked in full. The audit noted that adequate arrangements were in place to keep cash secure in safes until takings reach the bank. However, safe insurance limits were not reviewed as part of this audit. Opportunities for improvement were identified in respect of the following:
 - EPOS tills were cashed up by Bar Supervisors, who were responsible for reconciling cash takings to the EPOS system and then storing them in a safe for collection by the Cashiers in the Finance Team. An amber priority recommendation was made to reduce the risk of fraud and error, according with good practice.
 - A green priority recommendation was made for sales summary reports to be signed off by the Bar Operations Manager and Assistant Managers as evidence that the level of refunds have been checked and validated.
 - A green priority recommendation was made to address the incomplete audit trail related to the checking of till floats to ensure that all such funds are accounted for.
11. Audit testing confirmed that adequate arrangements were in place to mitigate the risk of stock shortages through supplier next day delivery services. It was noted that there was scope to improve stock purchasing arrangements, however, to help avoid excessive stock levels, the scope for theft and to maximise bar sales. An amber priority recommendation was made to strengthen control over stocking and it is understood that the Stores Manager

was asked to attend weekly Events Planning Meetings to obtain relevant data related to performance and audiences, to inform procurement decisions.

12. Based on testing performed, stock was held securely and access to stock was restricted to authorised staff only.
13. Audit testing indicated that there were adequate controls in place to ensure that stock purchases and sales are accounted for within the EPOS system. Independent monthly stocktakes ensured that stock in hand quantities were regularly verified and corrected as appropriate.
14. Audit testing indicated that there was adequate management information available to assist the Bar Operations Manager in managing the bars, though a green priority recommendation was made to document key procedures for operating the bars to regulate activity and ensure that management expectations are met.

Membership Schemes – Substantial Assurance

15. On the basis of testing performed, adequate arrangements were in place to ensure that the benefits of the Membership schemes to the Barbican Centre have been identified and objectives set accordingly. Overall, there were adequate processes for setting membership take up targets and corresponding income budgets. One area for improvement was identified and a green priority recommendation made to ensure the on-going accuracy of calculations.
16. Audit testing indicated that there were satisfactory mechanisms for monitoring performance against membership take up targets and corresponding income budgets, based on relevant and timely management information. Although the Direct Marketing Manager had put good practice arrangements in place to monitor the financial benefits generated by members for other Barbican Centre income streams, there was scope for improvement in this area though consideration of additional management information. Two green priority recommendations were made in this respect and Barbican management undertook to implement these subject to the management information being available on the EPOS and ticket systems.

Box Office Income - Pricing

17. The terms of reference for this review as reported to the last meeting of this Committee were subsequently revised following discussion with the Head of Finance. Changes are in recognition of developments as part of the Evidenced Based Pricing (EBP) strategy project which has progressed since the scope of the audit was originally agreed. The original objective of this internal audit review was to establish and evaluate the rationale for setting box office pricing for a sample of art forms, namely theatre (to include a sample of commercial rentals), cinema and gallery. Evidence supplied for audit purposes has been largely focused on Classic Music, however, as this has been the first area to roll out the EBP model. The audit report is in the process of being finalised.

Implementation of Audit Recommendations

18. As at mid May 2016 there are no live red priority recommendations and five amber priority recommendations awaiting formal follow-up; three of these arose from reviews finalised since the last Internal Audit Update Report. Internal Audit follow-up arrangements are under review to ensure that audit resources are targeted appropriately and an update will be presented to the next meeting of this Committee.

Internal Audit Plan 2016-17

19. The Internal Audit Plan 2016-17 (Appendix 3) has been prepared using a risk-based approach and is aligned to the Barbican's strategic objectives. There has been consultation with the Head of Finance since the last meeting of this Committee to determine suitable timing for reviews and to support detailing planning. Comment and suggestions for consideration in the reviews shown in Appendix 3 are sought from your Committee Members.

Conclusion

20. Delivery of the Internal Audit Plan 2015-16 (Appendix 1) has concluded with the exception of one audit at draft report stage. Delivery of the Internal Audit Plan 2016-17 is underway following discussion with Barbican management regarding the scope and timing of individual reviews and is expected to proceed as outlined in Appendix 3.
21. There are no live red priority recommendations at as the middle of May 2016 and five amber priority recommendations which have not been followed up by Internal Audit, three of which relate to reviews finalised since the last Internal Audit Update Report. Formal follow-up arrangements are under review and will be notified to your Committee Members at the next meeting.

Appendices

Appendix 1 Summary of Internal Audit Plan Delivery 2015-16

Appendix 2 Corporate Reviews – Schedule of Internal Audit Work 2015-16

Appendix 3 Internal Audit Plan Status 2016-17

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