



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

**52<sup>nd</sup> Meeting on Thursday 5<sup>th</sup> May 2011**

**Present**

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

**In Attendance**

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

The Director of Human Resources was in attendance for item 11.

***ACTION***

Oliver Stocken, Professor Sir Roy Anderson (recently appointed as a member of the Audit & Risk Committee) and Keith Lloyd (Director, National Audit Office) sent their apologies.

**1 APOLOGIES FOR ABSENCE**

1.1 None were received.

**2 DECLARATIONS OF INTEREST**

2.1 There were no declarations of interest.

**3 MINUTES OF THE MEETING HELD ON (PAPER TAC 12 /2011)**

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

## **ACTION**

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

- 4.1 Accounting timetable – para 8.4 – At the February meeting the Committee requested that the Director of Finance & Corporate Services put a succession plan in place so that in his absence one of his staff had the detailed knowledge necessary to produce the accounts efficiently. A member of the Finance team had now taken on greater responsibility for the production of the 2010/2011 accounts. In addition, the Director had agreed to a restructure of the Finance Team to facilitate this process.

### **5 DIRECTOR'S REPORT (PAPER TAC 13/2011)**

- 5.1 The Director presented his paper

- 5.2 Relations with the new Government - The Chair of the NHM Board and the Director had met with the Secretary of State, Jeremy Hunt. At this meeting Jeremy Hunt explained his plans to allocate access to historic reserves. At Her Majesties Treasury (HMT) insistence this was contingent on the establishment of independent trusts. The Museum was expected to declare its intentions by mid-May along with a request for access over the next four years to the NHM £7.5m accumulated reserves. Jeremy Hunt is to decide who is allowed what and notify Museums by the end of May. It was expected that the Museum would be allowed access to approximately half the accumulated reserves in the NHM balance sheet over the next four years. It was noted, however, that this was more of an issue for other museums & galleries who had much larger historic reserves than the NHM and require access to deliver projects which have been committed to. Jeremy Hunt had also given notice of his intention to set up a match funding scheme on a 1:3 basis to encourage the establishment of endowments within the independent trusts to assist with future purchases and in the longer term running costs.

- 5.3 A number of DCMS sponsored bodies and museum & galleries had established or were in the process of establishing or reactivating trusts Development Trusts. The question for the Board of Trustees on 17<sup>th</sup> May 2011 was given the Museum's intention to establish a mechanism for funding raising using a new Development Board whether the NHM should accede to the request by HMT and set up a Development Trust for this purpose too. The former NHM Development Trust had been wound up, however, the Director was seeking to establish if it may be possible to use the charity "Friends of the Natural History Museum" for this purpose.

MD

- 5.4 It was noted that in order for a Development Trust not to be consolidated into the Museum's Statutory Accounts as government expenditure the trust must be seen to be fully independent of the NHM. This raised the concern that the Museum may lose control over funds which were not restricted in use if the trustees of the Development Trust had charitable objectives which were not compatible with those of the statutory body. It maybe possible, however, for the Board of Trustees to restrict the use of gifts of, for example commercial income transferred to the Development Trust.

MD

- 5.5 The Director as Chair of the National Museum Directors' Conference (NMDC) was taking legal advice on whether a Development Trust could have the same charitable objects as the related NDPB and still be seen as independent. There was concern that as the NAO and Office of National Statistics (ONS) will not rule on the independence of Development Trusts in theory, in practice they may require consolidation.

NG/MD

- 5.6 General Reserve - It was agreed that on 17<sup>th</sup> May 2011 the Board of Trustees should reconsider the level of the general reserve which would be retained in the NHM balance sheet to ensure the Museum had sufficient operating funds for contingencies.

## **ACTION**

- MD
- 5.7 Capital Grant In Aid – The Chairman expressed concern that in the longer term if the museums & galleries established Development Trusts the government may in the future seek to reduce capital grant in aid. The Director as Chair of the NMDC was asked to make representations to DCMS and HMT that if museums & galleries established Development Trusts the capital grant would remain adequate for building maintenance.
- 5.8 Chair of the National Museum Directors' Conference - Following discussion with the Chair of the NHM Board the Director had agreed to stay on as Chair of NMDC for another two years from 1 April 2011.
- 5.9 Expenditure review programme - Trustees will receive an update on Phase 2 of the Museum's expenditure review at the Board meeting on 17<sup>th</sup> May 2011. Work subsequent to the budget presentation in November 2010 suggested that the size of the Phase 2 expenditure reduction will not be as large as thought. The biggest problem currently for the Museum was the difficulty in predicting attendance figures, spend per head and the resulting commercial income.
- 5.10 Theft of Bird Skins from Tring - The defendant was sentenced at St Alban's Crown Court on 8<sup>th</sup> April 2011. He was given a 12 month prison sentence, suspended for two years, and a 12 month supervision order. There was concern, however, that the sentence was not a large enough deterrent for what the NHM considered to be a serious crime.
- 5.11 Security - Since the American operation in Pakistan against Osama Bin Laden there were high levels of speculation in the media regarding the possibility of reprisal attacks by Al Qaeda and the museum was monitoring this very closely. The Head of Security had updated the Director and staff that day. It was noted that the Home Office had kept the threat level from international terrorism at SEVERE. Members observed that between now and the Olympics in 2012 there will be escalating security concerns.
- 5.12 Director of Science - The Director of Science was retiring and interview dates for the post had been set.
- 6 DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW APRIL 2010 TO FEBRUARY 2011 (PAPER TAC 14 /2011)**
- 6.1 The Director of Finance and Corporate Services presented his paper.
- 6.2 General Fund - It was forecast that there will be a General Fund balance at the year end which was above the previous forecast and the original budget approved by the Trustees in November 2009 by £1.420m. It was noted that there will be an under spend on capital and projects and the outturn for redundancies was slightly lower than the provision. The intention was to use the additional surplus to mitigate the impact of Phase 2 of the Expenditure Review. Under the end of year flexibility rules, however, there was a requirement to seek HMT permission to spend reserves and there was a risk this may not be granted.
- MD/JD
- 6.3 Exhibitions Consultancy - Exhibitions Consultancy was forecast to make a loss in 2010/2011. A review of Planning & Design Consultancy (PDC) was to take place and an internal audit was also on the 2011/12 Risk & Assurance plan. One of the new Strategic Plan 2011/16 programmes of work was to consolidate the Museum's approach to working internationally and this will form an important component of the review of PDC. It was observed that: (a) working internationally exposed the Museum to different risks; (b) more museums were now working internationally; and (c) the core costs for running PDC were high, business projects were larger, fewer and success in winning them was unpredictable.

## **ACTION**

### **7. ACTING HEAD OF RISK & ASSURANCE: ANNUAL REPORT TO THE ACCOUNTING OFFICER AND AUDIT & RISK COMMITTEE (TAC 15/2011)**

- 7.1 The Acting Head of Risk & Assurance took members through her report.
- 7.2 Annual Assurance - The Acting Head of Risk & Assurance 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.
- 7.3 The Acting Head of Risk & Assurance was confident that for the future despite the limited staff resources and lack of contingency in the audit plan she would have sufficient resource to provide an assurance in 2011/2012. It was also noted that a budget was available to buy in specialist audit skills e.g.IT and additional audit resources if required.
- 7.4 Collections Security – The Director had discussed the priority rating of the draft report with the Acting Head of Risk & Assurance. The provisional level 2 was of concern and remedial work was already in hand. It transpired that many of the items that dictate this rating were general security improvements not necessarily related to collections. As a result there will be further consideration as to whether the rating of 2 is an appropriate reflection of the level of risk. In addition, work is underway by the Head of Security and the Collections Committee which may mean that the residual risk will be reduced by the time the draft report is finalised.

### **8. ANNUAL ACCOUNTS 2010/11: DRAFT STATEMENT ON INTERNAL CONTROL, UPDATE ON ACCOUNT ISSUES, AND FRS 30: HERITAGE ASSETS (TAC 16/2011)**

- 8.1 The Director of Finance and Corporate Services presented his paper.

#### **(a) Draft Statement on Internal Control (SIC)**

- 8.2 A revised SIC will be circulated to Audit & Risk Committee members during June to take account of any further matters arising with a view to final approval of the statement at the Audit & Risk Committee on 29<sup>th</sup> June 2011. Additional information on the Annual Security Report presented by the Head of Human Resources/ Senior Information Risk Officer (SRO) will be included.

NG

#### **(b) Update on accounts issues**

- 8.3 Preparation of accounts - The trading company auditors arrived on 4<sup>th</sup> May 2011 having been presented with a full set of accounts the week beginning 26<sup>th</sup> April 2011. The trial balance for production of the statements was on schedule for completion during the week beginning 9<sup>th</sup> May 2011.
- 8.4 "Going Concern" assessment - There will be an assessment as last year and this will be revisited at the informal review of the accounts.
- 8.5 FRS 30: Heritage Assets - At the meeting in February 2011 the Committee had approved the Museum's approach in respect of Financial Reporting Standard 30. As a result Note 1 to the accounts (Accounting Policies) which included the approach to heritage assets had been amended. The Director of Finance & Corporate Services asked the external auditors to review the draft of Note 2 to the accounts (Collections and Collections Management) and let him know if it fulfilled their requirements. It was noted, however, that data collection was still in progress and some of the data may not be available. The initial view of the external auditors was that Note 2 did meet their requirements.

NAO/PKF

## **ACTION**

- NAO/PKF
- 8.6 Energy Services contract - An energy services contract had been signed with commencement scheduled for Autumn 2011. The NAO's initial opinion was that the contract could be treated as "off balance sheet", however, they were awaiting final confirmation from their technical team.
- 9. MAJOR CORPORATE RISKS 2010/2011 & 2011/12 (TAC 17/2011)**
- (a) Major Corporate Risks 2010/11**
- 9.1 The Director gave his annual update on the major corporate risks for 2010/11.
- 9.2 Failure to achieve sustained GiA funding at or approaching current levels – This risk was realised as part of the government's 2010 spending review which fixed Government department spending budgets for four years up to 2014/15. It was anticipated that the risk of further cuts to funding was only likely towards the end of this period. The Museum had mitigated the impact by Phase 1 and 2 of the NHM Expenditure Review. Phase 2 related to years 2012/13 to 2014/15.
- 9.3 External Funding of science is harder to win and reduces our scientific research activity - This remained a major corporate risk in 2011/12. To reduce the likelihood and increase the success of research applications the Museum had focused on improving the quality and relevance of NHM science. In addition, the impact had been mitigated by the Museum's management of scientific expenditure. Also research scientists now write a five year research plan which was subjected to international peer review.
- 9.4 It was noted that the scientific vision of the new Director of Science will be critical to the management of this risk. In addition, the Museum's international strategy and the development of international research collaborations will improve access to international science foundations e.g. in the USA. The Museum was also developing performance indicators for this risk for the new Corporate Plan. In addition, the Research and Consulting Office supported income generation and alerted staff to new funding opportunities.
- 9.5 The protection of our collections from pests, theft etc, is not maintained adequately - In view of the Tring theft of bird skins and the audit report this was an ongoing concern and a lot of work was taking place. It was essentially a long term inherently high risk, however, and it would remain a major corporate risk in 2011/12.
- 9.6 Crowds on the busiest days are not managed adequately resulting in reputational loss - There was little evidence that the upturn in visitor numbers following the Darwin Centre opening in September 2009 was falling away. A Fire Risk Assessment had identified that the Museum can accommodate 11,000 visitors safely. The comfort occupancy, however, was only 6000 visitors due points of crowding and circulation problems e.g. in the Central Hall. This remained a major corporate risk in 2011/12. Crowd safety management fell to Visitor Services and they had drawn up tactical Crowd Management Operating Procedures (SOPs). As part of tactically managing this risk the Museum had recently introduced fast-track tickets for the Dinosaur Gallery. The longer term strategy was to open up more space in the Museum and improve circulation. It was noted that the costs of improving accessibility to the Museum interior through open space development as set out in the Master Plan were prohibitive in the short term.
- 9.7 Legislative outcomes introduce more administrative burden than we can handle with reduced staffing – There was a risk that the government may change the administrative status of museums. The Cabinet Office triennial review process for arms length bodies was to be used going forward to examine the governance arrangements for NDPBs. This risk will be kept under review during 2011/12.

## **ACTION**

- 9.8 An incoming new administration introduces a within year cut and prejudices our ability to manage the 2010/11 budget – This risk materialised in 2010/11, however, the risk of any further within year cuts to funding was only anticipated to be likely towards the end of the spending review period. The Museum had mitigated the impact by Phase 1 and 2 of the NHM Expenditure Review.
- 9.9 We do not adjust our commercial business adequately in response to the economic climate -This risk was realised and remained a major corporate risk in 2011/12. The largest source of commercial income was on site businesses and these were affected by attendance numbers and consumer confidence.
- 9.10 Our ability to recruit and retain good staff is compromised by the economic environment for the public sector – This risk had been reduced by the public sector recruitment freeze and staff turnover had fallen significantly.
- 9.11 Our web presence is inadequate for a major international research organisation and public engagement with science - This had been a concern for a number of years and remained a major corporate risk in 2011/12. There was pressure to make the Museum's collections more accessible to the public and in most cases free of charge. The Museum had undertaken a review of digital opportunities including possible commercial opportunities. The investment needed in digital technology was substantial.
- 9.12 We do not invest adequately in our core infrastructure – Capital grant in aid had been reduced and most museums and galleries had a maintenance backlog. The Museum had undertaken a condition survey of its buildings, however, the work needed had not been valued by quantity surveyors. The risk was a long term inherently high risk.
- 9.13 Restructured workforce is inadequate for the effective management of outsourced contractors - This was an acknowledged long-term inherently high risk. The ineffective management of major outsourced contractors was a corporate risk in 2011/12.
- 9.14 The NHM is subject to an attempted terrorist attack - The Museum had tactical measures in place to deter and minimise the impact of an attack, however, more work was needed on developing a counter – terrorism strategy. The risk was a long term inherently high risk and the likelihood was linked to overall UK government security alert status.
- 9.15 The museum suffers material or reputational loss due to fraud - In times of economic pressure the risk of fraud in organisations increased and this was a long term inherently high risk. Extensive fraud awareness work had taken place to minimise likelihood and impact The Chairman observed that cyber fraud and crime was on the increase.
- 9.16 Loss of senior staff results in significant disruption to the effective management of the museum – The recruitment of a new Director of Science was taking longer than anticipated and there were lessons to be learned from the exercise. The risk was also a potential one for 2012/13 due to the retirement of some very senior scientists.
- 9.17 The Museum suffers reputational loss as the result of a serious visitor related incident – The Audit & Risk Committee had received a presentation from the Head of Communications in November 2010 on the management of this risk. The Museum had a crisis management and communications plan that would be put into action in the event of an incident.

## **ACTION**

### **(b) Major Corporate Risks 2011/12**

- 9.18 The corporate risks for 2011/12 were considered and scored by the Executive Board and the Acting Head of Risk & Assurance at the Executive Board planning conference in March 2011. The new risk management scoring system had been used for the exercise. The next step was for an Executive Board Director to be allocated overall responsibility for each individual risk. In addition, a manager will be assigned as a risk owner to maintain the risk management template which records the mitigating actions to be undertaken in 2011/12.
- EB/SMT
- 9.19 **Members considered the major corporate risks for 2011/12.**
- 9.20 Our commercial and financial ambitions are not realisable because of local borough planning limitations - The Museum was working with the Royal Borough of Kensington & Chelsea to get agreement to the NHM Grounds Strategy which was required to comply with the council's local Development Framework which set out the planning strategy for the Borough.
- 9.21 International work – The Museum had been internally focused on delivering DC2 and 2011/12 was a year of transition to being increasingly externally focused on the international impact of the Museum's science. This change in direction may result in NHM international work appearing as a major corporate risk in 2012/13.
- 9.22 Fire Safety Management – The Museum had a Fire Safety Manager to manage this long term inherently high risk. On the introduction of the Health & Safety unit's own audit programme in 2007 it was agreed with the Head of Health & Safety that the Risk & Assurance team would no longer carry out safety audits. It was noted that an Annual Health & Safety Report went to the Board of Trustees and this gave some information on fire safety and the Health & Safety audit programme. The Chairman and members requested that they receive a brief written assurance that fire safety was being managed effectively.
- NG/PB/AB/RC
- 9.23 The Committee approved the adoption of the major corporate risks for 2011/12 subject to recommended changes in wording.
- 9.24 Risk Management Presentations – The Chairman asked that risk owners continue to present the risk management templates and comment on the mitigating actions at future meetings of the Audit and Risk Committee. In particular Members requested presentations on: (a) collections security, (b) crowd management, and (c) security and counter-terrorism.
- JD/EB/SMT
- 10. RISK AND ASSURANCE: PLAN FOR 2011/12 & PLAN IN CONTEXT (TAC 18/2011)**
- 10.1 The Acting Head of Risk & Assurance presented her paper.
- 10.2 The Committee considered the draft plan in the light of the ranked list of major corporate risks for 2011/12 and approved the plan. The external auditors confirmed that the time allocated between major risks, other high risks and regular reviews was the right balance. It was also observed by the external auditors that the plan contained more audit work than in many other similar organisations.
- 10.3 It was noted that the internal audit plan mapped the annual delivery plan for the Strategic Plan 2011/16. The "plan in context" was a dynamic document and the audits listed for current and future years were subject to review in the light of changing risks and priorities.
- 11. DIRECTOR OF HR AND DIRECTOR OF ESTATES - ANNUAL SECURITY REPORT (TAC 19/2011)**
- 11.1 The Director of HR presented the paper.

## **ACTION**

- 11.2 The Museum had adopted a co-ordinated and synergistic approach to organising and managing security in the Museum using the Cabinet Office Security Policy Framework (SPF). In May 2010 the Museum undertook to combine the annual Information Risk Report and the Security Report into one document. The report was constructed to deliver an assurance on the seven themes contained in the SPF. The Museum was already seeing benefits in this approach to organising and managing security and will extract greater benefit as the Museum becomes more practiced in the methodology. It was noted that the Director of Human Resources will provide the Director with a statement of assurance regarding information risk for 2010/11.
- 11.3 Counter - Terrorism - In the view of the Director of Human Resources the highest priority SPF theme was counter- terrorism. The Museum had a large number of tactical measures in place to deter and minimise the impact of an attack e.g. bag searching, however, more work was needed on developing a counter- terrorism strategy.
- 11.4 Outsourcing of Museum Security Services - A joint procurement exercise had taken place with the Science Museum and V&A. The contract was awarded to Wilson James and commenced on 1<sup>st</sup> April 2011. Under Tupe both NHM agency staff and approximately 17 direct NHM staff had transferred to Wilson James. Strict terms and conditions relating to quality and qualifications were included in the contract. It was observed, however, that the contract should be managed to ensure that only fully accredited and trained staff were employed at NHM.
- 11.5 Personnel Security - As a minimum the SPF required that all NHM staff were subject to a set of recruitment controls known as the Baseline Personnel Security Standard (BPSS). The BPSS comprised verification of four main elements: (1) identity; (2) employment history; (3) nationality and immigration status (including the right to work); and (4) unspent criminal records. The Museum was in the process of ensuring the providers of outsourced services and their subcontractors complied with BPSS. It was estimated that approximately 25% of personnel on site at anyone time were not direct employees of the Museum.

JD/AW

- 11.6 The Chairman requested that the Head of Security give a presentation on NHM security and the counter – terrorism strategy at the November 2011 meeting.

PB/DS

- 11.7 The Chairman and committee endorsed the approach to managing security in the Museum but observed that there was a need to ensure consistency of approach across all the elements of security.
- 11.8 Members thanked the Director of Human Resources for his informative presentation.

## **12. AUDIT & RISK COMMITTEE ANNUAL REPORT 2010/2011 (TAC 20/2011)**

- 12.1 The Chairman introduced the report and thanked the Acting Head of Risk & Assurance for her help in its production. The report will be presented to the Board of Trustees on 5<sup>th</sup> July 2011 and sent to The Department of Culture Media and Sport (DCMS). Members approved the report.

## **13. ANY OTHER BUSINESS**

- 13.1 There was no other business

## **14. DATE OF THE NEXT MEETING**

- 14.1 The next meeting will be held at 10. 00 a.m. on Wednesday 29<sup>th</sup> June 2011

## ***ACTION***

### **KEY TO ACTION INITIALS**

Michael Dixon - MD

Neil Greenwood - NG

Paul Brereton - PB

David Sanders - DS

Jan Day - JD

Alan Barlow - AB

Rob Cook - RC

Andrew Wilkinson - AW

Executive Board - EB

Senior Management Team - SMT