

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

75th Meeting on Thursday 9 February 2017

Present

Hilary Newiss in the Chair
Robert Noel
Colin Hudson (co-opted member)

In Attendance

Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance & Corporate Services)
Jan Day (Head of Risk & Assurance/Committee Secretary)
Paul Keane (Director, DCMS Financial Audit NAO)
Matthew Atkinson (Audit Manager, National Audit Office)
Anjali Kothari (Partner, Kingston Smith)

Sarah Fellingham-Adkin (Head of Commercial Development) and George Wrigley (Head of Security) were in attendance for item 11.

Ian Owens (Director of Science), Sarah Long (Registrar) and Clare Valentine (Collections Leader, Life Sciences) were in attendance for item 12.

Ian Owens (Director of Science), Fiona McWilliams (Director of Development and Communications) and Clare Laws (Head of PEG Resources and Planning) were in attendance for item 13.

ACTION

1 APOLOGIES FOR ABSENCE

- 1.1 Apologies were received from Lord Green of Hurstpierpoint (Chair of Trustees) and Professor Christopher Gilligan (Trustee). Christopher Gilligan submitted written comments which the Chair of the Audit and Risk Committee raised as appropriate.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 1/2017)

- 2.1 These were noted by the Secretary to the Audit & Risk Committee.

3 MINUTES OF THE MEETING HELD ON 3 NOVEMBER 2016 (PAPER TAC 2/2017)

- 3.1 Subject to three amendments the minutes were accepted as a true record of the meeting.

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 3/2017)

- 4.1 Ongoing matters arising were discussed and closed items agreed.

5. AUDIT AND RISK COMMITTEE TERMS OF REFERENCE, ANNUAL CYCLE OF INFORMATION AND AUDIT AND RISK CHARTER AND STRATEGY (PAPER TAC 4/2017)

- 5.1 The Head of Risk and Assurance presented the Terms of Reference, Annual Cycle of Information and the Audit & Risk Charter and Strategy. The only substantive amendment in these documents over earlier versions related to the Charter and Strategy and the basis of the Audit plan going forward. The documents which were brought to the Committee annually in February were confirmed by the members subject to the addition of corporate governance to the Terms of Reference competency framework.
- 5.2 Quorum - There was a discussion about improving the quorum requirements set out in the Audit and Risk Committee Terms of Reference, however, no change was agreed.

6. DIRECTOR'S REPORT (PAPER TAC 5/2017)

- 6.1 The Museum Director presented his paper.
- 6.2 Government's UK Anti-Corruption Assessment Template - The Head of Risk and Assurance had undertaken a preliminary review of Museum policies against the activities covered in the Home Office anti-bribery and corruption assessment template. The Museum Director will discuss the Museum's response with the Head of Risk and Assurance at their next one to one meeting. There was an anti-bribery and corruption culture in the Museum. The Museum had a Fraud and Bribery Policy and other related policies on Gifts and Hospitality and Business Expenses. Policies were brought to the attention of managers at the biannual policies updates. It was agreed the Head of Risk and Assurance would look into available Government E-Training on bribery and corruption.
- 6.3 Head of Government Relations - The new Head of Government Relations had been invited to meet trustees at the lunch after the Board meeting on 21 February 2017.
- 6.4 Collections Storage - The new plans for Collections Storage being overseen by the Property Committee will take at least 12 months to complete.
- 6.5 **Update on Major Corporate Risks**
The Committee noted the trend on all risks was down which was encouraging.
- 6.6 Digital Products and Services It was observed that Digital Products and Services focused on the Digital Collections Programme (DCP). The Museum had set challenging objectives for the mass digitisation of specimens. A paper on Digital Products and Services will be presented at the Board Meeting on 21 February 2017. Public Engagement had been reorganised to create a Digital Media Department. This will assist in making the design process for digital products and services more efficient and iterative. A decision was needed, however, on whether to invest more in Digital development.
- 6.7 Brexit - The Higher Education sector was experiencing difficulty in recruiting from Europe due to the lack of clarity over the rights of EU nationals working in the UK. Following the Science Group restructure the Museum was recruiting for 11 research posts. Scientific recruitment was a slow process due to long notice periods and movement aligned with the academic year. It was observed that the Royal Society and other scientific organisations were lobbying government to allow some free movement of scientific labour or a simplified visa system for researchers.

MD/JD

EB

ACTION

7. DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL 2016 - DECEMBER 2016 (PAPER TAC 6 /2017)

- 7.1 The Director of Finance and Corporate Services presented his paper.
- 7.2 General Fund - The General Fund forecasted year-end outturn for 2016/2017 amounted to £11.1m which was an increase compared with the September 2016 forecast. This reflected savings against budget for salary and operating costs which had arisen during the period of restructuring within Science Group and Public Engagement Group. However, this level of saving will not continue throughout 2017/2018.
- 7.3 Gift Aid - The Finance Department were in discussion with HMRC over the eligibility of the NHM Membership scheme for gift aid and there was a significant risk a repayment of c£300k will be required.
- 7.4 Capital Expenditure - There had been slippage on capital expenditure in relation to the Members' and Patrons' Room and Grounds Project. It was noted there were capacity issues across the museum and galleries sector in spending the additional 2016/2017 DCMS capital grant in aid allocation. The Museum will not meet expenditure targets at the expense of good procurement practices and decision making. DCMS were provided with regular forecasts and an expenditure risk factor.
- 7.5 Members' and Patrons' Room - The Members' and Patrons' Room was a challenging space which had been neglected. Surveys did not reveal all the structural problems encountered and there were questions over the design. Lessons will be learnt and discussed at the Property Committee on 9 February 2017.

NG/KJ

8. DIRECTOR OF FINANCE AND CORPORATE SERVICES' - MUSEUM INVESTMENT POLICY (PAPER TAC 7/2017)

- 8.1 The Director of Finance and Corporate Services presented his draft investment policy.
- 8.2 At the November 2016 meeting members agreed Museum equity, endowments and investments should achieve a balance between income and growth with moderate to low risk. The purpose of the updated draft Investment Policy was to give the Museum the capacity to invest surplus cash funds and receive a return. The Management Agreement between the Museum and the Department of Culture Media and Sport (DCMS) required NHM to comply with Charity Commission investment guidance.
- 8.3 It was agreed that the policy would be amended to say: (a) cash will be held in liquid assets; and (b) investments will be made having due regard to the Museum's Ethics, Brand and Values. Consideration will also be given to investing in Commercial paper i.e. an unsecured, short-term loan issued by companies with high credit ratings, usually at a discount to market interest rates. Commercial paper was considered a safe investment.
- 8.4 Subject to the recommended amendments the Committee recommended the policy and investment objectives for trustee approval with a preferred approach of active investment management by an investment Manager.
- 8.5 Once NHM expertise was acquired in investing the Museum may: (a) revisit the policy and; (b) manage its investment portfolio using a broker.
- 8.6 The Investment paper and the Audit & Risk Committee recommendations including the investment option of Commercial paper will be discussed with the Chair of the Board of Trustees before the 21 February 2017 Board of Trustees' meeting.

NG

NG

MD/NG

ACTION

9. KINGSTON SMITH AUDIT PRE AUDIT LETTER YEAR ENDED 31 MARCH 2017 (PAPER TAC 8/2017)

- 9.1 The Kingston Smith Partner presented the Pre Audit Letter.
- 9.2 The Committee reviewed and approved the audit approach set out in the Pre Audit Letter for the year ended 31 March 2017. The letter and the audit timetable had been drawn up following a meeting with the Director of Finance & Corporate Services and his team.
- 9.3 Audit Fees - The Committee approved the estimated audit fees.
- 9.4 Retail Stock Value - Stock was a challenge due to the need for manual intervention to reconcile the accounts with the stock system. However, the level of discrepancy was manageable. The stock discrepancy will not be completely resolved until the EPOS system was replaced in approximately 2 years. The year-end stocktake was scheduled later in the financial year facilitating less manual adjustments due to period-end cut off. In addition, the 2016 stock value had been significantly reduced and stock management improved.

10. HEAD OF RISK AND ASSURANCE PROGRESS REPORT (PAPER TAC 9/2017)

- 10.1 The Head of Risk and Assurance presented her report and members reviewed the audit report on Science Income.
 - 10.2 Audit Plan 2016/2017 - It was necessary to postpone a number of audits on the 2016/2017 Annual Plan in agreement with the Museum Director. This was due to extra work in particular relating to the Risk Management recommendations contained in the External Quality Assessment (EQA) report. It may also be necessary to postpone further audits. The outstanding work will be carried forward into the 2017/2018 Audit Plan. As it had not proved possible to complete and agree the Museum's risk universe within the set timeframe the new 2017/2018 Audit Plan had been delayed. The reviews completed together with work on risk management will in the opinion of the Head of Risk and Assurance be sufficient to support her annual audit assurance.
 - 10.3 The Chair of the Audit & Risk Committee observed: (a) the work on risk management was important to the Committee; and (b) a significant amount of the Audit Plan had been completed.
 - 10.4 Delays in Responding to Audit Reports - Despite frequent reminders managers were not always responding to draft audit reports within a reasonable timeframe. Members considered there was no excuse for this. It was observed some commercial organisations penalised staff financially or during their annual performance review for failure to action audit reports. In addition, accepted audit recommendations should be implemented within the agreed timeframe. The Museum Director observed the responsibility to follow up agreed actions lay with managers not with the Head of Risk and Assurance. In some cases the implementation timetable set was unrealistic and in other cases action was not a high priority. It was noted, recommendations were not compulsory actions. The most difficult challenge was to ensure compliance with fit for purpose procedures and policies.
- MD/JD
- 10.5 Members and Directors agreed there should be a formal policy requiring a response to draft audit reports within 4 weeks.
 - 10.6 Implementation of Audit Report recommendations - There had been further progress on the implementation of priority 2 and 3 recommendations since the last meeting.

ACTION

- NG/DT
- 10.7 Payment Card Industry (PCI) Data Security Standard (DSS) Compliance - As the PCI standard was not static and work was likely to be permanently on going PCI compliance will in future be reported to the Committee via the annual May Security Report. The Head of Risk and Assurance will, therefore, cease to report on this ongoing risk with the agreement of the Committee.
- 10.8 Science Income - One of the reasons for carrying out the review of Science Income was to meet the requirements of Research Councils Funding Assurance on: (a) the regularity of expenditure for research grants; and (b) the control environment supporting compliance with Research Council terms and conditions. This involved a significant amount of testing work. All the recommendations had been accepted. The report highlighted the need to review the in-house legal service to ensure it met the needs of the Museum going forward. The Chair of the Audit and Risk Committee commended the thorough report.
- JM/IO
- 10.9 NHM Consulting - As part of the Science Group and Public Engagement Group (PEG) re-structure Science consultancy had moved from the Science Group Research Coordination Office (RCO) to NHM Consulting (PEG), reporting to the Head of International Engagement. The focus for this was to expand and improve the management of NHM consulting projects and create more cross Museum working. It was accepted that there were different models and each had advantages, however, the current arrangement was considered an improvement. It was agreed the separation of Science consulting from Science Group would be kept under review to ensure there were no unnecessary levels of management.
- 11. QUEUE MANAGEMENT (PAPER TAC 10/2017)**
- 11.1 Head of Commercial Development and Head of Security presented their report.
- 11.2 New Queue Management Practices - Duty Managers will be introducing new queue management practices with immediate effect, to ensure queue times were minimised and visitor numbers maximised on peak days. The new practices will be used flexibly. The Head of Security will also look into: (a) enhancing the training provided to security contractor staff; and (b) new security technologies. It was observed searching visitors was voluntary, however, entry can be denied if a visitor refuses.
- 11.3 Visitor Spend - Signage was being improved in order to direct visitors to the retail outlets, restaurant and cafés. It was noted visitor donations were greater on entry than the way out: (a) partly due to visitor flow; and (b) the practicality of bringing the donation boxes to the attention of visitors. Spend per head for Darwin Centre entrance donations had increased to 30p on a good day which was a significant improvement.
- GW
- 11.4 It was observed that the Museum should learn to fail fast, learn fast and move on when implementing new procedures. There must be very clear protocols in place and security staff must be trained to follow the protocols when screening visitors to avoid unconscious bias. It was noted that the Museum visitors were entertained by NHM staff when queuing outside.
- 11.5 Members thanked the Head of Commercial Development and Head of Security for their excellent report and presentation.

ACTION

12. PROGRESS REPORT - STANDARD SCIENTIFIC VISITOR ACCESS PROCEDURES (PAPER TAC 11/2017)

- 12.1 The Director of Science, Registrar and Head of Collections Life Sciences updated the Committee on progress.
- 12.2 Standard Scientific Access Procedures -The Head of Risk and Assurance recommended standard scientific access procedures were developed in her 2011 Collections Security review. This was prior to the appointment of the current Director of Science and the Registrar's post was vacant. A working group on Visitor Access Procedures (VAP) was set up. However: (a) the group Chair was unable to commit sufficient time; and (b) Science Group underestimated the work needed to align the policies and procedures of all the scientific groups. In October 2016 the Registrar and Head of Collections Life Sciences took over responsibility for the scientific access procedures. Science Group and the Registrar now work closely with the Head of Security and his deputy.

IO/SL/CV

- 12.3 The new regulations were approved by the Science Executive in January 2017 and will be publicly available via the Museum website in the near future.
- 12.4 Free Access - The British Museum Act - The British Museum Act required the NHM to provide free access to the collections and, therefore, scholarly scientific access was generally free. The cost of providing access and loans was, therefore, borne by the Museum despite the significant cost. There was a reciprocal: (a) free access policy to the collections with other scientific institutions; and (b) arrangement that no charge was made for loan packaging and administration costs. NHM collections staff host over 10,000 scientific visitors each year, more than the total of other national Museums. It was noted the cost of administering digital loans were lower than administering specimen loans. Online digital information increased visitor numbers, however, they came with more directed intent. The analysis of NHM specimens by external scientific researchers also enhanced the value of the collections by contributing to their history and care. The Museum received funding from the National Environment Research Council (NERC) for the Digital Collections Programme. The Museum strategy for securing funding promoted the NHM mission of providing free access to the collections and scientific expertise. In summary there was no rationale to charge for access at present.
- 12.5 The Chair commended the Registrar and Head of Collections Life Sciences on the progress made since October 2016.

13. RISK UNIVERSE, RISK REPORTING DOCUMENTATION AND DRAFT RISK MANAGEMENT POLICY (PAPER TAC 12/2017)

- 13.1 Teams around the Museum were responsible for analysing and managing risk. These teams fed into the risk identification process ensuring a bottom up approach. The Museum must be proportionate in identifying the overall key risk for each area and where possible risk should not be broken down into sub-categories. The scoring methodology assisted with the identification of key risks. However: (a) the scoring methodology was difficult to apply to reputational risk; and (b) getting consistency of scoring across the Museum was a challenge.
- 13.2 Training - Training workshops on risk management had taken place in the past but not recently. The Head of Risk & Assurance, however, met with staff on a one to one basis to provide advice if requested. The Museum Director observed a new system will inevitably require training initially for the Senior Management Team.
- 13.3 Living Document - The Museum will keep new risks which arise due to new business decisions under review and will be reporting to the Audit & Risk Committee and Board of Trustees on a regular basis.

MD/JD

ACTION

- 13.4 Risk Appetite - The National Audit Office (NAO) Director observed the redefinition of risk appetite set out in the documentation was sensible and realistic. The risk appetite for commercial businesses and fund raising will be high and activities where the Museum should learn to fail fast, learn fast and move on.
- 13.5 Role of Advisory Committees - It had been suggested that Advisory Committees could inform the assurance process by undertaking some review of risk management. The counter view was that Advisory Committees were not set up to do this. It was observed that although Advisory Committee members: (a) were not always Trustees; and (b) did not necessarily have an in-depth of knowledge of the Museum; they were often best placed to expose gaps in the risk identification process. As the Audit and Risk Committee did not have expertise in all areas the primary responsibility for risk identification lay with the Executive Board. It was noted the Commercial Advisory Committee and Science Advisory Committee advised on mitigating action when considering proposals. The Development Advisory Committee considered reputational risk relating to gifts acceptance, due diligence and third party engagement policies. These policies will, however, be presented to the Audit and Risk Committee in due course.

13.6 The Committee agreed:

- (a) the approach and the design of documentation which they commended;
- (b) the decision to commission a formal review of the revised process/policy/documentation;
- (c) to invite an Advisory Committee representative to attend the Audit & Risk Committee if the members lacked expertise in a particular area;
- (d) Advisory Committees should advise on the identification and mitigation of risk when reviewing proposals; and
- (e) consideration was given to adding the advisory role of the identification and mitigation of risk to Advisory Committee terms of reference.

MD/JD

Advisory Commi-
tees

14. FUTURE AGENDA ITEMS - MAY 2017

- 14.1 Fund Raising Governance - The Information Commissioner's Office (ICO) announced that the Royal Society for the Prevention of Cruelty to Animals (RSPCA) and British Heart Foundation (BHF) had been fined for secretly 'wealth-screening' donors to target them for more money. The ICO had also informed eleven other charities that it intended to fine them for breaching the Data Protection Act. The Charity Commissioner was to launch an investigation. Although 'wealth-screening' can be carried out without breach of data protection law there were significant reputational risks.

MD/JD/HN/FM

- 14.2 It was agreed that: Fund Raising Governance, the Risk Universe by Activity and the Audit Plan for 2017/2018 will be agenda items at the May Audit and Risk Committee. Any further items will be agreed by the Chair of the Audit and Risk Committee and Museum Director.

15. ANY OTHER BUSINESS

- 15.1 Annual Accounts Independence - The NAO were onsite to undertake interim audit work. The NAO did not believe there were any independence issues or a self-review threat in connection with the Financial Accounting Manager compiling the Museum accounts. The Financial Accounting Manager: (a) had worked for the NAO but not on the external audit of NHM accounts; and (b) did not make any policy decisions in relation to the NHM Accounts on behalf of the Museum.

ACTION

16. DATE OF THE NEXT MEETING

16.1 The next meeting will be held at 10.00 a.m. on Thursday 4 May 2017.

KEY TO ACTION INITIALS

Michael Dixon - MD
Jan Day - JD
Neil Greenwood - NG
Keith Jennings - KJ
Sarah Long - SL
Justin Morris - JM
Fiona McWilliams - FM
Hilary Newiss - HN
Ian Owens - IO
Dave Thomas - DT
George Wrigley - GW
Clare Valentine - CV
Executive Board - EB