

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

**45<sup>th</sup> Meeting on Thursday 2nd July 2009**

**Present**

Sir David Omand in the Chair  
Professor Dianne Edwards  
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)  
Anna Cuss (Committee Secretary – on behalf of Jan Day)

***ACTION***

**1. APOLOGIES FOR ABSENCE**

- 1.1 Oliver Stocken (Chair of the Board of Trustees), Dr Derek Langslow 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 7<sup>TH</sup> MAY 2009  
(PAPER TAC 17/2009)**

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

## **ACTION**

### **4 MATTERS ARISING FROM THE MINUTES**

DT/MD

- 4.1 Public Interest Disclosure – para 5.2. Although the Head of Audit and Assurance had concluded that there was no substance to the allegations, there was, nevertheless, a requirement to embed new ways of working and to improve the reporting of gifts and hospitality received across the Museum. It was agreed that (a) the Director would write to Heads of Department summarising the relevant actions arising from the report and recommending a way forward, (b) the Head of Audit and Assurance would conduct a follow-up review in due course, and (c) the Director would report back to the Committee on progress at a future meeting.

### **5 DIRECTOR'S REPORT ON SIGNIFICANT CONTROL ISSUES IDENTIFIED SINCE THE LAST MEETING (PAPER TAC 18/2009)**

- 5.1 The Director presented his paper

- 5.2 Lobbying for Museums in the 2010/11 revised funding allocations – the Museum had received confirmation in early May that its resource grant-in-aid was to be reduced by 0.5% from previously announced figures. No advice on capital grant-in-aid had yet been received. The Director had written to the Permanent Secretary advising him that the very late announcement of a cut in the current year would be problematic as many capital projects were already underway and incurring expenditure. DCMS had indicated that an announcement on capital would be forthcoming before the summer recess.

- 5.3 Longer term prospects for government funding – prospects for funding from 2011/12 remained an issue of concern. Regardless of a General Election, the future administration was likely to have to make significant cuts to funding levels. Members enquired about the future status of charging for admission in this respect. It was confirmed that both Labour and Conservative had expressed commitment to maintaining free admission in the longer term, though the Museum was necessarily exploring the implications of charging for admission, should the level of Government funding fall below that required to operate the Museum at a sufficiently effective level.

- 5.4 Operational efficiency and shared service opportunities – the Museum continued to progress negotiations with local peer institutions and was engaging with the DCMS benchmarking project looking at costs of back office services across its sponsored bodies. A shared procurement process was already in place with some local partners.

- 5.5 Visitor numbers and the economic climate – attendance figures continued to grow. On site commercial performance from retail and catering continued to be very encouraging with an increased spend per visitor against previous year.

- 5.6 London Green500 award – the Museum had been one of a small number of institutions to receive a Platinum award with respect to savings generated from its CHP plant and running of hybrid vehicles. The Museum was a founder member of the London Green500 which was established in 2008. The award recognised the Museum's strong commitment to reducing carbon emissions.

MD

- 5.7 Crisis management plan testing – an extensive desk-top testing exercise for the Museum's crisis management plan had recently taken place. It was agreed that the full report would be shared with the Chairman once it was received and resulting actions would be used to improve the existing plan.

## **ACTION**

- 5.8 Matters relating to DCMS – the Director reported that Ben Bradshaw had been appointed Secretary of State for Culture Media and Sport following Andy Burnham’s move to the Department of Health. The Director also reported that, in his capacity as Chair of the National Museum Directors’ Conference (NMDC), he attended the DCMS Advisory Board. In addition, he was now a member of the Minister of Culture’s Tourism Advisory Board and the chair of the Science Advisory Committee. Although membership of these groups increased the demand on his time, the Director stated that he was now in an excellent position to influence future policy formation across a range of disciplines.
- DT/NG/MD 5.9 Corporate Risk – given that this would be addressed elsewhere on the agenda, the Director made no additional comment on corporate risk. However, he confirmed that the issues raised in 5.10 of the minutes of 7 May were receiving appropriate attention and action taken would be reported back to the committee.
- 6 DIRECTOR OF FINANCE’S REPORT (PAPER TAC 19 (a) and (b)/2009)**
- 6.1 The Director of Finance presented his paper.
- 6 (a) Financial Review for the period April 2009 – May 2009**
- 6.2 The forecast outturn for the General Fund was in line with the original budget. A full review of income and expenditure budgets would be undertaken once the pay award was settled and a clearer picture was available. It was confirmed that there was sufficient provision to accommodate the pay award for 08/09 and for 09/10.
- 6 (b) Darwin Centre Phase 2 – Programme Directors Report**
- 6.3 The Board of Trustees had approved an increase to the programme budget on 21 May 2009. Progress for the public offer construction element remained satisfactory and on track for the formal launch in mid-September 2009. A programme of launch events would be presented to the Board of Trustees on 14 July 2009.
- 6.4 There was continued slippage in the external landscaping works arising from nesting birds, but this would not impact upon opening and was likely to be concluded by the end of the year.
- 7 RESTLESS PLANET UPDATE AS AT 25 JUNE 2009(PAPER TAC 20/2009)**
- 7.1 The Head of Finance presented his report.
- 7.2 The position remained much the same as last reported. It was confirmed that the bad debt was fully provided for in the annual accounts, however, the Head of Finance believed the debt would, in due course, be fully met.
- 7.3 The Committee reiterated their recommendation that all future projects in the Middle East required substantial advance payment.
- 8 THE ANNUAL ACCOUNTS 2007-2008 - MANAGEMENT LETTERS, NAO AUDIT REPORT, ISA 260 AND THE STATEMENT ON THE SYSTEM OF INTERNAL CONTROL (PAPER TAC 21 /2008)**
- 8.1 The Director of Finance presented the draft annual accounts.

## **ACTION**

### **8 (a) The Natural History Museum Annual Report and Accounts**

8.2 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 30 June 2009. NG tabled revised copies, which took into account the points raised at the meeting as well as DCMS' comments. Some of the disclosure notes required completion in relation to financial instruments (FReM) and there were minor text changes to be made relating to capital commitments and staffing numbers (SORP). Any adjustments would be reported orally to the Committee along with indicative management letter points and the NAO's audit completion report (ISA 260). The other accounts, namely Natural History Museum Trading Company Ltd, the Special Funds Trust, the Benevolent Fund and the Cockayne Trust were awaiting approval prior to signature. The final accounts would be issued to PKF by 3 July with a view to obtaining formal sign off from the Board of Trustees on 14 July.

In terms of overall results, the level of funds had decreased, largely as a result of the current economic situation, though the balance on the General Fund was in line with the Museum's Reserves Policy of a minimum level of general reserve approved by the Board of Trustees in November 2008.

NG 8.3 Mark Richardson requested that a 'scene-setting' paragraph be included at the introduction to the Accounts to provide context for the detail in the body of the document.

8.4 The Chairman enquired whether the Remuneration Report, setting out the Remuneration Policy and certain disclosure for staff complied with requirement. The Director confirmed that there was inconsistency across the sector, but the Museum's response was entirely appropriate. The Committee noted that there was increasing pressure to disclose this type of information and the Chairman requested that the Museum was prepared to answer enquiries in this area, including those relating to expenses.

8.5 The Chairman congratulated the Finance team on behalf of the Committee on their completion of the draft accounts in good time.

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

8.6 The PKF Partner presented the NAO Report

8.7 Overall Conclusion – The Comptroller and Auditor General was expected to certify the accounts with an unqualified audit opinion and without modification.

#### *Audit findings and recommendations*

8.8 The PKF Partner highlighted the following issues.

8.9 Material adjustments made in the course of the audit – there were no audit adjustments which had an impact on the reported surplus for the year. The only significant audit adjustment was the movement of DC2 from Asset Under the Course of Construction to Land and Buildings. Commendably, there were also no unadjusted misstatements.

## **ACTION**

- 8.10 Revaluation of fixed assets  
The NAO asked the Museum to review the accuracy of indices between quinquennial reviews. Following discussion it was agreed that the key was the appropriateness of the indices rather than their accuracy. Also the Head of Finance said he had been unable to find a better or more appropriate index than the one currently used. Given that the revaluation had no effect on the accounts, the NAO were asked to consider reducing the classification of this finding from medium to low priority.
- 8.11 Payroll testing – from the sample of leavers tested, one employee had not been removed from the payroll promptly. It was recommended that procedures over leavers were reviewed to ensure that payments were stopped on a timely basis. NG confirmed that in this instance, the HR department had not been notified in sufficient time of the member of staff's departure.
- 8.12 Fixed assets – impairment reviews – the Museum did not have a policy to perform an annual impairment review of all assets with lives above 50 years. It was recommended that the NHM complied with the FrEM requirement and established appropriate procedures for this purpose.
- 8.13 Losses Register – the Museum had not compiled a losses register, although management were able to justify this omission. Nevertheless, it was recommended that a losses and compensation register should be maintained throughout the year and updated regularly. The Audit Committee should review the register on an annual basis.
- 8.14 Payroll – authorisation of pay increases – Although it was noted that the new HR database would provide much improved tracking of pay changes, procedures should be in place to demonstrate proper authorisation of pay levels
- 8.15 Fixed asset additions – it was noted that the Museum's asset addition forms were not always completed at the time of purchase. Whilst no errors were observed, the Museum should ensure that this was attended to promptly.
- 8 (c) Other audit matters arising of governance interest**
- 8.16 Management of information and personal data – the Museum was required by HM Treasury and Cabinet Office to review compliance arrangements with regard to the management of information and personal data and to disclose any specific data incidents. In view of a recent incident, during which Management confirmed that no reportable data loss had occurred, it was recommended that the Audit & Risk Committee ensure that sufficient enquiries of management were made in relation to progress with implementing recommendations and that it seek assurance on any data related incidents which might require disclosure. Neil Greenwood confirmed that the Museum had taken steps to ensure that its contractors had sufficient procedures in place to reduce the risks of data loss.
- 8.17 Staff entertainment, hospitality and gifts – the Committee noted that the Museum had already issued guidance on the acceptance of gifts and hospitality and required all departments to complete an annual declaration of entertainment and hospitality for review by the Finance team. It was therefore agreed that the principles were being applied effectively and that this should be reflected in the NAO report. In addition, it was noted that the internal audit plan for 2009/10 included a review of the gifts and hospitality process.
- 8.18 Reconciliation between financial statements and management accounts – the Committee agreed that the reconciliation should be presented to the Audit & Risk Committee to provide them with assurance that the financial information provided to management during the year was robust.

## **ACTION**

8.19 Annex B – Implementation of Prior Year Recommendations – residential properties at Tring had been reviewed by Management and would continue to be valued at existing use and treated as such for accounting purposes. This reflected the restrictions on disposal and the need to retain the properties for perimeter site security. The Committee agreed that this situation be reviewed on an ongoing basis.

### **8 (d) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter**

#### *Trading Company Accounts*

8.20 The Accounts were approved at a meeting of the Trading Company Directors on 2<sup>nd</sup> July 2008 and were ready to be signed.

#### *Kingston Smith Management Letter*

8.21 The Kingston Smith Partner presented the Management Letter. He congratulated the Museum on facilitating a well run process in the current year.

#### *Appendix 1*

8.22 Major points – the two points relating to Benugo Commission and Accrued Income were not of serious concern.

#### *Appendix 2 - Minor Points*

8.23 Minor points – the debit balance noted on the purchase ledge was not of high value and therefore not a matter for concern.

### **8 (e) Special Funds, Benevolent Fund and Cockayne Fund**

8.24 The Special Funds Trust and Benevolent Fund accounts were complete and awaiting approval prior to signature by the Chairman of the Board of Trustees. The Chairman noted that the Museum was reviewing the process of income generation through small funds such as these in the light of current market conditions.

### **8 (f) Audit & Risk Committee Approval**

8.25 Members:

- (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 14<sup>th</sup> July 2008 subject to the planned amendments.

### **9 HEAD OF AUDIT AND ASSURANCE PROGRESS REPORT TO JULY 2009 (PAPER TAC 22/2009)**

9.1 The Head of Audit and Assurance presented his paper.

MD/DT

9.2 The Committee agreed that the internal audit of the Planning and Design Consultancy Unit should be delayed until January 2010 when it will be merged into a strategic review of this business. The terms of reference of the combined review will be agreed by the Director in due course.

## **ACTION**

- 9.3 It was noted that there had been a delayed response to the audit of Key Financial Controls (category 3), issued in April 2009. The Committee accepted that this was largely due to the Finance team being focused on production of the accounts, but stressed that, as an important part of the final accounts process, it was important to address the quality of key financial controls. A response should be provided without delay.
- NG/AC 9.4 There had also been a delayed response to the purchase order review (category 3) issued in draft in March 2008. The Committee agreed that this significant delay was unacceptable and that a response must be provided in time for the meeting on 10<sup>th</sup> November 2009.
- 9.5 David Thorpe reported that the Audit & Assurance Plan for 2009/10 now demonstrated more clearly the link between major risks and the reviews to be completed during the year.
- 10 AUDIT AND RISK COMMITTEE ANNUAL REPORT**
- DT/DO 10.1 David Thorpe informed the meeting that the Audit & Risk committee was required to produce an annual report on the Committee's own performance and that of the external and internal auditors. It was agreed that the report would be completed before the November meeting. The final report will be issued to the Department for Culture, Media and Sport.
- 11 RISK MANAGEMENT PROCESSES (PAPER TAC 23/ 2009)**
- 11.1 The Head of Audit and Assurance presented the paper.
- 11.2 The paper provided an introduction to new members of the Committee to the mechanisms and basic documentation used by the Museum to ensure the effective management of corporate and other risks.
- 11.3 The Chairman commended the risk management process, but stressed that it was important to ensure that this was fully embedded and used by staff and Directors.
- 11.4 The Committee was keen to receive assurance that the long term inherently high risks identified for 2009/10 were reviewed regularly in case the situation changed to the extent that they required escalation to major risk level.
- MD/DT 11.5 In conclusion it was agreed that:
- (a) The Director would provide a report to the November meeting, giving assurance that all major corporate risks schedules for 2009/10 were up to date and that level of analysis across all risks was consistent;
  - (b) A process, including ownership and principle control methods, should be developed and documented to demonstrate that long term inherently high risks are being effectively monitored and managed. This process should be reported to the Committee at their November meeting for review; and
  - (c) David Thorpe would meet Mark Richardson in the autumn to discuss the mapping through of major risks to the Audit review process.
- 12 CORPORATE RISK PRESENTATION: WEB PRESENCE FOR SCIENCE IS INADEQUATE FOR A MAJOR INTERNATIONAL RESEARCH ORGANISATION (PAPER TAC 26/2009)**
- 12.1 Professor Richard Lane and Ailsa Barry tabled a paper detailing the analysis of this risk and presented their report

## **ACTION**

- 12.2 Professor Lane explained that the web was not only useful for communicating science, but also for carrying out research processes, by providing unique access to expertise. Overall, the Museum was operating at reasonable capacity, with some of its research at the cutting edge, but there was room for improvement at the enterprise level. The challenge for the Museum was to retain some degree of corporate structure whilst allowing an appropriate level of creativity. In addition, the virtual environment was evolving rapidly and the Museum was host to a large backlog of heritage data.
- 12.3 The Chairman asked whether the potential difference in objectives between Science and Public Engagement was an issue. Ailsa Barry confirmed that the Museum was making good progress with work to integrate its outputs and the current focus on brand shift, primarily as a result of delivery of Darwin Centre Phase Two, would also contribute towards this.
- 12.4 The Chairman enquired about levels of authority and control over consistency in content. It was confirmed that governance models for the web were being explored, potentially with assistance from external consultants. In addition, the Museum had existing editorial guidelines and provided training on the use of the web. Issues relating to compatibility of software, however, were still in need of a protocol.
- 12.5 In response to an enquiry about control mechanisms for volatile issues such as creationism, Professor Lane explained that there were strict controls in place to ensure that comments on the web were correctly attributed to private individuals where they did not comply with the Museum's recognised position on sensitive subjects.
- 12.5 A query was raised about the mechanism for ensuring proprietary material on the Museum's website was protected. In response Professor Lane confirmed that patent material was identified at a very early stage and therefore very little found its way onto the website. The Museum was discussing at present the management of intellectual property and development of a system of profit sharing with inventors.
- 12.6 In conclusion, it was agreed that this area of the Museum's business was clearly appropriate for treatment as a corporate risk. The Committee noted the areas requiring further development, particularly clarity over authority for ensuring consistency on the web. They also noted that the complexity of the risk might require it to be segmented into a range of associated risks at a later stage. The Committee commended the risk analysis work in progress and recommended that it be kept up to date.
- 13 CORPORATE RISK PRESENTATION: OUR SECURITY STAFF FAIL TO DELIVER THE LEVEL OF SECURITY NEEDED IN THE CHANGING ENVIRONMENT (PAPER TAC 25/2009)**
- 13.1 Paul Brereton presented his paper.
- 13.2 At the beginning of the year, the Museum had established a Programme Board, with the HR Director as Senior Responsible Owner (SRO), to ensure the delivery of four inter-connected security projects addressing the corporate risks related to the provision of security in the Museum. The primary project (A), dealing with Security Development, sought to deal with the operational effectiveness of security in the Museum both in terms of capacity and capability to deliver an effective security service. The remaining projects (B, C and D) aimed to deliver partnering opportunities, future resource requirements and an update of overall policy relating to security in the Museum (incorporating the Security Policy Framework agreed previously by the Board of Trustees) in a changing environment.

## **ACTION**

13.3 The Committee was keen to ensure that, through these projects, the major security risks to the Museum were managed and mitigated. It was essential to guarantee that plans on paper would be translated into practical and effective action in the event of a disaster. Therefore, much emphasis must be placed on educating all staff in matters of security, since process alone would not be sufficient.

MD 13.4 In conclusion, the Committee commended the work that had been carried out thus far and asked to be kept informed via the Director's Report at future meetings.

## **14 ANY OTHER BUSINESS**

14.1 There was no other business

## **15 DATE OF THE NEXT MEETING**

15.1 The next meeting will be held at 10.00 a.m. on 10<sup>th</sup> November 2009 in the Board Room.

## **16 CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS**

16.1 There was a confidential discussion regarding the overall management of the process in the current year. In general, a high degree of satisfaction with levels of cooperation and response was recorded. The Chairman would discuss specific points raised with Mr Greenwood.

### **KEY TO ACTION INITIALS**

David Omand - DO

Michael Dixon - MD

David Thorpe - DT

Neil Greenwood - NG

Alan Carr - AC