THE NATURAL HISTORY MUSEUM

TRUSTEES’ AUDIT AND RISK COMMITTEE

88th Meeting on Tuesday 5th May 2020

By remote access using Microsoft Teams

Present

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

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Sir Michael Dixon (Director)
Neil Greenwood (Executive Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Beth Parry (Chief of Staff)
Alex Clark (Director, DCMS Financial Audit National Audit Office)
Anjali Kothari (Partner, Moore Kingston Smith)

Alex Clark and Anjali Kothari were in attendance for items 1 to item 8.

Sarah Long (Head of Registry) and Tim Littlewood (Executive Director of Science) were in attendance for item 8. Eleanor Pirie (Health and Safety Manager) was in attendance for item 12. James Downs (Head of Security), Alison Davis (Chief Information Officer), Esme Chapman (Data Protection Officer) and Chris Sleep (Information Security Manager) were in attendance for item 13.

ACTION

1  APOLOGIES FOR ABSENCE

1.1 Sebastian Groth (Audit Manager, National Audit Office) sent his apologies.

2  DECLARATIONS OF INTEREST, REGISTER OF INTERESTS AND ANNUAL REVIEW OF GIFTS AND HOSPITALITY (PAPER TAC 12/2020)

2.1 The Declaration of Interests and Register of Interests were recorded by the Secretary to the Audit and Risk Committee. Members noted the annual review of Gifts and Hospitality valued over £50 recorded a nil return for 2019/20.
MINUTES OF THE MEETING HELD ON 4 FEBRUARY 2020 (PAPER TAC 13/2020)

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

MATTERS ARISING FROM THE MINUTES (PAPER TAC 14/2020)

4.1 Coronavirus - para 6.14 - It was noted that at the date of the Audit and Risk Committee on 4 February 2020 Covid-19 was an emerging risk. It was not foreseen that Covid-19 would have such a massive impact on the UK and Museum in such a short period of time.

MUSEUM DIRECTOR’S REPORT (PAPER TAC 15/2020)

5.1 The Museum Director presented his paper

5.2 2019 Employee Engagement Survey - It was observed the Museum must have a zero tolerance to bullying and harassment, however, there must be robust performance management.

5.3 Bullying and Harassment - The Museum Director agreed it was important to ensure policies on bullying and harassment were applied equally to all staff and there was transparency in their application. Clear tolerance limits and sanctions will be put in place to ensure unacceptable behaviour was not tolerated: (a) due to a person’s perceived value to the Museum; or (b) where managers demonstrated an unacceptable management style. The Museum had historically appraised staff against performance objectives. Going forward, however, the Museum Director wished to incorporate brand values and behaviour into that assessment. Achieving performance objectives by trampling over others was not acceptable.

5.4 Performance Management - Survey Initiative who undertook the 2019 Employee Engagement Survey had advised that as organisations introduced more robust performance management accusations of bullying and harassment increased. The Museum was implementing robust performance management and needed to be careful, therefore, about how the Employee Survey results on bullying and harassment were interpreted year on year.

5.5 It was noted that it had emerged from Museum staff workshops that over conflation of bullying and harassment was unhelpful. There were differences which needed to be understood in terms of the staff response to questions on this issue.

5.6 Major Projects - On 11 March 2020 the Chancellor’s budget included the pledge of £180m to support the proposed science and digitisation centre on the Harwell Science and Innovation Campus. On 4 May 2020 the Museum was informed that the project will go ahead, however, NHM had not yet had received written confirmation of the successful bid.

5.7 Lessons Learned from Covid-19 - A discussion took place on whether any lessons could be learned from the Covid-19 crisis in relation to the Museum’s processes for considering and managing risk. In particular the impact of Covid-19 had not been foreseen by the NHM and added to the Museum’s ‘risk universe’. As a result, the Museum Director was concerned the Museum’s risk management processes may need improvement. The Museum Director, therefore, introduced the idea of describing and managing three different kinds of risk: (a) risks that were an inherent part of the business; (b) risks that an organisation imposed on itself due to businesses choices; and (c) wider societal risks about which an organisation can do very little except have a plan to mitigate impact into which category Covid-19 would fall.
5.8 Members, however, agreed unanimously that it was not possible for the Museum to have foreseen Covid-19. It was unreasonable to expect any risk management system to plan for low probability high impact extreme events which occurred once in one hundred years. The risk management system used by the Museum was, substantial, effective and did not require fundamental adjustment. The ‘risk universe’ included risks in relation to for example commercial income, information technology, security and crisis management which were appropriately managed to ensure the Museum had agile teams and resilient systems in place. The NHM had, therefore, a highly effective operational response which reduced the impact of the Covid-19 crisis. The Museum and its staff were to be congratulated.

5.9 It was observed by having 3 categories of risk as described above there was a likelihood that the top risks in each category would be identified rather than the top business risks. It was also noted that currently the Treasury and the Department for Digital, Culture, Media and Sport (DCMS) did not permit the Museum to build up a larger general reserve to cover losses while the Museum was closed and beyond. The Treasury and DCMS required the NHM to invest surplus income in the Museum’s future services and facilities.

5.10 **Strategic Risk** - Members agreed there was a ninth strategic risk which needed to be articulated in relation to the Museum’s business model and what would happen if it became unviable due to catastrophic events such as Covid-19 which were outside its control, government support was not forthcoming or government failed to provide the right level of assurance. It was observed that when the Museum reopened visitor numbers and NHM commercial businesses were unlikely to recover quickly. As a non-departmental public body, it was expected that the Government will support the Museum. However, there needed to be an agreed position with Government as to what support the Museum can rely on.

5.11 **Major Risks 2019/20 and 2020/21**

5.12 The Committee reviewed: (a) the Q4 Board Assurance Framework and the Museums Director’s year-end assessment of the major strategic risks for 2019/2020; and (b) the risks to be monitored in 2020/2021 taken from the Museum’s ‘risk universe’. The Board Assurance Framework for 2020/2021 Q1 will be presented at the June 2020 Meeting.

6 EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE SERVICES’ FINANCIAL REVIEW FOR THE PERIOD APRIL 2019 - MARCH 2020 - PROVISIONAL YEAR OUTTURN (PAPER TAC 16/2020)

6.1 The Executive Director of Finance and Corporate Services presented his paper.

6.2 **Net Operating Surplus** - The net operating surplus amounted to £3.7m which was c£0.4m below both the Original Budget and the Q3 forecast. The operating surplus reflected the significant impact of Covid-19 on visitor related income and venue hire throughout March. Members observed in the circumstances it was a very good result.

6.3 **Capital \ Strategic Project Expenditure** - Gross capital and projects expenditure amounted to £11.253m. The increase compared to the budget reflected expenditure funded by the additional capital grant in aid from the DCMS infrastructure fund.

6.4 **General Fund** - The General Fund amounted to £7.7m which is above the Q3 forecast and above the General Fund which was used to underpin the budget for 2019/2020.
6.5 Debt Collection - The Museum had not collected all the income due from debtors. Finance were actively pursuing outstanding debts and negotiating some rescheduling of payment. It was noted many commercial businesses were under severe stress and the Museum must prioritise debt collection. This was an area of focus for the external auditors and income should only be recognised in the accounts if it was certain it will be received. It was observed parent company and company guarantees were difficult to obtain and were often of limited value. The Museum must be robust in pursuing money owed, be prepared to take legal action and cease trading with debtors if necessary.

6.6 Balance Sheet Liabilities and Assets - It was observed due to Covid-19 and the Museum closure on 17 March 2020 it was important that the NHM was prudent in preparing the balance sheet. The Museum must ensure there were no liabilities missed or impaired assets which had a market price less than the value listed. Three important areas to be actioned were noted.

6.7 1. Outstanding Capital Commitments - There will be a note in the accounts detailing the value of outstanding capital commitments at 31 March 2020. The largest of these related to Tring and there was an outstanding commitment in relation to the fire precautions programme.

6.8 2. Retail Stock Value - The retail stock value in the Trading Company accounts was currently c£700k/£800k. There had not yet been an assessment of future stock value and a possible need for significant write off. Due to the Museum closure a stocktake had not yet taken place. The Trading Company external auditors can assess stock value using financial data and documentation, however, this will be very time consuming. As a result, the Trading Company external auditors had left stock valuation to last in the hope a stocktake will happen.

6.9 3. Exhibition Tickets - Income from the sale of exhibition tickets had been refunded to customers and accounted for.

6.10 Cash Investment Profile - The Museum held cash with the Government Banking Service (GBS).


7.1 The Executive Director of Finance and Corporate Services, Director, DCMS Financial Audit National Audit Office and Partner, Moore Kingston Smith presented their papers.

7.2 Indexation of Land and Buildings - This year there was a desktop valuation for land and buildings using indices. The valuation was accompanied by a material valuation uncertainty paragraph due to the unknown future impact that Covid-19 might have on the real estate market. A member observed this should not be of concern to the Museum. The buildings at South Kensington and Tring were valued at depreciated replacement cost.

7.3 Governance Statement - The initial draft statement submitted to the Audit and Risk Committee will be adjusted to: (a) reflect risk management and Covid-19; (b) the special committee established to oversee the appointment of the new Museum Director; (c) the Crowe review of the effectiveness of the Board of Trustees and its committees. A management response to the Crowe review will go to the 19 May 2020 Board of Trustees. The updated Governance Statement will be circulated to members in the next few weeks prior to the informal review of the accounts by the Audit and Risk Committee on 15 June 2020.
7.4 **Going Concern** - Both sets of external auditors raised going concern as a substantial risk due to Covid-19 and the Museum closure. Visitor related income and venue hire income had stopped and there were risks to future self-generated income. The only solution which satisfied the going concern criteria was substantive support from Government.

7.5 **Uncertainty - Going Concern** - When there was uncertainty about going concern there were two options available to the external auditors: (a) when the external auditors and management agreed there was uncertainty and this was appropriately disclosed in the accounts the audit report will include an “emphasis of matter” paragraph to direct the readers’ attention to the disclosures by management; alternatively (b) if the external auditors concluded the Museum was not a going concern and this was not appropriately disclosed in the accounts the external auditors will qualify the accounts. It was noted (b) was an unlikely scenario for the Museum.

7.6 The NAO were writing to museums setting out the evidence the NAO needed for going concern. Evidence will be based on cash flow forecasts using possible scenarios on Government opening restrictions. Cash flow forecasts will not provide certainty as to going concern without DCMS and Treasury support. The NAO were, therefore, in discussion with DCMS setting out the assurance support required from DCMS and Treasury. The NAO were also looking across the sector at the segregation between the cash flow forecasts of trading companies and core museums.

7.7 A member observed the NHM and the external auditors should not spend a significant time on scenario forecasts. All forecasts will be uncertain and result in an “emphasis of matter” paragraph if DCMS do not give a blanket assurance to provide all the necessary funds to enable the Museum to continue to trade.

7.8 **Trading Company** - The Trading Company external auditors had not received any information that Government will be providing support to museum trading companies. The auditors will, therefore, look to see what level of support will be provided by the Museum as the parent holding company. If DCMS did not provide blanket support to the Museum there will be an “emphasis of matter” paragraph for Trading Company. The external auditors for the trading company like the NAO will also require trading forecasts to support any assessment they make on going concern.

7.9 **Parliamentary Recess** - The Treasury had relaxed the requirement for accounts to be laid before the parliamentary recess. The preference of the Executive Director of Finance and Corporate Services and the Committee was not to go beyond the recess. However, the NAO and Trading Company auditors agreed there were advantages to delaying as there may be more certainty relating to going concern.

7.10 **Audit Fees** - The Committee accepted that in view of the additional going concern audit work in relation to Covid-19 there will be additional fees which were yet to be assessed.

7.11 **Legal Advice** - Trustees will be provided if necessary with legal advice on their responsibilities for approving the accounts.


8.1 The Head of Registry presented her paper.

8.2 The Audit and Risk Committee Chair and members thanked the Head of Registry for the very informative report and enjoyable presentation which provided the Committee with an improved assurance over the stewardship of the collections. The Chair and a member where due to tour the collections as part of the assurance, however, this had been postponed in the light of Covid-19 and the Museum closure.
ACTION

8.3 **Collection Assets** - There was a note in the accounts on collection assets, the stewardship and care of the collections. The note was rather lengthy and in need of revision. The report and presentation were a good basis for revising the note. The Head of Registry was asked to work with the Senior Financial Accountant on updating the note.

SL/JD

8.4 **Freedom of Information (FOI)** - It was noted there was a regular FOI request on lost, damaged and stolen items. However, the FOI request was primarily aimed at the galleries and organisations with significant artifacts.

8.5 **Audit and Risk Committee Papers** - Audit and Risk Committee papers were sent to Library and Archives and are public records. The Annual Collections Assurance report may, therefore, need a more detailed explanation in some areas and other parts of the report may need to be redacted if there were security issues etc. It was noted information should not be withheld from the Committee.

HEAD OF RISK AND ASSURANCE ANNUAL REPORT TO THE ACCOUNTING OFFICER AND THE AUDIT and RISK COMMITTEE 2019/2020 (PAPER TAC 21/2020)

9.1 The Head of Risk and Assurance presented her report and the audit report on Travel and Other Expenses.

9.2 **Overall Assurance** - The Head of Risk and Assurance submitted her overall assurance to the committee of: **MODERATE** some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. The assessment improvements were required related **solely** to the Covid-19 crisis and the concern improvements were needed to Museum’s processes for foreseeing and managing risk.

9.3 However, in light of the discussions above at paragraphs 5.7 to 5.10 and the conclusion by the Committee that: (a) the Museum’s risk management system was effective and did not require fundamental adjustment; and (b) the NHM operational response to the Covid-19 crisis was highly effective the Head of Risk and Assurance wished to change her assessment to **SUBSTANTIAL**. The Museum currently had an adequate and effective governance, risk management and internal control framework in place to ensure the proper conduct of business and the achievement of its aims and objectives.

9.4 It was noted the Museum’s risk management processes had been reviewed by the Chartered Institute of Internal Auditors (IIA) who concluded the Museum was approaching the reporting of risk in an appropriate way.

9.5 It was agreed Head of Risk and Assurance’s assessment would also include the statement “I have considered the significant operational impact of the Covid-19 crisis. Covid-19 had not been identified as a risk and added to the Museum’s ‘risk universe’. However, this had not highlighted any weaknesses in the Museum’s processes for identifying and managing risk”.

9.6 The Committee and Chair of the Audit and Risk Committee were confident that the change in the assessment to **SUBSTANTIAL** was justified and approved the change.

9.7 **Assurance Counter Fraud** - This was the first year the Annual Assurance included an assurance statement: (a) on counter fraud measures; and (b) the Head of Risk and Assurance’s responsibilities as Senior Lead under the Government Functional Standard GovS 013. The Executive Director of Finance and Corporate Services (the accountable individual at Executive Board level) as required by GovS 013 confirmed that the Head of Risk and Assurance had discharged her responsibilities.
9.8 A response to the Museum’s Counter Fraud Functional Standard GovS 013 annual assessment sent to the Cabinet Office on 2 September 2019 was promised by 16 March 2020. However, the Museum had still not received an assessment from the Cabinet Office whose priority was currently Covid-19 counter fraud measures.

9.9 **Priority 2 Recommendations** - It was noted that two recommendations could not be progressed while the Museum was closed. These related to the Official Absence Process and electronic files and paper records in Human Resources. The Committee were, however, pleased to see the improved rate of implementation of all recommendations and this was recorded in the Audit and Risk Committee’s 2019/2020 Annual Report.

9.10 **Travel and other Expenses** - The review of Travel and other Expenses was carried out at an appropriate time with the launch of the new Museum Strategy to 2031. As a result of the new Strategy the requirement on staff to consider whether travel is necessary and to use of the most efficient, effective and sustainable means possible will take on greater importance. A Travel Policy subgroup had been set up to review the Museum’s Travel Policy and a number of the recommendations in the audit report are included in the new draft Travel Policy. The Audit and Risk Committee Chair observed it was an interesting report and timely to address travel issues as they could have an adverse impact on the Museum’s reputation.

9.11 **Grievance Appeal Hearings** - The Head of Risk and Assurance had been asked by the Interim Head of Human Resources to undertake a Grievance Appeal Hearing. It was suggested going forward these might be heard/managed by the Museum’s solicitor or the Directorate.

9.12 **UK Research and Innovation (UKRI) Due Diligence** - It was noted the UKRI due diligence checks carried out by the Head of Risk and Assurance were detailed and needed to be completed by someone independent of Museum operations. Risk and Assurance were also required to carry out external audits of EU grant funded science projects which can be time consuming.

**10. RISK AND ASSURANCE PLAN 2020/2021 (PAPER TAC 22/2020)**

9.10 The Head of Risk and Assurance presented her plan.

10.1 The Museum Director and the Head of Risk and Assurance had reviewed the annual audit plan and will do so at intervals as circumstances change. In the light of the closure of Museum sites and the difficulty in conducting audits, the decision had been taken to furlough the second member of the Risk and Assurance team until further notice.

10.2 The Head of Risk and Assurance explained the possible period of review noted on the plan was in the order of what she thought was achievable in the first two quarters of the year. It was also noted cyber security pen testing will be delayed due to the Museum’s current restrictions on expenditure.

10.3 Members observed they were uncomfortable in approving a plan for the year when business was not as usual. It was not clear, how long the Covid-19 disruption will continue, what the social distancing rules will be and when normal working will resume. There was likely to be some public or staff access to the Museum from 1 July 2020. Priorities for a plan B should be agreed for the three months July to October 2020. In the meantime, suggested priorities were fraud, health and safety and the security of the collections.

10.4 The Executive Director of Finance and Corporate Services was unable to advise the Committee on what audits needed to be prioritised while the Museum was closed e.g. cash reconciliations. The Department for Digital, Culture, Media and Sport (DCMS) and Cabinet Office had sent the frequent notifications in relation to the raised risk of fraud, particularly cyber fraud. The Executive Director of Finance and Corporate Services and the Finance Team were focused on controls to prevent fraud.
10.6 The Audit and Risk Committee Chair asked that it be recorded that the plan was accepted subject to adjustment due to Covid-19 and re-prioritisation due to changes to normal Museum’s operation and social distancing requirements. Reprioritisation can be discussed at the 30 June 2020 meeting.

11 AUDIT AND RISK COMMITTEE ANNUAL REPORT 2019/2020 (PAPER TAC 23/2020)

11.1 The Chair presented her report.

11.2 It was agreed that the report will be amended in the light of the discussion at the meeting. A ninth strategic risk will be added for 2020/21 in relation to the Museum’s business model and the Museum closure. The revised Annual Report will be an agenda item at the 30 June Audit and Risk Committee.

12 ANNUAL HEALTH AND SAFETY REPORT 2019/2020 (PAPER TAC 24/2020)

12.1 The Health and Safety Manager presented her report.

12.2 Public Incidents - Although there was a big percentage jump in the number of incidents involving members of the public in 2019/2020 excluding those not within the Museum’s control the numbers were very low. In addition, there were no identifiable trends, insurance claims or significant accidents. The Health and Safety Manager had worked on improved reporting which was a major part of manager’s training. Security and visitor duty managers had a special session.

12.3 Incident Investigations - The reason the completion of investigations into workforce accidents and near misses was only 40% in 2019/2020 was explained. The ‘Health and Safety procedural guidance accident reporting and investigation’ stated that the responsible manager must ensure any necessary investigation was undertaken. However, the new Health and Safety Manager was not aware that the former Health and Safety Manager chased managers to make this happened and the Health and Safety Team carried out some investigations themselves.

12.4 When a new incident form was in place the Health and Safety Team wished to improve the investigation of trends and focus on serious incidents and near misses rather than investigating all minor incidents. Before the Health Safety Advisor was furloughed the intention was to decide how this might be resourced by the Health and Safety Team and what support managers required. The Annual Health and Safety report will be presented to the new Management Board to ensure Senior Managers were also aware of their responsibility in the process.

12.5 The Audit and Risk Committee Chair commended the Health and Safety Manager on her report.

13 ANNUAL SECURITY REPORT 2019/2020 (PAPER TAC 25/2020) AND NOTE ON NATIONAL AUDIT OFFICE (NAO) CYBER SECURITY AND INFORMATION MANAGEMENT GUIDANCE (PAPER TAC 26/2020)

13.1 Physical Security Key Messages

13.2 The Head of Security made a presentation on the physical security key messages and explained the Museum’s crime figures were in line with other museums.
13.3 **Cyber Security Key Messages**

13.4 The new Chief Information Officer (CIO) introduced herself, the Information Security Manager and Data Protection Officer.

13.5 **Malware Detection** – It was noted the Museum was strong on malware detection.

13.6 **Significant Cyber Incidents** - The Information Security Manager outlined the details of the two significant cyber incidents. There were no negative consequences from either incident to staff or the Museum. One of the incidents had led to the introduction of multifactor authentication to verify the identity of people who login to Museum technology systems.

13.7 **Subject Access Requests** - In 2018/2019 there were 9 requests and in 2019/2020 6 requests. The majority of the subject access requests were in relation to grievances involving staff, job applicants and visitors. The number received was low in comparison to other organisations. This was a testament to how the Museum dealt with staff and visitor complaints. None of the 2019/2020 requests had been referred to the Information Commissioner. The time taken to process a request varied significantly depending on the information requested. A recent request for CCTV footage was quick to process. When, however, lots of emails need to be downloaded and redacted this can take up to a week.

13.8 **Museum Strategy to 2031** - It was noted the new Museum Strategy to 2031 was more likely to lead to an increase in freedom of information requests rather than subject access requests.

13.9 **Note on National Audit Office (NAO) Cyber Security and Information Management Guidance**

13.10 The CIO gave her assessment of the 10 NAO areas for review. All operational technology risks will be reviewed and managed by the Technology Governance Board (TGB). The TGB will agree, using existing risk criteria (likelihood and impact), which of the risks should be elevated to the Executive Board as part of the Museum ‘risk universe’ and reflect these risks into reporting, with their associated controls and mitigations.

13.11 The Audit and Risk Committee Chair and members were comfortable that technology risks were now being overseen appropriately and commended the Head of Security and Chief Information Officer on the excellent reports.

14 **FUTURE AGENDA ITEMS**

14.1 There will be a presentation at the 30 June 2020 meeting on the management of the Covid-19 crisis, furloughing and the reopening of the Museum.

15 **ANY OTHER BUSINESS**

15.1 **DCMS Governance Assurance Plans 2019/2020** - The Annual Governance Assurance Reports presented at paragraphs 8, 9, 12 and 13 were signed off by all the members of the Audit and Risk Committee. Members were confident, therefore, that the Audit and Risk Committee Chair could sign the 2019/2020 Governance Assurance Statement to DCMS on their behalf.
ACTION

16 DATE OF THE NEXT MEETING

16.1 The next meeting will be held at 10.00 a.m. on Tuesday 30 June 2020.

KEY TO ACTION INITIALS

Hilary Newiss - HN
Michael Dixon - MD
Neil Greenwood - NG
Jan Day - JD
Sarah Long - SL
John Smith - JS