



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

76th Meeting on Thursday 4th May 2017

Present

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

In Attendance

Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Matthew Atkinson (Audit Manager, National Audit Office)

Lord Green of Hurstpierpoint (Chair of Trustees) was in attendance for items 1 to 13.

George Wrigley (Head of Security) was in attendance for item 10.

Dave Thomas (Chief Information and Technology Officer) was in attendance for items 10 and 11.

Polly Parry (Information Manager) was in attendance for item 11.

Annette Fitzjohn (Health and Safety Manager) was in attendance for item 12.

Sarah Long (Registrar) and Clare Valentine (Collections Leader, Life Sciences) were in attendance for item 13.

Fiona McWilliams (Director of Development and Communications), Ian Owens (Director of Science) and Clare Laws (Head of PEG Resources and Planning) were in attendance for items 14 and 15.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Paul Keane (Director, DCMS Financial Audit NAO) sent his apologies.

2 DECLARATIONS OF INTEREST, REGISTER OF INTERESTS AND ANNUAL REVIEW OF GIFTS AND HOSPITALITY (PAPER TAC 13/2017)

2.1 The Declaration of Interests and Register of Interests were recorded by the Secretary to the Audit and Risk Committee. Members noted the annual review of Gifts and Hospitality valued over £50 recorded a nil return for 2016/17.

ACTION

3 MINUTES OF THE MEETING HELD ON 9 FEBRUARY 2017 (PAPER TAC 14/2017)

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

4. MATTERS ARISING FROM THE MINUTES 9 FEBRUARY 2017 (PAPER TAC 15/2017)

HN 4.1 Role of Advisory Committees - Para 13.6 - The Chair of the Audit and Risk Committee agreed to write to the Chairs of the Advisory Committees and request they consider the identification and mitigation of risk when reviewing and advising on strategy.

5 DIRECTOR'S REPORT (PAPER TAC 16/2017)

5.1 The Museum Director presented his report.

5.2 Government's UK Anti-Corruption Plan - The implementation of recommendations made by the Head of Risk and Assurance will ensure the Museum is compliant with the Home Office anti-bribery and corruption assessment template. Some of the recommendations to be adopted applied to organisations with expenditure of over £100m.

5.3 Security - The Museum Director was taking over as Chair of the Exhibition Road Cultural Group. In this role the Museum Director will engage with the Royal Borough of Kensington and Chelsea and the Mayor of London on: (a) security issues; (b) the plans to upgrade South Kensington Station and the Museum subway; and (c) the further pedestrianisation of Exhibition Road.

5.4 Museum Attendance - No single factor was attributable for the reduction in visitor numbers over the last year. It was noted the NHM was more affected than other Department of Culture Media and Sport (DCMS) bodies. The exception was the Victoria and Albert Museum (V&A) which was dependent on the popularity of their special exhibition programme.

5.5 General Election - The Chair of the National Gallery Board of Trustees had approached the Chair of the NHM Board of Trustees on behalf of the board chairs of other Museum and Galleries. The initiative was to discuss a joint submission to Government after the General Election on the value of the collections and funding.

6 DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2016 - MARCH 2017 - PROVISIONAL YEAR OUTTURN (PAPER TAC 17/2017)

6.1 The Director of Finance and Corporate Services presented his paper.

6.2 Net Operating Surplus - The net operating surplus amounted to £2.9m which was above the previous forecast and the original budget.

6.3 Capital Expenditure - The designated/restricted fund balance at the end of 2016/17 was less than anticipated due to overspending on capital projects. However, the General Fund was greater than anticipated and this will be used in part to support the capital programme in 2016/17. The DCMS capital grant in aid allocation of £9.6m had been utilised.

ACTION

- MD
- 6.4 Retail - Retail sales figures had been impacted by roving sales staff deploying the majority of their efforts on higher return products rather than retail guidebooks e.g. membership and donations. This initiative had resulted in higher membership take-up and significantly increased donations. Darwin Centre (DC) entrance donations had reached an impressive 41p per visitor. There were lessons to be learned from the methodology used to increase donations at the DC entrance. The Museum Director will also investigate sales trends by each retail location and the e-Shop. It was observed that it was disappointing Retail investment had not produced better results. Consideration should be given to the Head of Retail presenting on Retail performance at the June/November meeting.
- 7 ANNUAL ACCOUNTS UPDATE 2016/17: DRAFT GOVERNANCE STATEMENT (PAPER TAC 18/2017)**
- 7.1 The Director of Finance and Corporate Services presented his paper.
- Update on Accounts Issues \ Significant Risks**
- 7.2 Scientific Grant Income - The NAO had queried the Museum's interpretation of the accounting policy for the treatment of scientific grants set out in the new Charities Statement of Recommended Practice (SORP) and was now generally content with the NHM policy.
- 7.3 Accounts Review - An informal review of the 2016/17 draft accounts by the Audit and Risk Committee was scheduled to take place on 22 June 2017.
- Draft Governance Statement**
- 7.4 The Committee reviewed the statement and members made a number of recommendations.
- 8 HEAD OF RISK AND ASSURANCE ANNUAL REPORT TO THE ACCOUNTING OFFICER AND THE AUDIT AND RISK COMMITTEE 2016/17 (PAPER TAC 19/2017)**
- 8.1 The Head of Risk and Assurance presented her report.
- 8.2 Annual Assurance - The Head of Risk and Assurance gave an overall assurance of Substantial. In her opinion the Museum currently had an adequate and effective risk management and internal control framework in place to ensure the proper conduct of business and the achievement of its aims and objectives.
- 8.3 Audit Plan 2016/17 - The Museum Director regularly discussed the impact of risk management work on the completion of the 2016/17 audit plan. The Museum Director considered the long term benefit of the risk management work significantly outweighed the benefit of completing the audit plan.
- JD
- 8.4 Assurance from the Work of Internal Audit - A change to the wording was recommended to highlight that any work on the 2016/17 audit plan which was not completed had been replaced by higher priority work.
- NG
- 8.5 Implementation of Audit Report recommendations - There had been further progress on the implementation of priority 2 and 3 recommendations since the last meeting. Concern was, however, expressed that progress was slow on: (a) the contracts database; and (b) unspent criminal records checks by the Museum Caterers. The Director of Finance and Corporate Services agreed to follow up on the contractual requirement for unspent criminal records checks to be completed by the Museum Caterers.

ACTION

- 8.6 Data Protection and Information Assurance Governance - Members reviewed the report on Data Protection and Information Assurance Governance. The follow up report highlighted the difficulties involved in following up recommendations.

9 AUDIT AND RISK COMMITTEE ANNUAL REPORT 2016/17 (PAPER TAC 20/2017)

- 9.1 The Chair of the Audit and Risk Committee presented her report which was agreed by the Committee.

- 9.2 HM Treasury required the Audit and Risk Committee to produce an annual report to support the Governance Statement. The report provided an assurance to the Board of Trustees and the Department for Culture, Media and Sport (DCMS). There was a discussion on the format of the report which was not mandated by HM Treasury. The overall view was no changes were required.

JD

10 ANNUAL SECURITY REPORT 2016/17 (PAPER TAC 21/2017)

- 10.1 The Head of Security and Chief Information and Technology Officer presented their report.

Physical Security

- 10.2 Physical Penetration Test - External consultants undertook a physical penetration of the Museum at the end of 2015. A repeat exercise was included in the 2017/18 internal audit plan.

- 10.3 Queue Management - A discussion took place on queue management. It was noted that once the Hintze Hall reopens in July visitors will be able to queue in the East Gardens. In the meantime new queue management practices had been introduced to minimise queue times. Front of house and security staff undertake Metropolitan Police Project Griffin training and further queue management training will take place.

Technology and Information

- 10.4 Information and Cyber Security - External pen testing was carried out annually and specific testing was carried out when new systems were introduced or there were changes to vulnerable systems. The Chief Information and Technology Officer considered this to be adequate in relation to the risk. The Museum's technical defences had been improved during 2016/17. However, technical defences can be undermined (albeit unintentionally) by individuals not making good judgments when online using NHM computers. Staff undertake training and a trial test to determine staff susceptibility to phishing attacks was carried out. It was noted that over the last few years the risk of a significant cyber security breach had increased.

- 10.5 Government Support - The National Cyber Security Centre (NCSC) was set up by the government in October 2016 to provide advice. The Museum also received advice from the Met Police.

- 10.6 Payment Card Industry (PCI) Data Security Standard (DSS) Compliance - The PCI standard was not static and PCI compliance work was likely to be permanently on-going. The Museum was receiving advice on PCI from outside consultants.

- 10.7 Digital Data Back-up Arrangements - There were back-up arrangements for all digital systems. The Museum kept three back-up copies, one of which was taken to an offsite archive managed by a commercial company. The Museum holds a large amount of digital data partly due to: (a) science images and computational data; and (b) an historical lack of active digital records management. This was now being addressed by the development of a digital records management strategy.

ACTION

10.8 The Chair of the Audit and Risk Committee and members thanked the Head of Security and Chief Information and Technology Officer for an excellent report. The report provided a useful assurance to the Committee.

11 GENERAL DATA PROTECTION REGULATION - GDPR - (PAPER TAC 22/2017)

11.1 The Information Manager and Chief Information and Technology Officer presented the report.

11.2 The paper set out the first steps towards meeting Museum obligations under the General Data Protection Regulation (GDPR), which replaces the Data Protection Act in May 2018, and other regulatory frameworks and guidance such as the Code of Fundraising Practice.

11.3 Legal Advice - NHM was receiving external legal advice on GDPR from the Museum solicitors Farrer & Co.

11.4 The Chair of the Audit and Risk Committee commended the work taking place which was appropriate to the level of risk. The Chair also observed that the Museum and trustees had a low risk appetite for personal information management due to the potential negative impact on the Museum's brand values.

12 ANNUAL HEALTH AND SAFETY REPORT 2016/2017 (PAPER TAC 23/2017)

12.1 The Health and Safety Manager presented her report.

12.2 Key Performance Indicators - KPI 3: Fieldwork Risk Assessments - The Museum continued to fall well below the target for submission of fieldwork risk assessments at least 6 weeks prior to departure. This was largely due to unexpected or short notice travel requirements. The stretching KPI target had driven improvement. The Committee were assured that staff were not travelling without the necessary security advice and medical care in advance of departure. It was observed as well as due diligence by the Museum there was also an element of personal liability and responsibility. A revised KPI broadened to cover both UK and non UK based fieldwork was being presented to the Science Executive for consideration. The Health and Safety Manager reviewed how other organisations managed fieldwork.

12.3 Fire Safety - It was hoped the new PAS 7 Certification can be achieved during the 2017/18 financial year, making The Natural History Museum the first to be awarded the certificate. The Chair of the Audit and Risk Committee observed this will provide trustees with a good assurance in relation to fire safety.

12.4 The Audit and Risk Committee thanked the Health and Safety Manager for the informative report.

13 COLLECTIONS AUDIT UPDATE (PAPER TAC 24/2017)

13.1 The Registrar and Collections Leader (Life Sciences) presented the report.

13.2 Join the Dots - The approach was firstly to identify the most valuable specimens for audit. However, as it was not possible to audit 80 million specimens a high level overview of the collections was being taken using the Join the Dots bench marking project. Join the Dots looked at different aspects of the collection: (a) how it was documented, digitised, conserved or stored; (b) the importance of the material; and (c) how the Museum wanted to use it. The information about these elements was ranked within a spreadsheet and priority projects were identified. The project results had not identified major collection areas not already highlighted as being at risk. The next phase of Join the Dots will monitor changes year-on year. It was observed the property solution was a whole collections solution rather than a part collections solution. New storage space must be found to rehouse the collections before the time expired buildings in which they were currently stored can be upgraded.

ACTION

- 13.3 Committee members observed a succinct overview of all the Join the Dots results would provide assurance to the Audit and Risk Committee. It was noted that it had not been possible to provide this information to the May Audit and Risk Committee as the current exercise was a pilot and the data had not been fully analysed.
- 13.4 Electronic Collections Management System - A review of the capabilities of the Museum's Collections Management system and an assessment of the key data required to audit the quality of records had been undertaken. A system upgrade was delivered and will be tested. Collections Management data was used for Join the Dots exercise, however, less than 5% of the collections had an individual specimen record.
- SL/CV 13.5 The Chair of the Audit and Risk Committee commended the work in progress. The Chair asked that the Registrar and Collections Leader, Life Sciences report the detailed results of the Join the Dots exercise to the Committee as soon as the pilot was complete and the data analysed.
- 14 MAJOR CORPORATE RISKS 2016/17 (PAPER TAC 25/2017)**
- 14.1 The Museum Director presented his report.
- 14.2 The Committee reviewed the 2016/17 year-end position with respect to the major corporate risks identified for that period. It represented the final report before implementation of a new approach and methodology for identifying and managing risk for 2017/18 onward.
- MD/EB 14.3 It was observed the year-end scoring for 2016/17 appeared in a few cases to be overly optimistic. This optimism should be avoided going forward into 2017/18.
- 15 NHM RISK UNIVERSE, RISK AND ASSURANCE DRAFT AUDIT PLAN 2017/18 AND INSTITUTE OF INTERNAL AUDITORS' REPORT ON THE DEVELOPMENT OF RISK MANAGEMENT PROCESSES AND REPORTING (PAPER TAC 26/2017)**
- 15.1 The Museum Director presented the reports.
- NHM Risk Universe**
- 15.2 The Committee considered the new approach and methodology for identifying and managing risks.
- 15.3 It was observed the NHM risk universe was a living document. Risks should be defined by the Museum and not the Head of Risk and Assurance or the Audit and Risk Committee. It was also important to note that in some cases the residual risk scores will differ a little from the residual risk scores for similarly worded 2016/17 major corporate risks. This was due to the Museum thinking about risk as a long-term issue requiring actions over multiple years rather than the fiscal year in question.
- MD/EB 15.4 The Museum had defined the risks at a relatively high level in a generic way to arrive at a manageable list of c.70 risks, rather than at a very granular level which would result in several hundred risks. Directors were asked to review the level of granularity to ensure it was appropriate and consistent. For example the level of granularity was higher for science in research institutes. It was noted, however, that risks were split down further by individual managers.
- 15.5 Risk Appetite - The members agreed the Executive Board recommendation not to over-complicate the process by introducing a risk appetite rating against each risk. The default position was a low tolerance for any given risk unless stated otherwise, for example, a high appetite for risk in commercial activities. There was a low appetite for risks which involve legal or regulatory compliance. The Executive Board may consider changing this approach with experience of use.

ACTION

- 15.6 Red Risks - Red risks were ranked by score and these will be further refined. It was agreed: (a) similar risks will be combined where appropriate and migrated to a red risk if necessary; (b) scores will be reviewed for correctness and consistency; and (c) risk owner(s) assigned at Executive Board level. A paper on the new approach will be presented to the 16 May Board of Trustees.
- MD/EB
- MD 15.7 Risk Mitigation Reporting - It was recommended reports on pre and post mitigation of likelihood and impact included: (a) the concept of inherent risk; and (b) two dimensional heat maps.
- 15.8 The Chair of the Audit and Risk Committee and members thanked Directors and their staff for their hard work on defining the Museum's risk universe. This gave the Committee a greater insight of Museum risks. Members also commended the bottom up approach to the identification of risk.
- Draft Risk and Assurance Plan 2017/18**
- 15.9 The Head of Risk and Assurance presented the draft plan.
- 15.10 The risk universe was agreed by Executive Board on 25 April and the Head of Risk and Assurance was only able to produce a draft audit plan for 2017/18. The plan will be finalised following discussions with the Museum Director, members of the Executive Board and Senior Management Team (SMT) and presented at the June meeting.
- MD/JD
- 15.11 The audit plan was an important document which enabled the Audit and Risk Committee to ensure: (a) there was a balanced programme of work; and (b) the Head of Risk and Assurance was able to provide an assurance that the Museum had an adequate and effective risk management and internal control framework in place. The Committee requested the plan included: (a) any external assurance; and (b) why internal audit was not providing assurance over specific red risks.
- JD
- JD 15.12 It was recommended that the review of project management on the audit plan was replaced with a review of lessons learned on current projects in 2018/19.
- 15.13 Members observed the audit plan should make the best use of the available resource and focus on those areas where the value added was greatest. It was noted, however, a significant number of audits were carried out for assurance and compliance purpose as requested by: (a) NHM Directors; and (b) outside bodies e.g. Research Councils UK and the Cabinet Office. Examples of assurance audits are key financial controls and payroll and pensions.
- 16 FUTURE AGENDA ITEMS, JUNE 2017 RISK PRESENTATIONS AND THE IDENTIFICATION OF EMERGING RISKS SINCE THE LAST MEETING**
- 16.1 Members requested a tour of collections storage areas following the June 2017 meeting.
- 17 ANY OTHER BUSINESS**
- 17.1 There was no other business.

ACTION

18 DATE OF THE NEXT MEETING

18.1 The next meeting will be held at 10.00 a.m. on 29 June 2017.

KEY TO ACTION INITIALS

Hilary Newiss - HN

Michael Dixon - MD

Jan Day - JD

Neil Greenwood - NG

Sarah Long - SL

Clare Valentine - CV

Executive Board - EB