



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

**51<sup>st</sup> Meeting on Thursday 10<sup>th</sup> February 2011**

**Present**

Sir David Omand in the Chair  
Dr Derek Langslow  
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 (Acting Head of Risk & Assurance/Committee Secretary)  
David Kennedy (Audit Manager, National Audit Office)  
Liz Fox (Audit Manager, National Audit Office)  
Nick Buxton (Partner, PKF)  
Martin Burchmore (Partner, Kingston Smith)

Richard Lane (Director of Science) was in attendance for item 14.

***ACTION***

The Chairman welcomed Liz Fox (Audit Manager, National Audit Office) to her first meeting.

**1 APOLOGIES FOR ABSENCE**

1.1 Professor Sir Roy Anderson (recently appointed as a member of the Audit & Risk Committee) and Keith Lloyd (Director, National Audit Office) sent their apologies.

**2 DECLARATIONS OF INTEREST**

2.1 There were no declarations of interest.

## **ACTION**

### **3 MINUTES OF THE MEETING HELD ON THURSDAY 4<sup>TH</sup> NOVEMBER 2010 (PAPER TAC1/2011)**

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

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

4.1 Underspend on capital grant - para 8.1 - there had been a underspend of £106k in 2009/2010 relating to a grant from the government's Invest to Save budget. The Director of Finance & Corporate Services had submitted a formal request for end of year flexibility to DCMS and followed it up. However, the Museum had not yet received formal agreement from DCMS to carry forward the underspend. There was, therefore, a risk the partners in the consortium with the Museum may be asked to repay the grant. If this happened all the partners had agreed to underwrite the £106k.

### **5. AUDIT & RISK COMMITTEE TERMS OF REFERENCE AND ANNUAL CYCLE OF INFORMATION (PAPER TAC 2/2011)**

5.1 The Acting Head of Risk & Assurance presented her paper.

5.2 It was noted that it was good practice for the Committee to review the Audit & Risk Committee Terms of Reference annually. The Annual Cycle of Information had been updated to reflect the information currently presented to the Committee. The Terms of Reference and the Annual Cycle of Information were endorsed by the Committee subject to: (a) a statement in the Terms of Reference relating to the Committees responsibilities in relation to information risk; and (b) one other minor amendment.

5.3 It was noted that risks from cyber space (including the internet, wider telecommunications networks and computer systems) were now judged to be one of the highest priorities for UK national security. Information risk was linked to the Cyber security strategy which was to be published in the Spring 2011.

### **6 DIRECTOR'S REPORT (PAPER TAC3/2011)**

6.1 The Director presented his paper

6.2 Attendance figures – predicting future visitor attendance which impacted on: (a) commercial performance; and (b) the second phase of the Museum's expenditure review, was difficult due to the volatility of attendance figures. December 2010 attendance had fallen back compared to the prior year, however, January's attendance exceeded last year's record. It was noted that the Museum's processes for predicting visitor attendance were as sophisticated as anything the Director had seen in the museum's and galleries sector.

6.3 Expenditure review programme - work on the 2011/2012 budget and subsequent years indicated a likely income and expenditure gap of c.£2m from 2012/2013 and beyond, The Museum will be presenting an update on the programme to Trustees at the Board Meeting on 22<sup>nd</sup> February 2011. A greater net contribution from commercial activities could reduce the c.£2m deficit, however, the Museum needed to be confident that any projected upside was realisable.

6.4 Fundraising – the Museum was continuing to be successful in fundraising and had recently received two substantial pledges towards the Central Hall refurbishment project. The Museum had been cultivating existing relationships from the Darwin Centre, new potential donors and was reaching the point where significant 'asks' were being made.

JD

## **ACTION**

- 6.5 Relations with the new Government – the key discussions with DCMS firstly related to incentives to cultural organisations to develop philanthropy as a larger source of income, There was a promise of DCMS match funding schemes to support specific parts of the cultural sector.
- 6.6 Secondly discussions were taking place on the agreement with the Treasury as part of the spending review to allow DCMS NDPBs access to £143m of historic reserves. The proposal was to set up Development Trusts which sit alongside the relevant statutory body. This solution was being pushed very hard by DCMS ministers with a planned completion date of 31<sup>st</sup> March 2011. NHM success from fund raising, however, suggested that the timing maybe right for the Museum to establish a Development Trust to help the fundraising effort. The Director said he would present a paper on the pros and cons to the Trustees' Board Meeting on 22<sup>nd</sup> February 2011. DCMS NDPBs were engaging with museums that already had Development Trusts in order to maximise the utility of the scheme.
- 6.7 It was noted that in order for the Development Trust not to be consolidated into the Museum's Statutory Accounts the trust must be seen to be independent and not controlled by the NHM. This raised the concern that the Museum may loose control over its self generated reserves which were not restricted in use.
- 6.8 Theft of Bird Skins from Tring – details of the case were now in the public domain and the defendant Edwin Rist was returning to St Albans Crown Court on 11<sup>th</sup> February 2011. It was noted that a detailed review of collections security was under way by the Head of Security. In addition, the Acting Head of Risk & Assurance was completing a review of collections security. The out come of discussions on collections security will impact on the procedures for dealing with scientific visitors.

## **7 DIRECTOR OF FINANCE AND CORPORATE SERVICES REPORT ON THE CURRENT FINANCIAL POSITION (PAPER TAC 4 /2011)**

- 7.1 The Director of Finance & Corporate Services presented his paper which reflected the first nine months of the financial year.
- 7.2 General Fund - The forecasted year end outturn for the General Fund was c£3.3m which was above the original forecast for the 2011/2012 budget by c£300k.
- 7.3 Self generated \ trading income – the full year forecast had been decreased by £300k, predominantly reflecting a decrease in Scientific Income. The key risks areas were the net profit for Exhibitions consultancy, Licensing and Science income which was difficult to forecast with accuracy given the timing of receipts and expenditure – please also see section 14.
- 7.4 Licensing - it was noted that the NHM had some success in licensing branded products such as pyjamas. The Museum recently had a visit by an external commercial 'visiting group'. A report on their recommendations and advice was going to the Board of Trustees on 22<sup>nd</sup> February 2011. The group was of the view the Museum had a strong brand, however, the approach to licensing had not been sufficiently structured. The group recommended that: (a) the Museum should work to establish a small number of large contracts with a few licensees; (b) focus on the UK market rather than the overseas market; and (c) should consider employing the services of consultants in the field.
- 7.5 Expenditure – the savings predominantly reflected salary savings during the year which had been further increased by the recruitment freeze; and (b) the Museum had also recognised external fund raising pledges received for capital projects which were in excess of what had been budgeted for. The Director of Finance & Corporate Services was also anticipating some slippage on capital expenditure as the NHM moved towards the year-end.

## **ACTION**

### **8. EXTERNAL AUDIT MATTERS 2010/2011 (Paper TAC 5 (a) & (b)/2011)**

#### **(a) Kingston Smith Audit Strategy**

- 8.1 The Kingston Smith Partner presented his paper.
- 8.2 Audit fees - the Committee reviewed the strategy and approved the small audit fee increase from 2010. The increase predominately related to the extra work required on the Special Funds, Benevolent Fund and Cockayne Fund as a result of International Accounting Standards (ISAs) for charities. It was noted that any other work outside the scope of the audits would be billed separately after discussion with the Director of Finance & Corporate Services. The additional work related to electronic tagging to enable the Trading Company to file its accounts on line with the HM Revenue and Customs.
- 8.3 Accounting Timetable – the Director of Finance & Corporate Services was confident the he would meet the timetable despite the fact that three members of his Management Accounts Team had recently resigned. Two of these posts were currently being covered and one was vacant. Only one of the posts had left a significant knowledge gap. As last year a qualified person with suitable public sector and charity experience had been found to assist with the production of the statutory accounts. The person appointed will be commencing work in a few weeks time. It was noted that as doubts had been expressed last year by the Audit & Risk Committee on the whether it was sensible to rely every year on a temporary solution the new appointment was full time for two years.
- 8.4 Members expressed concern, however, that if the Director of Finance & Corporate Services was away for a significant period when the Statutory Accounts were being prepared there would be a significant disruption to their production. The Committee requested that the Director of Finance & Corporate Services put a succession plan in place so that in his absence one of his staff had the detailed knowledge necessary to produce the accounts efficiently.

NG

#### **(b) Financial Reporting Standard (FRS) 30 - Heritage Assets**

- 8.5 The Director of Finance & Corporate Services presented his paper
- 8.6 FRS 30 applied to all heritage assets that were held and maintained principally for their contribution to knowledge and culture. The aim of the Standard was to ensure that the financial statements provided useful and relevant information about an entity's holding of heritage assets. It was observed that the Accounting Standards Board did not consider that the accounting requirement was affected by the fact that an entity may not be able to dispose of or trade in its heritage assets.
- 8.7 So far none of the other museums and galleries visited by the external auditors had decided to capitalise all their heritage assets. The external auditors were required to review the rationale for a decision not to capitalise heritage assets. They observed that the Director of Finances & Corporate Services' paper did demonstrate that to capitalise all the collections was unrealistic and unaffordable. However, the FRS also encouraged partial capitalisation and this issue was not addressed in his paper. An example of partial capitalisation was set out in the Appendix 11 of FRS 30. The Museum's rational not to capitalise needed to be set out in the context of each of the science collections.

## **ACTION**

- 8.8 Members approved the following accounting policy:
- (a) Collection items (heritage assets) held prior to April 2001 would not be included in the Museum's balance sheet as to provide a robust figure was both unmanageable and unaffordable, and the cost of providing such a figure was disproportionately large compared to the benefits to users of the accounts.
  - (b) The Museum would continue to capitalise and hold in the balance sheet those collection items purchased since 2001, future purchases and future donated items.
  - (c) The Museum will comply fully with other disclosure requirements of the Standard including setting out reasons for non capitalisation, details of collections held, and policies relating to acquisition, preservation, management and disposal.

- NG/RL 8.9 It was agreed that:
- (a) a note to the accounts which explained the reason why heritage assets (including partial capitalisation) were not reported in the balance sheet and the significance and nature of those assets would be brought to the May meeting; together with
  - (b) details of the location records maintained for the 74 million specimens and what processes were in place to verify their existence.

## **9 TRUSTEES' CONFLICT OF INTEREST POLICY (Paper 6/2011)**

- 9.1 The Director of Finance & Corporate Services presented the policy.

- NG 9.2 A recommendation arising from the Risk & Assurance Review of "Related Party Transactions" was the development of a Conflicts of Interest Policy for Trustees. Members considered the policy and subject to one amendment approved the policy.

- 9.3 It was noted that the Executive Board and Museum staff who had the capacity to influence financial transactions were annually required to complete a register of interests. In addition, the Financial Regulations and Procurement Guidance gave guidance to staff on conflicts of Interest, gifts, hospitality and inducements. These internal processes were reviewed during the audit of "Related Party Transactions" in May 2009.

- MD 9.4 It was agreed that a paper on the Museum's internal processes for dealing with staff conflicts of interest would be taken to the main Board of Trustees.

## **10. ACTING HEAD OF RISK & ASSURANCE PROGRESS REPORT (Paper TAC 7/ 2011)**

- 10.1 The Acting Head of Risk & Assurance took members through her report.

- 10.2 Key Financial Controls - the review of key financial controls had been completed and the draft report had been issued to the Director of Finance & Corporate Services. A separate work programme had been prepared and issued to the external auditors that, amongst other things, included the Risk & Assurance testing plan and a list of documents tested.

- 10.3 Disciplinary Investigation - the Acting Head of Risk & Assurance had been asked to carry out a preliminary disciplinary investigation into three members of staff. HR staff considered that due to the nature of the investigation the Acting Head of Risk & Assurance was best placed to carry out the review. It was noted that the Risk & Assurance Annual Plan was a dynamic document. The Director and the Acting Head of Risk & Assurance met monthly to discuss progress against the plan. The Director approved changes to the plan and the timing of reviews to reflect changing priorities and staff resources.

## **ACTION**

- 10.4 External audits of EU grants – external audits of EU grants were often slow and time consuming due to errors and missing financial information. It was currently Museum policy that they should be carried out by Risk & Assurance in order to maximise the financial contribution from grants to the Museum.
- 10.5 Review of Integrated Pest Management - members considered the full audit report on the review of pest management. The Chairman said that he found the information it contained on pest management processes fascinating. There were two category 2 recommendations in the report which related to: (a) the process of contracting out services; and (b) the management of contractors on site. Both of these issues had a wider application than just pest management. The Director personally followed up the progress on category 2 recommendations.

### **11. RISK & ASSURANCE DRAFT PROPOSED PLAN 2011/2012 (Paper TAC 8/ 2011)**

- 11.1 The Acting Head of Risk & Assurance presented her proposed plan.
- 11.2 As requested by members last year the plan set out the estimated number of person days by each of the main categories e.g. major risks. This year it also included an estimate for other audit related activities and non audit work. Members were satisfied that there was adequate coverage of major and significant risks. The plan was based on the current level of available staff resources.
- JD 11.3 Members agreed the draft plan in principle, with the caveat that the Committee would reconsider the draft plan at the May meeting in the light of the definitive, ranked list of 2011/2012 major corporate risks to be presented at that meeting.

### **12. MAJOR CORPORATE RISKS 2011/2012 (Paper TAC 9/ 2011)**

- 12.1 The Director presented his paper.
- 12.2 At about this time of year senior managers started to consider the major corporate risks for the succeeding fiscal year. The Director was very keen for the Audit & Risk Committee to feed into their thinking very early on.
- 12.3 In discussion the Audit & Risk Committee considered the changes in the internal and external environment which may impact on the risk profile to the NHM and its ongoing mission and objectives as set out in the Corporate Plan. This was done using the framework of a PESTLE analysis.
- 12.4 It was agreed that:

- MD/JD (a) there would be a brief discussion at each meeting on the corporate risks identified for 2011/2012. The purpose of which was to ensure there was a consistent and proportionate response to each of the risks; and
- MD/JD (b) a copy of the latest Corporate Plan will be made available to the co-opted member once approved by the Board of Trustees on 22<sup>nd</sup> February 2011.

## **ACTION**

### **13. REVISED STANDARD RISK MANAGEMENT TEMPLATE AND GUIDE TO EFFECTIVE RISK MANAGEMENT 2011 (Paper TAC 10/2011)**

- 13.1 The Director presented the paper.
- 13.2 The Museum was introducing a revised standard risk management template and guide to effective risk management. The template was updated taking into account discussions at the Audit & Risk Committee. Rather than impose the new template immediately across the entire NHM, it seemed more prudent to brief managers as part of the Spring NHM annual policy update for managers. The Director proposed that the new template was used for the 2011/2012 major corporate risks and then incorporated fully into Departmental planning for 2012/2013, given that much of the work for 2011/2012 was already nearing completion.

JD/MD

- 13.3 It was agreed that the guidance would be expanded to explain that for some risks it was helpful to consider how mitigating actions might affect the likelihood of the of the relevant circumstances arising, the vulnerability of the NHM to the risk, and the impact in terms of initial damage or loss and subsequent disruption should the risk actually occur. Even where the events giving rise to the risk were outside the control of the NHM, it might be possible to invest to reduce the institutions vulnerability to them, as well as being well prepared to minimise their impact.
- 13.4 Subject to the above amendment to the guidance the Committee endorsed the revised standard risk management template & guidance.

### **14 PRESENTATION BY RICHARD LANE (DIRECTOR OF SCIENCE) ON THE CORPORATE RISK “EXTERNAL FUNDING OF SCIENCE IS HARDER TO WIN AND REDUCES OUR SCIENTIFIC RESEARCH ACTIVITY.”(Paper TAC 11/2011)**

- 14.1 The Director of Science made his presentation on the management of the risk.
- 14.2 Science Group pursued external funding: (a) to do work that was mission-driven; and (b) to generate surplus funds that contributed to the Museums core funding for science. Over the past four years the Museum had been successful in increasing external funding. One of the main sources of funding, however, was from the UK Research Councils who received a “flat cash” settlement from the government. As a result of this and the effects of inflation there was a risk there may be a reduction in the number of Research Councils grants awarded to NHM researchers. The Museum was not, however, seeing a downturn in its success in winning other external funding. Science income was down in the third quarter, however, as noted above it was difficult to forecast due to the uneven timing of receipts and expenditure.
- 14.3 To manage this risk Science staff: (a) attended briefing days for Research Councils and EU funding to gain intelligence and influence the direction of consultations; and (b) looked for new funding opportunities. The NHM subscribed to external grant information services and had recently set up subject-specific accounts for staff to locate funding themselves.
- 14.4 The Museum strived to ensure that its science was relevant to the UK government and EU agenda. As part of this the Director and Director of Science met regularly with government scientific advisors to discuss how the Museums mission formed part of the national science base. The Museum looked to recruit researchers with a funding track record and to fill gaps in the NHM research base e.g. Agricultural Entomology. In addition, research scientists now write a five year research plan which was subjected to international peer review.

## **ACTION**

- 14.5 The Director of Science met regularly with the Keepers to discuss how the grant successes of researchers could be improved. It was noted that although there was a strong emphasis on researchers obtaining external funding it must be accepted that some important mission-driven work will not attract external funding. There were, however, very few areas of where this applied.
- 14.6 The UK was very competitive when it came to winning EU grants. However, it was becoming increasingly necessary for the Museum to work with other EU partners, particularly from the new member states in order to be successful with grant applications.
- 14.7 The Museum provided support courses for staff in grant writing and preparation. In addition, financial budgets were checked by the Research and Consulting Office (RCO) to achieve maximum cost recovery and to ensure they were realistic. It was noted that some organisations employed consultants/staff to ghost write grant applications but it was not clear if this resulted in a higher success rate.
- 14.8 One area for possible improvement was the Museum no longer had a dedicated member of RCO staff looking at commercial consultancy work and this was something the Science Director may consider for the future.
- 14.9 Members thanked the Director of Science for his informative presentation.

## **15 ANY OTHER BUSINESS**

- 15.1 The Chairman, Director and committee members thanked David Kennedy who was retiring from the NAO for his work and contribution to the Audit & Risk Committee.

## **16. DATE OF THE NEXT MEETING**

- 16.1 The next meeting will be held at 10.00 a.m. on Thursday 5<sup>th</sup> May 2011

### **KEY TO ACTION INITIALS**

Michael Dixon - MD

Neil Greenwood - NG

Jan Day - JD