



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

**40<sup>th</sup> Meeting on Thursday 8<sup>th</sup> MAY 2008**

**Present**

Sir David Omand in the Chair  
Oliver Stocken (Chair of Trustees, co-opted member)  
Mr Michael Sheasby (co-opted member)  
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 (National Audit Office)  
Nick Buxton (Partner, PKF)  
Jan Day (Committee Secretary)

***ACTION***

The Chairman expressed his delight at being in the Chair and welcomed Mark Richardson a partner with Deloitte & Touché who was replacing Michael Sheasby as a co-opted member.

**1 APOLOGIES FOR ABSENCE**

- 1.1 Apologies were received from Professor Dianne Edwards.
- 1.2 Members agreed that Oliver Stocken be co-opted to the Audit and Risk Committee so that the committee was quorate.

**2. DECLARATIONS OF INTEREST**

- 2.1 There were no declarations of interest.

## **ACTION**

- 3 MINUTES OF THE MEETING HELD ON TUESDAY 5<sup>TH</sup> FEBRUARY 2008 (PAPER TAC 14/2008)**
- 3.1 The minutes were accepted as a true record of the meeting.
- 4. MATTERS ARISING FROM THE MINUTES**
- 4.1 Fraud awareness, prevention and detection mechanisms – para 3.2
- (a) The Director included fraud issues during his Director update session on 6<sup>th</sup> February 2008 and in his regular induction presentation to new staff.
- (b) DCMS send out information on fraud issues that have arisen in other museums and galleries.
- DO 4.2 Business Continuity Awareness – para 12.4 The Chairman had not yet attended a business continuity workshop but still intended to do so.
- 4.3 Benchmarking – para 14.2
- DG (a) It was agreed that when members of Directors Group and managers visit natural history museums around the world they would seek information on the way these organisations approached the assessment and management of risk for bench marking purposes.
- (b) It was noted that NHM audit staff also receive information on risk assessment and management from HM Treasury and attend courses on the subject.
- NG/AC 4.4 Accounting timetable 2007/2008 – para 8.8 – The Chairman asked to be kept informed of any potential changes to the timetable.
- 5. AUDIT COMMITTEE'S CHANGE OF NAME AND AMENDMENTS TO THE COMMITTEE'S TERMS OF REFERENCE (PAPER TAC 15/2008)**
- 5.1 The change of name to the Audit & Risk Committee and the revised terms of reference were accepted subject to the following amendments:
- DT (a) members can be reappointed for one further term only; and
- (b) trustees and co-opted members of the Committee are normally to be appointed for a period of four years.
- 5.2 NHM Website – As agreed at the February 2008 meeting the Audit & Risk Committee minutes would be published on the Audit & Risk Committee page on the Museum website. It was noted that the website needed to make it clear that minutes were redacted in accordance with exemptions under the Freedom of Information Act (FOI). The papers for the Audit & Risk Committee also needed to make it clear when there was an exemption under the FOI Act.
- DT
- DT/DO 5.3 Letter of Appointment – a letter of appointment for Mark Richardson the new co-opted member was being prepared for signature by the Chairman.
- 5.4 New Audit & Risk Committee Member - the two Prime Minister appointments to the Board of Trustees were approved on 8<sup>th</sup> May 2008. One of these appointments Dr Derek Langslow was selected as a trustee with the intention that he would join the Audit & Risk Committee as a member. His appointment to the Audit & Risk Committee will be formally approved in due course.
- MD  
Trustees

**ACTION**

**6 DIRECTOR'S REPORT TO THE AUDIT COMMITTEE (PAPER TAC 16 (a) & (b) /2008)**

6.1 The Director presented his paper

**6.2 Significant control issues since the last meeting of the Committee**

6.3 The management of high visitor numbers - the Committee discussed the problems of visitors queuing in the rain due to bag searching. It was noted that very high Museum attendance as occurred on Easter Saturday was not a regular problem. It normally arose when public holidays were within school holiday periods and poor weather deterred people from outdoor attractions. It was also noted that all the entrances to the Museum were not accessible as defined by the Disability Discrimination Act (DDA) 1995 and this needed to be addressed in the long term.

MD/DS

6.4 It was agreed that the challenge of visitors queuing in the rain before entry to the Museum should be considered in the medium term as part of the Master Planning exercise,

**6.5 Major corporate risks**

6.6 The Committee considered the major corporate risks for 2007/2008 and 2008/2009

**6.7 Corporate risks – 2007/2008**

6.8 Reduction in GIA in real terms as a result of the CSR2007 - This risk was included in 2007/08 as there was concern at the time that the outcome of the CSR settlement may be unfavourable. The view was expressed that the Museum may as a result of the rising cost of the Olympics be subject to in year grant-in-aid cuts by DCMS. As far as the Director was aware the NHM had never been subjected to any reduction inbetween spending reviews. It was noted, however, that Defra NDPBs had been subjected to in-year cuts due to the department's budget deficit in 2006/2007. This issue would be borne in mind when considering major corporate risks in the future and as 2012 moved closer. In the meantime the Director continued his advocacy programme for the next government spending review which was a major component of his work.

DG  
MD

**6.9 Corporate risks – 2008/2009**

6.10 It was noted that the wording of each risk was to be refined so that it was clearly understood.

6.11 The pay award does not deliver the expected outcomes - The museums and galleries sector was underpaid in comparison with other sectors. As an NDPB the NHM pay award requires Treasury and DCMS agreement. It was noted that the Treasury is seeking to minimise public sector pay awards below inflation over the next three years. In addition, there were problems with pay progression along NHM pay bands. Directors Group would attempt to mitigate the risk by negotiating the best pay award possible and managing the expectations of staff. One of the reasons the NHM was seeking the Investors in People standard was to demonstrate the Museum had processes for the management and development of people.

DG  
MD/PB

6.12 Failing to limit our growth to 1% - In order to improve efficiency the Museum had set a target of 1% growth for non salary expenditure.

6.13 Not developing an effective decision making process – Directors Group were looking at governance issues across the Museum and the delegation of decision making down through the organisation.

DG/MD

## **ACTION**

- DG 6.14 The Committee approved the adoption of the major corporate risks for 2008/9 subject to the recommendation that the non-financial risks which related to the long term delivery of DC2 should be included as a corporate risk.
- 6.15 **Consideration of a new process for evaluating risk**
- DG 6.16 The Directors Group planned to introduce a consistent risk management methodology and structure for risk registers across the Museum in 2008/2009. This was in order that 2009/2010 planning would be more effective in the bottom up as well as top down and review of risk. The intention was to adopt a three dimensional model of assessing risk (i.e. impact x likelihood x extant level of control). Historically the NHM scoring of impact and likelihood on a scale of 1-10 (low to high) and control on a scale of 1-5 (good to poor) gave a high degree of granularity in outcomes. The scoring has been reduced to 1-5 (low to high) for impact and likelihood and 1-3 (good to poor) for control.
- 6.17 It was noted that a number of organisations used vulnerability assessment which was similar to control. The vulnerability of an organisation to a scenario could be influenced but it was less easy to influence impact.
- 6.18 The major corporate risks were those that required action over the next 12 months. A risk management template defining the components of each risk was completed for quarterly reporting. The Audit and Assurance plan focused on the risks in the subsequent year once action had been taken. It was noted the overall Museum risk register also contained long term inherently high impact risks for example the risk of damage from fire.
- 6.19 In conclusion it was agreed that:
- MD/DT (a) examples of the management and action plan of individual major corporate risks and long term inherently high risks should be brought to the Committee for consideration;
- (b) a comprehensive document outlining the risk assessment processes adopted by the Museum and the categorisation of risk would be presented to the Committee in July 2008; and
- (c) the Committee would continue to receive presentations from departments on their risk assessment process.
- NG/AC/MB 6.20 Restless Planet - The financial position remained the same as the last report to the Audit & Risk Committee and consideration will be given to the treatment of the debt in the 2007/2008 accounts. It was noted that under the contract with IMG the Museum was contracted to supply alternative animatronic models if Kokoro were unable to do so. The Museum's position was that if that happened it would be a direct consequence of IMG failing to make payments in accordance with the contract. The Museum was in close contact with Kokoro and had recently been to their AGM in Japan. Kokoro's holding company were supporting the business and Kokoro have continued to make models at their own risk.
7. **DIRECTOR OF FINANCE'S REPORT ON THE CURRENT FINANCIAL POSITION INCLUDING "CASH BALANCE INVESTMENTS" AND DC2 (PAPER TAC 16 (a) & (b) /2008)**
- 7.1 The Director of Finance presented his paper.

**ACTION**

**7(a) Financial Review for the period April 2007 – March 2008**

NG/AC

7.2 Overall position - there was still work to be done to finalise the year end position and there was likely to be movement in the figures, which did not include any change to the provision for Restless Planet. The provisional year end outturn for the General Fund was c£4.7m which was above the original budget by £2.6m and above the previous forecast by £0.8m. The Director of Finance was not anticipating any problems with carry over and year end flexibility which was more likely to arise at the end of the comprehensive spending review period in 2011.

7.3 Cash held and investment profile – as agreed at the last Committee meeting a schedule of Museum’s investments was attached to the Director of Finance’s report. The Euros were held to meet Museum liabilities to NHM partners in the EC SYNTHESYS project. These liabilities were determined by the Euro amount. Investments generally matured on a monthly basis to meet significant payments e.g. payroll and DC2.

NG/AC

7.4 It was agreed that taking account of Treasury restrictions consideration should be given a more sophisticated matching of investments to liabilities. This was in order to take advantage of the higher interest rates which may be available for periods of investment longer than one month.

**7(b) Darwin Centre Phase 2 – Programme Directors Report**

7.5 Financially the budget was tight and the latest cost forecast of £75.851m exceeded the approved budget of £74.550m by £1.301m, and was above the pledged funding of £75.660m. However the forecast included a construction risk allocation, public offer project risk allocation and contingency. Budget scenarios were being costed that showed the likely worst case and best case.

7.6 A “Programme on a Page” was used to track delivery and dependencies between the different components of the programme. Main construction remained scheduled for completion in mid July 2008, followed by public offer fit out commencing from September 2008, and collections and staff moves from January 2009. Public opening was planned for late September 2009.

7.7 x

7.8 OGC Gateway review - the OGC (Office of Government Commerce) were completing another Gateway review 19<sup>th</sup> - 22<sup>nd</sup> May 2008. This will be a Gateway 0 a strategic assessment of the overall programme combined with a Gateway 4 Readiness for service.

**8. HEAD OF AUDIT AND ASSURANCE ANNUAL REPORT TO THE ACCOUNTING OFFICER AND THE AUDIT AND RISK COMMITTEE (PAPER TAC 18/2008)**

8.1 The Head of Audit and Assurance took members through the sections within his report.

8.2 Annual Assurance - The Head of Audit gave a reasonable assurance that an adequate and effective risk management and internal control framework was in place to ensure the proper conduct of business and the achievement of the Museum’s aims and objectives. His assurance was based on the outcome of the work completed by his team during the year, information gathered from his attendance at Directors’ Group, and the consultancy and advisory work completed.

8.3 Audit and Assurance Staffing -The committee noted that the audit team’s complement had been reduced from four staff at the beginning of the year to three, however, there were funds to bring in specialists e.g. internet security specialists to test the fire walls. The adequacy of the complement would be monitored.

Audit Committee

## **ACTION**

- DT 8.4 Public Interest Disclosure Act 1998 - Audit and Assurance were currently dealing with a protected disclosure under the Public Interest Disclosure Act 1998 made via the Museum's independent whistle blowing line. It was agreed that a copy of the final report would be sent to the Director and Audit & Risk Committee chairman for consideration.
- 8.5 Implementation of Audit Recommendations - There was: (a) a problem in getting a response to internal audit reports; and (b) a continuing, but reduced problem of delays in implementing the recommendations. The Director discussed these issues with the Head of Audit and Assurance in their regular one to one meetings and spoke to the relevant Director where necessary. The committee noted that audit recommendations and the reports were prioritised on a scale of 1 - 3 according to the level of risk.
- MD/DT 8.6 It was agreed that:
- DT (a) there should be an improved dialogue with auditees to ensure that: (i) the implementation date was practical; and (ii) there was full discussion of the feasibility of the recommendation versus cost. It may be necessary for the Director to arbitrate or enforce action;
- DT (b) the Head of Audit and Assurance would provide the committee with a one page summary of any material issues that had been significantly and unreasonably delayed in the previous quarter; and
- DT (c) the Head of Audit and Assurance would within four months of the issue of a final report, email the responsible Director enclosing a summary of the agreed actions and ask for a progress report on their implementation.
- 9. HEAD OF AUDIT AND ASSURANCE PROPOSED PLAN FOR 2008/2009 (PAPER TAC 19/2008)**
- 9.1 The Head of Audit and Assurance presented his plan for the coming year and the committee endorsed the plan.
- MD/NG/DT It was agreed that the scope of the proposed DC2 review would be dependent on the outcome of the forthcoming OGC Gateway review.
- 10. DRAFT STATEMENT ON INTERNAL CONTROL (PAPER TAC 20/2008)**
- 10.1 Members considered the draft statement and made recommendations.
- PB Protection of personal data - It was noted that HM Treasury had indicated that they would be issuing some standard wording on the protection of personal data for inclusion in the statement on internal control. The Director of Human Resources had been designated to ensure the Museum had effective processes in place for the management of personal data in accordance with Cabinet Office and DCMS guidance.
- 11. CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS**
- 12. ANY OTHER BUSINESS**
- NG/AC 12.1 NAO Good Governance – Remuneration Reports - The Committee considered the report. HM Treasury's Financial Reporting Manual required all government bodies including NDPBs to prepare a remuneration report disclosing the total amount of remuneration paid to each senior manager. All the museums and galleries were making a full disclosure and non compliance would in future be reported by the NAO in their audit certificate. It was confirmed that the Museum was planning full disclosure in the 2007/2008 Annual Accounts. Senior Managers were confirmed as members of Directors' Group.

## **ACTION**

- MD/DO
- 12.2 Charitable Museums and Galleries: A guide to conflicts of interest policies, trustee benefits and transactions between trustees and charities – It was agreed that the guide would form part of trustee's induction process and there would be a declarations of interest at the start of every Audit & Risk Committee.
- 12.3 Michael Sheasby -The Chairman and committee members thanked Michael Sheasby who was retiring from the committee for his significant and expert input to the committee over the last 9 years.

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

- 14.1 The next meeting will be held at 10. 00 a.m. on Thursday 3<sup>rd</sup> July 2008.

### **KEY TO ACTION INITIALS**

Sir David Omand - DO  
Michael Dixon - MD  
Neil Greenwood - NG  
David Thorpe - DT  
Alan Carr - AC  
David Sanders - DS  
Paul Brereton - PB  
Martin Burchmore - MB  
Directors Group - DG