



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

78th Meeting on Thursday 9th November 2017

Present

Hilary Newiss in the Chair
Professor Christopher Gilligan
Robert Noel
Colin Hudson (co-opted member)

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Lea John (Senior Manager, Moore Stephens)
Matthew Atkinson (Audit Manager, National Audit Office)
Sarah Drysdale (Audit Principal, National Audit Office)

Ian Owens (Director of Science), Clare Valentine (Collections Leader, Life Sciences) and Matt Woodburn (Science Data Architect, Life Sciences) were in attendance for item 10.

ACTION

- 1 APOLOGIES FOR ABSENCE**
 - 1.1 Paul Keane (Director, DCMS Financial Audit NAO) sent his apologies.
- 2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 36/2017)**
 - 2.1 These were noted by the Secretary to the Audit & Risk Committee.
- 3 MINUTES OF THE MEETING HELD ON THURSDAY 29 JUNE 2017 (PAPER TAC 37/2017)**
 - 3.1 The minutes were accepted as a true record of the meeting.

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 38/2017)

4.1 Unspent Criminal Records Checks Museum Caterers - May 2017 para 8.5 - All managers and team leaders had received a Disclosure and Barring Service (DBS) check. As of 22 October 2017 48% of staff had applied for a DBS check. The Catering Contractor was committed to full compliance by the end of November. Any member of the team on site for a period of 4 weeks will apply for a DBS check. Staff without a DBS check were not left alone with cash. A Museum Catering Manager had been recruited to manage the catering Service Level Agreement (SLA) including criminal records checks. It was noted there was a considerable turnover of staff in catering. Members requested an update at the next meeting.

NG

5 DIRECTOR'S REPORT AND BOARD ASSURANCE FRAMEWORK (PAPER TAC 39/2017)

5.1 The Director presented his paper

5.2 Incident in Exhibition Road 7 October 2017 - It was a considerable time before the Police were able to confirm the incident was a traffic collision. The incident acted was an unplanned test of Museum Crisis Management (CM) procedures. During the incident the Museum Director was in phone communication with the CM team and monitored progress via the WhatsApp group. The Museum Director was pleased with staff performance and Museum procedures. A number of lessons were recorded and these will be taken forward with the Police and other parties. The CM Board did not declare the 7 October incident as a crisis because the Museum was functioning operationally. However, Museum guidance had now been updated to specify that similar outside events would in future trigger a crisis situation in the Museum with corresponding protocols.

5.3 Members agreed the Incident Manager on the day and his team were to be congratulated. Lessons learned were commended as being frank and constructive.

5.4 Exhibition Road Security - The Directors of the three South Kensington Museums had written to the Royal Borough of Kensington and Chelsea in June requesting joint stakeholder discussions on a permanent solution to Exhibition Road security. The Exhibitions Road Cultural Group were also taking Exhibition Road security forward. The Council, however, planned to meet local residents before advancing discussions with wider stakeholders. The NHM was in favour of some restriction of traffic flow on Exhibition Road to: (a) improve public safety; and (b) better deliver the original vision of the Exhibition Road project. The NHM was not in favour of the full pedestrianisation of Exhibition Road as it was: (a) not necessary for public safety; or (b) in the interests of organisations/residents for whom vehicle access was imperative.

5.5 Members recommended the Directors of the three South Kensington Museums escalate a short term solution to Exhibition Road security by meeting the Chief Executive of the Royal Borough. A scheme for a longer term solution including increased pedestrianisation should also be developed by the Museums/ Exhibition Road Cultural Group and submitted to the Royal Borough for consideration.

MD

5.6 Decision to Close the NHM - It was noted that unless instructed by outside authorities the decision to close the Museum was made by the Chair of the CM board, the Head of Security and the Incident Manager.

5.7 Exhibition Road was an area of ongoing interest to the Committee. A further update was to be provided at the November 2017 Board of Trustees meeting and the January 2018 Audit and Risk Committee.

MD

5.8 Review of the Provision of Legal Services - Members reviewed a draft job description for an in-house legal adviser and agreed to submit comments to the Museum.

ACTION

- 5.9 Museum Attendance - The reopening of the Hintze Hall may be masking a continued decline in attendance. The Museum Director will present a detailed paper at the Board of Trustees on 21 November 2017: (a) based where possible on verified data; and (b) giving the Museum's conclusion on the reasons for the downturn in attendance. The paper will analyse the growth in attendance between 2010 and 2014 when the Museum made no significant capital investment. The Museum Director noted it was inevitable but not desirable that holiday periods resulted in days of high visitor numbers over 20,000.
- 5.10 Commercial Performance Donations - Donations per head were regularly monitored and revenue was growing. The growth in revenue was a result of: (a) an increase in the number and type of donation boxes e.g. contactless payment card boxes; and (b) visitors being encouraged to donate by Museum staff. Spend per head at the Darwin Centre entrance was higher than Exhibition Road. Lower Exhibition Road revenue may be due to the congestion and noise at the entrance.
- 5.11 Cyber Security - The Committee reviewed the report on Cyber Security. However, members did not understand all the technical language in the report and requested an Executive Summary. In addition, members found it was difficult to identify the main issues of concern. To provide the Committee with the necessary assurance members requested a paper was brought to the January 2018 Audit and Risk committee on: (a) the Museum's cyber security risk register detailing the impacts of a major cyber security breach; and (b) the action taken to mitigate these risks. It was noted that approximately two years ago a consultant had been engaged to review the ICT crisis management process.
- 5.12 Fire Safety - There had been no major incidents of fire in the Museum. There had been a small number of minor fires in the kitchens and caused by building contractors. The Annual Health and Safety report which went to the Audit and Risk Committee in May included Fire Safety. The Committee were assured by the Fire Safety report presented by the Museum Director.
- 5.13 **Board Assurance Framework - Risk Universe Red Risks**
- 5.14 Responsible Executive Board Member/Senior Management Team - Members agreed the individuals named on the Board Assurance Framework were responsible for compiling the quarterly update templates. Executive Board "owned" the most significant risks to the Museum.
- 5.15 Brexit - Members agreed the risks for Brexit should be kept as one risk. This approach provided a framework to relate Brexit risks to other parties, for example, the Department for Digital, Culture, Media & Sport (DCMS).
- 5.16 Target Scores - The Executive Board and Senior Management Team (SMT) will discuss how to advance target scores for risks early in the new financial year. An option was to set a target score for each year end. A member observed, however, setting an ultimate target was preferable as an intermediate target can lead to a relaxation in effort. There was no single solution and the Museum should avoid making the process overly bureaucratic. It was noted: (a) red risks were unlikely to change in 2018/19; and (b) the timescale over which most red risks will be mitigated was likely to be long. Some organisations set a long term target and individual mitigating actions were given target dates.
- 5.17 Risk Appetite - Setting target scores will also involve a discussion on risk appetite/tolerance. The Museum's Risk Management Policy had been updated by the Head of Risk and Assurance in February 2017 to include a risk appetite framework for various areas of the Museum's operations e.g. statutory/legal compliance, collections, commercial activities. However, the Executive Board wished to embed other changes in the new NHM risk management process before implementing the framework. Risk appetite was still work in progress.

ACTION

- 5.18 Board of Trustees - Members found the information contained in the Board Assurance Framework 2017/18 very helpful. The Audit and Risk Committee Chair and members agreed the framework should be presented to the Board of Trustees in its entirety highlighting any changes. It should also be made clear to trustees the framework had been reviewed by the Audit and Risk Committee.
- MD/JD/FA
- 6 DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2017 - SEPTEMBER 2017 (PAPER TAC 40/2017)**
- 6.1 The Director of Finance and Corporate Services presented his paper which recorded the actual expenditure for the period April 2017 - September 2017.
- 6.2 Operating Surplus and General Fund - The forecasts for the operating surplus and the general fund were below budget. This was the result of a £1.1m reduction in the forecast for operating income. The reduction in operating income reflected a lower forecast for visitor related income as there had been no discernible upturn in visitors since the reopening of Hintze Hall. The forecasts in the last Financial Review for the period April 2017 - May 2017 were made before Hintze Hall reopened. There had also been overspending on two capital projects where the Museum did not have sufficient technical oversight of the project.
- 6.3 The Executive Board had taken action to deliver an operating surplus of £2.2m and protect the general fund. Action included an immediate slow-down in staff recruitment and a cut back on discretionary elements of non-salary expenditure. The reduced operating surplus was also offset by operational savings where there was significant underspend particularly in relation to Science Group recruitment.
- 6.4 Strategic Consequences - Members were concerned there may be long term strategic consequences if funds were not spent on priorities previously agreed by trustees e.g. essential building maintenance. A reduction in scientific recruitment may impact developments into oceans and digitisation.
- 6.5 The Museum Director observed that where possible the Museum selected operational savings which did not have strategic consequences. Financial information will be presented to the Board of Trustees in a way which clearly demonstrates the investment choices needed to generate the funds which support science and other strategic priorities. To improve commercial performance investment was needed to increase visitor numbers in the short term. The Museum was currently reviewing the performance of NHM special Exhibitions.
- MD
- 6.6 Self-Generated Income - The self-generated income forecast for the second half of the year was significantly higher than the first half of the year. The higher figure took into account: (a) scientific grants money recognised towards the year-end; and (b) increased income from the three special exhibitions now open. Members requested a breakdown of the achievability of income performance forecasts by business area.
- NG
- 6.7 Museum Draft Budget 2018/19 - The draft budget for 2018/19 will be submitted to the Board of Trustees in February 2018. This will follow a discussion at the November 2017 Board of Trustees on the strategic impact of Museum measures to reduce expenditure. It was agreed that as an exceptional action the draft budget for 2018/19 will also go to the January 2018 Audit and Risk Committee meeting. The role of the Audit and Risk Committee will be to challenge the robustness of the figures and their analysis. Strategic decisions will be made by the Board of Trustees not the Audit and Risk Committee.
- NG
- 7 MANAGEMENT RESPONSE AND UPDATE TO NAO AND KINGSTON SMITH RECOMMENDATIONS 206/2017 (PAPER TAC 41/2017)**
- 7.1 The Committee reviewed progress on the audit recommendations contained in the NAO and Kingston Smith audit completion reports for 2016/17.

ACTION

7.2 Cybertill EPOS System - A number of medium priority findings and recommendations related to the functionality of the current EPOS system. Progress on the recommendations was limited until a new EPOS system was fully scoped and implemented. The current intention was to invest in a new system in 2018/19.

8 NAO PLANNING REPORT 2017/2018 (PAPER TAC 42/2017)

8.1 The NAO Audit Manager presented the paper. The paper set out the NAO response to significant risks that affect the financial statements and areas of audit focus.

8.2 Members of the Audit and Risk Committee were asked to consider: (a) whether the 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.

8.3 Timing of the Audit and Audit Fee - Members reviewed the timetable and agreed the audit fee.

8.4 Accounting Treatment of the Endowment Anticipated to be Received 2017/18 - The Charities SORP set out the standards for the accounting treatment of endowments. The NAO will also look at the restrictions on income use within the endowment agreement. The Museum's intention was to invest the endowment funds in accordance with the Museum's Investment Policy unless the donor wished to hold funds in their own investments.

8.5 Accounting Treatment of the Gates Foundation Grant - The Museum had not yet distributed significant grant money to partner organisations and the accounting treatment will be revisited in the light of this. It was observed that the process of distributing money to partners in Africa can be very slow.

8.6 Materiality - For the first time the basis for the overall Museum materiality calculation had been set out in line with best practice.

8.7 Revaluation of Museum Tangible Fixed Assets - Concern was expressed that Senior Civil Servants viewed Museum buildings as being very valuable. Replacement cost and market value were two very different things. NHM buildings sold as a going concern had limited value in the open market. The NAO were pragmatic while ensuring a reasonable revaluation process had been followed in compliance with Treasury Accounting standards.

8.8 Some bodies in the museums and galleries' sector included narrative in their Annual Report and Accounts on fair value. For example, the National Gallery stated "we consider that there exists no market-based evidence of fair value of the freehold buildings because such property is rarely sold, except as part of a continuing business".

8.9 Mapping of Account Codes to the SOFA - NHM will undertake a review of the SOFA (Statement of Financial Activities) mapping now that the structure of the business had reached a period of stability. The Finance Team had looked at various models and had a proposal to discuss with the NAO.

9 HEAD OF RISK AND ASSURANCE PROGRESS REPORT (PAPER TAC 43/2017)

9.1 The Senior Manager, Moore Stephens presented the report on behalf of the Head of Risk and Assurance.

ACTION

- 9.10 **Annual Risk and Assurance Audit Plan 2017/18**
- 9.11 Due to the sickness absence of the Head of Risk and Assurance the Annual Risk and Assurance Plan had been reviewed and modified with input from the Chair of the Committee, the Director of Finance and Corporate Services and the relief manager. Plans to conduct audits were deferred to accommodate the return-to-work plan of the Head of Risk and Assurance, particularly where her prior knowledge and expertise was critical to the conduct of the audits concerned.
- MD/JD 9.12 The Committee agreed which audits will be deferred as set out below and asked for the plan to be amended accordingly.
- 9.13 Corporate Governance - In February 2016 the Board of Trustees commissioned Compass Partnership to carry out a review of the performance of the Board of Trustees and the Audit and Risk Committee. It was agreed the Audit and Risk Committee can take a view on strategic planning in relation to the 2018/2019 budgetary process at the February 2018 meeting. The review will be deferred to 2018/2019 or later.
- 9.14 Intellectual Property - The view should be overseen by the in-house legal advisor once they are appointed or an external advisor. The review will be deferred to 2018/2019.
- 9.15 Contract Management - The audit: (a) related to the management of service delivery once a contract had been procured and let; and (b) the review required the prior knowledge of the Head of Risk and Assurance. In the last few years the Museum had replaced the Facilities Management and House Keeping contractors. In addition, the Security contract was in the process of being let. It was agreed the review would be carried out early 2018.
- 9.16 Collections Security - The Standard Scientific Access Procedures were implemented earlier in 2017 and it was agreed the review will be carried out during the first half of 2018/2019.
- 9.17 Development of the Public Offer - The review will be deferred indefinitely in the light of work taking place on: (a) falling Museum attendance; and (b) special exhibitions versus investment in the permanent galleries.
- 10 JOIN THE DOTS (PAPER TAC 44/2017)**
- 10.1 Trustees listened to a presentation by the Director of Science, Collections Leader (Life Sciences) and Science Data Architect (Life Sciences) on the progress relating to the "Join the Dots" collections assessment pilot version 2016/17. The Museum had a large, diverse collection of 80m specimens. To enable future planning data was necessary to assist decision making. The approach taken was a metadata analysis of collection units "Join the Dots".
- 10.2 Project staff were now updating and revising the pilot version 2016/17 methodology to better fit NHM's future needs; specifically with respect to the Collections Storage programme; Digital Collections Programme and general curatorial priorities of care and maintenance of the collections. Data gathered will also provide audit assurance that key areas of the collections were being brought up to a level of documentation that enabled meaningful stocktakes.
- 10.3 Collections Storage programme - The next phase of the Collections Storage programme was to identify the volume of collections with: (a) low external and internal research usage; (b) low strategic value; and (c) where it was, therefore, cost effective to move collections offsite and out of close proximity to London. The preferred option was to move complete collections (e.g. large taxidermy mounts) as opposed to dividing collections.

ACTION

10.4 Collections had been stabilised, however, the overriding need was to source approximately 10,000 square metres of offsite storage space. This will enable a significant volume of South Kensington collections to be moved offsite. The vacated buildings can then be brought up to modern collections storage standards.

10.5 The Chair of the Audit and Risk Committee and members thanked the Director of Science, Collections Leader (Life Sciences) and Science Data Architect (Life Sciences) for the informative presentation. Members were impressed by the data generated by "Join the Dots" and its aid to decision making.

11 THE AUDIT AND RISK COMMITTEE'S OWN EFFECTIVENESS

11.1 In line with best practice the Board of Trustees commissioned a formal external review of Board Performance and that of the Trustees' Audit and Risk Committee every three years. In between these reviews the members of the Audit and Risk Committee completed their own annual review of their effectiveness.

JD/EB

11.2 It was agreed that the Head of Risk and Assurance in discussion with Executive Board members will complete the NAO Audit and Risk Assurance Committee effectiveness checklist. The checklist will be considered by members in closed session at the start of the January 2018 meeting.

12 FUTURE AGENDA ITEMS, JANUARY 2018 RISK PRESENTATIONS AND THE IDENTIFICATION OF EMERGING RISKS SINCE THE LAST MEETING

12.1 Reports and Presentations - Members requested presentations on:

- (a) the HR Risk Register and the 2017 Staff Survey. The presentation should include new reporting requirements, diversity, performance management, probation management and whistleblowing:
- (b) the Cyber Security Risk register and mitigating actions.

MD/NG

12.2 Emerging Risks - Emergency Financial Crisis - There were a number of possible events which may lead to the Museum suffering an emergency financial crisis e.g. a bad Brexit deal or no deal, a new labour government ending the cap on public sector pay, reduced commercial revenue and increased costs. It was noted closing the Museum one/two days a week would not reduce operating costs significantly. The Museum should plan for dealing with an emergency financial crisis without the consideration of strategic options.

13 ANY OTHER BUSINESS

13.1 There was no other business

14 DATE OF THE NEXT MEETING

14.1 The next meeting will be held at 10.00 a.m. on Tuesday 30 January 2018

KEY TO ACTION INITIALS

		Executive Board	- EB
Michael Dixon	- MD	Senior Management Team	- SMT
Neil Greenwood	- NG		
Dave Thomas	- DT		
Jan Day	- JD		
Frances Allen	- FA		