



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

47th Meeting on Thursday 11th February 2010

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)
Neil Greenwood (Director of Finance)
Jan Day (Audit Manager/Committee Secretary)
Keith Lloyd (Director, National Audit Office)
Martin Burchmore (Partner, Kingston Smith)

ACTION

The Chairman welcomed Keith Lloyd (Director, National Audit Office) to his first meeting. The Chairman also asked that the Committee members' best wishes be passed on to David Thorpe (Head of Risk and Assurance) who was unable to attend due to serious illness.

1 APOLOGIES FOR ABSENCE

1.1 Nick Buxton (Partner, PKF) sent his apologies.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES OF THE MEETING HELD ON (PAPER TAC 1/2010)

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

ACTION

4. MATTERS ARISING FROM THE MINUTES

4.1 There were no matters arising.

5. AUDIT & RISK COMMITTEE ANNUAL REPORT INCLUDING THE AUDIT & RISK COMMITTEE TERMS OF REFERENCE (PAPER TAC 2/2010)

5.1 The Chairman introduced the report which will be presented to the Board of Trustees on 23rd February 2010 and sent to The Department of Culture Media and Sport (DCMS). It was noted that it was good practice for the Audit & Risk Committee to review the Audit & Risk Committee Terms of Reference annually. These were endorsed by the Committee.

Audit
Committee
MD/JD

5.2 The Chairman drew attention to the reference in the Annual Report to a significant concern that had been raised in recent years by the Committee over delays by some areas of NHM in responding to points raised in audit reports. He was now able to report to Trustees an improvement during the year, a position welcomed by the Committee. The Chairman said he would reassure the Board of Trustees that the Committee will keep this under review. In addition, the Director will continue to monitor the issue with the Audit Manager in the absence of the Head of Risk & Assurance. Members agreed that if recommendations in audit reports were not practical or cost effective this should be discussed with Risk & Assurance before the report was finalised. In the event of a disagreement the issue should then be escalated to Directors.

6 DIRECTOR'S REPORT (PAPER TAC 3/2010)

6.1 The Director presented his paper.

Anna Cuss

6.2 Internal Audit Review of Gifts and Hospitality - The review circulated to the Audit & Risk Committee reported that the processes the Museum had been operating to record gifts and hospitality were being adhered to. The review was, however, timely in the context of the changing attitudes to such matters relating to private gain at public expense in the light of the MPs expenses scandal. The Committee asked the Director to ensure that: (a) NHM introduce a register of gifts and hospitality for Trustees in respect of their work on behalf of the Museum which will also record nil returns. It was agreed that the Directors' Personal Assistant will be writing to trustees regarding setting up the register; and (b) NHM should introduce improved procedures for staff who are in receipt of gifts and hospitality including reviewing levels of authorisation and transparency of disclosure.

6.3 Internal Audit Review of Travel and other Expenses – Members noted that a review had taken place in February 2009 with a follow up of the recommendations in October 2009.

6.4 Government funding – The Minister of State for Culture, Media & Sport had earlier in the week given the Director an assurance that no cuts to funding for museums and galleries were anticipated in the March Budget. There was a concern, however, that the previously announced (and adjusted) resource and capital funding might be reduced for 2010/11 by a new administration (of whatever party) soon after the election. The Museum was working on a plan to reduce expenditure for 2011/12 and the Director had explained the background to this work at his quarterly update presentation to staff on 10th February 2010.

6.5 Security of collections - The loss of bird skins from Tring had prompted work on the security of collections. This work was considering the procedures by which access to the collections was granted to visiting researchers and the physical security of the collections. The work commenced before the Head of Risk & Assurance went on sick leave, but was being carried forward by the Collections Committee. It was agreed that the Director of Science should make a presentation to the Audit & Risk Committee at its May meeting on how the risks to collections had been re-evaluated and what new mitigation plans were in place.

RL

ACTION

- NG 6.6 It was agreed that although the bird skin loss did not impact on the balance sheet in the Annual Accounts it was a material loss to the Museum which should be disclosed in the statement on internal control. The draft statement will be presented to Audit & Risk Committee at its May meeting.
- 6.7 Museum attendance - Total attendance in the year to 31 December 2009 had reached 4.1m, an all time high for the Museum. Since the opening of the Darwin Centre the Museum had seen five record months from September 2009 to January 2010. The Darwin effect was slowing down, however, the Director was optimistic the airing of the BBC2 documentary series *Museum of Life* will commence in March and provide another positive effect on attendance. The programme was in magazine format and was a serious look behind the scenes at NHM science.
- 6.8 Reactions to Darwin Centre – The Museum undertook research with Opinion Leader (a research consultancy) approximately 15 months ago and this was repeated recently. The market research suggested that the Darwin Centre was having a positive effect on the public perception of the Museum as a scientific institution.
- MD 6.9 Work by DCMS in ‘Making the Case’ - DCMS officials were undertaking a number of strands of work that related to their case for funding in the next spending review. The value for money / public value programme had resulted in a request for significant input from the NHM and six other sponsored bodies over a short period. It was an attempt to demonstrate an economic return for investment in cultural activities. The Director was very supportive of the work which linked with Museum’s own work on demonstrating the value of NHM science and its collections. It was noted that NHM’s expenditure on science was far greater than other museums and galleries and the museum needed to consider how to make the case for NHM science effectively.
- MD 6.10 The Director will report back on the value for money / public value programme at the May Audit & Risk Committee.
- 6.11 NMDC work on the case for Museums - NMDC had recently published a document to support its campaign for future funding of Museums. Entitled, ‘Museums Deliver’. The document will be circulated to trustees. Chris Yates (Director of Administration) at the British Museum had recently given an excellent presentation on the business model of national museums. This will form the basis of an article which it is hoped will be useful to trustees. It will set out why museums are unique in the public sector being accountable for three sets of legal and financial regulations i.e. charitable, company and Treasury.
- 7 DIRECTOR OF FINANCE’S REPORT ON THE CURRENT FINANCIAL POSITION (PAPER TAC 4 (a) & (b) /2010)**
- 7.1 The Director of Finance presented his papers.
- (a) Financial Review for the period April 2009 – December 2009**
- 7.2 The report showed actual expenditure to the end of December 2009 and compared the revised annual forecast with the previous forecast and the original budget approved at the Trustees’ meeting in November 2008.

ACTION

- 7.3 General Fund - The key point to note was that the General Fund balance was currently £2.339m which was a decrease of £101k compared with the previous forecast in November 2009. The Director of Finance was confident that the deficit would be addressed by (a) additional income before the year end or, (b) by savings if carry forwards requests were not approved. It was noted that the General Fund balance was dependent on end of year flexibility to carry forward surplus funds. The Director of Finance, however, did not anticipate the Treasury and DCMS would attempt to claw back funds. Whether the surplus funds were self generated or from government funding was generally not significant to making a case for end of year flexibility.
- 7.4 Reserves Policy – Following a brief discussion of reserves policy it was noted that most other museums operated with a larger general reserve. The NAO had carried out a review of reserves policy across the sector but without reaching any definitive conclusion. It was also noted that the Board of Trustees had considered the NHM reserves policy as recently as its November 2009 meeting and had approved the present planning assumption.
- 7.5 Capital Expenditure - Capital expenditure had increased by £1.4m on the original budget reflecting the fact that where possible capital projects had been advanced in order to meet DCMS requirements. The capital programme for this and future years was presented as part of the overall Museum budget position to trustees in November 2009.

(b) Restless Planet update

- 7.6 There had been no movement since the previous report.

8. EXTERNAL AUDIT AND ACCOUNTING TIMETABLE 2009/2010 (TAC 5 (a) & (b) /2010)

(a) Annual Accounts 2009-10 – timetable and accounting issues

- 8.1 The Committee reviewed the timetable.
- MD/NG 8.2 Accounts preparation - As last year a suitably qualified resource with Charity SORP experience had been found and will be commencing work in a few weeks time. Doubts were expressed as to whether it was sensible to rely every year on a temporary solution rather than resourcing the Finance Department so that a permanent member of the team who had ongoing knowledge was able carry out the role. The Museum Director and Director of Finance said they would explore the cost effectiveness of a longer term solution recognising that it was in the nature of this work that it peaked at certain times of the year.
- MD/NG 8.3 The date for the review of accounts with Chairman and Chairman of Audit Committee had yet to be set.
- 8.4 The timetable was tight, with little time between the Audit & Risk Committee and the Trustees meeting which was a week earlier than 2009, and between the Trustees meeting and the parliamentary recess. It was noted that the date of the summer recess was not confirmed, the Committee was advised, however, that there should be sufficient time for the Comptroller and Auditor General (C&AG) to sign the accounts on the proposed timetable. Depending on progress and the review of the accounts at Audit & Risk Committee and the Trustees meeting it was recognised there would be the fall-back option of arranging for Chairman's action to approve the accounts.
- NG 8.5 A going concern assessment – It was agreed that in the light of the uncertainty surrounding future government funding a going concern assessment would be presented at the May Audit & Risk Committee meeting.

ACTION

- 8.6 Catering contract - Under the catering contract, the caterer was making a contribution of £700k towards the refurbishment of the catering outlets. Kingston Smith were considering the appropriate accounting treatment of the contribution in the Trading Company Accounts in the light of changes contained in the final signed contract with the cater.

(b) Kingston Smith Audit Strategy

- 8.7 The Committee reviewed the strategy and approved the Audit fee which was unchanged from 2009.

- NG/MB 8.8 The timetable had been agreed and with the exception of the closing Audit meeting to be held in the week commencing 24th May 2010. The intention was that Kingston Smith will complete their audit prior to the NAO starting their audit. The final Trading Company Accounts will be sent to the Director of Finance the week commencing 7th June 2010.

9 AUDIT MANAGER'S PROGRESS REPORT TO FEBRUARY 2010 (PAPER TAC 6/2010)

- 9.1 The Audit Manager presented her paper.

- 9.2 Annual Plan 2009/2010 - Due to the serious illness of the Head of Risk & Assurance the Audit Manager had assumed responsibility for overseeing the annual Internal Audit plan. The Director had met with the Audit Manager and they had prioritised the work and made adjustments to ensure that the best coverage within available resources. The Internal Audit assurance necessary to produce the annual statement of internal control will be completed on time as will the checks on key financial controls required by the external auditors. The Committee expressed their support for the actions taken by the Audit Manager.

- JD/KL 9.3 Staffing issues - How Internal Audit should in future be resourced was under discussion between the Director and the Chair of the Committee. Currently there was one agency auditor working for the Audit Manager who was leaving at the end of February 2010. The Audit Manger was, therefore, in the process of speaking with recruitment agencies with a view to finding a suitable replacement. It was agreed that the Audit Manager would also look into the possibility of a temporary secondment from the NAO. A complicating factor was the HM Treasury government wide initiative to review the provision of internal audit, to include sponsored bodies. Papers very recently circulated by DCMS for consultation suggested new arrangements that could affect the capability of the NHM to have the necessary internal audit support (please see item 11 below).

10. RISK AND ASSURANCE DRAFT PROPOSED PLAN 2010/2011 (PAPER TAC 7/2010)

- 10.1 The Audit Manager presented the draft proposed plan.

- 10.2 Members agreed the draft plan in principle, with the caveat that:

- MD/JD (a) the Committee would reconsider the draft plan at the May meeting in the light of the definitive, ranked list of major corporate risks for 2010/11 to be presented at that meeting; and

- JD (b) in order to ensure that there was adequate coverage of major risks the estimated number of person days by each of the main categories e.g. major risks, follow up reviews, would be added to the plan and circulated to members.

ACTION

11 INTERNAL AUDIT STRATEGIC IMPROVEMENT PLAN – CONSULTATION

- 11.1 The Consultation on the Internal Audit Strategic Improvement Plan and covering letter from David Bell (Permanent Secretary at the Department for Education and Skills) dated 8th January 2010 was received by the Museum from DCMS on 5th February 2010. The deadline for comments to Steve Barnes, Lead Audit Policy Adviser, Assurance and Financial Reporting Policy was 15th February 2010.
- 11.2 The Committee discussed at length the proposals in the Consultation Paper. Members were of the view that it was crucial to the Director's role as Accounting Officer that he could influence the annual internal audit plan and respond to an ever changing internal and external environment. The arrangements proposed by HM Treasury did not at first sight seem to be as satisfactory as the current internal audit provision.
- 11.3 It was noted that a number of museums and galleries were concerned about (a) the "one size fits all" approach; and that (b) Accounting Officers of smaller bodies may not get the assurance they need. An NAO study of internal audit across the sector had suggested that the NHM invested more in internal audit than other museums and galleries. As a result it may make it difficult to give a co-ordinated response from the sector as had been suggested by the NAO.

MD/DO

- 11.4 Following discussion it was agreed that: there would be two responses from the museum, one from the Director as Accounting Officer and the second from the Chair of the Audit & Risk Committee on behalf of the trustees. Secretary's note: copies of these letters are attached to the minutes.

12. DIRECTOR'S REPORT "CONSIDERATION OF THE ANNUAL RISK MANAGEMENT CYCLE" (PAPER TAC 8/2010)

- 12.1 The Director presented his paper.
- 12.2 The paper had been produced in recognition of the desire of the Audit & Risk Committee to play a more proactive role in assessing the risks to NHM's operations.
- 12.3 The Director proposed three major categories of risk: (a) risks directly associated with the organisation's primary purpose; (b) risks that we impose on ourselves e.g. reorganisations and new projects; and (c) risks that were outside of our ability to control e.g. terrorism. Risk needed to be considered in the current political, economic, social, technological, legal and environmental contexts. The biggest risk to the future of the Museum was ongoing funding.
- 12.4 The Chairman thanked the Director for his excellent paper and the opportunity to consider the risks to the NHM. It was noted that material/resource and reputational risk were both equally important.
- 12.5 Members considered the Director's list of risks to NHM operations which was divided into three major areas – science, public engagement and support services. Members confirmed that they thought the list was comprehensive and recommended those they considered most significant

ACTION

- 12.6 The Chairman concluded that in order to complete the assessment of risk at the May meeting the Committee needed further information set out in matrix format for the major categories of risk.

In the case of categories (a) and (c) this should record the control systems and the contingency plans in place together with the sources of assurance (e.g. audit, management ISO accreditation) that the controls and contingency plans were functioning effectively. In the case of category (b) imposed risks (e.g. the Darwin Centre) the Committee needed to be satisfied that the risks were being managed.

- 12.7 Following discussion it was agreed that Directors Group would:

(a) combine/bundle relevant risks and agree upon the 15 -20 most significant risks the NHM faces taking into account the views of the Committee as noted by the Director at the meeting;

(b) score the risks according to likelihood, impact and extant control measures, and bring back to the May meeting a ranked list and completed risk schedules for each of the top 8-12 risks;

(c) present the three major categories of risk in a matrix format as suggest by the Chairman at section 12.6; and

(d) at the May meeting the Audit & Risk Committee will consider one or two of the major corporate risks for the year and scrutinise the relevant risk management schedules.

MD
Directors
Group

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 6th May 2010 in the Directors Meeting Room NE 507.

KEY TO ACTION INITIALS

David Omand - DO

Michael Dixon - MD

Neil Greenwood - NG

Richard Lane - RL

Jan Day - JD

Keith Lloyd - KL

Martin Burchmore - MB