



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

61st Meeting on Thursday 27th June 2013

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 & Assurance/Committee Secretary)
Lewis Knights (Audit Manager, National Audit Office)
Nick Buxton (Partner, BDO)
Martin Burchmore (Partner, Kingston Smith)

Melissa Clifford-Turner (Head of Financial Reporting) was in attendance for item 9.
Alison Purvis (Head of Development) was in attendance for item 10.

ACTION

1 APOLOGIES FOR ABSENCE

- 1.1 Oliver Stocken (Chair Board of Trustees), Professor Sir Roy Anderson and Keith Lloyd (Director, NAO) sent their apologies.

2 DECLARATIONS OF INTEREST

- 2.1 Mark Richardson (co-opted member) declared an on-going interest in any discussions relating to donations to the Natural History Museum Development Trust. This was due to his role as a trustee of the Development Trust.

**3 MINUTES OF THE MEETING HELD ON WEDNESDAY 8TH MAY 2013
(PAPER TAC 22/2013)**

- 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 from the minutes.

5 DIRECTOR'S REPORT (PAPER TAC 23/2013)

5.1 The Director presented his paper.

5.2 Announcement of DCMS Spending for 2015/16 -The Chancellor had given his Spending Review statement for 2015/16 to the House of Commons on Wednesday. The NHM had confirmation of what this will mean for the Museum from the Department for Culture, Media and Sport (DCMS). Along with other National Museums and Galleries the NHM resource grant for 2015/16 will be cut by 5% in real terms, which in cash terms means c. 3.3% less than 2014/15 (reductions of £1.37m in resource and £79k in capital). This was a better outcome than might have been feared as DCMS resource funding will fall by 8%. While cuts were always difficult to manage, the Director had confidence NHM could absorb the 2015/16 savings without further major restructuring. The challenge will be 2016/17 and 2017/18 as the trajectory of the graph in the 2013 Budget paper on projected government resource spending indicated there would be deeper cuts in those years.

5.3 It was observed that any new government would inherit current spending plans and the state of the economy in place from the current government. The NHM through the National Museum Directors' Council (NMDC) and its own advocacy programme will increasingly engage with all parties as the May 2015 General Election got closer.

5.4 The Chancellor said in his statement that the government recognised the value of our greatest museums, galleries and English Heritage and were giving them greater freedom from state control. It was noted that the Prime Minister strongly supported the "GREAT" campaign designed to bring in extra foreign tourists. The Museum will need to look in detail at what the ten new administrative freedoms mean. There was, for example, (a) a special exemption from Government procurement policy, giving museums freedom to opt in or out of central procurement on a case by case basis exemption; and (b) the museums and galleries sector will be able to borrow up to £40m against business plans. It was not clear, however, if business plans only applied to commercial income projects as opposed to, for example, energy saving schemes.

MD 5.5 The Chair recommended that the Director took a short paper to the November Board of Trustees on the administrative freedoms granted to the museums and galleries sector and the opportunities for the NHM.

5.6 DCMS Project on Collection Storage - We understand that DCMS are to commence a project to look at off-site collection storage of its sponsored Museums and Galleries, prompted by discussions on the future of Blythe House in Olympia. This facility, owned by DCLG, which houses some collection items belonging to the British Museum, the V&A and the Science Museum, is being considered by government for disposal. We will attempt to engage with this project when invited to do so, and consider whether a shared facility with other Museums and Galleries, or indeed other strategic partners, offers a more efficient and practical solution than trying to resolve our issues entirely on our own.

5.7 Board Skills Audit - There were a number of Trustee positions due to be filled over the next twelve months. A skills audit form had been sent to Trustees to elicit their views on the skills and experience NHM needed for new appointments. The Executive will collate the views and present the role specification options to the Board for the next four or five appointments. It was noted the Chair of the Board was due to retire on 31st December 2013.

ACTION

- 5.8 Science Museum Group - The Science Museum Group made it public before the spending review outcome for 2015/16 was known their expectation that a substantial further cut would necessitate their closing one or more of their northern branches. The Science Museum Group also made it known they considered that as a Science based organisation they would be better sponsored by the Department for Business, Innovation & Skills (BIS) than DCMS. It was noted that the science budget under BIS had been ring-fenced by the Chancellor.
- 5.9 Attendance - The moving annual total for attendance stood at 5.16m. May saw record attendances and June should also exceed the previous year record. Special exhibition attendance was mixed, with *Sensational Butterflies* well ahead of plan, Salgado's *Genesis* very marginally behind plan and *Extinction* a considerable disappointment. The Museum was undertaking research to try and establish the reason for the poor performance of *Extinction*. Visitor related income remained suppressed with growth in attendance not matched by growth in retail or catering spend. The NHM was analysing the trend and the lack of growth in spend which was complex and related to a change in visitor mix and the growth in young overseas visitors.
- 5.10 New Structure for Reporting Performance - The Museum was developing new ways of presenting performance information. The Director took members through a new way of presenting management accounts for the 2012/13 year-end out-turn. The challenge for Finance staff was how to present information in this new format on a quarterly basis. Although expenditure was calendarised it was not always to the level of detail required for accurate comparison on a quarterly basis. Some expenditure e.g. salaries lent itself more easily to being calendarised. Capital expenditure was more difficult as it was often dependant on the timing of events which may not always be predictable. In addition, a small number of key indicators of financial health would be developed for Audit and Risk Committee and the Board to consider at each meeting.
- MD 5.11 Members found the new format for the management accounts more legible and made recommendations. Separating operating and capital expenditure improved clarity. The new format will be presented to the Board of Trustees on 2nd July 2013.
- 5.12 Development and Communications - From the beginning of the last fiscal year the Development and Communications Departments had reported directly to the Director. There were opportunities for improving NHM corporate communications and the Director would be acting on these.
- MD 5.13 Major Corporate Risks - The major corporate risk reporting templates were presented separately in their entirety for the meeting. It was agreed they would be circulated at each meeting together with a brief report on the risks where there had been significant changes. The Chair and members considered a high level group monitoring will have a positive impact on management of risk by Risk Owners. The presentation of the status column used by the Director of Science for his risk "External Funding of Science is harder to win" which highlighted where there had been change using red, amber, green was found particularly useful by members.
- 6. ANNUAL ACCOUNTS 2012 -2013 AND AUDIT COMPLETION REPORTS (PAPER TAC 24/2013)**
- 6.1 The Director of Finance & Corporate Services presented the accounts.
- 6(a) The Natural History Museum Annual Report and Accounts**
- 6.2 There had been an informal review of the accounts by the Chair of the Audit & Risk Committee and Mark Richardson (co-opted member) on 12th June 2013.

ACTION

6.3 The Natural History Museum Annual Report and Accounts for 2012/13 were presented for Audit and Risk Committee to recommend to the Board of Trustees that they approve the accounts at their meeting on 2nd July 2013. The figures in the accounts had been finalised. The only point outstanding was a note in relation to a voluntary severance payment which required DCMS approval and disclosure in the Accounts. The wording of the disclosure had now been agreed with the NAO Manager. There had also been some changes to the Annual Report following suggestions by the Science Policy Co-Ordinator and the External Policy Advisor. Comments had been received from DCMS and the intention was to submit the Accounts on 28th June 2013 for ministerial approval which should be completed within 10 working days. As the parliamentary recess date was not until 18th July the Museum was well placed to ensure the accounts were laid by that date.

6(b) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter

6.4 *(a) Trading Company Accounts*

6.5 The audit of the accounts was complete and the accounts had been approved at a meeting of the directors of the Trading Company.

6.6 *(b) Kingston Smith Management Letter*

6.7 The Kingston Smith Partner presented the Management Letter.

6.8 Kingston Smith expected to issue an unqualified opinion and there were no material misstatements. In addition, there were no significant matters arising from the audit and no significant deficiencies in internal control.

NG/JD 6.9 Cash Reconciliations - Cash reconciliations performed by the Cash Office had on multiple occasions not been countersigned due to staff shortages. The Director of Finance & Corporate Services said this would be investigated.

NG 6.10 Cash Advances Travelling - Two cash advances had been paid to one member of staff for trips abroad and although he was asked to account for the advances on his return this had not yet taken place. The Director of Finance & Corporate Services said the matter would be pursued.

6.11 Retail Shrinkage - Unknown shrinkage from the retail outlets was 1.8%. In monetary terms this amounted to £51k and was considered to be low.

6.12 Unadjusted Errors – It was observed that there were more unadjusted misstatements relating to the Trading Company than in previous years and it was recommended that the trend was monitored. Management letter points will be mitigated by the new Finance System once implemented. However, the Finance Department needed to evaluate the control structures in place to ensure they were effective in managing the new Finance system.

6(c) NAO Audit Completion Report (including Management Letter)

6.13 The BDO Partner presented the NAO Report

6.14 Overall Conclusion – The Comptroller and Auditor General anticipated certifying the accounts with an unqualified audit opinion and without modification.

6.15 The Audit & Risk Committee were asked to review the findings set out in the report, including the draft letter of representation and audit certificate and approve the unadjusted misstatements.

ACTION

- 6.16 Natural History Museum Development Trust -The NAO/BDO reviewed the minutes of the Natural History Museum Development Trust from the past year and assessed the operations of the Trust. They were happy to confirm that the Trust continued to be sufficiently independent from the Museum so as not to require consolidation within the Museum's group financial statements.
- 6.17 There were two observations and recommendations of a minor nature.
- 6.18 Cash Transfers - Transfers of cash were regularly made from the Trading Company to the Museum to settle inter-company recharges and also cover the payment of Gift Aid from the Trading Company to the Museum. To qualify for tax relief, Gift Aid must be paid over within nine months of the year end. Transfers were not accompanied by any narrative explaining their purpose and, therefore, it may prove difficult to demonstrate to HMRC which transfers related to Gift Aid.
- 6.19 Rental Agreements - Testing of rental income highlighted that two rental agreements had expired.
- 6.20 Uncorrected Misstatements - There were two minor errors statements about which were approved by committee members together with those raised by the Trading Company external auditors, Kingston Smith.
- 6.21 Draft Letter of Representation – It was noted that Galleries and Exhibitions were not revalued but in line with NHM accounting policy the lives of these assets had been reviewed as at 31st March 2013 to ensure they reflected their true value. The NAO/BDO had examined the calculation and were content there was no significant movement in value. The Director confirmed that he was not aware of any fraud or suspected fraud affecting the Museum.

6(d) Special Funds, Benevolent Fund and Cockayne Fund

- NG 6.22 The Chair requested that consideration was given to the need to hold half the Benevolent Fund resources in cash. It was noted that a proposal to wind up the Cockayne Fund was under active discussion by the fund trustees.

6(e) Audit & Risk Committee Approval

- 6.23 Members:
- (a) approved the Special Funds and Benevolent Fund for the Chairman of the Board's action; and
 - (b) recommended that the Director sign the letter of representation and that the consolidated accounts for the Natural History Museum were approved by the Board of Trustees on 2nd July 2013.

7. DIRECTOR OF FINANCE'S & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL – MAY 2013 (PAPER TAC 25/2013)

- 7.1 The Director of Finance and Corporate Services presented his paper which was in the old format. The management accounts will be prepared in the new format discussed earlier in the meeting for the October meeting.
- 7.2 General Fund - The forecasted year end outturn for the General Fund was £1.299m which was a decrease of £1.962m compared with the original budget of £3.261m approved by the Trustees in November 2012. The decrease was attributable to a reduction of £0.890m in the original budget for grant in aid for 2013/14 which was subsequently revised downwards in both the Autumn statement (December 2012) and the March 2013 Budget.

ACTION

- 7.3 Self generated \ trading income -There had been no formal revision to the budgets and initial trading had been satisfactory. It was noted that some of the income targets were challenging (Retail, Touring exhibitions, catering, conferencing and events) and to mitigate the risk of shortfall an income risk allocation of £400k was included in the budget.
- 7.4 Minimum Reserve - The forecasted outturn for the General Fund of £1.299m was below the minimum reserve figure of £2.5m. The Director of Finance & Corporate Services said this will be addressed as part of the budget setting round for 2014/15 which may include re-designating capital expenditure to 2013/14.
- 8. HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 26 /2013)**
- 8.1 The Head of Risk & Assurance presented her report and a report on Internet and Network Security.
- 8.2 PCI Data Security Standards (DSS) - The Head of Risk & Assurance had issued a draft report on the Museum's compliance with the PCI Data Security Standards (DSS). These were technical and operational requirements set by the PCI Security Standards Council (PCI SSC) to protect cardholder data in response to increased fraud and identify theft involving stolen credit and debit card data. One of the many requirements was the transmission of cardholder data across open-public networks must be encrypted. In addition, the PCI Security Standards Council (PCI SSC) maintained a list of all approved Personal Identification Number - PIN Terminals.
- 8.3 The Museum was generally compliant as it had outsourced retail, the online shops and ticketing to third parties who were PCIDSS compliant. There were a few issues, however, when sales were taken over the phone or face to face and recorded manually by staff for processing in the Finance Department e.g. Membership. Some departments were storing authentication data which was not PCIDSS compliant. It was noted that regular training was important and there was currently no guidance on handling credit and debit cards in the Financial Regulations, however, this was to be addressed.
- 8.4 Internet and Network Security - The committee reviewed the audit report on Internet and Network Security which had been carried out by a specialist IT network security consultancy. The consultancy found that the Museum's network was generally well managed in comparison with other organisations and the rating of NHM security was "Satisfactory".
- 9. PRESENTATION BY MELISSA CLIFFORD-TURNER (HEAD OF FINANCIAL REPORTING) ON THE MAJOR CORPORATE RISK "THE FAILURE TO ENSURE SUCCESSFUL IMPLEMENTATION OF A NEW FINANCE SYSTEM WILL IMPACT ON OPERATIONAL ACTIVITY" (PAPER TAC 27/2013)**
- 9.1 The Director of Finance & Corporate Services introduced the presentation on the management of the risk.
- 9.2 The Finance Department had been considering acquiring a replacement for the current Finance System which was approximately 15 years old for a number of years. The current system was no longer supported and the demands on Financial Reporting had increased. The latest tools and processes will also lead to greater efficiency. As part of the implementation process the Finance Department will take the opportunity to revise the chart of accounts.
- 9.3 The Head of Financial Reporting outlined the approach to the Money Matters Project to replace the Finance System and the management of the major corporate risk.

ACTION

- 9.4 The current Museum Finance System was: (a) not compatible with new software and improvements in technology; (b) not user friendly; and (c) had limited functionality which meant the Museum operated a paper based system. Electronic work flow and storage will: (a) increase efficiency; (b) end the duplication of data entry; (c) provide real-time data; and (d) provide an audit trail of the transactions life.
- 9.5 To ensure the right system was selected there were user workshops and a Systems Analyst documented processes. The evaluation of suppliers included due diligence, supplier demonstrations and the taking up of customer references. A sample of customer references were received from: (a) similar organisations; (b) organisations that had recently gone through implementation; and (c) organisations that had been through the upgrade process. Lessons were being learnt and the project team will continue the dialogue with other users of the system, one of whom was the Science Museum. Operational benefits from the Science Museum using the same system as NHM were, however, considered unlikely. The supplier was selected for their expertise, core software and the belief the supplier would be a challenger from whom the Museum would learn.
- 9.6 The Museum had signed the contract with the selected supplier on 30th May 2013. The next stages were to design, configure and test the system. The go/no go decision to go live on 1st April 2014 will be made once user acceptance testing of various scenarios is completed at the end of February 2014. If the decision is made to go live user training across the Museum will begin in March and from 1st April 2014 support will be provided by floor walkers, procedure guides and online videos.
- 9.7 The supplier will support the project until two month ends have been successfully completed. A Project Manager and Systems Accountant were dedicated to the project. Additional operational Finance staff will be recruited to cover busy periods in the Finance Department. Where necessary cut off dates and the frequency of payruns will be change to allow Finance staff to work on the project. The time commitment of non Finance staff across the Museum had also been discussed with their Managers.
- 9.8 The new Finance system will be supported by current ICT hardware. Sales invoices will no longer be raised manually and travel and expenses claims will be submitted online. Currently there were 20,000 paper payment invoices which in future will be processed electronically. There were also other modules such as an HR module which the Museum may choose to acquire at some future date.
- 9.9 Benefits Evaluation – There were both soft and hard benefits which will be measured where possible. However, some benefits such as time saved were difficult to measure due to the number of actions involved in a single process.
- 9.10 Controls – Controls will be automated in the new system. The evaluation of controls to ensure they are effective will take place during the design and testing stages. In addition, one of the project work packages was the revision of the Financial Regulations and internal controls, this will influence the system design and vice versa.
- 9.11 Parallel Running - There will be no parallel running of the old and new Finance systems.
- NG/MCT 9.12 Contingency plan – In the event that the go-live date of 1st April 2014 was not achieved the Chair's strong advice was that a manageable contingency plan was put in place. The Chair observed that even if the financial risk was with the supplier the business risk will remain with the Museum Director.

ACTION

- NG/MCT 9.13 The Money Matters project was a standing agenda item at each Audit & Risk Committee. It was agreed there should be a detailed presentation in February 2014 when the go/no go decision to go live on 1st April 2014 was to be made.
- 10.0 PRESENTATION BY ALISON PURVIS (HEAD OF DEVELOPMENT) ON THE MAJOR CORPORATE RISK “FAILURE TO DEVELOP AND PURSUE SHORT TO MEDIUM TERM FUND RAISING CAMPAIGN TO EFFECTIVELY ENGAGE NHM DEVELOPMENT TRUST” (PAPER TAC 28/2013)**
- 10.1 The Head of Development gave her presentation.
- 10.2 The NHM Development Trust (NHMDT) was established in 2012 with 12 independent trustees. A new Chair of the Board was appointed in 2013. The NHM is currently engaging the NHMDT in understanding the Museum’s fundraising strategy and identifying where the NHMDT could add value, income and contacts. The Museum has work to do to develop a case for support and integrate the emerging Museum Gallery plan into future thinking.
- 10.3 There was a discussion about the pace at which the NHM and Board of Trustees were setting priorities for capital projects to be submitted to the NHMDT for evaluation. It was noted that in the short term the Museum will focus the new Chair on core funded projects that interested the NHMDT and will engage the NHMDT in the messages and packaging within a Museum fund raising campaign. The NHMDT had only met 3 or 4 times. NHMDT trustees were getting to know what the Museum did and beginning to identify where they could add value. In the longer term the Gallery Development plan will be in place.
- 10.4 The Committee discussed how conflicts of interest, were they ever to arise, between the NHM and the NHMDT would be resolved. The NHMDT was made up entirely of non-executives and as a result the role of the NHMDT Chair was pivotal. The Museum Director’s relationship with the NHMDT Chair was important and he intended to continue meeting the new Chair regularly.
- 10.5 The Museum will engage with the NHMDT as new projects are developed and take shape in order to gain their support. The Museum will also work with the Board of Trustees on the projects to put forward to the NHMDT for their evaluation.
- 10.6 The draft Public Engagement Strategy will be discussed at the Trustees’ strategy day in October 2013. In addition, the key piece of work was to revisit the Gallery Development plan which was approximately ten years old and ensure it reflected the Museum’s current scientific thinking. The Condition Survey, Circulation Feasibility Study and Accessible Entrance feasibility work will feed into the Gallery plan.
- 11. ANY OTHER BUSINESS**
- 11.1 There was no other business.
- 12. DATE OF THE NEXT MEETING**
- 12.1 The next meeting will be held at 10.00 a.m. on Thursday 31st October 2013.

KEY TO ACTION INITIALS

Michael Dixon - MD
Neil Greenwood - NG
Jan Day - JD
Melissa Clifford-Turner - MCT

