



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

57th Meeting on Thursday 28th June 2012

Present

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

In Attendance

Oliver Stocken (Chair of Trustees)
Dr Michael Dixon (Director)
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)
Martin Burchmore (Partner, Kingston Smith)

Teresa Wild (Director of Programmes) was in attendance for item 10.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Keith Lloyd (Director, NAO) sent his apologies.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

**3 MINUTES OF THE MEETING HELD ON WEDNESDAY 9TH MAY 2012
(PAPER TAC 24/2012)**

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

ACTION

4. MATTERS ARISING FROM THE MINUTES

- MD 4.1 Reputational Risk Update - para 5.3 - A draft Ethics policy and draft policy on Third Party Engagement was going to the Board of Trustees on 3rd July 2012.
- 4.2 Trustee Appointments - para 5.4 - To progress the two current appointments the Board of Trustees approved the proposal to reverse the appointments so that the “business and commercial” trustee was the Prime Ministerial appointment and the scientific trustee the co-opted appointment. At a recent meeting of the National Museum Directors’ Conference (NMDC) a number of Ministry of Defence (MOD) museum directors reported that it was not unusual for their Prime Ministerial appointments to take two years. It would also appear that the intention was that trustee reappointments will only be approved in exceptional cases. This will reduce the effectiveness of the Board as there was a learning curve of one or two years for new trustees. In addition, if the Chairman served more than four years it would make it more difficult for new trustees to challenge decisions which the Chair said were taken before their term of office began.
- MD/JD 4.3 Long Term Inherent Risks - para 8.9 - The Director and Head of Risk & Assurance will discuss “Long Term Inherent Risks” at their next one to one. A paper on the risks and the sources of assurance will be brought to the November 2012 Audit & Risk Committee meeting.
- MD/JD 4.4 Risk & Assurance Staffing - para 8.10 - The Director and Head of Risk & Assurance will discuss the staffing of the unit at their next one to one.
- MD/JD 4.5 Risk & Assurance Annual Plan 2012/13 - para 13.17 - The Director and Head of Risk & Assurance will revisit the plan to ensure that it is sufficiently focused on major corporate risks. The Chair said if there were inadequate resources to complete the plan the Audit & Risk Committee will review the priorities set.

5 DIRECTOR’S REPORT (PAPER TAC 25/2012)

- 5.1 The Director presented his paper
- 5.2 Rhino Horn Theft - The person charged with the theft of the rhino horn from the Natural History Museum at Tring had put in a not guilty plea. The case was being heard on October 31st 2012.
- 5.3 Apprehended Intruder in Palaeontology - An intruder was found in the Palaeontology Department on the 2nd floor. He was challenged by a member of the department who took him to the Control Room. A review will take place to see if the security of the department entrance can be made tighter. Security breaches were a “Long Term Inherently High Risk”. It was noted that the physical and technical security measures in place were complemented by constant vigilance and staff having the confidence to challenge.
- 5.4 RIDDOR at Tring – There was a Health and Safety incident at Tring which required reporting under RIDDOR. A seven year old boy trapped his finger in a door to a public toilet. This was very unfortunate as the boy had to be taken to hospital and required a partial amputation of his finger. Analysis of NHM H&S records showed that since 2006 there had only been one finger trapping that required reporting under RIDDOR. There had been over 1m visitors to Tring and 21m visitors to South Kensington in this period, indicating that such incidents were of very low incidence, but in this case a high impact.

ACTION

- 5.5 Quarterly Review of Outstanding Actions from Published Internal Audit Reports - The only Priority 2 or higher action outstanding related to a full crisis management test. The organisation of crisis management had to be reviewed with the Director of Public Engagement Group (PEG) and Director of Estates leaving the Museum. Although a full test would have been desirable before the Olympic Games, generating sufficient time to plan and report back had been problematic. In mitigation there had been a number of desk top exercises and the Head of Security was undertaking briefings in the run up to the Games. NHM will conduct a full crisis management test once the Olympic Games are over. It was noted that the new Head of Security was a former Police Inspector and was well networked with the Police and Counter Terrorism officers.
- NG/SC
- 6. ANNUAL ACCOUNTS 2011/12: MANAGEMENT LETTERS, ISA 260, GOVERNANCE STATEMENT AND SUSTAINABILITY REPORT (PAPER TAC 26/2012)**
- 6.1 The Director of Finance & Corporate Services presented the accounts.
- 6(a) The Natural History Museum Annual Report and Accounts**
- 6.2 The Natural History Museum Annual Report and Accounts for 2011-12 were presented for Audit and Risk Committee to recommend to the Board of Trustees that they approve the accounts at their meeting on 3rd July 2012. The accounts had been finalised and an outstanding minor adjustment relating to an "equipment reserve provision" had been completed. There were now only proof reading and text changes required. The accounts had been submitted for ministerial approval with the intention that the accounts will be laid before Parliament on 11th July 2012 as requested by DCMS. As the parliamentary recess date was not until 17th July there were two reserve days if the timetable slipped.
- 6.3 There had been an informal review of the accounts by the Chairman of the Audit & Risk Committee and Mark Richardson (co-opted member) on 22nd June 2012.
- 6.4 Ministerial Approval - A discussion took place on the authority of the DCMS Minister to make substantive changes to the accounts. It was noted that the ministerial focus was not on the figures in the accounts but on the wording of the annual report to ensure it complied with government policy. The DCMS Minister was accountable to Parliament for ensuring government policies were adhered to.
- 6.5 Annual Report Appendix 1 – Performance Indicator Information - The robustness of the figures relating to lower socio-economic groups and the over 60s were discussed. The Director reported that the Executive Board had agreed that a statistician will be asked to look at the methodology. The committee agreed that there should be a footnote explaining why the numbers from lower socio-economic groups appeared to have fallen and that the figures were estimates. It was also observed that as estimates the figures should be rounded up.
- EB
- NG
- 6.6 Both the NAO and Kingston Smith said that their audit work had gone smoothly.
- 6(b) NAO Audit Completion Report and ISA 260 Communication of Audit Matters to those charged with Governance**
- 6.7 The PKF Partner presented the NAO Report
- 6.8 Overall Conclusion – The Comptroller and Auditor General was expected to certify the accounts with an unqualified audit opinion and without modification.
- 6.9 The majority of the audit schedules and a first draft of the accounts were made available on day one of the audit, and key updates were provided during the course of their work.

ACTION

- 6.10 Development Trust - NAO/PKF reported that they were happy with the independence of the Development Trust and the NHM transfer of £3.5 million had been disclosed adequately in the accounts.
- 6.11 Shared Services Agreements - The main recommendation was agreements were put into place for the provision of a high voltage ring main to the Victoria and Albert Museum (V&A) and the National Museum of Science and Industry (NMSI), and the provision of telephony services to NMSI. This was also raised in the 2011/12 management letter.

6(c) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter

(a) Trading Company Accounts

- 6.12 The audit of the accounts was complete and the accounts had been approved at a meeting of the directors of the Trading Company.

(b) Kingston Smith Management Letter

- 6.13 The Kingston Smith Partner presented the Management Letter.
- 6.14 There were no material misstatements, no significant matters arising from the audit and no deficiencies in internal control.
- 6.15 Invoicing of Income - There was one minor matter relating to income invoicing information which was not always being notified to Finance by departments on a timely basis. This may lead to a delay in the receipt of income.
- 6.16 Retail Shrinkage - Unknown shrinkage from the retail outlets was 1.7%. It was observed that anything below 2% was considered acceptable.

6(d) Special Funds, Benevolent Fund and Cockayne Fund

The external audit of the accounts was complete and the Cockayne Fund had been approved by a meeting of the Cockayne Trustees.

6(e) Audit & Risk Committee Approval

- 6.17 Members:
- (a) approved the Special Funds and Benevolent Fund for the Chairman of the Board's action; and
 - (b) recommended that the consolidated accounts for the Natural History Museum were approved by the Board of Trustees on 3rd July 2012.
- 6.18 Members and the Chairs of the Board of Trustees and Audit & Risk Committee congratulated the Director of Finance & Corporate Services on the successful completion of the 2011/12 accounts.

6(f) Accounts Timetable 2012/13

- 6.19 A dedicated member of the Finance Department worked on the 2011/12 accounts. This had eased the work of the Director of Finance & Corporate Services and the Head of Financial Reporting.

ACTION

- 6.20 The NAO reported that it was anticipated that DCMS and all other government bodies will be required to lay their consolidated accounts before parliament by 30th June 2013. Due to the Olympic Games DCMS had been given dispensation for 2011/12 and will most likely lay their accounts in January 2013. The NAO were still awaiting DCMS and Treasury direction as to their requirements and the detailed timetable for 2012/13. It was anticipated that DCMS would require a set of accounts from NHM which had not been fully audited. DCMS would only require audited accounts if the NHM audit highlighted the need for a material adjustment to DCMS accounts.
- 6.21 It was agreed that staff resources in the Finance Department may need to be reconsidered to ensure that the Museums 2012/13 accounts are available in time to allow DCMS to lay consolidated accounts before Parliament by 30th June. In addition, the dates of Board of Trustees and the Audit & Risk Committee meetings may need to be rescheduled to facilitate this process.
- MD/NG/JD
- NG 6.22 The Chair asked that the Audit & Risk Committee were provided with an update on the 2012/13 accounts timetable at their meeting in November 2012.
- 7. DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL – MAY 2012 (PAPER TAC 27/2012)**
- 7.1 The Director of Finance & Corporate Services presented his paper.
- 7.2 The report showed the actual expenditure for the period April to May 2012.
- 7.3 General Fund - It was forecasted that there will be a General Fund balance at the year- end of £3.714m which was below the original budget approved by the Trustees in November 2011 by £0.966m. This was determined before the capital grant payment of £3.5m to the Natural History Museum Development Trust.
- 7.4 Capital Expenditure - It had been recognised at the Executive Board planning conference in June that a number of the capital projects need to be reconsidered with a review of the Estate Masterplan and as a result there will be slippage. In addition there were continuing resource issues, and capacity to deliver the capital programme had been highlighted as a major corporate risk.
- MD/NG 7.5 Financial Review – To increase transparency a review was to take place on how the information was presented in the Director of Finance & Corporate Services report.
- 7.6 Expenditure Slippage - The Chair expressed concern that underspends relating to, for example, capital and staff numbers were not being identified sufficiently early in the financial year. As a result it may not be possible for capital projects/purchases and recruitment to be brought forward into the current financial year.
- MD/NG 7.7 It was agreed that individual forecasts would be reviewed earlier in the year and expenditure brought forward where appropriate. This particularly related to science budgets as the restructuring impacted on salary commitments and capital projects. The Director of Science had recommended changes in the way the Museum stored its collections and this had a knock on effect on planned projects. It was noted that the Museum was considering bringing forward the purchase of a number of expensive pieces of scientific and IT equipment.

ACTION

7.8 Salary Underspends – There had been a deliberate decision to delay the recruitment of a number of posts in Science Group and PEG due to the reorganisation taking place in both areas. The Museum was, however, currently recruiting for the Director of Estates and the Head of Events & Catering posts. It was also noted that there was an underspend on the original salary budget approved by the Trustees in November 2011. This was a result of HM Treasury guidance limiting the 2012/13 pay ward to 1% which was lower than had been budgeted for.

8. HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 28 /2012)

8.1 The Head of Risk & Assurance presented her report.

8.2 Long Term Inherent Risks - The Head of Risk and Assurance had been preparing a list of the “Long Term Inherent Risks” together with the sources of assurance relating to their management. The list would be discussed with the Director and the Senior Management Team (SMT).

8.3 Olympic Readiness - The Head of Risk and Assurance was monitoring the work of the Museum on Olympic Readiness and was comfortable with the action being taken.

8.4 Effectiveness of Internal Audit in Central Government - The committee reviewed the NAO report on the “Effectiveness of Internal Audit in Central Government”. The NAO had undertaken the review to feed into the Treasury Transformation Programme. The NAO reported that generally they found that more internal work was needed on core systems rather than corporate risks. Members expressed the view that the report lacked substance. In addition, it was not possible to generalise over the risks facing a very wide range of central government organisations and their associated arm’s-length bodies.

8.5 Crowd Management - The committee also review an audit report on Crowd Management in the Museum.

9, PRESENTATION BY MICHAEL DIXON (DIRECTOR) ON “INADEQUATE CHANGE MANAGEMENT AND SUCCESSION PLANNING FOR SENIOR MANAGEMENT CHANGES IMPACTS UPON MANAGEMENT EFFECTIVENESS”.

9.1 The Director made his presentation on the management of the risk.

9.2 The Museum was undergoing a significant amount of organisational and cultural change over the next twelve months. This was in recognition of the fact that the next phase of the Museum’s development required new ways of organising and working together to deliver existing and new outputs. The external environment had changed. New technology, for example, smart phones and smart devices and the growing use of social media will influence the way the Museum engages with its public in future. For example, there will be less electronic hardware in the galleries as it is replaced by wireless networks.

9.3 The move to the new Science Group structure will take place on 1st July 2012. The restructure of PEG had been delayed to ensure that it dovetailed effectively with the new science organisation.

9.4 There was currently no formal succession planning process in NHM. Executive Board considered succession planning in November 2011, however, it was decided to delay the work until the restructures were complete. As part of succession planning the Museum needed to reassess learning and development needs in order to equip staff with the right skills where these were in deficit. There had been relatively little development training for senior managers apart from that highlighted during the annual appraisal process and the Director was keen to improve on this.

MD/JD

EB

ACTION

- 9.5 It was recognised that the change process will impact on “business as usual”. There will be resource implications for the capital programme and the Museum was considering bringing in external project managers. There will as a result be reduced expectations during 2012/13. The PEG restructure was being run as a programme with a formal project board and project managers for each of the component projects. This will ensure that staff involved in the process had clear roles and responsibilities. It was noted that a lot of preparatory work had been done and staff had an appetite for change.
- 9.6 The reorganisation had a cost saving objective which meant the Museum will need to stop doing some things. A number of staff had been trained in process mapping which had identified administrative efficiencies in Science and PEG. This skill will be useful in highlighting other efficiencies in the Museum. The new Finance System project scoping process may also lead to administrative efficiencies in the short term e.g. relating to the claiming of travel expenses. The Government Procurement Card (GPC) process was, however, largely automated. It was recognised that government funding will continue to decrease over the coming government spending periods. The Museum will, therefore, explore revenue generating opportunities and budget prudently.
- EB 9.7 It was observed that once: (a) the restructure of Science Group and PEG; and (b) the review of strategic decision making was complete internal control systems should be re-evaluated.
- 9.8 There were a number of regulatory requirements that must be met e.g. Employment Law and Cabinet Office protocols. There was a formal 90-day consultation period before the reorganisation of PEG could be finalised. The Museum was able to draw on the lessons learned from the 2010/11 expenditure review. These were recorded following the “wash up” process for that project.
- 9.9 Staff morale was helped by the Directors’ quarterly presentations to staff. Also by Executive Board and the Director being transparent and creating certainty where possible. The Museum has an electronic chat forum that is accessible to all staff. It enables staff to discuss relevant topics, exchange ideas, or give suggestions in an open and transparent way. It was also noted that part of the PEG restructure involved looking at social media and how to track negative comments and respond and manage that interest
- 9.10 There had been a two year government pay freeze in 2010/11 and 2011/12 and a one per cent average annual award for 2012/13. It was noted that the Museum was required to pay contractual pay increments to certain junior posts where there was an entry point and fully competent point. Also a number of scientific salaries were linked to individual award schemes from external organisations.
- EB/MD/IO 9.11 The Museum was identifying non-salary rewards for staff e.g. development opportunities, secondments, field trips, conferences etc. Succession planning may also motivate staff and make them feel appreciated. It was observed that the Museum should explore whether: (a) there were greater opportunities to sponsor researchers for external science merit awards; and (b) there were opportunities to inform digital strategy by media and communications company secondments both in and out of the Museum. It was noted, that a number of the trustees on the Development Trust Board worked in digital industries. The Director was also networking with other successful digital entrepreneurs. The Director observed that to be cutting edge in the digital world required significant investment. It was in his view better to be slightly behind in the implementation of new digital advances in order to learn from the mistakes of others.

ACTION

10.0 PRESENTATION BY TERESA WILD (DIRECTOR OF PROGRAMMES) ON “THE ABSENCE OF A DYNAMIC ESTATE MASTER-PLAN IMPEDES THE ABILITY TO UNDERTAKE NECESSARY SHORT-TERM ACTIONS”. (PAPER TAC 29/2012)

- 10.1 The Museum Director introduced the presentation. The Director explained that as highlighted earlier in the meeting there will be slippage in expenditure on a number of the capital projects. The Museum was going through the process of changing a number of fundamental assumptions and this had a knock on effect on planned projects. For instance as part of the Learning Centre development it was envisaged that Mineralogy staff and collections would be relocated and the Mineralogy space opened up for public use. This was dependant, however, on circulation feasibility and a review of the Gallery Plan. In addition, the Director of Science wished to locate both Earth Science departments in the Palaeontology Building. However, storage conditions and the functionality of the Palaeontology Building needed to be addressed first.
- 10.2 The Director of Programmes made her presentation on the management of the risk
- 10.3 The Director of Programmes explained that the time was now right to review the Masterplan Development Framework (MDF) for South Kensington agreed by the Trustees on 21st May 2009. This was to ensure its function as a dynamic, useable framework. The MDF was critical in underpinning the Museum’s work as a guide for future physical development and the realisation of the NHM vision for the next 25 years.
- 10.4 It was designed as a dynamic framework for future development, constructed to allow for the unknown, to be adaptable, and to be implementable to varying degrees – in the short, medium and long term i.e. it should be reviewed on a regular basis. Several changes had happened since the MDF was agreed which meant that the document framework did not now totally reflect NHM plans for the future of the estate. It also cannot always be reliably used as a check for whether a short term intervention can take place in a particular space e.g. the MDF assumes more collections went into DC2 than did, therefore, spaces planned to be cleared are not available for other use.
- 10.5 The Executive Board held a workshop in November 2011 and a set of revised principles were agreed. A key principle was the NHM should change the approach from what we want to do and what it will cost to what can we afford to do and what is the best use of this investment. The NHM will focus on a smaller number of realisable projects and not spend money on feasibility studies that do not lead to near-term delivery.
- 10.6 Priority projects and programmes will be set for the Development Team to undertake fund raising activities. These priority projects will also be mapped to possible funding streams to direct fund raising effort. It was noted that the Museum was building up a portfolio of naming opportunities and values for potential sponsors. Current issues had been identified e.g. crowding, learning facilities and collections. These fed into 10-year priorities which were agreed by the Executive Board.
- 10.7 A Masterplan Strategy Group (MSG) was set up in April 2012 with cross Museum representation to act as a programme board and report directly to Executive Board. MSG will lead on updating the Masterplan for South Kensington, Tring and Wandsworth, informed by the revised principles for the MDF and by the 10-year priorities. The updated MDF will then: (a) be used in a disciplined manner to ensure that the Museum can make quick and informed decisions regarding short term interventions within the estate infrastructure e.g. the structural work at Tring; and (b) be used to define the programme of major estate interventions over the next 25 years. The MSG will ensure the space management strategy is implemented consistently across the Museum and revisit the Gallery Plan with the new Director of PEG.

ACTION

- TW 10.8 It was agreed that the updated Masterplan, Gallery Plan and Space Management Strategy would be presented to the Board of Trustees.
- 10.9 Projects Resourcing -The Museum was starting to undertake projects of a significant size e.g. the Learning Centre development. In order to resource the delivery of larger projects it will be necessary to second staff full time to the project. This had "business as usual" implications for the Museum. The Museum did consider joint opportunities for running projects with other organisations. The biggest opportunity in the short term related to options for future collections storage where a shared resource was favoured perhaps with the Science Museum at Wroughton. There was also a large amount of empty space in the Museum's off-site storage facility. The environmental conditions, however, were not adequate for certain types of collection. As a result a decision may need to be taken to redevelop the facility.

11 ANY OTHER BUSINESS

- 11.1 There was no other business

12. DATE OF THE NEXT MEETING

- 12.1 The next meeting will be held at 10.00 a.m. on Thursday 8th November 2012

KEY TO ACTION INITIALS

Michael Dixon - MD
Neil Greenwood - NG
Ian Owens - IO
Teresa Wild - TW
Jan Day - JD
Stuart Craik - SC
Executive Board - EB