



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

50th Meeting on Thursday 4th November 2010

Present

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

In Attendance

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

Emily Smith (Head of Communications) was in attendance for item 12.

Sharon Ament (Director of PEG/Chair Crisis Management Team) and Andrew Wilkinson (Head of Security) were in attendance for item 13.

Ian Jenkinson (Museum Manager) was in attendance for item 14.

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Oliver Stocken (Chair Board of Trustees) and Keith Lloyd (Director, National Audit Office) sent their apologies.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

ACTION

3 MINUTES OF THE MEETING HELD ON THURSDAY 1ST JULY 2010 (PAPER TAC 23/2010)

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

4. MATTERS ARISING FROM THE MINUTES

MD/DO

4.1 Risk & Assurance Staffing – para 8.4 - arrangements for ensuring adequate audit cover will be considered by the Director and the Chairman of the Audit & Risk Committee in the light of the Museum's plans for managing the outcome of the Government Spending Review 2010.

5 AUDIT & RISK COMMITTEE ANNUAL REPORT 2009/2010 (PAPER TAC24/2010)

DO

5.1 The Chairman introduced the report which will be presented to the Board of Trustees on 23rd November 2010 and sent to The Department of Culture Media and Sport (DCMS). Members approved the report subject to an agreed amendment.

5.2 Committee members had completed a review of their effectiveness in September 2010 by completing the National Audit Office (NAO) Audit Committee Self-Assessment Checklist. Generally the Committee was satisfied that it was compliant with good practice.

5.3 The main areas for improvement were:

DO/JD

(a) the Annual Report will in future be considered at the May Audit & Risk Committee meeting in order to support the consideration of the Annual Accounts by the Board in July;

NG

(b) a conflict of interest policy will be drawn up by the Director of Finance & Corporate Services and this will be made available to members; and

DO/OS

(c) the Chairman and the Chair of Trustees will establish: (i) a job description for the Audit & Risk Committee Chair; and (ii) a forward plan for appointments to the Audit & Risk Committee.

6 DIRECTOR'S REPORT (PAPER TAC25/2010)

6.1 The Director presented his paper

6.2 Current UK terrorism threat level – the current threat level was severe. In the light of this the Museum needed to consider how to maintain both security and a welcoming environment. The new Head of Security would be looking at current bag searching and the problems associated with long queues during busy periods. It was noted that it was not possible to entertain queues with displays on the railings as this required planning consent.

6.3 The Museum was restricted to two main entrances, Cromwell Road and Exhibition Road. Planning approval for the Darwin Centre included the condition there would be no visitor entrance off Queens Gate. During busy periods staff directed visitors to the Exhibition Road entrance where the queue was shorter. The Chairman observed that it maybe possible to obtain an amendment to the planning permission for the Darwin Centre.

6.4 The Olympics and Diamond Jubilee in 2012 will require additional resources and planning to manage the large number of expected visitors. The Executive Board Planning Conference on 1st and 2nd November 2010 had considered this issue. A budget which included a submission for 2012 will be submitted to the Board of Trustees on 23rd November 2010. In addition, the new Head of Security was working with the other local organisations on a common approach to managing security in the area.

ACTION

7.1 The Director of Finance & Corporate Services presented his paper.

7(a) Financial Review for the period April 2010 – September 2010

7.2 General Fund - The forecasted year end outturn for the General Fund was £2.954m which was an increase of £329k on the previous forecast and £556k above the original budget. This was after accommodating the within year cash grant in aid reduction of £1.503m.

7.3 Self generated \ trading income – There was a decrease of £131k from the previous forecast and a similar amount from the original income targets for commercial business units which had been challenging. In previous years the Finance Department had second guessed the targets set by business managers. This year for the first time the original targets were retained in the budget. To mitigate the risk of shortfall an income risk allocation of £700k, now fully utilised, was included in the original budget.

NG 7.4 The Chairman asked that going forward the individual income targets where there was a risk allocation were highlighted to the Audit & Risk Committee.

MD/NG 7.5 It was noted that the business plans for 2011/2012 were more conservative. The Director and the Director of Finance & Corporate Services will be reviewing the business strategy and viability of the one or two weaker commercial areas.

7.6 Expenditure – the savings predominantly reflected salary savings within Science Group, arising from the recruitment freeze, and the reduced level of pay award. The salary budgets on the management accounts shown as zero were vacant complemented posts. In Visitor Services there were some additional salary costs as there was a pay award for those earning below £21k.

7.7 The original budget for modernisation \ redundancy costs was £1.2m. The cost, however, was currently estimated to be c£1.4m with the additional cost being met by an allocation of £200k contingency.

7.8 It was noted that the Superannuation Bill 2010/2011 which caps redundancy payments under the Civil Service Compensation Scheme had been expected to receive royal assent before the end of 2010. The cap on benefits for members over the normal pension age of 6 months' pay was, however, being challenged in the European Court. This may delay the progress of the bill.

7.9 The two financial risks going forward were: (a) further trading income shortfalls over the next six months. The Director of Finance & Corporate Services was confident, however, that the forecast for the year-end was achievable; and (b) slippage on committed capital projects and whether the Museum will be permitted by DCMS to carry the budget forward into 2011/2012. There was increasing complexity regarding end of year flexibility and access to reserves.

7(b) Restless Planet Update

NG 7.10 There had been no movement since the previous report. It was agreed that in future only a changed position would be reported.

ACTION

8 MANAGEMENT RESPONSE TO THE NAO ISA 260 REPORT AND KINGSTON SMITH RECOMMENDATIONS (PAPER TAC 27/2010)

8.1 The Director of Finance & Corporate Services presented his paper.

Underspend on capital grant – The Museum had not received formal agreement from DCMS to carry forward an underspend of £106k on a grant from the government's Invest to Save budget. The Director of Finance & Corporate Services had submitted a formal request for end of year flexibility to DCMS and a response was expected in the next month. There was a concern that if approval was not forthcoming then the final part of the project may not be completed, or may be completed in the interim and underwritten at risk by the partners.

8.2 End of year flexibility - the current rules on end of year flexibility and access to reserves were not helpful to Museums and galleries particularly in regard to philanthropic gifts. Part of the outcome of the Government's spending review was that DCMS had negotiated access to £143m of the £300m reserves across the sector. DCMS and the Treasury were looking at the administrative status of Museums in order to find a long term solution to the problem. One particular device for achieving this was currently being considered.

8.3 The Committee and the auditors were content with the action being taken to address the recommendations.

9 NAO/PKF AUDIT PLANNING REPORT 2010/2011 (PAPER TAC28/2010)

9.1 The Committee reviewed the strategy, approved the NAO Audit fee (which had not increased from 2009/2010) and noted the audit timetable.

9.2 Significant Risks – this was an initial assessment of the Museum's operations and control environment which may change over the next 6 months.

9.3 FRS30: Heritage Assets – the new reporting standard encouraged the capitalisation of complete collections on the balance sheet. There was, however, an opt out if: (a) this maybe prohibitively expensive; or (b) it may not be possible to obtain a reliable valuation. The standard also set out new disclosure requirements for the reporting of heritage assets. PKF will review the Museum's disclosure of heritage assets and assess its reasonableness. In particular they will review the rationale for a decision not to report certain heritage assets.

9.4 The Museum was well placed to meet the new disclosure requirements. A lot of the work had been done for the 2009/2010 accounts to set out the details of the science department collections. Further disclosure was required, however, on the management and development of the collections.

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NG

9.5 A paper setting out the Museum's approach to satisfying the disclosure requirements under FRS 30 will be presented to the February 2011 Audit & Risk Committee. The Museum was not planning to capitalise heritage assets which were not on the balance sheet at 1st April 2010. The Director of Finance & Corporate Services will work with the Museum Registrar to determine the rationale for the decision not to report certain heritage assets. FRS30 will be applied from 1st April 2010 for new purchases and gifts.

9.6 It was believed that the approach to FRS 30 would be the same across the Museum's & Galleries sector. It was not clear if there were tax implications for donors and it was observed the definition of value should include scientific value.

NG

ACTION

- 9.7 Potential fruitless payment – there was a potential fruitless payment in the region of £600,000 relating to costs incurred on a new digital asset management system. The project had been blocked by the Cabinet Office under a government moratorium on 'new' ICT spend over £1m. Following discussions with the Cabinet Office the Museum had resubmitted the case for the project and obtained authority to proceed.
- 9.8 Combined Heat and Power (.CHP.) Scheme – a contract for the new CHP scheme will be signed before the year end. The Museum wished to keep the scheme off balance sheet as it had done previously with a similar scheme. The Director of Finance & Corporate had prepared a paper to justify this treatment but was awaiting information on another scheme in the sector. The accounting treatment was complex and there was a risk there would be non compliance with FRS 5 Application Note G or with IFRIC 12. It was noted that under International Accounting Standards the treatment would be on balance sheet.
- NG 9.9 Carbon foot print – the Chairman observed that the NHM should be compliant with any potential new regulations relating to carbon foot print irrespective of whether the Museum was subject to them.
- 9.10 Spending Review – PKF will review the Museum's assessment of the spending review and its impact on the financial statements for the year ended 31st March 2011.
- 9.11 Fraud – PKF were required to make inquiries of those charged with governance in respect of their oversight responsibility for: (a) systems for monitoring risk, financial control and compliance with the law; and (b) the entity's assessment of the risks of fraud and of the internal control the entity had established to mitigate specific risks.
- NG 9.12 It was agreed that as part of the approval of the annual accounts the Director of Finance & Corporate Services would provided the Audit & Risk Committee with a paper on: (a) any changes to the systems for monitoring fraud; and (b) any reported fraud.
- 10 ACTING HEAD OF RISK & ASSURANCE PROGRESS REPORT TO NOVEMBER 2010 (PAPER TAC 29/2010)**
- 10.1 The Acting Head of Risk and Assurance took members through her report.
- 10.2 Staffing issues - a replacement for the agency auditor who left in June 2010 started in the Museum in July 2010.
- 10.3 The Acting Head of Risk & Assurance outlined the key points arising from her review on Crisis Management & Business Continuity. This report was considered later in the meeting – please see section 13. She then went on to give a brief outline of the work in progress which included collections security and contract management.
- 10.4 The Chairman and Director commended the Acting Head of Risk & Assurance. The Director asked that it be minuted that maintaining the programme of work with the level of available resource was an exceptional achievement.

ACTION

11 INTERNAL AUDIT STRATEGIC IMPROVEMENT PLAN CONSULTATION RESPONSE (Paper TAC 30/ 2010)

- 11.1 The Committee noted the Internal Audit Strategic Improvement Plan Consultation Response.
- 11.2 It was observed that most of the museums and galleries in the sector had outsourced the Head of Internal Audit (HIA) role and internal audit provision. The British Museum and NHM were rare examples where there was an internal HIA. Members were of the view, however, that it was more effective and efficient to have an internal HIA who understood the organisation and the risks it faced.
- 11.3 The approach of NHM was to link audit effort to risk, however, this was not the approach taken by some other organisations in the sector. The NAO review of Internal Audit across the sector found that the NHM undertook more audit work than others in the sector. However, the level of audit work required for the Statement on Internal Control (SIC) and preparation for the annual external audit of the accounts supported the Museum's approach.

MD/JD

- 11.4 It was agreed that the Museum would consult with other organisations in the sector to see what their internal audit arrangements were and if there were any opportunities for working together.
- 11.5 Members were clear that the Museum must continue to be in a position to have the necessary level of assurance through internal audit that internal controls were operating satisfactorily and major risks were being managed.

12 PRESENTATION BY THE HEAD OF COMMUNICATIONS ON THE CORPORATE RISK "THE MUSEUM SUFFERS REPUTATIONAL LOSS AS A RESULT OF A SERIOUS VISITOR RELATED INCIDENT" (Paper TAC 31/2010)

- 12.1 The Head of Communications made her presentation.
- 12.2 The Head of Communications was a member of the core Crisis Management Team (CMT). In the event of an incident that may have a reputational impact a prearranged communications plan would be put into action. The Communications Incident Team coordinates the dissemination of all internal and external communications to ensure it is managed in a consistent and positive way.
- 12.3 The communications plan was held in a hard copy manual and by each member of the team on encrypted memory sticks. Members of the team and key spokes people attended media training. Communications had also taken advice from experts who had managed major incidents. Members in the Media Relations Team were now expected to have both crisis and issues management experience.
- 12.4 The role of the Director was to act as the public face of the Museum. As a back up the Director of Finance & Corporate Services was now receiving media training. A member of the Communications Incident Team was responsible for monitoring social media and the Museum had a social media policy for staff. The role of the CMT Information Manager was to maintain a comprehensive track of issues and the decisions taken. This would be available if decisions were questioned at a future date.
- 12.4 Members thanked the Head of Communications for the informative presentation.

ACTION

13 REVIEW OF CRISIS MANAGEMENT AND BUSINESS CONTINUTIY - UPDATE AND RESPONSE BY THE DIRECTOR OF PUBLIC ENGAGEMENT (CRISIS MANAGEMENT TEAM (CMT CHAIR) AND HEAD OF SECURITY (Paper TAC 32/2010)

- 13.1 The Chairman welcomed the new Head of Security, Andrew Wilkinson, who joined the Museum at the end of August 2010. Prior to joining the Museum, Andrew served with the Royal Air Force Regiment for 17 years, where he planned the security of military air bases across the globe. Following his retirement from the military in 2004 he managed the security risks and set the security standards for Security Staff at a major Airport.
- 13.2 The Director of PEG/Chair Crisis Management Team (CMT) said she was pleased with the category 3 classification of the report. She then went on to address some of the key issues raised in the report
- 13.3 Head of Security - a significant concern that had been raised was the lack of a Head of Security and this had now been addressed.

SA Training Exercises – now that a new Head of Security had been appointed the CMT planned another training exercise in January/February 2011, employing a consultant to operate it. This will include Tring and the Collections and may also include Wandsworth. Wandsworth, however, was considered lower risk. The issues at Wandsworth were mainly collections related as there were only a few personnel on site. CMT were attending Project Argos briefings. In future, there will be a structure approach to training exercises in order to test every element of the Crisis Management & Business Continuity Plan. The next step will be to test crisis planning for overseas operations .e.g. an incident involving Touring Exhibitions.

- SA 13.4 The Chairman requested that the long term training programme with the objectives of each exercise were brought to a future Audit & Risk Committee meeting.
- 13.5 Staff awareness and communication - there will be a more regular awareness programme from the end of November 2010 e.g. hot topics on the intranet. This will include keeping the wider CMT up to date with crisis management issues. The new Head of Security now had a slot on the “Big Welcome” and was considering having information booths in the staff canteen.
- 13.6 Fire Brigade strike action – layout plans of the NHM had been arranged with Visitor Services. These would be given to replacement fire crews attending in the event of Fire Brigade strike as they may not be familiar with the Museum. Staff had been reminded by intranet news item and global email that additional measures may be required to prevent fire and limit damage. It was noted that the Museum’s overarching priority was human safety.
- 13.7 Contractor staff - Museum staff were responsible for evacuating the building and external contractors were responsible for tracking their staff. Emergency cascade contact details for staff and contractors were held by CMT on Encrypted memory sticks. The Museum was considering trialling a daily clash chart detailing which contractors were on site.
- 13.8 Members thanked the Director of PEG/Chair Crisis Management Team and Head of Security for their response to the report.

ACTION

14 PRESENTATION BY THE MUSEUM MANAGER ON THE CORPORATE RISK “CROWDS ON THE BUSIEST DAYS ARE NOT MANAGED ADEQUATELY RESULTING IN REPUTATIONAL LOSS (Paper TAC 33/2010)

- 14.1 The Museum Manager made his presentation
- 14.2 There were increasing visitor numbers from 2.1m in 2001 to 4.3m in 2009. Crowd safety management fell to Visitor Services and they had drawn up a Crowd Management Policy and Standard Operating Procedures (SOPs). Points of crowding and circulation problems e.g. the Central Hall, Dinosaur Way and Bird Gallery had been identified and systems to control and minimise the crowds in these areas developed.
- 14.3 A Fire Risk Assessment had identified that the Museum can accommodate 11,000 visitors safely. However, the comfort occupancy was only 6000 visitors. Various areas had been identified for improvement. Target entry flow and capacity parameters were being set to handle Peak Design Day admission. The Museum was communicating more effectively with visitors on how long they will queue to get into the Museum. There were regular “Twitter” updates which will be made more effective by ‘live’ information on the NHM website.
- 14.4 Visitor Services was working to manage Central Hall circulation problems. The Dinosaur Gallery queue took up to 50% of the space during peak periods with a waiting time of 50 minutes. Visitor Services were looking to introduce timed Dinosaur Gallery tickets during busy periods. As tickets were free, however, visitors may choose not to wait until their time slot. This necessitated the need to over book with associated problems. There were fast-track arrangements for ticket holders, patrons and members. They were also considering external ticket sales points all year to promote exhibitions and offer fast-track admission.
- 14.5 It was noted that the number of complaints generated by visitors queuing outside during busy periods was low. Experience had shown that it was generally more important to visitors to be kept in formed of waiting times than to be entertained.
- 14.6 There was a flexible approach to SOPs and managing outside queues e.g. when dealing with separated groups. It was noted that during busy periods the number of security staff checking bags was increased. During the recent half term period the queues had successfully been kept off the pavement and inside Museum grounds.
- 14.7 Members thanked the Museum Manager for his informative presentation.

15 ANY OTHER BUSINESS

- 15.1 The Chairman, Director and committee members thanked Professor Dianne Edwards who was retiring as a trustee for her work and contribution to the Audit & Risk Committee.

16. DATE OF THE NEXT MEETING

- 16.1 The next meeting will be held at 10.00 a.m. on Thursday 10th February 2011.

KEY TO ACTION INITIALS

Oliver Stock - OS Sharon Ament - SA
David Omand - DO Jan Day - JD
Michael Dixon - MD
Neil Greenwood - NG