

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

44th Meeting on Thursday 7th May 2009

Present

Sir David Omand in the Chair
Professor Dianne Edwards
Dr Derek Langslow
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 (Manager, National Audit Office)
Sarah MacQueen (Manager, PKF)
Jan Day (Committee Secretary)

ACTION

1 APOLOGIES FOR ABSENCE

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

2 DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest.

ACTION

3 MINUTES OF THE MEETING HELD ON THURSDAY 12th FEBRUARY 2009 (PAPER TAC 7/2009)

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

4. MATTERS ARISING FROM THE MINUTES

OS – 13th
May

4.1 Peer review for Museums and Galleries – para 5.5 The Chair of the Board of Trustees would be attending a DCMS meeting on 13th May 2009 to discuss the peer review process. He had been briefed by the Museum on how the process should be improved.

4.2 FOI request – para 5.15 The Head of Audit and Assurance's review that upheld the decision to use an exemption to withhold information had to date not been challenged by the requestor.

4.3 Accounting Timetable – para 8.6 & 8.10

(i) Good progress had been made with the production of the annual accounts and there were no concerns with delivery to the agreed timetable. Please also see section 6.3 & 6.4;

(ii) a provisional date had been set for the July 2010 Board of Trustee meeting. Due to the logistics of finalising the accounts the timetable for the July 2010 Board of Trustees and Audit & Risk Committee meetings would be similar to the 2009 timetable; and

(iii) the Director of Finance will ask the Board of Trustees at their meeting on 21st May 2009 if the accounts could, if necessary, be authorised by Chairman's action.

NG – 21st
May 2009

4.4 Comptroller and Auditor General (C&AG) - It was noted that a new Comptroller and Auditor General (C&AG) Amyas Morse was to take up post on 1st June 2009.

5 DIRECTOR'S REPORT ON SIGNIFICANT CONTROL ISSUES IDENTIFIED SINCE THE LAST MEETING (PAPER TAC 8 /2009)

5.1 The Director presented his paper

5.2 Public Interest Disclosure – The Director briefed the Audit & Risk Committee on a recent public interest disclosure. The anonymous allegations had been investigated by the Head of Audit and Assurance who had found there was no substance to the allegations.

5.3 Lobbying for Museums in the 2010/11 revised funding allocations - Since the budget the Museum had been advised that the NHM resource funding for 2010/11 was to be reduced by 0.5% from the previously advised figure. This was a better outcome than had been anticipated, however, the Museum awaited news on the capital budget.

5.4 The longer term prospects for government funding - The longer term prospects for funding remained bleak and the Museum may reasonably expect a reduction of 5% in 2011/2012. The next Spending Review will take place in 2010 following the election. As a result there was likely to be late advice on the 2011/2012 funding allocations. In anticipation Directors were working on expenditure reduction plans to be introduced during 2009/10 and 2010/11. The Board of Trustees will receive a report on this issue on 21st May 2009 and the topic will be discussed at the Trustees Strategy day on 18th June 2009.

MD – 21st
May 2009

5.5 Shared service opportunities – The Museum was redoubling its efforts to seek external partners for shared service provision in the light of the government report on the Operational Efficiency Programme for the public sector. Members expressed concern that operational efficiency and service should not suffer in order to achieve cost savings.

ACTION

- 5.6 Although the NHM had been working on efficiency savings for some time any government efficiency funding cuts were likely to be indiscriminate and introduced as a percentage cut across all institutions. The Director as Chair of the National Museum Directors' Conference would be lobbying with DCMS to preserve budgets for the museums and galleries sector based on what had already been achieved. In addition, the Director of Finance had volunteered to sit on a DCMS working party looking at bench marking back office services across the sector. It was noted a recent NAO report on efficiency programmes in the sector had found that savings were difficult to verify. The only effective way of measuring efficiency was cash savings, however hitherto the Museum had been able to recycle savings into front line services which made savings difficult to measure.
- MD - ASAP 5.7 The Chairman recommended that the Museum take advice from DCMS and bring in a senior external advisor to drive the process for shared service provision.
- 5.8 Visitor numbers and the economic climate- visitor numbers for 2009 had been exceptional although overall-performance relative to last year had fallen back in the past month. Whilst other museums and galleries had reported visitor spend down NHM was enjoying an upturn.
- 5.9 Annual update on risk management – A discussion took place on the presentation of the major corporate risks, the long-term inherently high risks and the link between the risk management assessment and the annual audit plan.
- 5.10 In conclusion it was agreed that:
- MD - 2nd July 2009 (a) the documentation relating to the management of major corporate and long term inherently high risks, would be taken to the Committee for consideration;
- DT/MR - 2nd July 2009 (b) the internal audit plan would record the link to the documented controls in the corporate risk assessment;
- MD - 2nd July 2009 (c) an attempt should be made to predict a score that would indicate that a risk would be successfully mitigated. This would highlight the risks where management action would be most effective in reducing risk, or highlight those which the Museum would just have to accept;
- NG/MD - 2nd July 2009 (d) the likelihood, impact and control scores for DC2 should be reconsidered taking into account the importance of the overall project and not just the public opening;
- MD - 2nd July 2009 (e) consideration should be given to estimating the Museum's financial exposure should it be required to close as a result of an H1N1 swine 'flu virus epidemic.
- 5.11 It was noted that the DC2 Programme was subject to its own risk management process.
- 6 DIRECTOR OF FINANCE'S REPORT (PAPER TAC 9 (a) & (b)/2009)**
- 6.1 The Director of Finance presented his paper and gave an oral report on the year end position
- 6 (a) Oral Report on the Year End Position**
- 6.2 Overall position - The provisional year end outturn for the General Fund was c£4.5 m to £5m which was above the original budget of £3.1m. This was a result of strong income generating performance over the last few months particularly catering and the special exhibition programme had done better than expected. There had been savings on the DC2 running costs and rates due to the late handover of the building from the main contractor. In addition, there had been savings on the special exhibitions programme.

- 6.3 Capital programme - there had been c£4 m less expenditure on the capital programme due to the late notification of the capital grant in aid allocation and this will be carried forward to 2010/2011. It was noted that the revised capital allocation for 2010/2011 had not yet been notified to the NHM. The risk was the Treasury may reallocate capital funding to departments where capital projects would stimulate the economy. As a result the NHM capital funding for 2010/11 may be reduced by more than the 0.5% figure advised for resource funding. The Board of Trustees had agreed that the Museum's capital programme should not be penalised disproportionately if overall funding was reduced. It was noted that resource grant in aid can be used for capital expenditure but capital cannot be used for resource funding.
- 6.4 Full time equivalents (FTE) -the number of full time equivalents (FTE) staff had been capped for 2010/11.

6(b) Annual Accounts 2008/09 – update

- 6.5 Good progress had been made and the Museum trial balance for production of the accounts had been finalised. The trading company external auditors were on site and had been given a full set of trading company and trust fund accounts. PKF were due on site in four weeks time and the Head of Finance had held a meeting with the PKF Partner to agree the timetable for the production of specific statements \ disclosures and notes.
- 6.6 Estate five year revaluation – The decrease of £88m indicated that the application of Treasury generic indices for revaluation since the last full valuation in 2004 was inappropriate for museum land. As a result consideration was being given to Gerald Eve (Chartered Surveyors) carrying out an annual desk top review. Trustees expressed the view that contrary to the intention the exercise did not show a true and fair view in the balance sheet as the asset was not realisable. In addition, as it did not assist in the efficient and effective running of the Museum the revaluation costs should be kept to a minimum.
- 6.7 The Statement of Financial Activities (SoFA) will show the movement on the revaluation reserve and there will be a note in the accounts on the revaluation exercise.
- 6.8 Accounts review – Members requested that a date for the review of accounts with Chairman and Chairman of Audit Committee was set.

NG -
March
2010

NG/AC –
May 2009

6(c) Darwin Centre Phase 2 – Programme Directors Report

- 6.9 The Science staff moves had gone well. Progress for the public offer construction element remained satisfactory and the public opening (launch) remained scheduled for September 2009.
- 6.10 There were some budget pressures and increases which will be discussed at the next DC2 Trustees Sub Committee on 12th May 2009. There was a degree of uncertainty relating to a donation of c£500k which was unlikely to be received prior to opening and hence not deemed to be a donation to the project. It was likely that due to the increased expenditure there will need to be an allocation from the Museum General Fund of c£1.5m.

**7 DIRECTOR OF HR (SIRO – INFORMATION RISK): PROGRESS REPORT
TAC 10/2009**

- 7.1 The Director of HR presented his paper.
- 7.2 The paper provided an update on the action taken by the Museum to identify and manage information risk and its response to the Security Policy Framework (SPF) and its mandatory recommendations.

- NG – July 2009
- Audit & Risk Committee
- 7.3 The Museum was taking the Cabinet Office and Hannigan recommendations and its obligations on information risk management very seriously. The Director of HR and the Head of Audit and Assurance had done a great deal of work to ensure that the Museum was moving towards full, appropriate and auditable compliance. The process was ongoing and the Cabinet Office timetable of meetings and seminars went on to the end of the financial year. A statement detailing the progress made will be included in the NHM statement on internal control (SIC) using the Cabinet Office statement as a model.
- 7.4 Members agreed to confirm and recommend the SPF to the Board of Trustees, subject the recommendations made by the committee.
- 8 HEAD OF AUDIT AND ASSURANCE: ANNUAL REPORT TO THE ACCOUNTING OFFICER AND AUDIT & RISK COMMITTEE TAC 11/2009**
- 8.1 The Head of Audit and Assurance took members through his report.
- 8.2 Annual Assurance - The Head of Audit gave a reasonable assurance that an adequate and effective risk management and internal control framework was in place to ensure the proper conduct of business and the achievement of the Museum's aims and objectives.
- 8.3 Information risk management - This year the Head of Audit and Assurance was required by HM Government to provide an opinion on the soundness of the controls in place to ensure the effective management of information risk. Although all the actions recommended had not been fully implemented, a great deal had been achieved and he was able to provide a positive report.
- 8.4 The Head of Audit and Assurance's opinion was based primarily on the work done by his team during the last 12 months. All the planned reviews had been completed with the exception of three that were postponed with the agreement of the Audit & Risk Committee and the Director.
- 8.5 The Committee commended the Head of Audit and Assurance on his clear report.
- 9. SELECTED AUDIT & ASSURANCE REPORT – LEGAL COMPLIANCE REVIEW TAC 12/2009**
- 9.1 The Head of Audit and Assurance presented the report.
- 9.2 Since the original review in 2003 the mechanisms in place to ensure legal compliance had been increased and strengthened. As a result, the Museum's legal compliance mechanisms were adequate and effective.
- 10. HEAD OF AUDIT AND ASSURANCE: PLAN FOR 2009/10 & PLAN IN CONTEXT TAC 13/2009**
- 10.1 The Head of Audit and Assurance took members through the plan. It was noted that value for money was an integral part of all the audits on the plan.
- 10.2 Following discussion it was recommended that:
- (a) the audit plan should record a link to the documented controls in the risk management assessment; and
- (b) a review of hospitality registers should be added to the plan for 2009/2010, and
- (c) consideration should be given to the inclusion of specific value for money audits in future plans.
- DT - July 2009

**11. DRAFT STATEMENT ON INTERNAL CONTROL
TAC 14/2009**

11.1 Members considered the draft statement and made recommendations.

**12. RESTLESS PLANET UPDATE
TAC 15/2009**

12.1 The Head of Finance presented his report.

12.2 The City of Arabia project of which Restless Planet was a part, was continuing despite the world-wide economic slowdown. IMG the developers, were insistent that they had the financing in place and the project would be completed. Due to the continued delays on the Restless Planet project, however, the bad debt provision of £0.5m had been increased to £0.9m to cover the full net exposure of the Museum.

12.3 The Museum was reviewing the strategy to recover the debt with Jack Rouse Associates (JRA) with whom NHM had a “pay as paid” contract. The Museum had met with a representative of JRA last week. JRA were of the opinion that the best way to manage the debt was to continue to apply pressure and having taken other advice the Museum was supportive of this view.

12.4 The Museum had at the start of the Restless Planet project mitigated its risks by taking the decision not to be the main contractor following the feasibility stage. The Museum was also reviewing lessons learned from the project. The project had been very profitable and the income received to date on consultancy and animatronics far exceeded the costs.

NG/MD -
As
appropriate

12.5 It was recommended that before commencing any future projects in the Middle East there must be a substantial up front payment

**13 PRESENTATION BY THE KEEPER OF MINERALOGY AND THE MUSEUM MANAGER
ON DEPARTMENTAL RISKS
TAC 16 (a) & (b)/2009**

13.1 The Keeper of Mineralogy and the Museum Manager presented their papers. They said they had found the revised risk register to be a useful document and the risk assessment process had enabled them to re-evaluate their risks and identify their priorities.

13.2 Members thanked the Keeper of Mineralogy and the Museum Manager for the informative papers and presentations.

14 ANY OTHER BUSINESS

14.1 Revised immigration rules – the new immigration system had made changes that affected non EU visiting researchers who were paid subsistence/expenses and sponsored researchers who take part in a research project. These visitors were now included in the 'tier 5' entry route whereby a 'tier 5' certificate of eligibility was issued directly to the researcher by the host institution. It was noted that the HR Department had issued new guidance on immigration in March 2009. The Director undertook to speak to the Director of HR and establish whether this change was relevant to the Museum and had been identified.

MD - ASAP

15. DATE OF THE NEXT MEETING

15.1 The next meeting will be held at 10. 00 a.m. on Thursday 2nd July 2009.

KEY TO ACTION INITIALS

Oliver Stocken - OS

Mark Richardson - MR

Michael Dixon - MD

Neil Greenwood - NG

Alan Carr - AC

David Thorpe - DT