



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

66th Meeting on Thursday 6th November 2014

Present

Dr Derek Langslow in the Chair
Professor Sir Roy Anderson
Dr Kim L Winser OBE
Mark Richardson (co-opted member)

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance & Corporate Services)
Jan Day (Head of Risk & Assurance/Committee Secretary)
Reshma Menon-Jones (Audit Manager, National Audit Office)
Matthew Atkinson (Audit Manager, National Audit Office)
Nick Buxton (Partner, BDO)

Sarah Long (Registrar) and Clare Valentine (Head of Life Science Collections/ Chair Collections Committee) were in attendance for item 13.

Joe Baker (Head of External Affairs) was in attendance for item 14.

Kevin Rellis (Head of Estates) was in attendance for item 15.

ACTION

The Chair of the Audit and Risk Committee welcomed Dr Kim L Winser OBE and Matthew Atkinson to their first meeting. Matthew Atkinson was replacing Reshma Menon-Jones as the NAO Audit Manager for NHM. The Committee thanked Reshma for her assistance. It was also noted that Keith Lloyd (NAO Audit Director) had been replaced by Paul Keane.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 None were received.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 38/2014)

2.1 These were noted by the Secretary to the Audit & Risk Committee.

3 MINUTES OF THE MEETING HELD ON THURSDAY 26TH JUNE 2014 (PAPER TAC 39/2014)

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

4. MATTERS ARISING FROM THE MINUTES

MD 4.1 Universities Week - para 5.9 - A brief summary of the costs and benefits of hosting Universities Week 2014 will not be presented to the Board of Trustees. However, the outcome of the NHM review into whether to host the event in 2016 will be brought to the Board.

RA 4.2 New Science Advisory Committee - para 10.12 -The first meeting of the new Science Advisory Committee had been arranged. The Chair of the Board requested that a list of members and a brief summary of their curriculum vitae was presented to the Board of Trustees.

SG/MD 4.3 Director of Development - para 10.13 - The final interviews for a Director of Development took place on 31st October 2014 and the Museum Director was in negotiation with the preferred candidate. The Museum Director and Chair of the Board were also in discussion with a potential candidate to succeed the interim Chair of the Development Trust. The Board of Trustees will receive a progress report on 18th November 2014.

5 DIRECTOR'S REPORT (PAPER TAC 40/2014)

5.1 The Director presented his paper.

MD/SG 5.2 Employer's Pension Contributions - A detailed paper on the increase in employer's contributions to the Principal Civil Service Pension Scheme (PCSPS) from 1st April 2015 was being presented to the Board of Trustees on 18th November 2014. The extra 2% in employer's contributions may represent the first step in further increases. The Museum had approached the Cabinet Office for confirmation of the approvals process needed to consider moving from existing pension arrangements. Officials indicated that withdrawal from the PCSP which was underfunded would be unwelcome. The Museum Director and Chair of the Board believed an agreed Museums & Galleries collective approach should be developed. Meetings had been arranged to discuss the issue with the Directors and Chairs of two local institutions.

ACTION

- NG/IO
- 5.3 Insolvency of Subscription Agent SWETS - The Museum purchased serial publications via SWETS Information Service, the UK arm of a Dutch company under the London Universities Purchasing Consortium (LUPC) framework. The LUPC obtained volume discounts and saved NHM staff resources managing subscriptions. Because of the nature of the publishing industry, customers were required to make payments in advance of delivery. In August 2014 the Museum paid approximately £310,000 to SWETS for 2015 subscriptions. Unlike in previous years a bank guarantee was not set up. SWETS were declared bankrupt in September 2014 and the debt was being pursued by LUPC on its member's behalf. Alternative serial publications supplies will be procured through individual suppliers and there will be no impact on the work of Science Group. It was observed that publications were the only prepaid Museum service of any significance. Lessons will be learned from the circumstances surrounding the debt. In addition, alternative arrangements for obtaining volume discounts will be explored e.g. affiliation with a large academic institution.
- 5.4 Audit of NHM Systems and Processes by RCUK - RCUK had undertaken a Desk Based Review Exercise to scrutinise the process by which the Museum managed grants received from RCUK. The Director was pleased to confirm NHM received: (a) substantial assurance (the highest category of 4) for the regularity of expenditure and administrative processes; and (b) satisfactory assurance (second highest category of 4) for research integrity and ethics. The assurance demonstrated good governance to a major funder. The Research and Consulting Office in particular were to be congratulated along with the Finance, HR and Risk & Assurance Teams.
- 5.5 Increased Security Concerns Reflected in the Raised Level of Threat Recognised by HMG - In response to the raising of the UK threat level from international terrorism from SUBSTANTIAL to SEVERE the Museum had introduced an increased percentage of bag checks by the Security Team. This acted as a deterrent. It was noted a large number of illegal blades, mace and pepper sprays were confiscated particularly from overseas visitors. Increased security concerns were evident at the Patron's visit to the 50th Anniversary Wildlife Photographer of the Year Competition Awards. It was noted that following the event the Metropolitan Police chief security adviser said he was impressed with HM security systems, the Head of Security and his deputy. The Chair and members commended the security team. The Chair of the Audit & Risk Committee observed that the Museum had built a new Control Room which housed an enhanced high resolution CCTV monitoring suite.
- 5.6 There was an increased use of small 'drones' over public buildings. The Museum had encountered this on a number of occasions over the Summer, most recently on 15th October 2014. A visitor flying a Drone outside the front door, filming the Museum and the visitors entering was detained by security and the police were called. The Drone memory card was confiscated, however, it was not expected that there will be anything worrying on the card.
- 5.7 Museum Attendance – The Quarter 2 figures for South Kensington were marginally down on last year and the trend continued into October 2014. Visitor numbers at large national museums were linked to their exhibition programme. The Tate, for example, had reported extremely high numbers due to the Henri Matisse's paper cut-outs exhibition. It was observed that the number of visitors on the Museum's busiest days cannot be increased until more floor space is opened up and circulation improved. During peak periods (e.g. School holidays): (a) the Museum worked to a maximum number of 5,500 people within the building at any one point; (b) the Darwin Centre was used as a third entrance to the Museum. Visitors entered via the West gardens, along the pathway adjacent to the Wildlife Garden; and (c) a "we are busy" warnings were posted on the NHM Website and Visitor Engagement staff gave advice on which entrance queue to join and queuing times.

ACTION

- MD
- 5.8 Special Exhibitions - Commercial Performance - During September 2014 three special exhibitions closed with each recording above target attendance and related sales also outstripped expectations. This contributed to a strong overall Museum retail performance and, although visitor numbers were flat retail was nearly 10% up in terms of gross income.
- 5.9 Sector-Wide Shared Collection Storage - One of the things the Department for Culture, Media and Sport (DCMS) was exploring in terms of the efficiency agenda was whether there were efficiencies through Museums & Galleries working together on long term collections storage. This might lead to one or a number of shared service solutions e.g. for printed material, large objects and a new facility for a number of institutions The Museum Director had written a 'thought piece' for DCMS. A single solution was not practical as each body had its own requirements. It may, however, be possible to get Treasury funding at the next spending review to facilitate the process.
- 5.10 Launch of New Museum Strategy - The Museum Strategy was discussed at the Trustees' Strategy Day and a new version with design mock ups was going to the Board of Trustees on 18th November 2014. The Strategy will be formally launched to staff and the public in mid-January 2015.
- 5.11 Trustee Appointments - Two appointments had been made and interviews of short-listed candidates for Trustees with Legal and Digital Media experience took place on 31st October 2014. The interviews were chaired by the Director General of DCMS. Two women candidates were put forward to DCMS for the Legal appointment and two male candidates were put forward for the Digital Media appointment. The next stage was for the Secretary of State for DCMS to recommend the appointments to the Prime Minister. It was anticipated there will be an announcement by the end of the year.
- 5.12 Outstanding Audit Recommendations - The Museum Director and Head of Risk & Assurance had reviewed the audit recommendations outstanding from previous audit reports. The two most significant reviews were: (a) Collections Auditing on which there was a presentation later in the meeting - item 13; and (b) the Payment Card Industry Data Security Standard (PCIDSS). Plans were in hand to address the outstanding recommendations in both reports.
- 5.13 Whitley Annual General Meeting (AGM) -The Whitley AGM with the recognised trade unions PROSPECT and PCS took place in early October 2014. The AGM was attended by the Chair of the Board of Trustees who traditionally chaired the meeting. The biggest issue was the continued pay restraint and the perception that other Museums & Galleries were making pay settlements in excess of the government pay limit of 1% under the administrative freedoms granted to Museums & Galleries. NHM intelligence was, however, that the increases often of c1.5% were linked to restructuring deals.
- 5.14 The Museum had responded to the trade unions that it was to undertake a project to conduct a comprehensive review of the Museum's employment offer. The Museum had recently obtained DCMS approval to appoint consultants to undertake the review. The consultants will look at all the terms and conditions of employment not just pay, consider promotion and non-pay benefits. It was a significant piece of work and Beamans Management Consultants were drawing up a work plan. A report will go to the Board of Trustees in early 2015 with a recommended approach to the August 2015 pay award. However, any offer outside of the government pay remit will require Cabinet Office approval and be linked to the Museum's proposals for pensions.

ACTION

- 5.15 It was observed that the 2015 pay negotiations with the trade unions were likely to be more challenging as the real incomes of staff had fallen. There had been 2 years of pay freeze and 2 years of a 1% increase and PCS pension contributions had increased. PCS represented the lower paid staff in the Museum who had been awarded 1.7% in the last NHM pay negotiations to try to address some of their pay issues. PROSPECT predominately represented Science Group. The academic sector had been subject to less pay restraint than the public sector and against universities the Museum pay offer was not sufficiently competitive to always attract the best researchers.
- 6 DIRECTOR OF FINANCES & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2014 - SEPTEMBER 2014 (PAPER TAC 41/2014)**
- 6.1 The Director of Finance & Corporate Services presented his paper.
- 6.2 General Fund - The forecasted General Fund year end outturn for 2014/15 was £5.203m. This was a significant increase of £1.223m compared with the original budget approved by the Trustees in November 2013. The outturn reflected a decrease in resource grant in aid arising from the Autumn Statement which had been more than offset by the brought forward General Fund from 2013/14 which was higher than anticipated.
- 6.3 Net Self Generated\Trading - Trading income was performing well particularly catering and retail. The only area of concern was Conference and Events which had a slow start to the year. However, the Museum was confident Conference and Events will pick up and meet its target. Conference and Events had a good order book which was helped by the opening of the Ice Rink on 30th October 2014. In addition, the Museum was in the process of signing a contract for an £80k filming fee.
- 6.4 It was noted for clarification that the Director of Finance & Corporate Services' report reflected income to 31st August 2014 whereas figures in the Directors' report were to 23rd October 2014. In addition, catering income in the Directors' report was based on the gross income to Benugo the Museum's in-house caterers on which the NHM received commission.
- 6.5 Resource - Operating Expenditure - It was anticipated that there will be a saving on salary expenditure derived predominantly from Public Engagement while the final restructuring had been taking place. In addition, there was a time lag in raising purchase orders on the new Finance System and this made the operating expenditure look lower than expected.
- 6.6 Total Operating Income - The full year forecast for total operating income was currently below the original budget by £0.485m, however, it was expected income would be higher than the prediction. There were two significant transactions not reflected in the management accounts which were likely to be accommodated this financial year. Discussions were continuing with BBC Worldwide concerning the buyout of Wildlife Photographer of the Year (WPY) and the write back of the £653k VAT liability which HMRC had confirmed no longer existed for the Museum. In addition, there was the possible bad debt of £310,000 relating to SWETS for 2015 subscriptions which the Director of Finance & Corporate Services was confident was manageable.
- 6.7 The Committee noted that as part of the annual budget process for the following year there was a business review of the outturn of all the commercial businesses and this had taken place recently. Membership numbers had significant growth and there was an aggressive trajectory for 2015/16. This was based on the new members' room, the exhibition offer and the marketing of enhanced membership benefits e.g. priority access to the Dinosaur Gallery.

ACTION

- 6.8 Scientific Research Grants - The Museum was the lead partner on a number of large EU grants e.g. SYNTHESYS and EDIT. The Museum's Research and Consulting Office assisted NHM researchers in preparing bids and with the management of awards. The grants were audited by the Head of Risk & Assurance's team. The RCUK review of the process by which the Museum managed grants received from RCUK gave the Museum confidence in its ability to manage even larger grants. EU auditors visited the Museum from time to time to carry out independent audits of EU grants.
- 7. MANAGEMENT RESPONSE TO THE NAO AND KINGSTON SMITH RECOMMENDATIONS 2013-2014 (PAPER TAC 42 /2014)**
- 7.1 The Director of Finance & Corporate Services presented his paper.
- 7.2 The management responses to the audit findings arising from the 2013/14 year end audit of the Museums' consolidated accounts by the NAO were considered by the Committee. The responses to the audit by Kingston Smith, the Trading Company auditors, had already been considered at the July meeting. The NAO/BDO were content with the management responses to their recommendations.
- 7.3 VAT Notification of Error - The most significant finding related to the VAT Notification of Error submitted by the Museum in 2010. Follow up correspondence was sent to HMRC in June 2014 confirming the Museum was in a position to make the payment. HMRC responded in September 2014 that HMRC had no legal basis to correct errors in their assessment process when more than four years had lapsed. There was no mechanism to accept a voluntary payment and as a result the liability no longer existed.
- 8. SUPASOFA (PAPER TAC 43/2014)**
- 8.1 The Director of Finance & Corporate Services sought the Committee's views on how to achieve a more readily identifiable Profit & Loss or Income & Expenditure figure than currently in the Museums' statutory accounts.
- 8.2 At the February meeting the Chair of the Board of Trustees observed that the explanation of the overall results for 2013/14 by the Director of Finance & Corporate Services in his report accompanying the Annual Accounts did not give a clear understanding of: (a) NHM's overall financial performance; and (b) the trend from one year to the next. In response the Finance Department had produced a "SuperSofa" for the financial years 2012/13 and 2013/14. Even with a "SuperSofa" the figure was not easy to define. Judgement was needed as charities received restricted and unrestricted funding and there was a mixture of funding for revenue and capital projects. In addition, charities received funds which may not be spent in year of receipt, were held at year end and spent the following year
- 8.3 How to achieve a readily identifiable Profit & Loss or Income & Expenditure figure was also a challenge to other Museums & Galleries and Charity accounting experts. In addition, the latest Statement of Recommended Practice (SORP) which takes effect from 1 April 2015 did not resolve the problem. Only the British Museum produced a "SuperSofa". A more appropriate approach which was followed by the V&A, could be the introduction of a financial performance table within the foreword rather than the financial statements, focussing on a reconciliation of the operating result to the "SuperSofa".

ACTION

8.4 The NAO/BDO agreed there was a lot of judgment involved in preparing a “SuperSofa” which made the figures within it difficult to audit. The external auditors favoured the approach used by the V&A as it did not require a comprehensive audit by the NAO/BDO which would result in an increased audit fee. The new Charities SORP required comparative information for the different classes of funds and this would increase the complexity of the “SuperSofa”. This went against the Treasury move to make government accounting simpler and easier to understand.

8.5 It was concluded:

(a) The Chair of the Audit & Risk Committee, Chair of the Board and Members favoured the production of a table in the foreword to the Accounts;

(b) In the first instance the table will cover two years 2013/14 and 2014/15; and

(c) The Director of Finance & Corporate Services will bring a paper with recommendations to the February 2015 meeting.

NG

9. NAO/BDO AUDIT PLANNING REPORT 2014/2015 INCLUDING CLEAR LINE OF SIGHT (CLoS) (PAPER TAC 44/2014)

9.1 The BDO Partner presented the planning report.

Audit Planning

9.2 Members of the Audit & Risk Committee were asked to consider: (a) whether the NAO assessment of the risks of material misstatement were complete; (b) whether management’s response to these risks was adequate; (c) the audit plan to address the risks; and (d) whether the financial statements could be materially misstated due to fraud.

9.3 The NAO/BDO were currently developing the audit plan which was subject to change.

9.4 Natural History Museum Specific Risks - The plan took the risk based approach and three medium priority risks had been assessed: (a) Repairs to the Combined Heat & Power Plant; (b) Implementation of the new Finance system; and (c) the impact of Clear Line of Sight (CLoS) deadline on the accounts preparation process.

9.5 General Election 2015 - The General Election may affect the Parliamentary Summer recess timetable. It was unlikely, however, that the timetable will be brought forward. It was noted that in recent years the Museum had laid its statutory accounts before Parliament in good time before the Summer recess.

9.6 Presumed Significant Risks - There was a general presumption under the auditing standards of: (a) the risk of fraud from management override of controls and the audit response was to test journals, adjustments, estimates and transactions outside of the normal course of business; and (b) the risk of fraud in revenue recognition where the audit response was to review the work of the Trading Company external auditors, Kingston Smith and test significant income streams.

9.7 Other Matters with a Financial Statement Impact - There were difficulties obtaining accurate management information from the new Finance system. The NAO/BDO will delay their interim audit until the external consultants appointed to carry out a review of the new Finance system had reported. The report will be taken into consideration by the NAO/BDO and discussed with the Head of Risk & Assurance. The risks involved with the implementation of the new Finance system will then be reassessed. The NAO/BDO will document the new system and assess if it is a complex system. If it is a complex system they will use IT auditors. It was noted that the NAO/BDO had interrogation software which can highlight, for example, unusual journals.

ACTION

- NB 9.8 It was requested that the NAO/BDO report to the February 2015 meeting on how the external audit of the new Finance system impacted on the audit of the Annual Accounts.
- 9.9 Materiality - For reporting purposes NAO/BDO treat any misstatements below £10,000 as "trivial" and, not requiring consideration by the Audit & Risk Committee.
- 9.10 New Charities SORPs – The new Charities SORPs July 2014 will be applicable for 2015/16 onwards. Changes were designed to ensure compliance with the recently issued financial reporting standards, specifically FRS 102. A key change was income must be recognised when probable, not virtually certain. The main area where this impacted the Museum was in recognising income from scientific grants. It was observed that: (a) a review was needed of the terms and conditions of individual grant contracts to decide on the most appropriate recognition point; and (b) FRS 102 provided guidance on accounting for grants.
- NG/NB 9.11 It was agreed that the Director of Finance & Corporate Services will work with Research & Consulting office and the NAO/BDO prior to the final audit of the Annual Accounts 2014/15 to ensure scientific grant income was recognised correctly under the new SORP.

CLOS Reporting

- 9.12 At the May meeting of the Audit & Risk Committee the NAO/BDO agreed to provide a brief report on the main differences between the Museum's Generally Accepted Accounting Practice (UK GAAP) statutory accounts and the IFRS CLoS return. The BDO partner presented the main differences to the Committee and in particular it was noted that:
- Accounting boundary – The CLoS return did not include the Trading Company and trust funds.
- Holiday Pay - The Museum was required to make an accrual for holiday which had not been taken at the balance sheet date. The Museum was satisfied that an adjustment would not be material as the holiday year runs from 1 February - 31 January each year. It was noted that the decision of the Employment Appeal Tribunal that overtime as well as basic pay counted when calculating holiday pay only related to workers whose overtime was stipulated in their contracts. The Museum did not have regular overtime of any significance.
- 9.13 Materiality - For reporting purposes NAO/BDO treat any misstatements below £250,000 as "trivial". Materiality in relation to the DCMS consolidated accounts was £80m .
- 9.14 The NHM CLoS return was signed by the Director of Finance & Corporate Services and not the Museum Director. In addition, the NAO/BDO completed a return and did not sign off the CLoS return.
- 9.15 It was agreed that the Audit & Risk Committee did not need to provide any further assurance on the CLoS return to DCMS.

ACTION

10. HEAD OF RISK & ASSURANCE PROGRESS REPORT TO NOVEMBER 2014 (PAPER TAC 45/2014)

- 10.1 The Head of Risk & Assurance took members through the key issues in her report and presented her report on Major Contract Investment.
- 10.2 Payment Card Industry Data Security Standard (PCIDSS) - The Head of Risk & Assurance had followed up the recommendations in her September 2013 report on PCIDSS. She found that a significant amount of work had been undertaken since the original review to introduce agreed changes. As a result the level of residual risk had fallen. However, as a number of the key recommendations were still in hand she considered that the current level of residual risk was still a priority 2 classification. The Head of Risk & Assurance had discussed the report with the Museum Director. In addition, the Director of Finance & Corporate was putting into place an action plan with his team to address the outstanding recommendations highlighted in the report.
- 10.3 The most significant area which had not been addressed was the large number of cardholder data records on "Ariadne", the Membership database. Ariadne" was a difficult programme and there was concern other important data may be deleted in error in the process of deleting cardholder data. Cardholder data on "Ariadne" can only be securely wiped from the database when it was no longer in use. This was dependent on the successful implementation of the new Customer Relationship Management (CRM) database in 2015.
- 10.4 New Finance System - Due to the specialist nature of an audit of the new Finance System, external consultants had been appointed to carry out the review. The auditors had commenced work on 6th November 2014. This was considered an appropriate time to review the new system. The review will be overseen by the Head of Risk & Assurance. In addition, with the approval of the Chair of the Audit & Risk Committee, Mark Richardson (co-opted member) had agreed to oversee the work on behalf of the Chair and the Audit & Risk Committee. The review will take place in two stages: Phase 1 will be a full audit of the data migration and the design and operation of the key financial controls. Phase 2 will be a follow up review, to access the progress made in implementing the recommendations raised in the original report.
- 10.5 Contract Management - Major Contract Investment – The Committee reviewed the report on Contract Management - Major Contract Investment. The report raised a number of issues highlighted in the 2011 Contract Management report relating to the tendering of the Engineering and Building Maintenance Services Contract with EMCOR in 2008/2009. It was interesting to note an Autumn 2013 Government report on 28 major contracts across 8 departments highlighted a number of the same issues.
- 10.6 One of the issues raised in the 2011 report was the services of a Facilities Management (FM) specialist were not engaged during the 2008/2009 retendering process to advise on best practice and FM contracts. The Museum had now received DCMS approval to appoint FM Consultants initially for the first two stages of the tendering process. The NHM Management Agreement with DCMS included a delegated financial limit relating to Advisory Consultancy set at £20k. This was for the provision of advice relating to strategy, structure, management or operations of an organisation.
- 10.7 Kevin Rellis (Head of Estates) was in attendance later in the meeting at item 15 to give a presentation on the major corporate risk contract investment and answer any questions.

ACTION

10.8 Launch of the Government Internal Audit Agency - The Government Internal Audit Agency was officially launched on 1st October 2014 and the services and staff previously provided by XDIAS were now delivered under the new brand. The Agency will initially operate in shadow form and staff will remain on their constituent department's books until the Agency is formally constituted on 1st April 2015.

10.9 Effectiveness of the Audit & Risk Committee and Risk & Assurance

It was agreed that:

JD (a) As in previous years members will review the Internal Audit Quality Assessment Framework; and the NAO Good Practice Guide for Audit Committees; and

MD/DL/SG (b) Following the Board of Trustees meeting on 18th November the Chair of the Board, Chair of the Audit & Risk Committee and the Director would briefly discuss the effectiveness of the Audit & Risk Committee.

11. MAJOR CORPORATE RISKS AND LONG TERM INHERENTLY HIGH RISKS (PAPER TAC 46/2014)

Major Corporate Risks

11.1 The Director presented a summary of the Major Corporate Risk templates for Quarter 2. In addition, the individual templates were presented in their entirety so as agreed with the Committee once a year they will see the level of detail that went into the management of the risks. The trajectory of the majority of the risks had not changed as all the mitigating actions will not be completed until the end of the financial year. It was noted that the Audit & Risk Committee also received a detailed presentation on one or two Major Corporate Risks at each meeting.

11.2 Risk 1 - Further Cuts in Grant in Aid – It was observed that there was an inevitable time lag between a cut in government funding and the Museum's ability to make up the lost income with revenue from commercial projects and activities. The focus of the risk was on advocacy and making the case for the funding of the NHM and Museums & Galleries generally. There was an emerging risk as the Commons Culture, Media and Sport Select Committee had recently conducted a general investigation into the work of Arts Council England. This concluded "there was a clear arts funding imbalance in favour of London at the expense of tax payers and lottery players in other parts of the country, which must be urgently rectified". It was observed that National Museums & Galleries in London, therefore, needed to make a case for investment based on their benefit to the whole country and not just London. There was also a risk relating to how much government influence there might be in relation to lottery grants.

NG 11.3 The Museum's budget for 2015/16 will be presented to the Board of Trustees on 18th November 2014. In addition there will be a look forward and projections based on given funding scenarios.

EB 11.4 The Chair of the Board and Chair of the Audit & Risk Committee noted that the other Major Corporate Risks were operational unlike the unpredictability of government funding. In their opinion the risk should be reclassified, therefore, as a long term inherently high risk. It was also observed that it was impossible for the Museum to write a strategic plan covering every funding eventuality.

ACTION

Long Term Inherently High Risks

- 11.5 The Committee reviewed the templates for long term inherently high risks. These were risks which cannot be completely mitigated in the short term e.g. health and safety. Major Corporate Risks such as the Customer Relationship Management System (CRM) can normally be reduced from red to green in the short term.
- 11.6 Damage to the Collections – It was noted that this risk had recently increased from “amber” RAG status to “red”. The Registrar and Head of Life Science Collections were in attendance at item 13 to answer any questions.
- 11.7 The Chair requested that following the February 2015 meeting members:
- JD/NG/
AB/SC
- (a) Meet the Head of Visitor Experience, Learning & Outreach to gain an understanding of the management of large numbers of visitors; and
 - (b) Pay a visit to the Control Room.

12 DIRECTOR OF FINANCE & CORPORATE SERVICES’ UPDATE ON THE “MONEY MATTERS” PROJECT (PAPER TAC 47/2014)

- 12.1 The Director of Finance & Corporate Services presented his report.
- 12.2 The project had an “amber” RAG status reflecting continuing issues around the delivery of the management account reports. A transition team led by a transition manager, supported by increased system administration resources and by dedicated IT database resources was in place working through post go live issues raised by users. Progress was being made on resolving the issues with regular communication through the super users, and with continuing face to face training.
- 12.3 It was noted that 6,000 purchase orders had been processed. However, there were some operational and resourcing issues, The number of Supplier Accounts, for example, had been reduced from approximately 21,000 to 1,800 as part of the implementation of the new Finance System. In a few areas this had caused difficulties as too many suppliers had been removed and needed to be reinstated.

13 PRESENTATION BY SARAH LONG (REGISTRAR) AND CLARE VALENTINE (HEAD OF LIFE SCIENCES COLLECTIONS/ CHAIR COLLECTIONS COMMITTEE) (PAPER TAC 48/2014)

Collections Management Auditing

- 13.1 The Registrar and Head of Life Science Collections made their presentation.
- 13.2 The Chair of the Audit & Risk Committee was personally very pleased to see their detailed paper on Collections Auditing. The Committee appreciated it was a difficult and challenging area given the Museum had 80 million items. However, members were concerned that a significant number of the recommendations in the Head of Risk & Assurance’s April 2014 report on Collections Auditing were very similar to those contained within her Collections Security Report 2011.
- 13.3 The Museum Director explained that Sarah Long was appointed full time Registrar on 1st July 2013 and there was a significant backlog of work to be undertaken by her. Sarah was to be commended on addressing the backlog so quickly. Since May 2014, the Museum’s Collections Committee led by the Head of Life Science Collections and Registrar had taken steps to address the recommendations in the April 2014 Collections Auditing report.

ACTION

- 13.4 Public Galleries - An up to date inventory of items on display (NHM and other institutions) was in development and a clear line of responsibility documented. One member of staff plus an intern were updating information on items on display. High value items had been prioritised. In addition, CITES (The Convention on International Trade in Endangered Species of Wild Fauna and Flora) material was being identified in preparation for an application to the Department for Environment Food & Rural Affairs (DEFRA). A DEFRA certificate was needed to allow the commercial display of specimens. It was planned that the information on items on display will be completed in the next six months. In addition, a Science Educator will create an inventory of Learning and Handling Collections which had evolved ad hoc and may include items which should not be in the Learning and Handling Collections.
- 13.5 Interns - Each year the Museum took an intern from the University of Leicester Museum Studies Programme. Collections staff were also looking at other opportunities to use interns. It was observed, however, that it was important that interns had the necessary skills.
- 13.6 Cross-Museum Audit Plan - A cross-Museum audit plan covering all areas of the collections and public spaces was being created. The Registrar will be responsible for drawing up an annual schedule of audits. The Collections Committee (Heads of Collections, Registrar, Head of Conservation and Digitisation Programme reps) will monitor the audits.
- 13.7 Incoming Research Loans – The first audit will examine the physical presence of items in the Museum as incoming research loans and the information associated with those loaned items. The Registrar will work closely with the Head of Risk & Assurance on the methodology. The provisional Template Audit Report was drawn up by the Registrar and Head of Life Science Collections in discussion with Collections Committee, the Head of Risk & Assurance and Head of Security.
- 13.8 Action to be taken Following Discovery of Missing Items - Once auditing commenced against baseline inventories consideration was needed on what action to take when errors/missing items were identified. The response and implications will be different depending on the area being audited. It was observed that a log of each person who accessed the collections was maintained in some high value areas.
- 13.9 Items in Offices - Statuary and Oil paintings (Museum Artwork) - The collection presented a complex challenge related to the wide distribution of 427 items and lack of coherent approach to collections development. A full audit had not been repeated since 2005/6 and will be particularly time consuming as the items were spread throughout the Museum and there were long-term loans.
- 13.10 The Mineralogical Collection – The Mineral collection including meteorites will be subjected to a random independently observed spot check. This was because: (a) the valuation of gemstones and minerals was not simple; and (b) there were a significant number of high value specimens. It was noted there was tight control over access to these collections. The development of a new high security “Gem Room” incorporated into the Earth and Planetary Sciences Centre was of vital importance in further enhancing security.

ACTION

Long Term Inherently High Risk - Damage to the Collections-

- 13.11 The Committee had discussed the risk of damage to the collections earlier in the meeting at item 11.6. The key reasons for the increase in the risk from “amber” to “red” were:
- 13.12 Environmental Management - Over the last six months there had been a deterioration of collections due to poor environmental management in a number of buildings. Environmental management will be addressed by future Collections Storage Infrastructure Programme (CSIP) projects dedicated to reaching a minimum level of environmental standards. It was observed there was acute collection damage of the Palaeobiological Collections (pyrite decay). An initial budget for “bagging” specimens as an interim measure had been allocated by the Executive Board (EB). Humidity had been a problem in Darwin Centre 1 & 2 and this will be addressed by the cooling strategy over the next few years.
- 13.13 Pest infestations – Pest Infestations (mice, moths and cockroaches) had increased due to the Museum not implementing Integrated Pest Management Group (IPMG) recommendations. The contract with the Museum’s catering supplier was due for retender and IPMG will ensure the contract includes pest control practices. There had, however, been recent improvement which was being monitored by IPMG.
- JD/SL/CV 13.14 The Chair of the Audit & Risk Committee asked that the Registrar and the Head of Life Science Collections report on progress to the Audit & Risk Committee on Collections Audit & Pest Management at the May 2015 meeting.
- 14. PRESENTATION BY JOE BAKER (HEAD OF EXTERNAL AFFAIRS) ON THE MAJOR CORPORATE RISK “FURTHER CUTS IN GRANT IN AID PROJECTED BEYOND 2015/16 CANNOT BE COMPENSATED FOR BY GREATER NET SELF-GENERATED INCOME AND RESULT IN LOSS OF FRONT LINE SERVICES”. (PAPER TAC 49/2014)**
- 14.1 The Head of External Affairs made his presentation on the management of the risk.
- 14.2 **Context** – Britain was in a period of economic austerity and the Museum was moving beyond the free admission “tipping point”. Since the 2010 spending review the Museum’s grant in aid had been cut by approximately 20%. There was potential for further cuts in the Autumn Statement 3rd December 2014 and the Budget Statement in 2015. The Department of Culture Media and Sport (DCMS) was confident there will be no further cuts. There was an emerging risk, however, that funding maybe redirected towards the regeneration of other parts of the country particularly the north. It was noted that Public Sector funding cuts had been more severe than those of the Museums & Galleries sector. This could be attributed to the Chancellor of the Exchequer’s belief that: (a) Museums & Galleries had an important role in driving economic growth; and (b) effective lobbying by the sector. Treasury Officials had commenced work on the 2015 spending review, however, the Museum had a strong positive relationship with DCMS and other government departments.
- 14.3 **Mitigating Actions** – The key mitigating actions for the risk were advocacy and financial management.
- 14.4 Advocacy – In particular it was noted that the Museum was working on:
- 14.5 (a) A brand refresh including update of visual identity and focus on 3 key audiences, visitors, the scientific and corporate communities. The work being undertaken with Lambie Nairn was aimed at consistency in communication. It included dropping the pictures within the N logo and the brand refresh was due to be completed by the end of the financial year.

ACTION

- 14.6 (b) Positioning work with the new NHM PR Agency Brunswick focused on relevance and impact aimed at attracting funders.
- 14.7 (c) A new Communications Strategy based on the new Museum Strategy. Communications had been restructured as External Affairs bringing together public relations and public affairs. The new group was better able to manage our reputation across all stakeholders.
- 14.8 (d) Increasing the profile of Science and the Director. This involved engagement with the BBC Natural History Unit, Science Team, Radio Four and Horizon Programme as well as looking at a new media partnership approach to exhibitions.
- 14.9 (e) Regular contact with Ministers and Officials, particularly with DCMS. The Museum had a good relationship with Sue Owens (DCMS Permanent Secretary). The Museum Director was meeting with Ed Vaizey the new Minister of State at DCMS on 25th November 2014 followed by a meeting with the Museums' team on 26th November 2014.
- 14.10 (f) Making the most of networking profile raising opportunities e.g. the Wildlife Photographer Awards Dinner, the unveiling of the world's most complete *Stegosaurus* on 4th December 2014 and the Annual Science Lecture 11th December 2014. The Museum Director attended events at other organisations e.g. the British Science Reception at Downing Street on 28th October 2014.
- 14.11 (g) Publication of the Annual Review and the new Museum Strategy. The Strategy will be launched internally on 13th January 2015 and externally on 14th January 2015 at a breakfast press conference attended by the Chair of the Board of Trustees.
- 14.12 (h) Working with the rest of the Museum & Galleries sector which was facilitated by the Museum Director's period as Chair of National Museums Directors Conference (NMDC).
- 14.13 Financial Management
- 14.14 (a) NHM had a reputation for good financial management and planning. This helped keep the Museum low risk for DCMS. The Museum was constantly looking to make greater efficiencies and undertaking scenario planning for future cuts.
- 14.15 (b) The new Museum Strategy was for the first time externally focused to attract funders. It was important externally in the run up to the next spending review and internally to galvanise staff.
- 14.16 (c) NHM was working with DCMS and NMDC to investigate better financial models for the sector particularly for shared services e.g. offsite collections storage.
- MD/JB 14.17 It was observed that target dates needed to be set for improvement actions especially for the quick wins to ensure momentum was maintained. The Head of External Affairs agreed and confirmed this would be done.

ACTION

15 PRESENTATION BY KEVIN RELLIS (HEAD OF ESTATES) ON THE MAJOR CORPORATE RISK “THE MUSEUM DOES NOT MAKE SUFFICIENT INVESTMENT IN THE RETENDERING OF MAJOR OUT-SOURCED CONTRACTS AND MISSES THE OPPORTUNITY TO SAVE COSTS AND DRIVE EFFICIENCIES”. (PAPER TAC 50/2014)

- 15.1 The Head of Estates made his presentation on the management of the risk.
- 15.2 The combined level of expenditure on Facilities Management (FM) Services run by the Estates Department (Facilities Management with EMCOR and Housekeeping services with Servest) amounted to nearly £4m per annum. This was approximately 20% of the Museum’s recurrent annual expenditure of £21m and, therefore, investment in major outsourced contracts was a priority for NHM.
- 15.3 The RAG risk status had reduced from “red” to “amber” and as the likelihood of under investment in money and resource had reduced by: (a) lower tender returns, the appointed consultant had submitted a tender price of c£86.5k; (b) Government approval to proceed with the first two stages of the contract with the FM consultant; and (c) over the last 6 months additional staff resource had been put in place in the Estates Department, a new Senior Operations Manager and a supporting Operations Manager.
- 15.4 The challenge now was to address the second component of the risk by driving for cost savings and efficiencies through the re-tendering process. There were five critical success factors:
- 15.5 (a) Secure Board-level commitment
- Outsourcing was a major corporate risk and the Executive Board had assigned £70k for the appointment of FM consultants. In addition the Director of Finance & Corporate Services had confirmed that the funding will be extended to £100k. The re-tender had been established as a project with a project board chaired by the Head of Estates. The Museum executive will be involved via progress reports to Corporate Services Executive and EB and the endorsement of key decisions.
- 15.6 (b) Appropriate and Effective Professional Experience to Lead the Process
- The Head of Estates was SRO and focused on the key objectives and benefits. The Estates Senior Operations Manager was Project Manager to whom Larch Consulting the appointed FM consultants report directly. Larch Consulting were FM specialists who had undertaken independent audits of the FM arrangements of other organisations.
- 15.7 (c) Define the Requirement and Keep Focus on the Business Case
- By April 2016 the existing FM contracts will have been in place for seven/eight years. They were tendered on a 5 plus 2 years basis and the contracts will expire on 31 March 2016. A value for money exercise was required including analysis of the FM market place; costs and value; service excellence; compliance; appropriate SLAs, KPIs and penalty clauses. Analysis of new contract provision and assessment of in-house virus out-sourcing. The Museum also wished to explore whether the FM Contractor could assist with backlog maintenance management and add value to the Museum’s defined needs rather than the NHM asking the market to respond.
- 15.8 (d) Understand Key Stakeholder Requirements
- The Estates Department Strategy had four principles’ safety, security, efficiency and sustainability. These must be primary considerations as well as service delivery and maintaining and developing the Museum buildings. The Estates Department and FM consultants will engage with the established network of Estates Representatives to obtain feedback on the existing services. There will be workshops and consultation with a large number of stakeholders, including Estates, the incumbent FM providers and end users.

ACTION

15.9 (e) Learn Lessons and Identify Best Practices from other Organisations

The official Journal of the European Union (OJEU) will advertise the FM contract with all services listed. A collaborative environment will be established between the Museum and the supplier(s) and a robust Contract Management Plan put in place. The Estates Department will ensure there is a common understanding of the terms of contract with the supplier(s) and end users. The in-house Legal Advisors will also review the draft FM contract(s).

15.10 FM Framework - It was noted that the Crown Commercial Service (CCS) formerly Government Procurement Service (GPS) was in the process of setting up a new Facilities Management Contracting Model (FMCM) giving customers access to FM services. The planned date for the commencement of the new framework was February 2015. Under the administrative freedoms granted by DCMS the Museum was not required to use the framework. However, if the FMCM framework was appropriate for Museum needs, best value and a viable option for the NHM timescale it will be used by the Estates Department. There was a concern that the contractors on the framework must not be too big for the Museum alone to have the power to effectively influence the FM contractor's performance.

16 ANY OTHER BUSINESS

16.1 Digital Development - It was observed that as the Museum outsourced a number of digital contracts e.g. the website and CRM and as this was likely to increase there should be a strategic review of digital development

It was agreed that:

- (a) Once the new Trustee with Digital Media experience had joined the Board of Trustees there will be a review of the risks relating to the Digital Strategy/Digital Engagement/Data Protection and Privacy.
- (b) The Head of Technology Solutions will make a presentation on the risks at the May 2015 Audit & Risk Committee.

NG/DT

17. DATE OF THE NEXT MEETING

17.1 The next meeting will be held at 10.00 a.m. on Wednesday 11th February 2015.

KEY TO ACTION INITIALS

Michael Dixon	- MD	Jan Day	- JD
Stephen Green	- SG	Alex Birch	- AB
Derek Langslow	- DL	Nick Buxton	- NB
Roy Anderson	- RA	Executive Board	- EB
Neil Greenwood	- NG	Stuart Craik	- SC
Ian Owens	- IO	Sarah Long	- SL
Dave Thomas	- DT	Clare Valentine	- CV