



THE NATURAL HISTORY MUSEUM
TRUSTEES' AUDIT AND RISK COMMITTEE

74th Meeting on Thursday 3rd November 2016

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)
Paul Keane (Director, DCMS Financial Audit NAO)
Matthew Atkinson (Audit Manager, National Audit Office)
Sarah Drysdale (Audit Principal, National Audit Office)

Keith Jennings (Head of Masterplanning and Projects) was in attendance for item 12.
Justin Morris (Director of Public Engagement) was in attendance for item 13.

ACTION

The Audit and Risk Committee Chair welcomed Sarah Drysdale (Audit Principal, National Audit Office) to her first meeting.

1 APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Kim Winser (Trustee) and Simon Patterson (Trustee) who were due to attend item 13.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 38/2016)

2.1 These were noted by the Secretary to the Audit and Risk Committee.

3 MINUTES OF THE MEETING HELD ON 30 JUNE 2016 (PAPER TAC 39/2016)

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

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC40/2016)

4.1 Matters arising in 2016 were discussed and closed items agreed.

ACTION

- 4.2 Annual Collections Assurance - The Collections Assessment Project “Join the Dots” will inform resource planning and priorities for curation in 2017/18. Due to be reported to the Audit and Risk Committee in May 2017.
- 4.3 Break In and Minor Theft at Tring - The Museum Director visited Tring on 1 November 2016. Improvements had been made to the CCTV and analytics. Cameras had been installed to film the perimeter which was difficult to protect due to: (a) trees which required planning permission to prune; and (b) street lighting was switched off after midnight. The vulnerability of scientifically important and valuable specimens had been reduced. It was agreed an update will be provided to the Committee in May 2017 via the Annual Security Report.
- NG/GW
- 5. DIRECTOR’S REPORT (PAPER TAC41/2016)**
- 5.1 The Museum Director presented his paper.
- 5.2 Location fees - The Museum Director was alerted to high profile filming requests e.g. Paddington Bear. Film companies weighed location fees against the costs of computer-generated imagery. Opportunities for closer relationships/merchandising with film companies will be raised by the Audit and Risk Committee Chair at the Commercial Advisory Committee.
- HN
- 5.3 Outstanding Risk and Assurance Recommendations - Standard Scientific Visitor Access Procedures - The delay in implementing a standardised approach to visitor access to the collections was very disappointing. It was agreed that the Registrar and Collections Leader Life Sciences attend the February 2017 Audit and Risk Committee to report. *Payment Card Industry (PCI) Data Security Standard (DSS* - Substantial progress had been made and card holder data was segregated on the Museum network. It was noted: (a) the Museum was not under pressure from its bankers; and (b) the Payment Card Industry Security Standards Council had issued a new version of the standard - version 3.2.
- JD/SL/CV
- 5.4 Department of Culture Media and Sport (DCMS) Museums’ Review – There was an online call for public feedback to inform the review.
- HN
- DCMS had published its single Departmental Plan for 2015/2020 in February 2016. DCMS were pressure from the Treasury to map the expenditure of DCMS arms lengths bodies to departmental objectives. The NAO had agreed with DCMS: (a) to suspend a review of income generation in the museums and galleries sector; and (b) share the NAO analysis so far with DCMS. The Audit and Risk Committee Chair undertook to investigate the significance of the review which will be discussed further at the Board of Trustees.
- 5.5 The Museum made the following points;
- It did not consider it desirable to be funded: (a) through an agency e.g. Arts Council England; or (b) via multiple funding streams. The Museum questioned whether there was sufficient institutional memory in government on historical funding settlements to facilitate a zero-based funding review.
 - It is required to deliver against a range of government objectives not just those of DCMS.
- 5.6 It was very important to stress to the DCMS that NHM was a scientific institution and the natural history collections were a primary research tool. It was noted the Museum was appointing a Head of Government Relations who had extensive knowledge of science.
- MD
- 5.7 If mergers were a chosen topic, strategic alliances with non DCMS-sponsored bodies, for example, should be considered. No mergers were, however, currently being considered. The Audit and Risk Committee Chair said it would be helpful to keep the Board of Trustees updated on current thinking.
- MD

ACTION

- 5.8 Museum Attendance - Attendance was 8% down over the recent half term compared with the same week last year. The average difference in monthly attendance this year compared to last was c.18%. If the decline was a feature of a fear of terrorism the moving annual total will level off on 13 November the anniversary of the Paris attacks. The Hintze Hall closure for 6 months in January 2017 will also create challenges. It was noted surveys found the % of visitors who thought the Museum was excellent / good had been around 94-97% over the last 5 years. Valuable real-time information will also become available as the Museum's social media engagement with visitors improves. The Museum had commissioned research on the decline in attendance. However, anecdotally the NHM was down more than other London bodies as families with very young children maybe reticent about coming to London. Children visiting the Science Museum were typically older.
- 5.9 Museum Change Programme - Staff generally felt the process was fair and transparent. The forecasted outturn for the redundancy \ restructuring provision was higher than the original budget as: (a) more staff applied for redundancy than anticipated; and (b) a number of these staff had a significant length of service. Applications were only invited for voluntary exit in Science Group and the Museum reserved the right to decline applications. The Museum was now able to make significant new appointments particularly in science and the digital area. The Museum Director said he was keen that exit interviews were undertaken as a matter of course to learn why people leave the NHM and if there were themes.
- 5.10 Science Group were identifying centres of excellence in consultation with the Science Advisory Committee where new scientific appointments will be made. It was observed that the impact of Brexit on the ability to attract the best European candidates to the UK had been exaggerated. An important factor in attracting candidates from the academic sector was the Museum's employment offer including pension entitlement. Access to the Universities Superannuation Scheme (USS) for NHM research staff was, therefore, being explored.
- 5.11 Board Assessment Review – The Trustees Governance Pack was being revised for the December 2016 Trustee induction programme.
- 5.12 Special Exhibitions - Unlike the Wildlife Photographer new temporary exhibitions in the Jerwood Gallery were not meeting their attendance targets. The Content Strategy Board was to review the market positioning and advertising of the special exhibition programme. The aim of the special exhibition programme was to attract “learned liberals” a market segmentation used by the visitor attraction industry.
- Major Corporate Risks**
- Newly emerged risk relating to the referendum result on UK membership of the European Union - The NHM only held euros and dollars where the Museum had ongoing commitments in those currencies. For example, EU grants and overseas partners for the Bill and Melinda Gates Foundation project. A long term inherently high risk was currency fluctuations which impacted on the purchase of scientific and IT equipment from overseas.
- 5.13 Collection Storage - It was observed the comments for the current quarter did not give a clear indication whether the short-term and long-term solutions were being managed successfully. There was a discussion whether more effort should be spent pursuing Plan B on-site storage solutions and using the site more efficiently as against Plan A an offsite partnership. Also the decision that a Plan A solution should be within easy travelling distance of South Kensington should be revisited. Plan A an offsite solution will only be realised many years ahead. However, on-site solutions required capital and will result in significant disruption to the collections while any rebuilding work took place. It was observed collections storage was not one of the top 5 Development fund raising projects. The DCMS Permanent Secretary had suggested the Museum submit a strategic business case to the Treasury before the March 2017 budget. The Board of Trustees will, therefore, need to consider this at their next meeting and a year-end completion date set. However, it was noted collections storage was likely to be

ACTION

one of the chosen topics for scrutiny by DCMS and the DCMS review was not due to be published until the Summer of 2017.

- 5.14 Commercial Income - The Chair of the Audit and Risk Committee observed the delay in the replacement of the Ticketing and EPOS systems was disappointing.
- 6. DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2016 TO SEPTEMBER 2016 (PAPER TAC 42/2016)**
- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6.2 Operating Surplus - The current year-end forecast for the operating surplus was below the actual year-to-date as: (a) non salary expenditure will increase towards the year-end; (b) there were unaccounted accruals for services; and (c) there was uncertainty in relation to self-generated income and the impact of the closure of Hintze Hall. The Director of Finance and Corporate Services did not wish to increase the commercial income risk factor as managers should be striving to achieve commercial business targets.
- 6.3 Capital \ Strategic Project Expenditure - The Director of Finance and Corporate Services was confident the forecast outturn for capital expenditure will be met as: (a) the Hintze Hall was in progress; (b) the members and patrons room contracts were let; and (c) a tender was in progress for the Grounds Project front entrance. The front entrance needed to be completed for reopening the Hintze Hall in the Summer of 2017. Two large pieces of scientific equipment were also in progress.
- 7. SPECIAL FUNDS TRUST INVESTMENT DECISION (PAPER TAC 43/2016)**
- 7.1 Members commended the Financial Accounting Manager on the very clear paper. It was noted that property fund assets were illiquid and whilst the income was attractive there were disadvantages. The Director of Finance and Corporate Services' preference was a Charities Investment Fund with no more than 10% in a Property Fund.
- 7.2 Audit and Risk Committee agreed to recommend to the Board of Trustees as trustees of the Special Funds Trust the proposals: (a) to appoint CCLA as fund manager; and (b) the choice of available CCLA funds.
- 8. MANAGEMENT RESPONSE AND UPDATE TO KINGSTON SMITH RECOMMENDATIONS 2015/2016 (PAPER TAC 44/2016)**
- 8.1 Total Stock Figure - There was a difference between the total stock figure per the accounting system and the total stock value per the stock system. The EPOS upgrade had been delayed due to a lack of functionality. The risk of stock differences was mitigated, however, by regular Finance Team reconciliations. Historical differences were written off. The stock holding which had increased significantly to £1,074k in 2016 will be reduced at the 2016/17 year-end.
- 9. NAO AUDIT PLANNING REPORT (PAPER TAC 45/2016)**
- 9.1 The NAO Audit Manager presented the paper.
- 9.2 The NAO had brought the audit of the South Kensington Museums back in-house and the audit of the British Museum and Tate Gallery had been outsourced. It was good practice to take back audits and the NAO was mindful of audit rotation rules. There was continuity, however, with the NAO Director and Audit Manager.
- 9.3 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

ACTION

the financial statements could be materially misstated due to fraud.

- 9.4 Audit Fee - Members agreed the audit fee.
- 9.5 Working with Internal Audit - The wording in the audit planning report had changed to make it clear that direct reliance was not placed upon the work of internal audit. As part of the planning process the Audit Manager and Audit Principal had met with the Head of Risk and Assurance. It was also noted that the NAO cannot mandate internal audit work as had been done in the past e.g. the annual review of key financial controls. The Director of Finance and Corporate Services, however, valued the annual review of key financial controls.
- 9.6 Assessment of Risk - The risk of kickbacks for contracts in NHM was considered low as: (a) significant contracts went through an electronic tendering system; and (b) tenders and quotations were evaluated by more than one person. There was also an authorisation process for single tender action. It was observed, however, the risk was main contractors who operated open book cost plus pricing for subcontractors. The Director of Finance and Corporate Services will raise the risk with the Procurement Manager. It was noted five companies had been invited to bid for the Grounds project front entrance and the Summer 2017 time scale formed part of the tender specification.
- 9.7 Accounting Treatment for the Gates Foundation Grant - There were no particular concerns.

NG

10. HEAD OF RISK AND ASSURANCE PROGRESS REPORT (PAPER TAC 46/2016)

- 10.1 The Head of Risk and Assurance presented her report.
- 10.2 Travel and Business Expenses - The review of Travel and Business Expenses included Government Procurement Cards (GPC) credit cards and the review did not highlight any significant weaknesses.
- 10.3 Status of Recommendations - The Museum caterers had not been carrying out DBS checks for all permanent staff which was open to criticism. The Head of Risk and Assurance had followed up the priority 2 recommendation with the caterers General Manager. The new Head of Catering and Events will need to take active management of the contract. It was noted following up recommendations was often easier said than done and was time consuming. Responsibility for implementing recommendations was assigned to a named person and an action date set. Individuals with responsibility for priority 2 recommendations with delayed implementation were on occasion required to attend the Audit and Risk Committee. For example, it had been agreed there would be a report on Standard Scientific Visitor Access Procedures at the February 2017 meeting.
- 10.4 The Museum Director and Chair of the Board of Trustees observed it was line management responsibility not the Head of Risk and Assurance to ensure recommendations were implemented and hold staff to account. It was agreed that the Museum Director and Head of Risk and Assurance would discuss how to make the reporting more visible.
- 10.5 Audit Plan - Due to additional work the plan was not as far advanced as the Head of Risk and Assurance would have liked. In addition, the recommendations in the External Quality Assessment (EQA) report require work.

MD/JD

External Quality Assessment (EQA) Report

- 10.6 As the membership of the Audit and Risk Committee had recently changed the Committee Chair recommended and it was agreed the risk management identification, reporting and management process be considered in depth at the February 2017 meeting. The process of identifying the 2017/18 Major Corporate Risks started at the February meeting. The Audit and

Audit and
Risk
Committee

ACTION

Members

Risk Committee will take recommended improvements to the Board of Trustees. Following which a decision will be made on the need for a formal external review of risk management in the Museum.

- MD
- 10.7 Members observed there should be no distinction between categories of risk e.g. Major Corporate Risks, Emerging Risks, Long Term Inherently High Risks and Operational Risks. In addition, lack of resources was not a reason for not implementing EQA recommendations. The Committee must not be risk averse in declining to implement less useful recommendations. The Audit and Risk Committee and Accounting Officer needed to be confident of the Museum's internal control mechanisms and to a lesser extent total compliance with internal audit standards. However, as new members the Committee needed to be: (a) assured of the risk management processes; and (b) provided with a clear line of sight from the identification of risks to the audit plan.
- 10.8 Prior to the EQA review the Head of Risk and Assurance had drawn up a universe of activities across the Museum on a page. The presentation of a 3 or 5 year internal audit programme of work within the context of the Museum's total risk universe will enable the Committee to see what is and what is not included. There were key risks where internal audit will not add value apart from reviewing mitigating action.
- 10.9 Concern was expressed that the EQA report indicated the Museum's risk management processes were not robust. It was noted, however, the review recommendation was: (a) in relation to clear line of sight documentation; and (b) was bench marking against other bodies who complied with the Public Sector Internal Audit Standards (PSIIA). Some of these bodies had very large audit teams of 200 with assurance functions. The Museum Director was concerned the implementation of the EQA recommendations as agreed by the Head of Risk and Assurance will compromise the 2016/17 audit plan.
- 10.10 A member observed: (a) it was difficult to get a sense of priority from the EQA report; and (b) they were unclear if the review was value for money. The Audit and Risk Committee needed to be assured it was reviewing key risks and not operational risks which were the responsibility of operational managers.
- 10.11 It was agreed:
- JD
- (a) the Head of Risk and Assurance will map the Museum's risk universe for the February 2017 meeting; and
- CH/HN/JD
- (b) the co-opted member will meet with the Chair of the Audit and Risk Committee and Head of Risk and Assurance to advise on the EQA recommendations and clear line of sight documentation.

11. LONG TERM INHERENTLY HIGH RISKS (PAPER TAC 47/2016)

- 11.1 The Head of Risk and Assurance had drawn up the assurance map for "long term inherently high risks" in 2013 as at that time Committee members were concerned they were not receiving the depth of data they received on Major Corporate Risks. The EQA consultants were impressed by the assurance map as was a member of the Committee. However, members did not believe there should be a distinction between different type of risks.
- 11.2 It was noted that the Museums definition of risks were based on Sir David Omand's description of risk to the Public Accounts Committee. Sir David described three categories: (a) risks bodies will always be exposed to because of the nature of the organisation; (b) risks because of the external environment over which an organisation had little control; and (c) risks an organisation imposes upon itself due to business decisions.
- 11.3 It was observed the Audit and Risk Committee was collectively responsible for failing to

ACTION

- MD establish a mechanism to challenge underlying assumptions and the identification of risk early in the process. This needed to be put in place. In many organisations people are at the top of the corporate risk register. The Executive Board should instil a risk aware culture and a bottom up approach to risk management. The Museum Director observed the Museum did aim for a bottom up approach through the Senior Management Team (SMT), however, more needed to be done to improve the process.
- 12. MAJOR CORPORATE RISK “LACK OF PRITORITISATION OF LONG-TERM PROJECTS IMPEDES THE DELIVERY OF KEY PROJECTS OVER THE NEAR TERM” (PAPER TAC 48/2016)**
- 12.1 The Director of Finance and Corporate Services: (a) presented the paper on the management of the risk; and (b) introduced the new Head of Master Planning and Projects who had recently joined the Museum.
- 12.2 The Museum site was a complex set of buildings and members observed it would be helpful if the Audit and Risk Committee and Board of Trustees routinely received simplified maps. The Head of Master Planning and Projects agreed to look into how the considerable detail regarding the Estate could be distilled to provide useful information for the Committee and Trustees, to include a plan of the Museum for ease of reference..
- KJ 12.3 The Chair of the Audit and Risk Committee thanked the Director of Finance and Corporate Services and the Head of Master Planning and Projects for the informative and reassuring presentation.
- 13. MAJOR CORPORATE RISK “WE DO NOT DELIVER THE PLANNED STEP CHANGE IN SELF-GENERATED INCOME GROWTH FROM COMMERCIAL ACTIVITIES” (PAPER TAC 49/2016)**
- 13.1 The Director of Public Engagement presented his paper on the management of the risk
- 13.2 There followed a discussion on the mitigating actions being taken to manage the commercial risks and optimise the income from visitor facing businesses.
- 13.3 Visitor Numbers - A 100% bag check was introduced at the NHM as a response to the UK threat level for International Terrorism being raised to Severe. The NHM is advised by a Metropolitan Police Counter Terrorism Security Advisor in relation to protecting the public in crowded places. The issue of queuing caused by the response to the Terrorist Threat, and potential impact on visitor numbers, is monitored. However, the Director of Public Engagement expressed concern that potential NHM visitors not wishing to join long queues went to other local Museums instead. It was noted other museums and galleries in London and shopping centres operated different bag searching and security policies. The Head of Security was reviewing: (a) the options available to maintain safety and reassurance to visitors; and (b) security arrangements which will change in January when the main entrance is closed.
- JM/GW 13.4 The Audit and Risk Committee Chair asked that the Committee were updated on the risks, expert opinion and the arrangements of other museums and galleries and for comparison, commercial premises with equivalent numbers of visitors in relation to bag searching and security.
- 13.5 The Audit and Risk Committee Chair thanked the Director of Public Engagement for his informative presentation and said the Committee had reassurance in his profit forecasts.
- 14. FUTURE AGENDA ITEMS - FEBRUARY 2017**
- HN/JD 14.1 Major Corporate Risk Presentation - It was agreed there would be one major corporate risk presentation at the February meeting. This will either be: (a) offsite collections storage; (b) strategic communications; or (c) the UK vote to leave the European Union. A decision will be

ACTION

made nearer the time.

RN/NG 14.2 Collections Storage - The chartered surveyor member agreed to provide advice on the decision making process for collections storage.

Audit and Risk Committee Members 14.3 Staff Probation - A discussion will take place at the February meeting on the need for an audit of the Museum's probation processes.

HN/JD 14.4 Rationalising Papers - The papers of the Museum Director and Director of Finance and Corporate Services overlapped and needed to be rationalised. The Audit and Risk Committee Chair and Head of Risk and Assurance will discuss.

NG 14.5 Legal Advice Service - It was recommended the costs and benefits of directly employing an in-house commercial lawyer were reviewed by the Executive Board. The recent audit of Science Income had also made a similar recommendation. Currently Farrer and Co appointed a solicitor to work on secondment on site one day a week. However, work is passed to other members of the Farrer team where specialist knowledge is required and legal input will be extensive. Legal fees were highest for employment law and the need for a fulltime commercial lawyer had not been demonstrated to date.

15. ANY OTHER BUSINESS

15.1 There was no other business.

16. DATE OF THE NEXT MEETING

16.1 The next meeting will be held at 10.00 a.m. on Thursday 9 February 2017.

In addition, there will be an informal pre-meeting of members and the Head of Risk and Assurance at 9.15 a.m.

Following the meeting members and those in attendance paid a visit to the Palaeobiology Collections with Martha Richter (Interim Head, Palaeo Collections).

KEY TO ACTION INITIALS

Michael Dixon - MD

Jan Day - JD

Neil Greenwood - NG

Colin Hudson - CH

Keith Jennings - KJ

Sarah Long - SL

Justin Morris - JM

Hilary Newiss - HN

Robert Noel - RN

George Wrigley - GW

Clare Valentine - CV

ACTION