

Trustees' Audit and Risk Committee

73rd Meeting - 30 June 2016

Present

Hilary Newiss in the Chair
Professor Christopher Gilligan
Colin Hudson (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)
Paul Keane (Director, National Audit Office)
Matthew Atkinson (Audit Manager, National Audit Office)
Nick Buxton (Partner, BDO)
Anjali Kothari (Partner, Kingston Smith)

ACTION

- 1 APOLOGIES FOR ABSENCE**
 - 1.1 Apologies were received from Robert Noel.
- 2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 28/2016)**
 - 2.1 These were noted by the Secretary to the Audit & Risk Committee.
- 3 MINUTES OF THE MEETING HELD ON WEDNESDAY 5 MAY 2016 (PAPER TAC 29/2016)**
 - 3.1 Subject to two amendments the minutes were accepted as a true record of the meeting.
- 4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 30/2016)**
 - 4.1 Matters arising in 2016 were discussed and closed items agreed.
 - 4.2 Pensions - The 5 July 2016 Board of Trustees meeting will receive a short update on pension provision.
- 5 DIRECTOR'S REPORT (PAPER TAC 31/2012)**

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- 5.1 The Director presented his paper
- 5.2 EU Referendum – The outcome of the referendum will have a significant impact on the Museum and the Executive Board (EB) had met to discuss. A presentation to the 5 July 2016 Board of Trustees will outline areas where the Museum could potentially be affected by the short term political and economic uncertainty. There will also be a discussion on the impact of Brexit at the trustees' Strategy Day. NHM was gathering data on the number of staff who: (a) are EU citizens; and (b) have EU Citizens as partners. The Director of Finance Corporate Services was also collecting data for the Department for Culture, Media & Sport (DCMS) on the sources of EU funding received by the Museum.
- 5.3 EU-Funded Project Grants and Contracts - Directors did not believe there will be changes to EU-funded project grants/contracts until the Government and EU reach agreement after Article 50 had been triggered. Article 50 gave negotiators two years to conclude new arrangements. It was noted income on EU-funded projects and the Bill and Melinda Gates Foundation grant must be declared and used for the relevant project e.g. currency conversion gains. The Universities & Science Minister had sought to give reassurance to the sector on EU research funding when he spoke recently.
- 5.4 If individual research grants/contracts exceed the two year negotiation period and funding stops there may be a liability to staff directly employed on grants/contracts. It was noted the NHM also had two years of EU funding for the European Researchers' Night.
- 5.5 Grant in Aid - The Museum's funding letter from the DCMS did not guarantee the annual resource allocations for grant in aid. If there were a general election a new government might decide to cut funding and introduce admission charges.
- 5.6 Museum Attendance - Attendance at South Kensington remained a concern and was a significant control issue. It was noted that the % of visitors who thought the museum was excellent / good had been around 94-97% over the last 5 years.
- 5.7 Commercial Income and Contribution to Overheads - The significant decline in attendance affected visitor related income generation. It was important for the Board of Trustees to understand if the downward trend in attendance was linear or if there was a continuing gradual decline. It was observed that: (a) Brexit may reduce visitor attendance, however, the fall in sterling maybe

MD/JM

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beneficial; and (b) if visitors spend more time in the Museum due to less crowding this may increase visitor-related income. The decline in performance due to the fall in visitors was not similar by business, for example, catering was performing well.

- MD/JM
- 5.8 **Location Fees** - There was an association of unique film locations and the Museum's film location hire fees were in the middle range. Although there was no reason to believe Public Engagement Group were not hard negotiators, location fees should be considered by the Commercial Advisory Board.
- 5.9 **Museum Change Programme** - The Museum was undergoing an organisational change programme. The approach in Science was to offer a voluntary exit scheme in order to create capacity to recruit staff with new skills. Public Engagement was undergoing a traditional restructuring programme with some redundancy. Corporate Services changes will ensure central services are fit for business as usual. There had been investment in Development Group and they were taking over Communications, recognising the strategic dependency of this area.
- 5.10 **Outsourcing Services** - The Museum had outsourced Housekeeping, Security and Facilities Management and was discussing strategic alliances with other organisations. As part of the Government Culture White Paper March 2016 on the strategy for cultural sectors, DCMS was reviewing outsourcing/shared services. The NHM had investigated the benefits of setting up a company with other London Museums to manage back office operations. The payback period, however, was 7 years. It was noted NAO reviews of back-office outsourcing projects for: (a) the research councils had not been good value for money; and (b) the recent Cabinet Office programme for departments and agencies had only delivered £90m in efficiencies in the first 2.5 years at a cost of £94m.
- 5.11 **Board Assessment Review** - The Board Assessment Review included a few procedural recommendations for the Audit & Risk Committee.
- 5.12 **Updates for Trustees on Long-Term Projects/Work Programmes** – The Board of Trustees will receive a series of updates. It was noted offsite Collection Storage developments will be impacted by: (a) the change in London Mayor; and (b) Brexit due to uncertainty in property prices.
- 5.13 **Annual Trustees' Dinner and Other Events** - The revamped Trustees Dinner had made a positive contribution in raising the Museum's profile and a number of donations were received following the event.

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- MD/JD
- 5.14 Major Corporate Risks - The update on Major Corporate Risks was presented in a new format. Members and the Chair of the Board felt strongly that leaving the EU was a Major Corporate Risk and should be reported to the Audit & Risk Committee in the same format as other Corporate Risks. Work streams must be identified for each of the component risks.
- 6. ANNUAL ACCOUNTS 2015/16 AND AUDIT COMPLETION REPORTS (PAPER TAC 32/2016)**
- 6(a) The Natural History Museum Annual Report and Accounts**
- 6.1 Update - There were no adjustments to the figures submitted to the informal review of the accounts by the Chair of the Audit & Risk Committee, the co-opted member and the Chair of the Board on 22 June 2016. There were, however, changes to the Annual Report narrative including changes recommended by the co-opted member to the financial narrative. The Museum had received DCMS Ministerial approval for the accounts on 29 June 2016.
- 6.2 EU Referendum - The Museum was required to add a post balance sheet event "the results of the referendum held on 23 June was in favour of the UK leaving the European Union this is a non-adjusting event and a reasonable estimate of the financial effect of this event cannot be made".
- NG
- 6.3 Annual Report - The Committee reviewed the Annual Report and raised questions. Members also made recommendations to improve the presentation of the objectives and activities text. It was agreed any substantive changes since Ministerial approval need to be brought to the attention of the DCMS Minister.
- 6.4 Stewardship - The NHM Annual Report & Accounts were historically seen as stewardship documents accounting for the use of public money. The Director of Development, however, wanted to explore how these documents could support fund-raising. The Charities Statement of Recommended Practice (SORP) categorisation of expenditure was not always helpful in advocacy. In addition, there were rules about the presentation of Government White Paper accounts. It was noted the narrative in the NHM Annual Report was shorter than in other similar organisations. The new Head of Strategic Communications who starts in September will advise on using the Annual Report & Accounts for advocacy and fund-raising.

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- MD/NG
- 6.5 Annual Review - The Annual Review was an outward facing advocacy document which was: (a) not required to conform to Government White Paper presentation; and (b) financial data did not need to be audited. It was observed that it was important that financial data in the Annual Review was sufficient for the needs of donors and sponsors. Large funding organisations tended to examine the Annual Report & Accounts and, were familiar with White Paper Accounts and the SORP. Philanthropic donors tended to look at the Annual Review. A discussion will take place on the timing of publication for the Annual Report & Accounts and the Annual Review.
- 6(b) NAO Audit Completion Report (including Management Letter)**
- 6.6 The PKF Partner presented the NAO Report
- 6.7 Overall Conclusion – The Comptroller and Auditor General was expected to certify the accounts with an unqualified audit opinion and without modification.
- 6.5 List of Identified Unadjusted Misstatements - It was noted that sample testing of Trade Creditors found an actual error of £25k. The extrapolated error over the whole population was an estimated i.e. not a real figure of £281k. The Audit & Risk Committee endorsed the reasons for not adjusting the unadjusted misstatements.
- 6.8 Proposed Letter of Representation - The Audit & Risk Committee reviewed and endorsed the letter of representation.
- 6.9 Management Letter - There were no points arising from the audit.
- 6(c) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter**
- (a) Trading Company Accounts
- 6.10 The audit of the accounts was complete and members noted the accounts.
- (b) Kingston Smith Management Letter
- 6.11 The Kingston Smith Partner presented the Trading Company Management Letter.
- 6.12 Holiday Pay - The Trading Company had recognised holiday pay of £5,430 (not deemed material) arising from Museum staff recharge costs.

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- 6.13 Gift Aid – The total taxable operating profit of the Trading Company was gift aided to the Museum and no Corporation tax was payable. It was noted that the Charity Commission had issued guidance that a gift payment was a distribution for Company Law purposes and distributions in excess of distributable profits cannot be made.
- 6.14 Trading Company Secretary - There were no governance issue in relation to the Director of Finance & Corporate Services holding the office of both Trading Company Director and Trading Company Secretary.
- 6.15 Stock - There was a difference between the total stock figure per the accounting system and the EPOS stock system. The EPOS system did not produce a sufficient range of reports covering for example stock turnover, which varied by product line. Stock turnover was being introduced as a performance indicator which will be reported to Trustees. Stock holding had increased significantly and values at the yearend were £752k in 2015 and £1,074k in 2016. Stock holding was discussed at the Commercial Advisory Board and the new Head of Retail was reviewing stock holding.

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

- 6.14 Members considered the Special Funds and Benevolent Fund accounts and management letters. Members noted the accounts for the Cockayne Fund which was formally closed on 11 April. Any remaining balances were transferred to the Museum to be held as a restricted fund.

6(e) Audit & Risk Committee Recommendation

- 6.15 Members recommended that on 5 July 2016 the Board of Trustees approve:
- (a) the consolidated accounts for the Natural History Museum; and
 - (b) the Natural History Museum Special Funds Trust and the Benevolent Fund accounts.

7. DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL – MAY 2016 (PAPER TAC 33/2016)

- 7.1 The Director of Finance and Corporate Services presented his paper.
- 7.2 Total Recurrent\Operating Expenditure - It was noted Salary savings were substantial as the Museum had stopped filling vacant posts during the Museum restructure. Non Salary expenditure had been deferred.

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- 7.3 Capital \ Strategic Project Expenditure and Capital Income - The Director of Finance was confident the capital grant in aid allocation of £9.6m (£7.3m of which was notified in February 2016) will be fully utilised during the year. The Museum was required to report capital expenditure which utilised the £9.6m irrespective of the source of funding. It was noted: (a) capital grant in aid was drawn down in equal 12 monthly instalments; and (b) the Museum's capital expenditure will exceed £9.6m in 2016/17.
- 7.4 Net Self-Generated\Trading - There was no reason to doubt that Science Group will generate £1.6m net in Science Income.
- 8. HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 34/2016)**
- 8.1 The Head of Risk & Assurance presented her report.
- 8.2 External Quality Assessment (EQA) - Risk & Assurance - The last EQA of Risk & Assurance was over 10 years ago. It was agreed that the proposals from the Institute of Internal Auditors (IIA) and Independent Audit Limited (who do not offer consulting services) would be circulated to members. Similar organisations used the IIA although some used large accountancy firms. The IIA had undertaken a useful review for DCMS. The Museum was too large a charity to be offered consultancy pro bono, although it may be possible to negotiate a reduced fee. The selection decision should be based on price and quality. The Audit & Risk Committee Chair agreed to speak to the Chair of the British Museum's Audit Committee.
- Members 8.3 Delayed Responses and Agreed Actions - It was agreed that members will consider the progress on the recommendations contained in the status report in more depth at the next meeting. The recommendations which had not been implemented had generally been accepted and agreed by the responsible managers but no action had been taken.
- 9 AUDIT REPORTS - KEY FINANCIAL CONTROLS AND EXTERNAL AUDIT RECOMMENDATIONS FOLLOW UP (PAPER TAC 35/2016)**
- 9.1 The Committee reviewed the reports and noted the recommendations were generally low risk.
- 10. PRESENTATION BY THE DIRECTOR OF FINANCE & CORPORATE SERVICES ON THE MAJOR CORPORATE RISK "MANAGEMENT OF THE USE OF SPACE ON SITE IS SUB-OPTIMAL IMPEDING THE DELIVERY**

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OF SHORT-TERM OBJECTIVES”.

(PAPER TAC 36/2016)

- 10.1 The Director of Finance & Corporate Services made his presentation on the management of the risk.
- 10.2 Scope of the Risk - The Museum had invested in a Public Space Plan and a Collections Storage Programme. However, the demands on space for storage, work spaces and meeting rooms also needed investment. Two floors in the North East Building required investment to change them to open plan layout. It was noted that: (a) airflow issues can result in temperature variations across Museum open plan space; and (b) when hot desking was introduced in other organisations it was generally more successful with younger employees. The new Space Planner reported to the Head of Estates who reported to the Director of Finance & Corporate Services.
- 10.3 Public Space - A Head of Master Planning & Capital Projects reporting to the Director of Finance & Corporate Services had been recruited. The Head of Master Planning & Capital Projects will: (a) work on a Master Plan for public and office space; and (b) look at moves: (i) to restore gallery space closed to the public; and (ii) to reallocate collections storage to public space e.g. the General Herbarium.
- 10.4 Territorial Behaviour - Territorial behaviour over office space by staff and others such as Scientific Associates will be firmly managed. The Museum offered the status of Scientific Associate to individuals whose interest, activity and ongoing connection with the Museum as specialist visitors merited a formal affiliation.
- 10.5 Electronic Document Storage - The majority of Museum documents were held electronically apart from: (a) paper records of historical importance which were sent to the Archive; and (b) legal documents. The Information Manager was undertaking work to ensure the Museum understood what digital information it had and how it was used to identify its potential value.
- 10.6 The Chair and members thanked the Director of Finance & Corporate Services for the informative presentation.
- 11.0 **PRESENTATION BY THE DIRECTOR OF SCIENCE ON THE MAJOR CORPORATE RISK “SCIENCE GROUP ARE UNABLE TO COMMIT SUFFICIENT RESOURCE TO DELIVER AN EFFECTIVE PUBLIC PROGRAMME”.** (PAPER TAC 37/2016)

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- 11.1 The Director of Science made his presentations and members observed the action being taken to manage the risk was impressive.
- 11.2 Incentives - There were 3 key actions to incentivise researchers and collections staff to contribute to the public programme in addition to focusing on their careers: (a) expectation frameworks were used for performance management and during the periodic review process. The frameworks included 4 objectives one of which related to public engagement work; (b) the Science Mentorship scheme was used to encourage involvement in public engagement; and (c) individuals were nominated for a modest performance bonus based on the 4 objectives.
- 11.3 Long Term Planning - It was very important that: (a) there was long term planning for public engagement; and (b) both Public Engagement Group and Science Group agreed the priorities.

12 ANY OTHER BUSINESS

- 12.1 There was no other business

13 CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS

14. DATE OF THE NEXT MEETING

- 14.1 The next meeting will be held at 10.00 a.m. on Thursday 3rd November 2016.

Following the meeting members and those in attendance paid a visit to the Control Room with the Deputy Head of Security.

KEY TO ACTION INITIALS

Hilary Newiss (HN), Michael Dixon (MD), Justin Morris (JM), Neil Greenwood (NG), Jan Day (JD)