



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

48th Meeting on Thursday 6th May 2010

Present

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

In Attendance

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

Paul Brereton (Director of HR) was in attendance for item 11 and Richard Lane (Director of Science) was in attendance for item 12.

ACTION

The Chairman welcomed David Thorpe (former Head of Risk & Assurance) to the meeting.

1 APOLOGIES FOR ABSENCE

1.1 Professor Dianne Edwards and Keith Lloyd (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 11th FEBRUARY 2010 (PAPER TAC 9/2010)

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 DIRECTOR'S REPORT (PAPER TAC 10 /2010)

5.1 The Director presented his paper

5.2 Economic environment - This was a period of uncertainty as to the extent of public sector funding cuts. DCMS were working on a 20% cut to their Departmental Expenditure Limit (DEL) as being a plausible outcome, but with no clarity over what time period. DCMS were working on the assumption that if a labour administration was returned there will be no further adjustments to funding this year. Given the stated Conservative intention of reducing spending in 2010/11, they were also working on how a within year cut of 3% would be achieved. The only practical way the Museum could achieve this was by delaying capital projects as staff savings would not be realised in the current year.

5.3 DCMS officials were considering the relative merits of cuts allocated according to one or other of three criteria: excellence, ability to stimulate the economy and contribution to delivery of a successful Olympics in 2012. The Museum was well positioned under the former two criteria and was working on how to improve NHM positioning on the third.

5.4 It was noted that drawing on Museum reserves to compensate for expenditure cuts was a short term option that might allow a more efficient profile of expenditure reductions but could only be used once.

5.5 Value for money/public value programme – Following the discussion at the last Audit & Risk Committee meeting the Director reported that there seemed to have been little advance on the DCMS value for money/public value programme.

5.6 Expenditure Review Project - The Museum was committed to reduce the NHM's expense base by £2.3m by the beginning of 2011/12. This saving cannot be achieved without making posts redundant, but the use of fixed-term appointments to end in March 2011, as well as the tightening of recruitment policy, resulted in fewer individuals being affected than posts. At staff presentations on 10th May 2010 the Director will explain the scale of the redundancies and how the process will be progressed. It was noted that staff turnover had fallen substantially. In addition, there was a requirement for a 90 day consultation process with the Trade Unions and a 6 month notice period. As a result any in year staff savings taking into account redundancy costs of approximately £1.4m were unlikely to be material.

5.7 Posts were being selected on a strategic basis, although it maybe open to staff in the relevant areas to opt for redundancy on compulsory terms. A lot of HR effort had been invested in preparing the managers of staff affected. There had also been detailed discussions with the Cabinet Office to ensure there was compliance with the complex redundancy procedures.

5.8 Year-end out-turn - The NHM has had a successful 2009/10, notwithstanding the difficult political and economic climate. Visitor attendance figures had been exceptional, with over 4.25m visits to South Kensington. There had been an upward movement in NHM performance indicators and attendance in April 2010 was also exceptional. If visitor numbers continued at this level the challenge will be how to manage front of house activities within any future reduced budget.

MD

ACTION

- 5.9 Reorganisation of senior management - Since the last Audit & Risk Committee there had been a reorganisation of senior management and the number of the Director's direct reports had reduced. The Director of Finance had been appointed as Director of Finance and Corporate Services and had taken on responsibility for the HR, Estates and Policy/Planning Directorates.
- 5.10 The Committee congratulated the new Director of Finance and Corporate Services on his appointment.
- 5.11 The Director, Director of Finance and Corporate Services, Director of Public Engagement and Director of Science will form a new Executive Board. This will receive reports from the Science Executive, the Public Engagement Executive and a new Corporate Services Executive. A new Senior Management Group was being set up and membership will be dependent on responsibility rather than grade. This will not be a decision making body but will speed up the communication of key issues.
- MD 5.12 There will be further changes in how the Museum was managed and these will be announced in the next few weeks. It was agreed that a paper on the new structure would circulate to the Audit & Risk Committee as well as the Board of Trustees.
- 5.13 Retirement of the Head of Risk and Assurance - David Thorpe, Head of Risk and Assurance at the NHM had taken retirement effective from 30th April 2010. The Chairman said that the Committee wished to record that David Thorpe had been a loyal and trusted employee of the NHM for a great many years and had diligently delivered the Annual Internal Audit and Assurance plan, helped the Museum adopt and embed risk management, and provided substantial help and advice to Directors and Senior Managers.
- 5.14 David Thorpe expressed his thanks to the Audit Manager who had been his colleague for approximately 20 years, and to the Director and the Chairs of the Audit and Risk Committee with whom he had worked over the years. It had helped him and the Risk & Assurance team greatly to have had the direct and confidential access to and support from the Director and Chair of the Audit & Risk Committee.
- 5.15 The Director and Chairs of the Audit & Risk Committee and the Board of Trustees thanked David Thorpe for all his work and support and wished him well for the future.
- 6 DIRECTOR OF FINANCE'S REPORT AND RESTLESS PLANET UPDATE (PAPER TAC 11 (a) & (b) /2010)**
- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6.2 General Fund - The forecasted year-end out-turn for the General Fund was approximately £2.5m.
- 6.3 Restless Planet - There had been no movement since the previous report.
- 7 AUDIT MANAGER'S ANNUAL REPORT TO THE ACCOUNTING OFFICER AND AUDIT AND RISK COMMITTEE (PAPER TAC 12/2010)**
- 7.1 The Audit Manager presented her paper.
- 7.2 Annual Assurance - The Audit Manager 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.

ACTION

- 7.3 Information Risk Management - Although all the actions recommended had not been fully implemented, a great deal had been achieved and the Audit Manager was able to submit a positive report to the Accounting Officer.
- 7.4 The Audit Manager's opinion was based primarily on the work done by the team during the last 12 months. All the planned reviews had been undertaken with the exception of four that were postponed with the agreement of the Audit & Risk Committee and the Director.
- 7.5 Staffing issues – The long term structure of Internal Audit in the Museum would be reviewed in the light of future funding and the outcome of the HM Treasury government wide initiative to review the provision of internal audit, including sponsored bodies.
- 8. ANNUAL ACCOUNTS 2009/10: DRAFT STATEMENT ON INTERNAL CONTROL, UPDATE ON ACCOUNTS ISSUES AND “GOING CONCERN ASSESSMENT (PAPER TAC 13/2010)**
- 8.1 The Director of Finance and Corporate Services presented his paper.
- (a) Draft Statement on Internal Control**
- 8.2 Theft of bird skins - It was a requirement to report on significant internal control matters which had arisen during the year, and it was therefore the intention to refer to the theft of the bird skins at Tring. The Committee took note.
- 8.3 Members considered the draft statement and made recommendations.
- (b) Update on accounts issues**
- 8.4 Preparations of accounts - The trading company auditors arrived on 4th May 2010 and were presented with a full set of accounts. The trial balance for production of the statements was on schedule for completion during the week beginning 10th May 2010. PKF were scheduled to arrive the first week in June.
- 8.5 Indexation of assets - It was a requirement to have a revaluation of land and buildings at least every 5 years. The last revaluation at 31st March 2009 resulted in a significant write down. As a result in last year's management letter the auditors raised the need to ensure that the indices used were appropriate in order to avoid a significant movement on revaluation. Indices had been prepared for NHM by Gerald Eve, chartered surveyors based on the Building Cost Information Service (BCIS) and their knowledge of the museum and galleries sector.
- 8.6 Provision for redundancies - In accordance with FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) the Museum will not be making a provision for redundancies in the accounts as the full extent of the redundancies had not been communicated to staff in 2009/10. There will be a non adjusting post balance sheet event note.
- 8.7 “Going Concern” assessment - At the Audit and Risk Committee in February it was requested that consideration be given to a “going concern” assessment, given the uncertainty over future funding and the possibility of a reduction in future levels of grant in aid.
- 8.8 Taking into account: (a) the museums expenditure reduction programme amounting to 5% of the resource grant in aid (£2.3m) which will be in place by 31st March 2011; and (b) all the currently available information on grant in aid funding and possible future cuts, the Committee believed that a “going concern” assumption could be made.

ACTION

8.9 It was noted that the Museum only needed to include a disclosure in the notes to the financial statements when there were significant uncertainties that put the Museum's status as a "going concern" in doubt.

NG/DO/MR 8.10 It was agreed that the issue of a "going concern" assessment would be revisited at the informal review of the accounts by the Chairman and the co-opted member on 22nd June 2010.

9. MAJOR CORPORATE RISKS 2009/10 & 2010/11 (PAPER TAC 14/2010)

Major Corporate Risks 2009/10

9.1 The Director gave his annual update on: (a) the current profile and score of major corporate risks for 2009/10; and (b) what had been done to mitigate the risks.

9.2 Future grant in aid is materially reduced resulting in need to make major expenditure cuts - This risk was also the top risk for 2010/11. The changing economic and political situation over the year meant that work had focused on making the best case for NHM. The Director was working actively on this with DCMS in his capacity as Director of the NHM and Chair of the National Museum Directors' Conference (NMDC).

9.3 Web presence for science is inadequate for a major international research organisation - To address this risk in the longer term it was necessary to carry out a detailed digital review which was being led by the Director of Finance & Corporate Services. The Museum was accepting the need to tolerate the risk until the review was complete in September 2010.

9.4 The new pay and reward scheme cannot be used to deliver performance management - The new pay and reward scheme delivered for August 2009 did have the capability to reward staff in future by incremental steps according to acquisition of competencies or performance. Although this risk was effectively removed, the ability to use an element of performance related pay in future was compromised by the economic situation.

9.5 Anticipated benefits for DC2 are not realised - The 'Benefits Realisation' Gateway review for DC2 will take place in the Autumn of 2010. Although some benefits were realised over extended periods, those that can thus far be measured against expected outcomes had been very satisfactorily.

9.6 The delivery of CSIP is delayed or cancelled resulting in continued inadequate collection storage and loss of reputation - Although the Collection Storage Infrastructure Project had advanced well and achieved a great deal, it was now under threat from lower levels of future capital grant-in-aid, hence its score remaining unchanged from the start of the year.

9.7 Capital programme is not delivered due to insufficient resources, e.g. time, people - Governance and management of capital project expenditure had been stepped up considerably and projects were being more reliably planned and delivered.

9.8 Our security staff fail to deliver the level of security needed in the changing environment – The score is unchanged. A job description had been drawn up for a new Head of Security and the post will be advertised shortly.

9.9 Revised governance and management is not fit for purpose - Another unchanged score as NHM were undertaking significant restructuring to reflect a new corporate plan (brought forward to 2001/12) and a changing funding environment. Good progress had been made but many new mechanisms were yet to be implemented.

ACTION

9.10 Not being able to recruit and retain suitably skilled web - IT and scientific staff - Public sector finances may make it harder to recruit from some other sectors in the immediate future, but this was balanced by a much reduced staff turnover rate at present. This was likely to be an area we will need to focus on as the economic recovery is much further advanced (i.e. beyond 2011/12).

9.11 The Committee congratulated the Director on the work that had taken place.

Major Corporate Risks 2010/11

9.12 The way the Museum reports on major corporate risks will change during 2010/11 with the introduction of a new management structure. and will include the managerial staff directly involved in managing key risks, in the upward reporting process to the Audit & Risk Committee.

9.13 The list of risks considered by Directors for 2010/11 were presented in the format recommended by the Committee at their meeting in February: (a) risks that exist as a consequence of the Museum's vision, mission and statutory obligations; (b) risks that are a consequence of decisions we impose on ourselves; and (c) long-term inherently high risks where the likelihood of realisation had increased.

9.14 Members considered the major corporate risks for 2010/11.

9.15 Legislative outcomes introduce more administrative burden than we can handle with reduced staffing – There were extreme pressures on NDPBs to reduce administrative costs with increasing administrative burdens e.g. Freedom of Information (FOI) and information risk management. This risk maybe mitigated by sharing services with other museums and local organisations e.g. Imperial College. The Museum was already looking for shared service opportunities in other areas of common interest.

9.16 The project to deliver a changed administrative status for Museums delivers a negative outcome for the NHM – A change in administrative status for Museums formed part of the election manifesto of the Conservatives. This will enable Museums to be more entrepreneurial and self governing.

MD/Directors 9.17 It was agreed that: (a) the full list of long-term inherently high risks would be presented to the Committee each year with scores; and (b) Directors Group would check whether there were any other long-term risks not reported to the Committee where the likelihood of realisation had increased.

MD 9.18 The Committee approved the adoption of the major corporate risks for 2010/11 subject to the addition of two additional risks and recommended changes in wording.

10. RISK AND ASSURANCE PLAN FOR 2010/11 AND PLAN IN CONTEXT (PAPER TAC 15/2010)

10.1 The Audit Manager presented her paper.

10.2 The Committee considered the draft plan in the light of the ranked list of major corporate risks for 2010/11 and discussed the following reviews.

10.3 Corporate Governance – The last review of this area was in December 2007. It was agreed that it was timely to review this area again in the light of: (a) the Board of Trustees review; and (b) the reorganisation of senior management.

10.4 Contract Management - It was important that the Museum was able to manage the service delivery of out sourced arrangements.

ACTION

- MD/Trustees
- 10.5 Planning and Design Consulting (PDC) – The unit made a profit during the last financial year. The vulnerability of the PDC was that salary overheads were comparatively high while income came from a few large projects spread over the year. There was a need for a strategic review of the future of the unit to assess what its mission should be: (a) only to generate profit; or (b) also to heighten awareness of the Museum’s brand and international reputation. It was noted that PDC also supported the work of other departments across the Museum. It was agreed there should be a discussion on the future of PDC at the Board of Trustees.
- 10.6 It was noted it was not always appropriate to review major risks in the year that they were highlighted due to alternative work in these areas. The audit review of a previous years risk tested the extent to which the risk had been mitigated. The audit plan was a dynamic document subject to continuous review by the Director and Audit Manager.
- 10.7 Staffing - It was a substantial plan and it would be necessary to utilise the brought in days available to bring in temporary staff.
- MD/Directors
- 10.8 Audit & Risk Committee approved the plan subject to consideration by Directors and the Chairman thanked the Audit Manager for her work.
- 11. DIRECTOR OF HR (SIRO – INFORMATION RISK): PROGRESS REPORT (PAPER TAC 16/2010)**
- 11.1 The Director of HR presented his paper.
- 11.2 The NHM continued to progress towards compliance with Government requirements. At the November 2009 Audit & Risk Committee there were 54 items remaining outstanding and this had now been reduced to 36.
- 11.3 The outstanding actions largely related to: (a) physical security and the Director of Estates will submit an annual security policy report to the Board of Trustees on 19th May 2010; and (b) ensuring the integrity, availability and confidentiality of information through IT solutions. This required Directors Group to approve a substantial budget and had been deferred given the uncertainty regarding Museum funding.
- 11.4 DCMS required all sponsored bodies to complete an HMG Security Policy Framework self-assessment. This document recorded NHM scoring of the 70 mandatory requirements and supporting evidence. The Museum had submitted the self-assessment to DCMS.
- 11.5 The Committee found that the Museum Directors had taken information risk seriously and were being proportionate in their response to the onerous mandatory requirements. A statement detailing the progress made will be included in the NHM Statement on Internal Control (SIC).
- 11.6 The Chairman thanked the Director of HR for his work.
- 12. PRESENTATION BY THE DIRECTOR OF SCIENCE ON COLLECTIONS RISKS TAC17/2010**
- 12.1 The Director of Science presented his paper.
- 12.2 The Committee considered the points raised in the report and the action that had been taken since the theft of birds skins from NHM at Tring
- 12.3 There were extensive discussions at the November 2009 Science Executive Meeting on the report by the former Head of Risk & Assurance on the theft and a series of actions were agreed.

ACTION

12.4 It was noted that a review of collections security was on the Risk and Assurance plan for 2010/11. In addition, when a new Head of Security was appointed, security of the collections will be a significant part of their responsibility.

MD/DS 12.5 The Chairman asked that the Audit & Risk Committee meet the new Head of Security once appointed in order to discuss amongst other things collections security.

13 ANY OTHER BUSINESS

There was no other business

14 DATE OF THE NEXT MEETING

The next meeting will be held at 10.00 a.m. on Thursday 1st July 2010

KEY TO ACTION INITIALS

Michael Dixon - MD

David Omand - DO

Mark Richardson - MR

Neil Greenwood - NG

David Sanders - DS