

<b>Committee(s)</b>	<b>Dated:</b>
Finance & Risk Committee of the Barbican Centre Board	01/11/2023
<b>Subject: Internal Audit Update</b>	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>N/A</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of: Head of Internal Audit</b>	<b>For Information</b>
<b>Report author: Cirila Peall, Audit Manager</b>	

### Summary

This report has been prepared to provide Members with an update in respect of Internal Audit activity related to the Barbican Centre since the June 2023 meeting of this Committee. An annual compliance check has been completed since the last update, follow-up enquires are in progress in relation to an audit that has previously passed third follow-up stage, and planning is underway for two audits. A corporate audit and associated follow-up have also been undertaken which have findings relevant to this Committee.

As at early October 2023 there are no live red priority recommendations and six live amber priority recommendations which arose from two audits.

### Recommendation(s)

Members are asked to:

- Note the report

### Main Report

#### Background

1. The Barbican Finance & Risk Committee receives updates in respect of delivery of Internal Audit work and the implementation of Audit recommendations.
2. Audit scope information is provided, as per finalised terms of reference, for audits in progress and summary outcomes are reported for finalised audit work i.e. where full management responses have been received and agreed.
3. In terms of high priority (red and amber) recommendations, this report provides Members with the latest implementation position, based on formal audit follow-up undertaken and, where appropriate, interim updates from Barbican management.

## Current Position

### *Delivery of Internal Audit Work*

4. A breakdown of assurance work delivery between the last Internal Audit update and early October 2023 is set out in Appendix 1. Detailed audit findings are set out under audit headings below but developments since the last update to this Committee can be summarised as:
  - Annual compliance check (Purchase Cards): moderate assurance opinion.
  - Enquiries are underway in respect of an audit which has had three previous rounds of follow-up (Facilities Management and Maintenance)
  - Planning is in progress in respect of two Barbican-focused audits: Financial Management (light touch review) and Business Continuity.
  - A corporate audit incorporating testing of Barbican performance (Purchasing Ordering Compliance) received a moderate assurance opinion.
  - A corporate audit is in progress which will incorporate testing related to the Barbican (Accounts Payable: Prompt Payment Performance).
5. It is anticipated that the Financial Management and Business Continuity audits will be initiated in November. The timing of planned assurance work in respect of Facilities Management and Maintenance (extended follow-up of 2020-21 audit) has been impacted by Barbican management absence / turnover and resulting in capacity challenges. Internal Audit has only recently received status updates in respect of the live issues and recommendations in this area, and it is apparent from these that control improvements are at an early stage of implementation. The timing of work to evaluate the effectiveness of controls will be determined once Barbican management have confirmed timescales for full rollout.

### Purchase Cards (P Cards) – Annual Compliance Check

6. The focus of this assurance work was evaluating the impact of action taken following the previous audit, finalised in December 2022. Audit testing focused on the latest two reported quarters of data - 4,168 transactions totalling £435,078 - and comprised:
  - Examination of reported compliance with the P Cards Policy.
  - Determination of reasons for ongoing non-compliance.
  - Evaluation of local action taken to address non-compliance.
7. Recent P Card performance data, published internally, was compared to that from the original audit and demonstrates:
  - Improvement in respect of transaction description length (minimum character requirements met: 86% compared to 82%) and the percentage of transactions submitted for review by cardholders (91% compared to 80%).
  - Despite improvement, 9% of recent transactions (with a value of approx. £33k) were unsubmitted, circumventing review and approval processes.
  - A decline in the submission of receipts; (unsupported transactions rose to 23% from 18%).

8. The assurance opinion in relation to this area remains moderate. Internal Audit has received evidence of a range of actions taken to address non-compliance with the policy such as general reminders, targeted communications, P Card ‘approver’ checks and challenge, such as requests for more transaction information from cardholders and chasing up missing receipts, as well as local monitoring of cardholder trends e.g. transactions not coded or unapproved transactions. These actions have not yet had the desired impact in terms of the Barbican’s overall compliance performance and will need sustained focus to drive and maintain further improvement.

Facilities Management and Maintenance – Extended Follow-Up

9. This audit was finalised in March 2021 and has received three rounds of follow-up to evaluate progress in resolving issues raised, as set out in the table below and reported previously to this Committee. The third round of follow-up in September 2022 determined that there were 5 remaining live issues and Internal Audit has been liaising with Barbican management since that time seeking status updates to evaluate developments in proposed control processes and progress in implementation. Capacity to provide updates was impacted by staff changes.
10. Barbican management have provided detailed updates to Internal Audit as at early October 2023, some evidence of new control design, and proposed arrangements for rollout. Progress has been demonstrated against all 5 live issues in terms of updating processes to mitigate the risks flagged during the audit, although these are not yet fully operational. Revised target timescales are required for implementing the new arrangements and building up a sufficient body of evidence of application, enabling the impact of these controls to be evaluated.

<b>Audit:</b>	<b>Facilities Management and Maintenance</b>				
Final Report Date:	Mar 2021	Issues Raised:	13	Original Assurance Rating:	<b>Moderate</b>
First Follow-Up	Dec 2021	Issues Resolved:	4	Updated Assurance Rating:	<b>Moderate</b>
Second Follow-Up	June 2022	Issues Resolved:	4	Updated Assurance Rating:	<b>Moderate</b>
Third Follow-Up	Sept 2022	Issues Resolved:	8	Updated Assurance Rating:	<b>Moderate</b>
Management Update	Oct 2023	Issues Resolved:	8	Updated Assurance Rating:	Not Provided

11. We are not providing an updated assurance opinion in this area due to the time elapsed since the original audit work and the fact that the findings were based on the circumstances at that time. There have been significant developments since the audit fieldwork was carried out, including key staff turnover, and these may have impacted areas where no issues were identified during the original audit. Internal Audit focus is on ensuring the live issues from the original audit are addressed, as these remain valid, and consideration will be given to a wider audit in 2024-25 to obtain overall assurance on this area of operation.

## Corporate Review: Purchase Ordering (PO) Compliance

12. The focus of this corporate review, finalised in June 2023, was analysis of PO Compliance for all City of London departments and Institutions for 2022-23 and transactional testing in each area to understand the circumstances contributing to retrospective requisitioning activity. Internal Audit was unable to provide assurance that the controls in place to ensure compliant PO practice were operating effectively. Several recurring themes were identified, highlighting the need for further action to be taken across the board to improve overall PO compliance - in particular ensuring that:

- POs are raised only where required e.g. not in respect of utilities.
- Requisitions are raised and approved prior to the relevant invoice dates, including those requisitions appended to earlier POs as 'top-ups'.
- 'Top-up' are used appropriately i.e. not where a new PO is required.

13. The Barbican's performance for the financial year 2022-23 was below the corporate target with 28% (2,033) of requisitions raised retrospectively. While retrospective requisitions and associated POs assist with the invoice payment process, these are non-compliant transactions and do not provide any of the internal control intended by a requisition and purchase order process. Retrospective activity may constitute inappropriate management override of the internal control framework. Corporate audit recommendations were made to promote compliant practice by improving the focus of performance reporting and providing further guidance to staff; these matters were highlighted at the corporate Executive Leadership Board due to their cross-cutting nature.

14. Recent follow-up enquiries determined that requisitions continue to be raised retrospectively and the published performance data for 2023-24 to date indicates that the Barbican's overall proportion of retrospective requisitions remains 28% (960). The corporate recommendations remain live as the issues have not been satisfactorily resolved across the board. Barbican management should take local action to support the necessary performance improvements and strengthening of the control environment.

### *Live High Priority Recommendations*

15. Internal Audit follow-up is undertaken promptly once target timescales have been reached and a revised assurance opinion is provided, where appropriate, on the basis of detailed follow-up outcomes. As at early October 2023 there are no live red priority recommendation and six live amber priority recommendations which arose from two audits, as summarised at **Appendix 2**.

16. Five of the live high priority recommendations (Facilities Management and Maintenance) have previously passed the third round of follow-up and were subsequently incorporated in a dashboard update to the Audit & Risk Management Committee (A&RMC). There is a clear expectation from the A&RMC expectation that Internal Audit will continue to liaise with relevant management to obtain independent assurance that all remaining issues have been resolved, facilitating effective management of the property assets.

## **Forward Programme**

17. Appendix 1 contains details of all planned work within 2023-24 and reflects the changes agreed at the last meeting of this Committee: the audit of Equalities, Diversity and Inclusion has been deferred in favour of a review of Business Continuity. At the request of this Committee, an audit of Fire Safety has been added to the forward programme; scope and timing to be confirmed. The status of all planned audit assignments is shown in the appendix.
18. Internal Audit has recently made two appointments at Senior Auditor level, providing sufficient resource to deliver the remainder of planned work within the programme. Internal Audit will liaise with the Chief Executive Officer other members of Barbican management to firm up the scope and timing of audit work not yet initiated, namely Health and Safety, Health and Safety, Contract Management, and Safeguarding.

## **Corporate & Strategic Implications**

19. The overall programme of Internal Audit work is designed to provide assurance as to the adequacy of the City of London Corporation's systems of internal control and governance. This programme of activity is aligned with the Corporate Plan, Corporate Risk Register and Departmental Top Risks. The Barbican, as an institutional department of the Corporation, has a sub-programme of Internal Audit work that includes audit assignments specific to the activity of the Barbican and regular follow-up activity in respect of recommendations implementation.

## **Conclusion**

20. Members are asked to note the findings of completed Internal Audit work (including corporate reviews), the delivery position in respect of the ongoing programme of assurance, and the status of live high priority recommendations as at early October 2023.

## **Appendices**

- Appendix 1: 2022-23 Assurance Work Outcomes
- Appendix 2: Live High Priority Recommendations

**Cirla Peall**, Audit Manager, Chamberlain's Department:  
*cirla.peall@cityoflondon.gov.uk*