

<b>Committee:</b>	<b>Date:</b>
Risk Committee of the Barbican Centre Board	8 November 2016
<b>Subject:</b>	<b>Public</b>
Internal Audit Update Report	
<b>Report of:</b>	<b>For Information</b>
Head of Internal Audit and Risk Management	

### **Summary**

This report provides an update on Internal Audit activity undertaken at the Barbican Centre since the last report made in June 2016.

Since the last Committee update report a position statement in respect of the 2015-16 audit of Box Office Pricing has been finalised, resulting in a green priority recommendation, and two planned audits for 2016-17 – Catering and Car Parks - have reached draft report stage. Delivery progress in respect of 2016-17 audit reviews is outlined at Appendix 1.

There are no outstanding red priority recommendations as at mid-October 2016 and a recent corporate follow-up exercise confirmed that there is only one live amber priority recommendation. A revised target implementation date has been agreed, in conjunction with Barbican management, for this recommendation and at the time of writing this is not yet due.

There has been liaison between Internal Audit and Barbican management to agree the scope and timing of the planned review of Major Incident, Security and Safety taking into account the current service based review which includes the use of resources for major incident planning.

#### **Recommendation(s)**

Members are asked to note the delivery position for the 2016-17 Internal Audit Plan including audit review outcomes since the last Internal Audit Update Report in June 2016.

### **Main Report**

#### **Background**

1. This report provides an update on audit work progressed since the 29 June 2016 meeting of the Risk Committee. A 2015-16 audit review of Box Office Pricing has been finalised since the last meeting of this Committee, resulting in a green priority recommendation which was accepted by Barbican management, and two audits from the 2016-17 plan have reached draft report stage.
2. As at mid-October 2016 there are no live red priority recommendations and there is only one amber priority recommendation which is anticipated to be addressed by 30 October 2016.

3. The Internal Audit Plan for 2016-17 is attached at Appendix 1 and outlines the status of reviews. Liaison is ongoing with Barbican management to progress the audits of Major Incident, Security and Safety, and Customer Experience.

### **Delivery of Internal Audit Work**

#### Box Office Income - Pricing

4. As reported to the last meeting of this Committee the original scope of this planned audit was revised in recognition of the Evidence Based Pricing (EBP) strategy project which was in progress. 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.
5. Due to the very recent development of the Barbican Pricing Strategy and consequently limited time for it to be embedded within the different art forms, Internal Audit has been unable to provide assurance in respect of the Box Office pricing mechanisms. Evidence was supplied in respect of pricing decisions related to Classical Music, rather than a wider audit sample of pricing activity, which enabled preparation of a position statement which was largely focused on this particular art form. The findings of the Internal Audit examination were as set out below.
6. A ticket pricing strategy – Evidence Based Pricing - has recently been developed as part of a Barbican strategic project. Confirmation was obtained that this was documented within a Strategic Project Initiation Form presented to the Barbican's Management Team on 15 December 2015 and was directly linked to the Barbican Strategic Plan (approved by the Barbican Board in December 2015). It was noted that income maximisation, optimisation of attendance and development of new audiences were fully embedded within the evidence based pricing approach.
7. At the time of fieldwork this evidence-based pricing approach had been adopted within the Classical Music Department and was scheduled for roll-out to other art forms during 2016. Review of evidence obtained for the Classical Music art form demonstrated the application in practice of principles as set out in the "Evidence Based Pricing" strategy.
8. It was noted that significant consumer information was obtained via the 2014 review of the classical music pricing offer by Baker Richards Consultants. Whilst it was confirmed that the Classical Music Pricing Project team met in May 2015 to consider the outcome of the review, some of the recommendations made were not fully implemented either because of timing issues (i.e. too late to inform decision-making for 2016) or because recommendations were not considered to be a good fit for the Barbican. Action points were captured to take forward a number of issues, however, and evidence was obtained of further monitoring and review in November 2015. There were elements within the Classical Music pricing process that Internal Audit could not evidence, however, such as any financial modelling on the impact of different pricing options.

9. Aside from review of Classical Music pricing, documentation supplied indicated that there were adequate mechanisms in place to determine appropriate wider pricing structures (i.e. other art forms). It was noted that the Pricing Review Group undertake annual strategic pricing reviews, considering key elements such as income maximisation, attendance optimisation and development of new audiences. Additionally Box Office Managers, in consultation with Art Forms and Marketing, had delegated authority to apply reactive pricing based on live sales data. Adequate controls were observed to determine, approve and communicate Classical Music pricing structures for a full season and the chosen pricing band for any given production.
10. Limited testing was undertaken in respect of external productions/commercial hires as documentation was supplied in respect of only one production – Hamlet. It was noted that the evidence based pricing approach did not cover external productions due to the nature of the commercial relationship i.e. the Barbican charges a flat fee for rental hires of the theatre and the promoter takes the box office income. The contract for the sampled production clearly stipulated that ticket prices and discounts had to be agreed in consultation with the City, safeguarding the Barbican's interests. No evidence was supplied of such consultation and a green priority recommendation was made to address this. Barbican management advised that relevant staff have conversations with production companies to ensure that pricing is reasonable and would not cause reputational damage. It was agreed that, where possible, such discussions would be minuted or confirmed in email.

#### Catering

11. This planned audit is at draft report stage and the outcome will be reported to this Committee post finalisation. This audit has focused on the Barbican's Public Catering offer and the following contracts with catering partners:
  - Searcy Tansley and Company Limited (Searcy) manages two restaurants, Osteria and Bonfire, their associated bars, as well as the Members' Lounge.
  - Benugo Limited (Benugo) manages the Barbican Kitchen, Cinema 2 and 3 Café and three coffee points.
12. According to contractual arrangements the Barbican Centre receives commission on catering sales which varies according to activity type. In addition, it also recharges the caterers for costs incurred in operating the catering outlets e.g. waste disposal and cleaning costs. For 2016/17 the Barbican Centre has set a commission income budget of £753k. This audit comprised an examination of the arrangements for management of the catering contracts to ensure that services are delivered as per requirements and that appropriate financial monitoring controls are in place.

#### Car Parks

13. This planned audit is at draft report stage and the outcome will be reported to this Committee post finalisation. The Barbican Centre car parking service was tendered jointly with the Department of Built Environment as part of the wider City of London Management of Off-Street Parking and Replacement and Maintenance of Car Park Equipment contract and Indigo Park was appointed

with effect from April 2015. No commission is payable under the contract and as such all car park income collected by the contractor should be passed to the Barbican; this amounted to £618,000 in 2015-16. Management fees paid by the Barbican for the car parking contract amounted to approximately £275,000 for the same period.

14. This audit has reviewed key contract monitoring controls focusing on: income collection, recording, banking and reconciliation, car park use (authorised access and issue of tickets / permits etc.), budgetary control and management information.

#### **Other Relevant Assurance Work**

15. 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. No corporate audits have been finalised since the last meeting of this Committee. In future summary audit outcomes will be reported to this Committee where appropriate, including the detail of any recommendations made directly in respect of the Barbican Centre.

#### **Implementation of Audit Recommendations**

16. As at mid-October 2016 there are no live red priority recommendations and a recent corporate follow-up exercise confirmed the implementation of a number of amber priority recommendations. At the time of writing there is only one live amber priority recommendation which is due for implementation by 30 October 2016. This recommendation arose from an audit of ICT arrangements and relates to remote system and user access testing of the Disaster Recovery (DR) site. The original target date was 30 November 2013 but a revised implementation date was agreed in discussion with the Barbican's Network Manager as there have been changes to the SAN hardware configuration and remote access solution, as well as the installation of a fire suppression system and air conditioning, which has merited further tests.

#### **Internal Audit Plan 2016-17**

17. The Internal Audit Plan 2016-17 (Appendix 1) is aligned to the Barbican's strategic objectives. Liaison with Barbican management is ongoing to determine suitable timing for reviews and to support detailing planning, in particular related to the planned audit of Major Incident, Security and Safety. A meeting with the Head of Customer Experience confirmed that a major service based review is in progress which includes the use of resources for major incident planning. The scope of Internal Audit activity in this area is under active consideration. Comment and suggestions for consideration in the reviews shown in Appendix 1 are sought from your Committee Members.

#### **Conclusion**

18. Internal Audit work in respect of Box Office Income (Pricing) has been finalised and one green priority recommendation has been raised. Delivery of the Internal Audit Plan 2016-17 – as shown at Appendix 1 – is in progress. Two planned audits are at draft report stage and planning is underway for the remaining reviews, in consultation with Barbican management.

19. There are no live red priority recommendations at as mid-October 2016 and a recent corporate follow-up exercise confirmed implementation of all but one amber priority recommendation. This live issue is anticipated to be addressed by 30 October 2016.

## **Appendices**

Appendix 1 Internal Audit Plan Status 2016-17

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