



**THE NATURAL HISTORY MUSEUM
TRUSTEES' AUDIT & RISK COMMITTEE**

58th Meeting on Thursday 8th November 2012

Present

Sir David Omand in the Chair
Dr Derek Langslow
Professor Sir Roy Anderson
Mark Richardson (co-opted member)

In Attendance

Neil Greenwood (Director of Finance & Corporate Services)
Jan Day (Head of Risk & Assurance/Committee Secretary)
Lewis Knights (Audit Manager, National Audit Office)
Nick Buxton (Partner, PKF)

Prof Phil Rainbow (Head of Life Sciences) was in attendance for item 13.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Oliver Stocken (Chair of Trustees), Dr Michael Dixon (Director), Keith Lloyd (Director, NAO) and Paul Brereton (Director of Human Resources) sent their apologies.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

**3 MINUTES OF THE MEETING HELD ON THURSDAY 28TH JUNE 2012
(PAPER TAC 30/2012)**

3.1 The minutes were accepted as a true record of the meeting.

4. MATTERS ARISING FROM THE MINUTES

4.1 There were none.

ACTION

5 DIRECTOR'S REPORT (PAPER TAC 31/2012)

- 5.1 Members reviewed the Director's paper in discussion with the Director of Finance & Corporate Services.
- 5.2 Director of Public Engagement - The Committee was updated on the progress in appointing a new Director of Public Engagement.
- 5.3 Ethics Policy and Third Party Engagement Policy - It was noted that Ethics and Third Party Engagement Policies were to go to the Board of Trustees for approval on 20th November. The purpose of the Third Party Engagement Policy was to help Museum staff decide who: (a) the NHM contracted with; (b) accepted money or other benefits from, and (c) established alliances for mutual benefit. Members recommended that the policy should guide staff as to the questions to ask prior to making a decision or escalating the decision upwards. The Chair observed that he was against attempting to decide on categories of industries with which the NHM should not work. Cases had to be looked at on their merits under the policy.
- 5.4 Dawes Meadow, Tring Park - The Museum at Tring had benefited for some years from a lease from Lord Rothschild to use Dawes Meadow in Tring Park as a coach park. Lord Rothschild had decided to transfer the land to the Museum. As part of the process the Museum needed to ensure that: (a) all the necessary approvals were obtained from the Department for Culture, Media and Sport (DCMS) and HM Treasury; and (b) the correct year-end accounting treatment was applied and it was noted that a valuation of the land would be required.
- 5.5 Future Grant In Aid Funding - Mixed messages were being received from the DCMS regarding future funding. The view was that the Coalition Government had not yet made any decision to further reduce public expenditure during 2013/14 and 2014/15. Decisions will, however, have to be taken by the time of the Chancellor's Autumn Statement, on 5th December.
- 5.6 DCMS Ministerial and Other Changes - In the Prime Minister's September Cabinet reshuffle Maria Miller was appointed DCMS Secretary of State, and minister for women and equalities.

RC

NG

6 DIRECTOR OF FINANCE'S & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL – SEPTEMBER 2012 (PAPER TAC 32/2012)

- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6.2 General Fund - It was forecast that there will be a General Fund balance at the year-end of £3.965m which was an increase of £0.290m compared with the previous forecast but below the original budget of £4.660m by £0.715m. This was, however, determined before the capital grant payment of £3.5m to the NHM Development Trust. The Development Trust which is independent of the Museum will decide on how the £3.5m will be spent in due course.
- 6.3 Trading Surplus – The annual year-end forecast of £7,622.2k took into account the detrimental impact on visitor numbers caused by the Olympic Games. In addition, there had been a drop in spend per head for retail and catering. The decrease in forecast net trading income for the year reflected adjustments to the challenging forecasts for business areas based on preparatory work for the 2013/14 business plans. To mitigate the risk of income shortfall a risk allocation of £400k was included in the original budget, of which £200k had been released. It was noted that the busiest periods for retail and catering were half term. The latest half term from 27th October to 4th November saw 196,308 visitors beating October 2011.

ACTION

- 6.4 Retail - The net profit from the shops had more than doubled over the last 5 or 6 years. Nevertheless, it was a challenge to get more people through the shops during busy periods. The Head of Retail post had been restructured and there was a new merchandiser now in post who will be reviewing product lines. It was noted the last internal audit of Retail Stock Management was in 2010 and this had only identified a small number of significant issues.
- 6.5 Catering – Catering has had a good year so far and this reflected the benefits of working closely with the in-house cater Benugo.
- 6.6 Salary Underspends – The reduction reflected salary savings amounting to circa £500k predominantly arising from: (a) a lower than budgeted pay award; and (b) Science Group while the reorganisation proceeded. It was anticipated that there will be further salary savings for the remainder of the year but not at the current level as Science Group recruitment picked up. 1% had been allocated for the pay award in 2013/14 and 2.5% would be allocated for future years. Currently there was no indication of what the HM Treasury pay remit will be for 2013/14. However, if the Chancellor announced further grant in aid cuts on 5th December this was likely to be accompanied by a continuing cap on the pay bill. It was noted that when staff retired or left the Museum was not making salary savings as had historically been the case. The NHM was recruiting staff of less experience at the same salary as leavers. Later in the meeting there was to be a presentation on the major corporate risk “Key members of staff move on as a consequence of the long-term pay freeze” – please see section 13.
- 6.7 Gross Capital and Projects Expenditure - The latest forecast reflected the rescheduling and reassessment of some projects and alignment to the Masterplan – c£1m, for example, had been allocated to repair the North Central roof over the Library. This had been put on hold as a decision maybe taken to build on this site in future.
- 6.8 The Chair warned that the NHM must not allow building and other core infrastructure to deteriorate below an acceptable level. In addition, members expressed concern that the Museum was not making a realistic assessment of the resources required to make decisions and deliver its programme of capital expenditure projects on an annual basis. It was also observed that when the Development Trust engaged in a major fund raising exercise donors will expect to see their money being used on projects within a reasonable time scale.
- 6.9 The Director of Finance & Corporate Services explained that the decision to proceed on a number of projects had been delayed as: (a) the Masterplan Development Framework (MDF) for South Kensington needed to be reviewed to ensure it functioned as a dynamic, useable framework; (b) visitor numbers had increased significantly to circa 5m causing circulation problems which needed to be resolved; and (c) the new Director of Science was considering a new approach to the Museum’s collections storage strategy. It was also noted that in the past the Museum had been over ambitious in assessing its capacity to deliver a large number of complex interrelated projects at the strategic management level as opposed to the project manager level.
- EB 6.10 The Chair and members cautioned that decisions needed to be taken sooner rather than later. They recommended that the Executive Board and Head of Estates allocate time before the year-end to make the necessary decisions. This was necessary as the dynamics of the environment in which decisions are made will keep changing. It was noted that the Executive Board had held a planning conference in October at which priorities had been set.

ACTION

- MD
- 6.11 The Director of Finance & Corporate Services observed that the Museum's capacity to deliver capital projects will be affected if there was a further cut in grant in aid over the next few years. In this event the Museum's short term approach would be to cancel capital projects, limit recruitment and reduce discretionary spend. In the longer term there will be less revenue for the operational staffing costs of delivering capital projects and running new capital build unless donors also provided revenue running costs. Members were of the view that the NHM should also seek funding for the operational costs of projects, recognising all the difficulties.
- Board of Trustees
- 6.12 The Chair expressed the view that in the event of a grant in aid cut the Board of Trustees would need to consider all the options for continuing to fund capital projects already in train, for example, using the Museum's reserves. The Chair cautioned that delaying and extending capital projects will result in lower value for money and increased costs.
- 6.13 Cash Investment Profile - The Director of Finance & Corporate Services and the co-opted member were of the opinion that the interest the Museum was earning on self generated funds could not be increased significantly. In addition, it was Government policy that Government money must be deposited with the Government Banking Service in non interest bearing accounts with Citigroup and Royal Bank of Scotland Group. The purpose of this was to minimise cash held outside the Exchequer, thus reducing the Government's overall borrowing needs.
- 6.14 The Chair congratulated the Director of Finance & Corporate Services and managers on the budget management that had led to the forecasted outturn for 2012/13.
- 7 MANAGEMENT RESPONSE TO NAO AND KINGSTON SMITH RECOMMENDATIONS (PAPER TAC 33/2012)**
- 7.1 The Director of Finance and Corporate Services presented his paper.
- 7.2 High Voltage Ring Main - There was only one significant finding and this related to the high voltage ring main. The Head of Estates had met with his counterparts at the Science Museum and V&A in October and there was now a shared commitment to: (a) formalising the supply arrangement including sharing the costs of drawing up an agreement; and (b) setting up a joint contract with one contractor to operate and manage all elements of the ring main including the elements within the respective boundaries by 31st March 2013.
- NG
- 7.3 Members considered that a ring main agreement needed to be put place as otherwise in the event of a dispute there maybe complicated litigation. The Director of Finance & Corporate Services was asked to take this forward if necessary with the respective audit committees.
- 8. NAO/PKF AUDIT PLANNING REPORT 2012/2013 (PAPER TAC 33/2012)**
- 8.1 The PKF Partner presented the report.
- 8.2 The NAO/PKF were at the early stages of planning.
- 8.3 Material Misstatement - Under the current auditing standards the external auditors had to consider the risk of material misstatement owing to fraud arising from management override of controls. The NAO/PKF will address this risk by testing journals, estimates and reviewing any significant or unusual transactions in the year.
- 8.4 Fraud - There was a presumed risk of fraud in revenue recognition and the most significant risks were in the Trading Company. The NAO/PKF will, therefore, liaise with the Trading Company external auditors at the planning stage to ensure the NAO/PKF were happy with their work and review again at the completion stage.

ACTION

- 8.5 Development Trust – The NAO/PKF will continue to look at the Development Trust to ensure that it remains independent.
- 8.6 Timetable - There was uncertainty as to the Clear Line of Sight timetable for the work that enabled NHM resource accounts to be consolidated into DCMS resource accounts before the summer recess. However, the NAO/PKF currently assumed the timetable for the NHM consolidated accounts will be the same as 2011/12. Last year the Finance Department had recruited an accountant to lead the financial year-end process and produce the statutory accounts. This worked very well and the individual had now moved to another position in the Finance team. A new accountant with good Charities SORP knowledge had been recruited to lead the process for 2012/13 and they were starting in January. The Director of Finance & Corporate Services was, therefore, happy that he had the necessary staff resources to complete the accounts timetable.
- 8.7 DCMS Resource Accounts - The DCMS arms length bodies Finance Directors had agreed to produce resource accounts for DCMS by the end of May based on April trial balances. If there were any major adjustments subsequently the various organisations will report them to DCMS. The Museum's accounts were in the Charities SORP format which required overhead allocation across expenditure which was not required for DCMS resource accounting. The balance sheets were, however, the same under the SORP and resource accounting.
- 8.8 Trading Company - There was uncertainty whether the NHM Trading Company was to be included in the NHM resource accounts. There was inconsistency across the sector and some organisations had subsidiaries which were included and some which were not. It was noted that the NAO had qualified the Whole of Government Accounts for the second consecutive year. This was due to the 2010/11 financial statements not giving a 'true and fair' view of what the UK public sector owns and owed. The accounts, for example, excluded bodies that were controlled by the government such as publicly owned banks.
- 8.9 Members approved: (a) the risks of material misstatement identified by the NAO/PKF and the work to be carried out; and (b) the NAO/PKF Audit fee (which was consistent with that charged in 2011/2012) and the audit timetable. It was agreed that the NAO/PKF will update the committee on any further significant risks identified and will review the transfer of the land from Lord Rothschild's estate to the NHM Tring.
- NAO/PKF
- KS 8.10 Kingston Smith Audit Strategy – The strategy will be presented at the February 2013 meeting.

9 HEAD OF RISK & ASSURANCE PROGRESS REPORT TO NOVEMBER 2012 (PAPER TAC 35/2012)

- 9.1 The Head of Risk & Assurance presented her report.
- 9.2 Follow up of Collections Security - A significant amount of work had been undertaken since the final report on Collections Security was issued in June 2011 and overall the level of residual risk had fallen significantly. Some actions had, however, been delayed due to: (a) other security priorities which had arisen since the review was completed in March 2011 e.g. the theft of the replicas rhino horn from Tring; (b) the long implementation timeline of some recommendations due to their complexity and the resources required; and (c) the Science Group restructure.
- 9.3 Fraud Awareness, Prevention and Detection Mechanisms -The committee reviewed an audit report on fraud awareness, prevention and detection mechanisms. Part of the review included an assessment of the areas in the Museum most vulnerable to the risk of fraud. This was a useful exercise and will help to ensure that audit resources were directed to those areas.

ACTION

- 9.4 Significant Issues or Delays Arising -The only delayed action related to a full interactive crisis management test. A first days training by an outside consultancy "Security Exchange" had been arranged for 4th December 2012. Following this live exercises were scheduled to take place in February 2013 at South Kensington and Tring.
- JD
- The Chair requested that members were notified of the training date at South Kensington.
- 9.5 Internal Audit Transformation Programme - It was expected the Museum will be part of the shared internal audit function, for DCMS, the Department for Business Innovation & Skills (BIS), the Department for Communities & Local Government (DCLG), Cabinet Office (CO) and the Department of Energy and Climate Change (DECC). Members reviewed a letter issued to the Head of the Civil Service and the Permanent Secretaries from the HM Treasury Permanent Secretary which set out 10 shared internal audit service groups.
- 9.6 DCMS Chairs of Audit Committees - The Chair had attended a Chairs of Audit Committees briefing on 17th October for DCMS arms length bodies. It had not, however, been made clear at the meeting how the shared internal audit group for DCMS would operate. The Chair observed that he was in favour of central procurement, collaboration and the sharing of best practice and this was the view of other chairs at the meeting. The Chair asked, however, that the committee was informed if there was any movement towards the Museum being asked to lose its own internal audit capability.
- JD
- 9.7 The Chair thanked the Head of Risk & Assurance for her report. The co-opted member congratulated the Head of Risk & Assurance on the progress that had been made on the 2012/13 audit plan.
- 10. DIRECTOR OF HUMAN RESOURCES SECURITY POLICY FRAMEWORK AND ASSOCIATED ACTIONS (PAPER TAC 36/2012)**
- 10.1 The Director of Finance and Corporate Services presented the paper on behalf of the Director of Human Resources.
- 10.2 The paper gave an update on the progress in completing the outstanding Security Policy Framework (SPF) requirements and other associated action points. The Museum managed its approach to security within the framework developed by the Cabinet Office the SPF which described the standards, best practice guidelines and approaches that were required to protect UK Government assets (people, information and infrastructure). The Museum reported to the Audit & Risk Committee annually in May on progress as part of the Annual Security report.
- 10.3 Forensic Readiness Policy - The purpose of a forensic readiness policy was to maximise preserve, analyse and use evidence from an ICT system, should it be required. The Director of Human Resources following discussion with the Head of ICT recommended that: (a) due to the investment required; and (b) the comparatively low level of sensitive information including commercial information held in the Museum the NHM did not put in place such a policy. The Chair observed that cyber security was rising up the governments agenda. The Sharmoon virus that had recently hit companies within the oil and energy sectors in the Gulf had illustrated the damage that could be caused. The technical knowledge needed to disrupt operations had decreased and the use of computers as a means of protest "Hacktivism" was on the increase.
- PB/DT
- 10.4 The Chair and members recommended that the Museum put in place a forensic readiness policy which was appropriate to NHM needs. It was accepted that the NHM policy need not meet the Cabinet Office standard in full given the nature of NHM's activities.

ACTION

10.5 Information Assets - As required by the SPF the Museum had identified information which was valuable for business purposes and personal information. Information Asset Owners (IAOs) had been identified for each IT system e.g. payroll & pensions and the Finance system. IAOs were required to send an annual information risk report to the Senior Information Risk Owner (SIRO). In addition, the Head of Risk & Assurance carried out an annual review of information risk and an audit of the Museum's Firewall and Network Testing was on the audit plan for 2012/13. It was a Cabinet Office requirement that any personal data related incidents should be reported in the Governance Statement in the Museum's annual accounts. The Chair observed that that control was 90% human behavior and 10% technology.

PB The Chair requested the committee received an assurance that all the information assets had been secured and a presentation on where the risks lay.

11 LONG TERM INHERENTLY HIGH RISKS AND ASSOCIATED ACTIONS (PAPER TAC 37/2012)

11.1 The Head of Risk & Assurance presented her paper.

11.2 At the May 2012 Audit & Risk Committee members requested that: (i) the current list of NHM "long term inherently high risks" together with the major corporate risks; and (ii) the sources of assurance that the "long term inherently high risks" were being effectively managed was brought to the 8th November 2012 meeting.

JD
PB 11.3 It was noted that there were one or two gaps in the assurances provided. The Head of Risk & Assurance agreed to discuss how these could be strengthened with the Museum Director. The Director of Human Resources was considering including a section on visitor security in his Annual Security Report.

11.4 The Chair and the members thanked the Head of Risk & Assurance for the excellent piece of work. The members: (a) approved the format of the report which provided the committee with the depth of data they received on major corporate risks; and (b) endorsed the list of risks.

MD/JD It was agreed that "long term inherently high risks" will also be subjected to a monitoring process within the annual risk and assurance plan.

12 PRESENTATION BY THE DIRECTOR OF FINANCE & CORPORATE SERVICES ON "KEY STAFF MOVE ON AS A CONSEQUENCE OF THE LONG TERM PAY FREEZE" (PAPER TAC 38/2012)

12.1 The Director of Finance and Corporate Services made the presentation on the management of the risk on behalf of the Director of Human Resources.

12.2 Restructuring of Bands 1 – 3 - Members observed that negotiating with HM Treasury restructuring of Bands 1 – 3 could not be described as a mitigating action in that context if delivery of this element of the grade restructuring commenced three years ago.

12.3 The Museum had a talent management programme to provide the NHM with internal candidates to replace the loss of key staff. There was also a Science Group personal promotion process for researchers and curators.

ACTION

- Executive Board
- 12.4 Members were of the view that the Museum needed to be proactive and put in place mechanisms for the early detection of key members of staff who wished to move on as a consequence of the pay freeze. Members recommended that a list of a select number of key staff should be drawn up by the Executive Board (EB) together with any suitable quality in-house replacements. It was noted that the Museum had a draft succession plan document which was put on hold because of the impending restructurings in Public Engagement and Science. This will be reconsidered by EB in the new year.
- 12.5 In Band Salary Increases - The Museum had a policy on in-band salary increases which could be applied if there was a strong case for making an increase in salary as a retention payment and there are promotion schemes within Science.
- PB
- 12.6 Members requested that this risk was revisited at the next meeting on 14th February with the Director of Human Resources who had been unable to attend the November meeting due to illness. It was also requested that the committee was provided with: (a) data on how the turnover of the key staff had changed over the last ten years; and (b) the areas in the Museum where salary levels affected the recruitment of key staff.
- 13 PRESENTATION BY THE HEAD OF LIFE SCIENCES ON “EXTERNAL FUNDING OF SCIENCE IS HARDER TO WIN AND REDUCES OUR SCIENTIFIC RESEARCH ACTIVITY” (PAPER TAC 39/2012)**
- 13.1 The Head of Life Sciences made the presentation on the management of the risk on behalf of the Director of Science.
- 13.2 Research Grants - Members asked if the NHM was bringing the international community together to lobby for the funding of taxonomy and systematics. The Director of Life Sciences explained that the NHM had began nationally by contributing to the Natural Environment Research Council (NERC) response to the House of Lords Science & Technology Committee report, highlighting concerns over the state of taxonomy and systematics in the UK. The Director of Science had been working closely with other organisations e.g. Kew, Edinburgh, Museum of Wales and the Linnean Society to ensure a co-ordinated response. Members observed that the case for taxonomy and systematics needed to be marketed correctly. In addition, it was recommended that in order to demonstrate practical relevance to society support was enlisted from industries which were dependent on taxonomic knowledge e.g. oil, energy and pharmaceutical companies. Taxonomic knowledge was needed, for example, in medicine when selecting vaccines for bacteria and viruses.
- IO/PR
- 13.3 To increase the success of research grant applications both nationally and internationally the NHM needed to focus activity on areas suitable for large funding applications and consortia. Such an area, for example, might be molecular biodiversity. The Museum had the scientific skills in the area of single-celled eukaryotic organisms and should be able to compete for funding.
- 13.4 Members observed that the first task for the Museum was to put forward the case for molecular biodiversity as whole. Once the case had been made the NHM could specialise in single-celled eukaryotes organisms when applying for funding. The NHM needed to be opportunistic as research funding internationally had become more directed by governments and charities. There were opportunities related to the invading fungi such as the ash dieback disease and a member of Life Sciences had been contacted by DEFRA on this topic. It was also noted the Museum had been directly relevant to the Bluetongue disease.

ACTION

- 13.5 The Science Group initiatives recognised: (a) where NHM scientific skills lay; (b) where there were opportunities relating to the funding priorities of national bodies; and (c) the relevance of NHM science to society. Science Group also proposed to revise its high-level science strategy to take into account the results of the recent reviews of science group activities and organisation, and to improve alignment with external funder and policy priorities.
- 13.6 It was noted that increasing the rate of funding applications and their success rate would require increased support for individual researchers particularly on large projects. As part of this the Museum employed a consultant in Brussels and all the EU grant applications went through him. The Museum was also in the process of developing further effective mentorship by senior researchers. The reorganisation of Science Group into Life Sciences and Earth Sciences had highlighted the areas where mentoring was less effective. Science Group was also introducing performance management systems with respect to income generation. Heads of Departments and the Heads of Division reviewed all grant proposals prior to submission. It was recommended, however, that the Museum considered introducing a cross department committee of the most successful researchers in grant applications (Principal Investigators and Co Investigators) to consider all grant applications prior to submission to the relevant Head of Department. It was observed it was often easier for researchers outside the line management chain to challenge grant applications.
- 13.7 It was inevitable that as grant in aid was declining more of the Museums research and researchers would need to be externally funded and, therefore, NHM science needed to be more fundable. However, balanced against that was the Museum's mission and the need to have internally funded scientists to: (a) explore the biodiversity needs of the country; and (b) look after the Museum's collection of 70 million specimens. Members observed that it was possible to write grant applications to meet the skill sets needed by the NHM.
- 13.8 In 2011/12 only 54% of all researchers held a grant valued at £30k or more. A primary objective was to aim for all researchers to hold at least one grant of this value. The Head of Life Sciences observed that perhaps the target should be to hold a grant valued at £100k. Members noted, however, that the Museum needed researchers who were: (a) successful in grant applications; and (b) world authorities but whose science may not be fundable.
- 13.9 There was a clear distinction between: (a) researchers; and (b) curators who managed and develop the collections. The Museum was able, to win research collections based grants e.g. EU Grant Synthesys.
- 13.10 Consultancy - Consultancy was carried out under various sectors and the total income was circa £1m a year. As part of the on-going review of science activities and finances Science Strategy Group was currently reviewing the performance of the areas of science consultancy.
- IO 13.11 Consultancy Company - It was suggested that the Museum consider setting up a consultancy company with a marketing manager. It was noted, however, that all consultancy income currently went through the NHM Trading Company. In addition, the current income in each of the sectors may not warrant the services of a specialist manager.
- IO 13.12 Members asked that the Director of Science bring a discussion on the external funding of science and consultancy to the main board.
- 13.13 The Chairman thanked the Head of Life Sciences for his informative presentation. The members were content that the right questions were being asked to manage the risk.

ACTION

14 ANY OTHER BUSINESS

- 14.1 The effectiveness of the Audit & Risk Committee - Members were content with the responses made to the 2nd edition of the NAO Good Practice Guide for Audit Committees.

15 DATE OF THE NEXT MEETING

- 15.1 The next meeting will be held at 10.00 a.m. on Thursday 14th February 2013.

KEY TO ACTION INITIALS

Neil Greenwood - NG

Ian Owens - IO

Phil Rainbow - PR

Paul Brereton - PB

David Thomas - DT

Jan Day - JD

Rachael Casstles - RC

Executive Board - EB