

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

41st Meeting on Thursday 3rd July 2008

Present

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

In Attendance

Dr Michael Dixon (Director)
David Thorpe (Head of Audit and Assurance)
Neil Greenwood (Director of Finance)
Alan Carr (Head of Finance)
David Kennedy (Audit Manager, National Audit Office)
Nick Buxton (Partner, PKF)
Martin Burchmore (Partner, Kingston Smith)
Jan Day (Committee Secretary)

ACTION

The Chairman welcomed Dr Derek Langslow to his first meeting of the Audit & Risk Committee.

1. APOLOGIES FOR ABSENCE

- 1.1 Oliver Stocken (Chair of the Board of Trustees) and Damian Brewitt (Director, National Audit Office) sent their apologies.

2. DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest.

**3. MINUTES OF THE MEETING HELD ON THURSDAY 8TH MAY 2008
(PAPER TAC 20/2008)**

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

ACTION

4 MATTERS ARISING FROM THE MINUTES

- DO 4.1 Business Continuity Awareness – para 4.2 The Chairman still hoped to attend a business continuity workshop.
- MD 4.2 Museum Visits - It was agreed a series of Museum visits would be arranged for Committee members. These will be to relevant areas and take place at the end of each meeting. In view of the importance of security the first visit will be to the Control Room.
- 4.3 The management of high visitor numbers – para 6.3 At the Trustees' Strategy Day it was confirmed by Arup that security issues relating to high visitor numbers would be considered during the Master Planning exercise. The implications of high visitor numbers would also be considered when planning individual capital projects.

5 DIRECTOR'S REPORT ON SIGNIFICANT CONTROL ISSUES IDENTIFIED SINCE THE LAST MEETING (PAPER TAC 21/2008)

- 5.1 The Director presented his paper
- 5.2 Funding Agreement with DCMS for 2008/9 to 2010/11 – The Chairman congratulated the Director on the signing of the funding agreement.
- 5.3 OGC Gateway 0/4 Review of Darwin Centre Phase 2 – The programme was adjudged to be Amber-Green, indicating a high degree of confidence in successful delivery. In addition, there were only a small number of recommendations.
- 5.4 There were a number of dependencies outside the current programme of projects managed by the DC2 Programme Office. These did not affect the delivery of the DC2 programme but may affect the operational management. An example was the Fire Precautions project - Phase 2 Waterhouse Building. This was being managed by the Estates Department and needed to be integrated with DC2 Fire Precautions. The seven or eight dependencies were monitored by the DC2 Programme Office at the monthly Programme Boards which were attended by the managers responsible for the delivery of the projects.
- MD, NG, DT Trustees 5.5 A decision on the scope of the Internal Audit review of DC2 had been deferred pending the outcome of the OGC Gateway Review. Committee members agreed that in the light of the positive OGC report Internal Audit should only carry out a review if it would be materially useful for the delivery of the DC2 programme. This needed to be considered by the Director, Programme Director, Head of Audit and Assurance and at the 15th July 2008 Board meeting.
- MD/DS 5.6 Conclusion of an investigation of a Public Interest Disclosure -The Director had briefed the Chair of the committee personally on the investigation and its findings and there will be a briefing to staff in the relevant department. The investigation found there was no evidence of wrongdoing, that some weaknesses of process and procedure had been highlighted but long-term value for money was being achieved. The member of staff who raised the concern had been briefed and was satisfied with the outcome.
- NG/AC 5.7 Work on the protection of personal data – The Trustees' Annual Report 2007/2008 included a section on the protection of personal data. There will be a requirement from 2008/2009 to give an assurance with respect to management of information risk as part of the annual Statement of Internal Control.

ACTION

- MD
- 5.8 Peer review for Museums and Galleries - James Purnell the former Culture Secretary had commissioned a review by Sir Brian McMaster. The review made a series of recommendations in respect of excellence in the Arts. The Museum had been asked to participate in a pilot scheme for peer review with the National Portrait Gallery and the Tyne and Wear Museum, two very different institutions from NHM. The Director had agreed to participate to enable the Museum to influence the development of the peer review positively. The Director intended to advocate strongly that the terms of reference and peer institutions selected should depend on the individual organisation being reviewed.
- 6 DIRECTOR OF FINANCE'S REPORT ON THE CURRENT FINANCIAL POSITION INCLUDING "CASH BALANCE INVESTMENTS", DC2 AND RESTLESS PLANET UPDATE (PAPER TAC 22 (a), (b) & (c) /2008)**
- 6.1 The Director of Finance presented his paper.
- 6 (a) Financial Review for the period April 2008 – May 2008**
- 6.2 The forecasted year end outturn for the General Fund was £3.479m. This was above the original figure of £2.479m by £1.0m which was approved in the 2008/2009 budget by the Trustees in March 2008. It was attributable to the increased surplus brought forward from 2007-08.
- 6.3 Income from Admissions to the Special Exhibitions amounted to £330k against a budget for the year of £1.2m. This represented a good start to the year and reflected, in particular, the income generated from *Amazing Butterflies*. The Director of Finance was confident that this year the budget would be achieved and maybe exceeded. Total current expenditure to date was marginally below the forecast for the year on a crude pro rata basis.
- DG/DS
- 6.4 Capital expenditure to date amounted to £0.272m from a budget of £7.195m. It was noted that the capital settlement from DCMS was greater than expected and received late. The Museum was investigating which capital projects including those in science to carry out in 2008/2009 and had appointed additional project managers.
- 6 (b) Darwin Centre Phase 2 – Programme Directors Report**
- 6.5 It was expected that a satisfactory handover of the building to the Museum would take place on 28th July 2008.
- 7 THE ANNUAL ACCOUNTS 2007-2008 - MANAGEMENT LETTERS, NAO AUDIT REPORT, ISA 260 AND THE STATEMENT ON THE SYSTEM OF INTERNAL CONTROL (PAPER TAC 23 /2008)**
- 7.1 The Director of Finance presented his paper.
- 7 (a) The Natural History Museum Annual Report and Accounts**
- NG/AC
- 7.2 There had been an informal review of the Accounts by the Chairman of the Audit & Risk Committee, the Chairman of the Board of Trustees and Mark Richardson (co-opted member) on 1st July 2008. The Annual Report and Accounts were being updated to take account of the points raised at the meeting and DCMS comments. In addition, the remuneration report and some of the disclosure notes required completion. The only substantive change to the Accounts presented was the movement of £3.4m out of the general fund into the designated fund.

ACTION

7 (b) NAO Audit Completion Report and ISA 260 Communication of Audit Matters to those charged with Governance

7.3 The PKF Partner presented the NAO Report

7.4 There had been an initial NHM management response to the NAO Recommendations and a full response will be presented to the November 2008 meeting.

7.5 Overall Conclusion – The Comptroller and Auditor General was expected to certify the accounts with an unqualified audit opinion.

Section 2 – Audit findings and recommendations

7.6 The PKF Partner highlighted the following issues.

NG/AC/NB 7.7 Accounts preparation – The agreed timetable had not been met and it was recommended the Museum conducted a post audit evaluation. It was agreed that section 38 would be amended to recognise the accounts preparation improvement which had taken place since 2006/2007.

NG/AC 7.8 Investment policy – It was recommended that at least once a year the Museum should set a target for the required return on investments. The Director of Finance agreed there needed to be more transparent reporting on the achievement of the funds objectives. It was noted, however, that investment income was not material in terms of the overall accounts and it may not be cost effective to change investment manager.

DT 7.9 Key Performance Indicators (KPI's) – The new funding agreement had no KPI targets although there was still a requirement to report performance. It was agreed that Internal Audit would carry out a review to ensure the statistics reported for all KPI's not just those reported to DCMS were reasonable.

NG/AC 7.10 Cottage Properties and Tring Estate – A master plan was to be carried out during 2008/2009 for Tring and Wandsworth. A view will then be taken on the classification of the cottages and their treatment in the annual accounts.

7 (c) Other Points Arising

NG/AC 7.11 Remuneration Report - HM Treasury required all government bodies including NDPBs to prepare a remuneration report disclosing the total amount of remuneration paid to each senior manager. All the museums and galleries were making a full disclosure. Non compliance would be reported by the NAO in their audit certificate and lead to a qualification of the accounts. It was confirmed that the Museum would make a full disclosure in the 2007/2008 Annual Accounts. The Chairman expressed the view that he and the Chair of the Board did not consider it to be in the public interest.

7.12 Related Party Transaction Disclosure - A potential case for a related party disclosure in the Financial Statements was discussed and it was agreed that disclosure was not required.

NG 7.13 Summer Recess Tuesday 22nd July 2008 - The NAO Audit Manager alerted the Committee and Museum Director to the fact that approving the signed accounts at the Board of Trustees on 15th July 2008 may mean the accounts were not signed by the Comptroller and Auditor General in time for them to be laid before Parliament rises for the summer recess. The Director of Finance said that he would consider arranging for the accounts to be authorised by Chairman's action before the next Board meeting.

ACTION

7 (d) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter

Trading Company Accounts

- MD/NG 7.14 The Accounts were approved by at a meeting of the Trading Company Directors on 2nd July 2008 and were ready to be signed.
- 7.15 Restless Planet – Following discussion with Kingston Smith and at the review meeting on 1st July 2008 it was agreed that the bad debt provision would remain at £500k.
- #### *Kingston Smith Management Letter*
- 7.16 The Kingston Smith Partner presented the Management Letter.
- #### *Appendix 1*
- 7.17 Events Income - The events income that should not have been deferred amounted to £25k and was, therefore, not significant.
- #### *Appendix 2 - Minor Points*
- 7.18 Credit Terms for Customers – Allowing credit to overseas customers can be risky. Audit and Assurance had recommended in several reports that Departments should be reminded of the importance of credit procedures. It was noted, however, that credit checks only highlighted companies that cannot pay, not those that will not pay. In addition, credit checks on overseas customers may not always be practical.

- NG 7.19 Companies House filing – the annual return due 12th June 2007 had not been filed due to software problems but would be filed in hard copy imminently.
- 7.20 Purchase Ledger – the small number of debit balances on the ledger which can indicate paying for something without an invoice being posted or paying for it twice amounted to £7k and was not significant.

7 (e) Special Funds, Benevolent Fund and Cockayne Fund

- 7.21 The Special Funds Trust and Benevolent Fund accounts were complete and awaiting approval prior to signature. The CockayneTrust accounts had been approved by the Cockayne trustees and were awaiting signature.

7 (f) Audit & Risk Committee Approval

- 7.22 Members:

- OS
Trustees
- (a) approved the Special Funds and Benevolent Fund for the Chairman of the Board's action; and
 - (b) recommended that the consolidated accounts for the Natural History Museum were approved by the Board of Trustees on 15th July 2008 subject to the planned amendments.

ACTION

8 HEAD OF AUDIT AND ASSURANCE PROGRESS REPORT TO JULY 2008 (PAPER TAC 24/2008)

- 8.1 The Head of Audit and Assurance presented his paper.
- 8.2 The committee was asked to note the new format of his report which was now considerably shorter. This report provided (a) a summary of the reviews completed since the last Audit Committee meeting; (b) a note on action points arising during the last Audit & Risk Committee meeting; and (c) a record of progress made against the annual plan.
- 8.3 The Head of Audit and Assurance and Audit Manager gave a brief summary of the main issues arising from three reports (a) Science Income where the implementation of the recommendations had been slow; (b) Entomology where a detailed risk assessment had not been drawn up for the department; and (c) Fraud Awareness where work was also needed on risk assessment and fraud indicators.
- 8.4 It was noted that the Head of Audit and Assurance and Audit Team provided advice and guidance on risk management and facilitated sessions on risk management for key staff in departments.
- 8.5 The Chairman and members agreed that the reduced amount of information given was sufficient for them to gain an adequate understanding of the work done by the audit team. However, it was recommended that the Head of Audit and Assurance should also provide the committee with a written summary of any fundamental weaknesses and delays arising.

DT

9 AUDIT AND RISK COMMITTEE ANNUAL REPORT (PAPER TAC 25/2008)

- 9.1 The Chairman presented the report and said that it had been introduced in order to comply with best practice.
- 9.2 Members agreed that consideration would be given in 2008/2009 whether to include in the annual report: (a) a list of the Audit and Assurance reviews carried out; and (b) a summary of significant findings.

DO/DT

10 RISK MANAGEMENT PROCESSES (PAPER TAC 26/ 2008)

- 10.1 The Head of Audit and Assurance presented the paper.
- 10.2 The paper had been prepared in response to the Audit & Risk Committee's request for an outline of (i) the risk assessment processes adopted by the Museum, (ii) the management of individual corporate risks, including long term inherently high risks, and (iii) the revised risk registers and methodology for scoring risks.
- 10.3 The Museum had begun embedding a formal risk management process in 1999 when the Corporate Risk Group was set up. In addition, a policy statement and guidance to help staff understand and adopt risk management were developed. The embedding of risk management had been assisted by the Director's decision to absorb the Corporate Risk Group into the Director's group, demonstrating the importance given to the process.

ACTION

- 10.4 Recent audits completed by Audit & Assurance had highlighted inconsistencies in the use of risk registers. To achieve consistency and to improve the review of risks bottom up as well as top down, Directors Group had decided that there should be a standard definition of terms and standard reporting systems. To facilitate this process the Group had produced a standard risk register which combined the high, medium and low classification with a numerical scoring system. It also included a comparison of the initial and current status of each risk. In addition, objective criteria had been developed for assessing the terms impact, likelihood and control.
- MD/DT 10.5 It was proposed that the Director and Head of Audit and Assurance would make a series of presentations to senior managers on the new process. The Head of Audit and assurance was currently updating the "Guide to Risk Management".
- DT
- 10.6 The Corporate Risk Register included the management of long term inherently high risks as well as major risks. The risk of reputational loss and the Museum not being perceived as a voice of authority on the natural world were discussed. This risk maybe elevated as a corporate risk in 2009/2010 as a consequence of the Brand Management work being undertaken by the Museum.
- MD/DT 10.7 The committee approved the risk assessment and risk management processes for adoption by the Museum.
- 10.8 In conclusion it was agreed that:
- (a) examples of the management of individual major corporate risks and long term inherently high risks should be brought to the Committee for consideration;
- MD/DT (b) the November meeting should have presentations on the major risks of (i) not having effective plans to deliver capital projects and; (ii) failing to respond adequately to the threat of terrorism; and
- (c) the Committee should receive a presentation from a department to be agreed on their risk assessment process.
- 11 ANY OTHER BUSINESS**
- 11.1 There was no other business
- 12 DATE OF THE NEXT MEETING**
- 12.1 The next meeting will be held at 10.00 a.m. on 13th November 2008 in the Gavin de Beer Room.

KEY TO ACTION INITIALS

Oliver Stocken	- OS	Alan Carr	- AC
David Omand	- DO	David Sanders	- DS
Michael Dixon	- MD	Nick Buxton	- NB
David Thorpe	- DT	Directors Group	- DG
Neil Greenwood	- NG		