



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

46th Meeting on Tuesday 10th November 2009

Present

Sir David Omand in the Chair
Professor Dianne Edwards
Dr Derek Langslow
Mark Richardson (co-opted member)

In Attendance

Oliver Stocken (Chair of Trustees)
Dr Michael Dixon (Director)
David Thorpe (Head of Risk and Assurance)
Neil Greenwood (Director of Finance)
David Kennedy (National Audit Office)
Nick Buxton (Partner, PKF)
Jan Day (Committee Secretary)

Sharon Ament (Director of Public Engagement/Chair Crisis Management Team) was in attendance for item 9 and Paul Brereton (Director of HR) was in attendance for items 12 and 13.

ACTION

- 1 APOLOGIES FOR ABSENCE**
 - 1.1 Damian Brewitt (Director, National Audit Office) sent his apologies.
- 2 DECLARATIONS OF INTEREST**
 - 2.1 There were no declarations of interest.
- 3 MINUTES OF THE MEETING HELD ON THURSDAY 2ND JULY 2009 (PAPER TAC 27/2009)**
 - 3.1 The minutes were accepted as a true record of the meeting.

ACTION

Audit & Risk
Committee

4. MATTERS ARISING FROM THE MINUTES

- 4.1 Losses Register – para 8.13. A losses and compensation register was always drawn up at the year-end, however, it had been agreed that in future a register would be maintained throughout the year. It was agreed that the Audit & Risk Committee will review the register annually as part of the year-end accounts process.

5 DIRECTOR'S REPORT ON SIGNIFICANT CONTROL ISSUES IDENTIFIED SINCE THE LAST MEETING (PAPER TAC 28/2009)

- 5.1 The Director presented his paper
- 5.2 Follow up to the Public Interest Disclosure – The Director had written to the Director of Estates and the Operational Estates Manager to summarise the actions arising from the Risk and Assurance review of the protected disclosure. He also advised them of his intention to undertake an external review of the Estates Department by consultants. The review which will inform the future management structure and organisation of the Estates Department, was nearing completion. The Director will ensure that the recommendations, which it is hoped will raise the morale of Estates staff, are implemented quickly.
- 5.3 Future Management of Security – The external review of the Estates Department will also inform the security projects currently underway that were being led by the Director of HR and the Director of Estates. It had been agreed that the Museum will employ an internal security specialist whether or not a model can be agreed for a shared service provision with other organisations. The security specialist once appointed will help the Museum with its decision making on security. The job and person specification were currently being prepared.
- 5.4 Consideration was also being given to the security specialist's reporting line. Members noted that the wider the remit of the security specialist e.g. risk management and health & safety the higher the reporting line should be.
- 5.5 The DC2 programme - Darwin Centre Phase Two was launched to critical and public acclaim. Visitor numbers to the Museum were up over prior year by some 43%. The Cocoon Tour had been running at below maximum capacity of 2,500 visits per day. The tour, however, was free and consideration needed to be given to its management. It was possible to book on-line and this resulted in a small percentage of no shows. The museum was encouraged by the take up of Nature Plus cards and a user community of over 6,000 individuals had already been established.
- 5.6 The success of Darwin Centre had resulted in numerous requests by government for visits and events. In particular the Museum had an enquiry from 10 Downing Street about a possible Darwin Centre event in the run up to the Copenhagen Climate Change Summit in December.
- 5.7 In the light of increased visitor numbers, attention was now focusing on the process of bag searching at the public entrances and queue management. The queues during the recent half-term when attendance averaged close to 20,000 visits per day were very long. The Director confirmed that (a) it was not acceptable for visitors to queue for up to an hour, and (b) there was over-crowding in some parts of the museum, increasing security and health and safety risks.
- 5.8 The Chairman of the Audit & Risk Committee said (i) the approach used by the Imperial War Museum to managing the first security interface with visitors was an attractive model, and (ii) the new security specialist should be used to maintain close contact with the police and security authorities about what measures were considered necessary in the light of the most up to date threat assessments.

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- 5.9 Grant-in-aid funding – The Museum was awaiting definitive news on the revised capital grant-in-aid funding for 2010/11. The well publicised problem DCMS had with its capital commitment for 2010/11 was now in the region of £10m.
- 5.10 Operational efficiency and shared service opportunities - The government continued to exert pressure on Departments to seek efficiency savings from within and from their sponsored bodies. The Museum had redoubled its efforts to find efficiencies through shared service provision with other local Museums. It was noted that it was important that efficiencies were found. A project to investigate shared service provision with the V&A, NMSI and IWM was ongoing.
- DO/MD 5.11 Head of Risk and Assurance - The Head of Risk and Assurance was considering partial retirement. It was agreed the Chair of the Audit & Risk Committee and the Director would meet before Christmas to discuss the options for providing audit services.
- MD/PB/NG/DT 5.12 Cash thefts - Three cash thefts had recently taken place, however, these were all picked up by the Museum's internal control mechanisms. It was agreed that anyone stealing or otherwise defrauding the Museum would be reported to the police and this policy would be made known to all staff.
- 5.13 Museum of London Awards – The Committee congratulated the Director on the Museum winning three awards. A gold award for the best London free experience, a gold award for Marketing/PR campaign of the year for the Darwin Exhibition and a silver award for Business Venue of the Year.

6 DIRECTOR OF FINANCE'S REPORT (PAPER TAC 29 (a), (b) & (c)/2009)

- 6.1 The Director of Finance presented his papers.

Financial Review for the period April 2009 – September 2009

- 6.2 Self generated income - There continued to be good retail and catering sales, but conferences, events and consultancy receipts were still down. There was also improved potential on special exhibitions and retail since the opening of DC2. The Retail Business Plan for next year will recognise that the area for future retail growth was the adult market, but this depended on shifting the profile of the visitor audience. The forecast for Science Income had also increased and the Museum was benefiting from the increased value of the Euro.
- 6.3 Expenditure – Total expenditure now included the 2 year back dated pay award and this had no implications for next year. The electricity provision was re-tendered in September 2009 and from 1st October 2009 the Museum had moved from an OGC supplier fixed rate to a semi fixed rate with the Universities Energy Consortium.
- 6.4 Swine Flu - An estimate had been made of the potential impact of Swine flu should the Museum have to close. This amounted to a sum in excess of £600k per month arising from lost income from Admissions, Cloakroom, Retail, Catering, and Conferencing and Events (including the ice rink) offset by savings on cost of sales and agency staff.
- 6.5 Economic Environment – It was noted that because of the uncertainty of future government funding it was important to keep a close eye on the cash flow of current projects. The Museum was in the process of reviewing budgets under various different scenarios. In addition, the NAO will review whether any planned changes give rise to provisions or adjustments which require accounting for during the year ended 31st March 2010.

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Darwin Centre Phase Two

- 6.6 The current expenditure forecast amounted to £78.500m which was in line with the revised budget approved by the Trustees in May 2009. There were a number of teething issues but these did not detract from the fantastic launch. The final DC2 Trustees Sub Committee meeting will be held on 2nd December 2009; any subsequent business matters will be dealt with by the main Board of Trustees.

Restless Planet

- 6.7 There had been no movement since the previous report.
- 6.8 Planning and Design Consulting – There was an opportunity to reduce future costs and enough business had been secured to cover running costs until April/May 2010. In addition, there was a major contract under discussion. The future of the unit and the need for a review by the Risk and Assurance team will be assessed in January 2010. The Chairman asked that the committee receive an update report in due course.

SA/MD

7 MANAGEMENT RESPONSE TO THE NAO ISA 260 REPORT AND KINGSTON SMITH RECOMMENDATIONS 2008-2009 (PAPER TAC 30(a) & (b)/2009)

- 7.1 The Director of Finance presented his paper.
- 7.2 The Committee and the auditors were content with the action being taken to address the recommendations.

8 HEAD OF AUDIT AND ASSURANCE PROGRESS REPORT TO NOVEMBER 2009 (PAPER TAC 31/2009)

- 8.1 The Head of Risk and Assurance took members through his report.
- 8.2 Reports and work in progress - There were no serious concerns arising from the audits completed since last July.
- 8.3 EU Grant Audits – The Head of Risk and Assurance expressed some concern about the problems arising from the EU external audits his team completed. The financial information was often incomplete or inaccurate and the audit team had to spend a significant amount of time helping scientific staff sorting it out before it could be audited. It was noted that the audit fee came out of the total EU overhead for the grant and the intention was to realise as much income for science as possible. The time spent on the audit of other grants such as the DEFRA Darwin Initiative was often disproportionate when compared to that spent on the NHM Annual Accounts.

DT/MD Audit &
Risk Committee

- 8.4 Risk and Assurance Plan 2010/2011 – It was agreed that when the Committee considered the 2010/2011 plan it would review the type of work being done by the audit team and whether they were working in the areas of most value to the Museum and Committee.
- 8.5 Theft of Specimens from the NHM bird collection at Tring - The Committee considered the points raised in the report and the action taken by the police to identifying the people who committed the theft. They also noted: (i) the improvements made to Tring security since the theft; and (ii) the action taken by the Head of Risk and Assurance to broaden the discussion on collections security and the actions required to improve security. Curators cared deeply about the security of their collections, but did not have the resources to supervise visitors at all times. It was generally agreed, that a balance needed to be struck between access to the collections

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for research purposes and their security.

- MD 8.6 The Director planned (i) to talk with other major Museums about the possibility of introducing a reciprocal organised theft alert system and (ii) to follow up the outstanding planning permission for external CCTV cameras at Tring with the local council.
- 8.7 The Chairman commended the Head of Risk and Assurance on his report.
- 9. CRISIS MANAGEMENT POST EXERCISE REPORT (PAPER TAC 32/2009)**
- 9.1 Sharon Ament (Director of PEG/Chair Crisis Management Team) gave the Committee an over-view of the crisis management exercise process.
- 9.2 The Crisis Management Team were part of the business continuity approach which was governed by the business continuity manual and action plan. The exercise was the second to take place and further exercises will be run covering other elements of crisis management e.g. communications.
- 9.3 The exercise was extremely useful and provided the Crisis Management Team and the Board with an assurance that the Museum had a crisis management team which (i) understands the operations of the Museum and (ii) had confidence to make sound judgements in a time of crisis.
- SA 9.4 The Chair of the Crisis Management Team accepted the issues raised by the assessors in the post exercise report and said she would ensure the advice was followed. However, she did not agree with the assessors that (i) there was a need to set up a “disaster or resilience group” to ensure ongoing work is planned, as she wanted to avoid a multiplicity of standing committees; or (ii) there was not enough involvement of the Collections Recovery Team. The particular scenario meant that the focus was on health and safety and not collections recovery. She was, however, meeting with the Collections Recovery Team to ensure they were clear at what stage they would be involved in the event of a crisis.
- SA 9.5 The Chair of the Audit & Risk Committee welcomed the exercise which added confidence in the arrangements for dealing with major incidents. He asked that the Committee were informed of future exercises so that members could attend. The Chair pointed out that a scenario can never be like the real thing and actual crisis situations can be so intense that the team had no time to think about the future. That was why the consultants had recommended the “disaster or resilience group”. He also pointed out that the team needed to be prepared for many types of scenarios including those involving the Collections Recovery Team.
- 10. CORPORATE RISKS (PAPER TAC 33/2009)**
- 10.1 The Director presented the committee with updated corporate risk schedules which recorded the changes resulting from the management of the risks.
- DG 10.2 The Chairman of the Audit & Risk Committee questioned whether a consistent approach was being taken to the commitment of resources being put into the management of the risks, making reference in particular to “Inadequate web presence” and the contrast with the risk of grant in aid cuts. There were: (i) some corporate risks over which the Museum had no control but needed to have contingency plans; (ii) there were risks such as fire inherent in the nature of the business on which systems assurance was needed; and (iii) there were risks of failure to deliver priorities identified by the Museum itself such as DC2 benefits and “Inadequate web presence”.

ACTION

- 10.3 Risk management should not be just about formal assurance systems. There was a danger that papers were being produced just because an Audit Committee meeting was looming. The Director acknowledged the point, but added that he was confident that the necessary work was being done. He suggested that (i) there was a variation in the degree to which the different risk registers were completed, and (ii) the format may not be the best way to demonstrate the work being done.
- 10.4 The view was expressed that it was important that the Museum and the Committee provide the same scrutiny to long term inherently high risks as that given to the major corporate risks. It was observed, however, that the level of the scrutiny would vary with the different type of risk. In the case of long term inherently high risks the committee needed to be satisfied that the controls were operating effectively. More in-depth knowledge was needed when discussing individual major corporate risks.
- MD/DO 10.5 It was agreed that “before February” 2010 the Director and Chairman of the Audit & Risk committee would discuss how to involve the Audit & Risk Committee and the main board in the consideration of major corporate risks and inherently high long term risks for 2010-2011.
- 11. NAO/PKF AUDIT STRATEGY 2009/2010 (PAPER TAC 34/2009)**
- 11.1 The Committee reviewed the strategy and approved the increased NAO Audit fee. The Chairman asked that it be recorded that in the current financial climate the Museum would not continue to pay increases in the audit fee each year regardless. Although the NAO was a monopoly supplier it needed to take account of the financial climate and the experience of audit firms in the private sector.
- 11.2 FRS 30 - Heritage Assets - There was one potential change to the format of the accounts relating to the introduction of a new reporting standard - FRS 30. This standard sets out new disclosure requirements for the reporting of heritage assets, whether or not they were reported on the balance sheet. The standard would apply to accounting periods commencing on or after 1st April 2010, and early adoption was encouraged. The Director of Finance said it was unlikely that the Museum would opt to put the cost value of purchased collections on the balance sheet. The focus for the Museum was the stewardship of these assets and the NHM was well placed to meet the new requirements as there was currently a detailed note on collections management in the annual accounts.
- 12 INFORMATION RISK MANAGEMENT & SECURITY POLICY FRAMEWORK UPDATE (PAPER TAC 35/2009)**
- 12.1 The Director of HR presented his paper.
- PB 12.2 Good progress had been made in the identification and management of information risks. Members of the Committee would shortly be sent an e-learning training package developed by the National School of Government on information risk management. This will also go out to all staff and there was a completion certificate at the end.
- DO 12.3 The Chairman of the Audit & Risk Committee agreed to undertake the training package before recommending that it was rolled out to Board members.
- 12.4 A protection marking procedure had been developed for the Museum’s information. This required that protectively marked information sent via email must always be sent as an encrypted attachment.

ACTION

13 UPDATE ON THE CORPORATE RISK “OUR SECURITY STAFF FAIL TO DELIVER THE LEVEL OF SECURITY NEEDED IN THE CHANGING ENVIRONMENT” (PAPER TAC 36/2009)

PB

13.1 The Director of HR provided an update on the Museum’s seventh corporate risk. A report with recommendations on the way forward will go to the Directors Group in December 2009. It was also agreed that a further update would be provided to the Audit and Risk Committee in February 2010.

14 REVIEW OF THE AUDIT AND RISK COMMITTEES’, EXTERNAL AUDITORS’ AND INTERNAL AUDITORS’ PERFORMANCE

14.1 The Committee took time at the end of the meeting to consider their own performance during the year and the performance of the internal and external auditors.

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 11th February 2010.

KEY TO ACTION INITIALS

Sir David Omand - DO

Michael Dixon - MD

Neil Greenwood - NG

David Thorpe - DT

Sharon Ament - SA

Paul Breerton - PB