



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

**53<sup>rd</sup> Meeting on Wednesday 29th June 2011**

**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)  
Keith Lloyd (Director, National Audit Office)  
Nick Buxton (Partner, PKF)  
Martin Burchmore (Partner, Kingston Smith)

Phil Rainbow (Interim Director of Science) was in attendance for item 9.

***ACTION***

The Chairman welcomed Professor Sir Roy Anderson to his first meeting.

**1 APOLOGIES FOR ABSENCE**

1.1 Apologies were received from Liz Fox (Audit Manager, National Audit Office).

**2 DECLARATIONS OF INTEREST**

2.1 There were no declarations of interest.

**3 MINUTES OF THE MEETING HELD ON THURSDAY 5<sup>TH</sup> MAY 2011 (PAPER TAC 21/2011)**

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

## **ACTION**

### **4. MATTERS ARISING FROM THE MINUTES**

- JD 4.1 Exhibitions Consultancy – para 6.3 – An internal audit of Planning & Design Consultancy (PDC) was due to take place in the second quarter of 2011-2012. The report will feed into a strategic review of: (a) the international market place; (b) financial performance over approximately a five year period; and (c) the relationship of exhibitions consultancy with other activities across the Museum. The Director agreed to look into the viability of using external consultants who were expert in the field to carry out the strategic review.
- MD

### **5 DIRECTOR'S REPORT (PAPER TAC 22/2011)**

- 5.1 The Director presented his paper
- 5.2 Appointment of a new Director of Science - A date had still not been set for the transfer of the new Director of Science (Ian Owens) from Imperial College to the Museum. Ian Owens was, however, spending a considerable amount of time in the Museum and was expected to take up the position no later than October 2011.
- 5.3 Establishment of a Development Trust - The Secretary of State was due by 30<sup>th</sup> May to allocate to its sponsored Museums & Galleries access to historic reserves over each of the next four years, subject to those reserves being transferred to an independent trust. The Museum had indicated to DCMS that it will consider the establishment of an independent Development Trust to accumulate future reserves and into which historic reserves may be transferred. The Museum was taking a great deal of legal advice on the best way forward and an update will be given to the Board of Trustees meeting on 5<sup>th</sup> July. The Trustees would then be asked to consider a proposal to set up a trust which would hold sufficient unrestricted funds to meet its statutory obligations. At the end of the financial year it will then be determined by the NAO whether the trust's assets will be treated entirely separately from the Museum's. The Chairman observed that there was a risk that in future years the Treasury may not agree to the transfer of historic reserves which were not transferred in the year when access was granted.
- MD
- 5.4 Expenditure Review Phase 2 - An update will go to the Board of Trustees on 5<sup>th</sup> July and the Director was confident the Museum could deliver a robust and effective balanced budget for 2012/13. It was anticipated that there will not need to be a further museum wide redundancy programme during 2012/13. Redundancies could not be ruled out in response to any restructuring of senior management following the appointment of the new Director of Science. This course of action, however, would not be confirmed until the Director of Science took up his position. Current thinking is that the two year public sector pay freeze would be in place until August 2012. This had thus far served to buffer some of the savings required as a result of the 2010 spending review. The expectation was the salary budget provision in the long term financial plan which was over what was required would also provide some assistance in achieving savings in the outlying years of the Spending Round.
- MD
- 5.5 Memorial to the Victims of the 2004 Asian Tsunami - The Museum was hosting the Memorial which was funded by the Department for Culture, Media and Sport (DCMS) and project managed by a charity set-up by the survivors, families and friends of the victims of the disaster, Tsunami Support UK (TSUK). The 119 ton granite block that formed the Memorial had arrived on site in the early hours of Sunday 26<sup>th</sup> June and had been bolted into place onto steel rods. This was an impressive logistical feat requiring an 18 axle lorry, 120 ton crane and 380 tons of ballast. The timetable for the ceremony was tight but it was anticipated all the works would be completed on time.

## **ACTION**

- MD
- 5.6 NHM-Kew Collaboration - The Director had met with the Director of Kew, Professor Stephen Hopper several times. Given the departure of the Head of the Herbarium at Kew, and the resignation of our Keeper of Botany they recognised a bigger opportunity for collaborative work on collection management over the next 20 years. It was noted that two of the Museum trustees had expressed views on this and the Director agreed to speak to them.
- 5.7 Power Outage - The Director gave an update on the power outage which occurred on 23<sup>rd</sup> June. There was a small explosion at the junction of Exhibition Road and Museum Lane when a High Voltage (HV) cable feeding the Museum ring main failed. This resulted in a large proportion of the NHM and National Museum of Science and Industry (NMSI) losing power. The NHM response team and Head of Security were on the scene very quickly and there were no injuries. The lifts were checked to ensure there were no entrapments.
- 5.8 The Museum instigated changes to the switching arrangements in order to reinstate the HV system. At the same time engineers carried out switching to the Low Voltage network to reinstate local power. Electricity was reinstated within the hour and all systems were in operation by the afternoon. The damaged cable which was the responsibility of the Museums' supplier UK Power Networks Services and had been repaired.
- 5.9 The incident provided a live opportunity for testing Crisis Management and Business Continuity arrangements at the Museum. The Crisis Management Team (CMT) met immediately after the event to identify any remedial actions to be taken. The Director received their report very quickly and he was confident with the action being taken.
- 5.10 Although the automatic fire alarm system functioned continuously throughout the power outage, an issue was raised concerning the failure of the radio and control room tannoy system during the incident. There were also issues of generator power backup to systems within the control room and some electronic doors remained locked. A process will be put in place to improve: (a) manual fire evacuation systems and; (b) prioritise the order in which systems are reinstated. It was noted that the Head of Security was already reviewing NHM Crisis Management and Business Continuity arrangements before the incident occurred. The Chairman observed that there needed to be adequate communication with staff and visitors both inside and outside the Museum.
- AW
- 6 DIRECTOR OF FINANCES & CORPORATE SERVICES' FINANCIAL REVIEW (PAPER TAC 23 (a) & (b) /2011)**
- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6(a) (a) Financial Review for the period April 2010 – March 2011 (provisional year end outturn)**
- 6.2 General Fund - The provisional year end outturn for the General Fund after accommodating a within year grant in aid cut was £3.708m which was £1.309m in excess of the original budget.
- 6.3 Self Generated \ Trading Income – It had been a good year for scientific income. In addition, there was income which had not been budgeted for e.g. gift aid recovery on ticket sales for special exhibitions. The increased outturn on trading income was largely attributable to science income which was hard to predict and was significantly in excess of the original budget. This was assisted by a significant currency gain from the conversion of Euros held for the initial Synthsys project. Grant income held as Euros was not recognised until it was signed off by the European Commission. Therefore, any exchange loss would not have a negative impact on budgeting.

## **ACTION**

- 6.4 Expenditure - Significant savings had been achieved within year from the Science salary budget, aided by the recruitment freeze. There had also been savings on utilities costs following the retendering of the supply arrangements in 2009-2010. In addition, capital and projects had slipped particularly for collections storage.
- 6.5 Volatile Profit/Loss - Mark Richardson (co-opted member) observed that NHM management of the uneven movement of restricted funds from reserves to pay for capital projects resulted in the reporting of a volatile profit/loss in the published statutory accounts (SOFA and Statement of Funds) year on year. This may give stakeholders a misleading impression of the actual performance of the Museum. It was noted, however, that the reported 2010-2011 loss of circa £3m was after depreciation of circa £12m on circa £400m fixed assets. Depreciation was a notional non-cash expense with no effect on cash-flow and if the depreciation were excluded this would result in a profit of circa £9m.

### **6(b) Financial Review for the period April 2011 – May 2011**

- 6.6 General Fund - The forecasted year end outturn for the General Fund was £3.603m which was above the original budget of £2.427m by £1.176m. The intention was to use the additional surplus to mitigate the impact of Phase 2 of the Expenditure Review.

## **7 THE ANNUAL ACCOUNTS 2010-2011 - MANAGEMENT LETTERS, ISA 260 AND THE STATEMENT ON INTERNAL CONTROL (PAPER TAC 24/2011)**

- 7.1 The Chairman congratulated the Director of Finance & Corporate Services on the completion of the accounts with reduced resources within the tight time scale. The external auditors expressed the view that the audit of the Museum Accounts and the Trading Company had gone very smoothly.

### **7(a) The Natural History Museum Annual Report and Accounts**

- 7.2 There had been an informal review of the accounts by the Chairman of the Audit & Risk Committee and Mark Richardson (co-opted member) on 23<sup>rd</sup> June.

### **7(b) NAO Audit Completion Report and ISA 260 Communication of Audit Matters to those charged with Governance**

- 7.3 The PKF Partner presented the NAO Report
- 7.4 Overall Conclusion – The Comptroller and Auditor General was expected to certify the accounts with an unqualified audit opinion and without modification.
- 7.5 FRS 30: Heritage Assets - Management and the Audit & Risk Committee had asserted that relevant information on either the historic cost or valuation of heritage assets acquired before 2001 was not available and could not be obtained at a cost commensurate to the benefits. The NAO had accepted this judgement and had sought a further representation from the Accounting Officer within the Letter of Representation. Subject to the incorporation of two recommendations the NAO were satisfied that the FRS 30 disclosure requirements had been met.

## **ACTION**

- MD/NG
- 7.6 Combined Heat and Power (“CHP”) Scheme – The NAO concurred with the “off balance sheet” treatment. This will, however, need to be revisited if the Museum moves to follow International Financial Reporting Standards. It was noted the NAO required confirmation that the Department of Media Culture and Sport (DCMS) approval had been sought and obtained for the CHP contract. The Director of Finance & Corporate Services confirmed that DCMS had been informed. He believed, however, that the CHP scheme was below the Museum’s delegated authority and, therefore, approval was not required. DCMS were assisting the NHM with an alteration to the provisions of the British Museum Act which will allow the NHM to grant leases under the CHP scheme.
- 7.7 Shared Services Agreements - Formal agreements were not in place for the provision of: (a) a high voltage ring main line to the Victoria & Albert Museum (V&A) and the NMSI, and (b) telephony services to NMSI. It was noted, however, that the Museum was managing a sinking fund for the services. The nature of the shared service was that they should all share the benefits and liabilities individually. The Chairman observed that the agreement need not necessarily be a lawyer’s contract which can require expensive negotiations. The Director and Director of Finance & Corporate Services said they would pursue the need for an agreement with the two museums.
- 7(c) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter**
- (a) Trading Company Accounts*
- 7.8 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*
- 7.9 The Kingston Smith Partner presented the Management Letter.
- 7.10 Stock Insurance - There were only two major matters arising and the most significant related to stock insurance. Stock insurance was only for £436k, however, at the year end the total stock was valued at £625k. It was noted that this will be corrected at the end of July when the insurance was renewed.
- 7(d) Special Funds, Benevolent Fund and Cockayne Fund**
- 7.11 The external audit of the accounts was complete and the Cockayne Fund had been approved by a meeting of the Cockayne Trustees.
- 7(e) Audit & Risk Committee Approval**
- 7.12 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 5<sup>th</sup> July 2011.
- 7.13 A set of draft Accounts had gone to the Department of Culture Media and Sport (DCMS) and initial comments had been received. The final proof read was taking place and the accounts would be sent for ministerial approval later that day. The intention was that the Museum Accounts would be approved and signed at the meeting of the Board of Trustees on 5<sup>th</sup> July and a signed copy sent to the Comptroller and Auditor General (C&AG) for signature shortly afterwards.

## **ACTION**

- NG 7.14 Management Letters - It was noted that there will be a formal response to the points raised in the management letters by the Director of Finance & Corporate Services at the November meeting.
- 7.15 Accounts Production - A qualified person had been appointed to assist with the production of the 2010-2011 statutory accounts. In addition, as doubts had been expressed last year by the Audit & Risk Committee on the whether it was sensible to rely on a temporary solution the appointment was full time for two years. However, due to unfortunate circumstances the person appointed was unavailable to assist with the production of the accounts at the key time and had subsequently resigned. To increase the resources for the production of the accounts going forward the Director had agreed to a restructure of the Finance Department and the appointment of a new Head of Finance.
- 8 HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 25/2011)**
- 8.1 The Head of Risk & Assurance presented her paper.
- 8.2 It was noted that following the committees' agreement that it would consider one full audit report per meeting a report on Collections Security was provided at item 9. The Chairman observed that he was interested to see the report on the performance indicators set out in the Trustees' Annual Report to the Accounts.
- 9. DIRECTOR OF SCIENCE ON THE CORPORATE RISK "THE PROTECTION OF OUR COLLECTIONS FROM PESTS, THEFT AND ENVIRONMENTAL CONDITION VARIATION IS NOT MAINTAINED ADEQUATELY" (PAPER TAC 26/2011)**
- 9.1 The Director of Science made his presentation on the management of the risk and members considered the audit report on Collections Security.
- 9.2 Theft – Following the theft of bird skins from Tring: (a) a number of actions were taken immediately and; (b) collection leaders were also in the later stages of a larger programme of education and extending best practice across the departments. It was noted, however, that it would not be possible to get absolute consistency of access and security arrangements because of the variation both between and within departments e.g. Mineralogy gem stones and rocks. The philosophy of approach, however, was consistent. The Director of Science did not believe that thefts directly from the collections by visitors were a major problem. Collection leaders were not complacent, however, and were working to minimise the chances of it happening. It was noted that ideally every visitor should be supervised permanently but this was not practical. Collections staff took the theft risk very seriously and did not consider the recommendations in the Collections Security Report to be excessively bureaucratic.
- 9.3 Collections Audits - At the time of the review by the Head of Risk & Assurance only two Science Departments carried out audits of the specimens/material in their collections. Collections Leaders were, however, developing a sampling programme across all departments which will be linked to the economic, historic and scientific value of specimens. The Head of Risk & Assurance agreed to monitor the auditing process once an auditing programme was in place and operational.
- JD 9.4 Rhinoceros Horn Thefts - A group of thieves had been targeting museums across Europe at night and stealing displayed rhinoceros horn. The head of a rhinoceros was taken from the Haslemere Museum in Surrey. As a result all the rhinoceros horn in the Museum galleries had been taken off display and replaced with fake horn. Notices to this effect had put up in the galleries.

## **ACTION**

- 9.5 The South London Storage Facility - The review of collections security included the South London Storage Facility. Currently the Director of Science was happy that the management of the facility by the outsourced contractors. The Head of Security was advising management on security enhancements for the facility and these were on the Estates Department plan.
- AW 9.6 Photographic Passes – The museum did not issue photographic passes to visitors. One reason being the practicality when issuing electronic passes to visitors. It was noted, however, that the Collections Security report had recommended that all scientific researchers/visitors to the collections should be required to provide photographic proof of identification together with proof of address. The Head of Security will be looking at enhancements to the visitor pass system.
- 9.7 Pests - The Museum operated a strict integrated pest management system to minimise the risk of an infestation. Pests outbreaks were, however, on the increase in all museums and galleries. Last year, for example, there was an outbreak of the common cloths moth. In addition, the NHM was seeing more pests in the Darwin Centre. Staff were examining the geographical evidence to assess where the pests were coming from e.g. the garden doors which were not protected by an air curtain. It was noted the Collections Standard Improvement Programme (CSIP) was up and running and as part of this a centralised quarantine facility was being developed. In addition, new deep freezers for the treatment of specimens had been purchased.
- MD/DO 9.8 Members thanked the Interim Director of Science for his informative presentation and the Head of Risk & Assurance for her detailed report on Collections Security. The Chairman of the Board asked that the report by the Head of Risk & Assurance on collections security be brought to the attention of the Board of Trustees on 5<sup>th</sup> July 2011.
- JD/AW 9.9 It was agreed that the Head of Security would give an update on the actions he had taken to implement the recommendations in the Collections Security report at the November meeting.
- 10. TRUSTEES AND EXECUTIVE BOARD EXPENSES, GIFTS AND HOSPITALITY (PAPER TAC 27/2011)**
- 10.1 The committee reviewed gifts and hospitality received and expenses claimed by senior management and trustees. Under the Publication Scheme the Museum was committed to making these available on the Museum's website. It was noted that a number of organisations including DCMS which sponsors the Museum had very transparent and detailed information on their websites.
- NG 10.2 It was agreed that the Director of Finance & Corporate Services would review the information to ensure it was presented in the best format.
- 11. ANY OTHER BUSINESS**
- 11.1 Benevolent Funds - Since the Charities Act 2006 all trusts must prove they are for the public benefit if they are to have charitable status. The Attorney General had asked the charity tribunal, therefore, to hold a hearing to determine whether benevolent funds satisfy public benefit requirements. The hearing will take place in November 2011. Clarification was only sought with regard to those whose beneficiaries were defined narrowly e.g. by having been employed by an individual company or by membership of an organisation. Six charities, including the Professional Footballers' Association Benevolent Fund and the Chartered Accountants Benevolent Fund will give evidence at the hearing.

***ACTION***

**12. DATE OF THE NEXT MEETING**

- 12.1 The next meeting will be held at 10.00 a.m. on Thursday 17<sup>th</sup> November 2011 5<sup>th</sup> Floor North East Building, Meeting Room NE507

**KEY TO ACTION INITIALS**

David Omand - DO

Andrew Wilkinson - AW

Michael Dixon - MD

Neil Greenwood - NG

Jan Day - JD