



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

81st Meeting on 26 June 2018

Present

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

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Sir Michael Dixon (Director)
Neil Greenwood (Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Paul Keane (Director, DCMS Financial Audit NAO)
Matthew Atkinson (Audit Manager, National Audit Office)

Anjali Kothari (Partner, Kingston Smith) was in attendance for item 6(e) which was heard at the start of the meeting. Professor Christopher Gilligan was not present for item 6(e).

ACTION

1 APOLOGIES FOR ABSENCE

1.1 There were none.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 25/2018)

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

3 MINUTES OF THE MEETING HELD ON WEDNESDAY 3 MAY 2018 (PAPER TAC 26/2018)

3.1 Subject to two minor amendments the minutes were accepted as a true record of the meeting.

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 27/2018)

- 4.1 Exhibition Road - 29/6/17 para 5.2 and 9/11/2017 para 5.2 - Since the local borough elections the Kensington and Chelsea councillor holding the portfolio for Transport, Highways and Parking had changed. The Exhibition Road Cultural Group was in the process of setting up a meeting with the new portfolio holder and a date will be set later in the week.
- 4.2 Board Assurance Framework - Scientific Grant Staff - 29/6/17 para 5.13 - The Board Assurance template for "Scientific Grant Staff" was an agenda item at the 11 April 2018 Scientific Advisory Committee. However, no formal feedback had been received from the Committee. The Audit and Risk Committee Chair agreed to write again to all the Advisory Committee Chairs to request that: (a) a review of the latest relevant Board Assurance Framework was a standing agenda item at their meetings; and (b) as specialists in their field committee members provided advice to the Audit and Risk Committee on the identification and mitigation of risks and the quarterly score as set out in the Board Assurance Framework.
- HN/JD
- 4.3 Emerging Risks - Emergency Financial Crisis - 9/11/17 para 12.2 - There will be a paper and short presentation at the Annual Trustees' Strategy Day in September 2018.
- MD
- 4.4 Emerging Risks - 30/01/18 para 6.17 - The Audit and Risk Committee Chair, Museum Director and Head of Risk and Assurance will meet to discuss: (a) an ad memoire of the categories of emerging risks; and (b) the Trustees on the main board to be tasked with the consideration of emerging risks in their area of expertise e.g. property and science.
- MD/JD
/HN
- 4.5 Corporate Governance - 30/01/18 para 10.7- A budget will be made available for an external review of the Executive Board.
- MD
- 4.6 Collections Task Force and Emergency Storage - 03/05/18 Para 5.4 and 5.5 - The Audit and Risk Committee member who chaired the Property Committee agreed that: (a) the oversight of the Collections Task Force; and (b) the process to establish the cost of a temporary storage solution will be an agenda item at the next Property Committee.
- RN
- 4.7 There were two ongoing pieces of work on collections storage: (a) the Collections Task Force had analysed collection vulnerabilities due to potential and unpredictable failures and identified short term tactical interventions - this work was nearly complete; and (b) Join the Dots and the interrelationship with the Masterplan which had not yet been completed.
- 4.8 The Museum was still on track to engage proactively with Ministers in the autumn to secure funding for an NHM Collections Storage Strategy.
- MD/IO
- 4.9 It was agreed that the Head of Masterplanning and Projects will give a presentation on Collections Task Force progress at the 1 November meeting. The Museum Director will give a verbal update at the July 2018 Board of Trustees and the September 2018 Strategy Day.
- MD/KJ/JD
- 4.10 Classification of the Annual Audit Opinion - 03/05/18 para 7.7 - The NAO Director tabled a summary of the overall assurance classifications of other Museums and Galleries. All the classifications were given by external commercial firms with one exception. Commercial firms often had their own individual classifications. The Head of Risk and Assurance, however, had been directed by Government to follow the wording in the Cross Government Internal Audit Manual. The external commercial firms tended to base their assurance on audit work. The NHM Head of Risk and Assurance, who was internal to the Museum, based her assurance on audit reports plus the wider control environment. It was observed neither approach was incorrect.

ACTION

- JD 4.11 The DCMS Group Audit Committee - The Group Chief Internal Auditor for BEIS, DCMS & UKSBS was taking a summary paper of the Annual Audit Opinions for DCMS arm's length bodies to the DCMS Group Audit Committee on 5 July 2018. The Head of Risk and Assurance had spoken with the Group Chief Internal Auditor and he had agreed to provide her with an anonymised summary of common themes.
- JD
HN 4.12 The Chair of the Board of Trustees wished to be assured the Museum had critically assessed the adequacy of its governance, risk management and controls. The Audit and Risk Committee Chair agreed, therefore, to have informal discussions with Chairs of other Museum and Galleries Audit Committees on the reasons for their Annual Opinions. She would, however, wait to see the paper by the Group Chief Internal Auditor before instigating discussions. A member observed the Museum was not sufficiently critical of the cultural failure to implement many of the internal audit recommendations in a timely manner.
- NG/DT 4.13 Annual Security Report - 03/05/18 para 10.2 - The Director of Finance and Corporate Services had received an example format of a commercial organisations annual Health and Safety and Security report from an Audit and Risk Committee member. The structure and clarity of the NHM 2018/19 Annual Security report will be improved for the May 2019 Audit and Risk Committee and Board of Trustees' meetings using the example format provided.
- HN/SP/NG
/DT/JD 4.14 Cyber Essentials - 03/05/18 para 10.5 - The Trustee who specialised in digital and technology solutions was meeting with the Audit and Risk Committee Chair, Chief Information and Technology Officer, Head of Risk and Assurance and Director of Finance and Corporate Services in July 2018. The Museum was on track to achieve Cyber Essentials certification in the summer of 2018.
- NG/DT
- EB/NG 4.15 ISO 45001 - 03/05/18 para 11.2 - The Executive Board will make a recommendation to the Audit and Risk Committee and Board of Trustees on whether NHM should acquire ISO 45001 certification. This will take place once the new Health and Safety Manager (who commenced work the week of 3 September 2018) was able to consider the issue. An interim Health and Safety Manager started the week beginning 25 June 2018.
- NG 4.16 Line Manager Training - 03/05/18 Para 11.4 - The Director of Finance and Corporate Services was pursuing any instances of non-compliance with required mandatory training vigorously. Members recommended that staff who failed to complete mandatory training were penalised financially e.g. loss of bonus or annual pay award. The Director of Finance and Corporate Services agreed to raise possible penalties at the next Executive Board meeting. The Annual Health and Safety Report and Security Reports in May 2019 will include metrics on the numbers who had completed mandatory training.
- 5 DIRECTOR'S REPORT (PAPER TAC 28/2018)**
- 5.1 The Museum Director presented his paper
- MD 5.2 Follow up to Water Ingress to NHM Archive Store 9-10 April 2018 - The National Archives (TNA) Places of Deposit Manager and TNA Sector Development Manager visited the Museum on 13 June 2018. Their report when available will be sent to DCMS to demonstrate the increasing number of infrastructure failures in the Museum.

ACTION

- 5.3 Science Advisory Committee - The Museum Director and Director of Science did not recommend the status of the Science Advisory Committee was changed by dropping the term “advisory”. Members were not, however, persuaded by the arguments put forward by the Museum Director and Director of Science in favour of keeping the status advisory. Although there were individuals on the Science Advisory Committee who were not Trustees there was only one Trustee on the Property Committee. In addition, there were 5 scientific Trustees on the Board of Trustees which reflected the importance of science. There was a risk scientific focus may be lost due to: (a) other challenges; and (b) the limited opportunity for detailed discussions on science at Board of Trustee meetings. There was also a risk going forward the reporting, monitoring and composition of the Museum Science Advisory Committee may not be fully effective.
- 5.4 The Chair of the Board observed the arguments for changing the status of the Science Advisory Committee by dropping the term “advisory” could also be applied to the other advisory committees. The Chair of the Board agreed to discuss the issue with Trustees individually and report back on a consensus at the Trustees’ Strategy Day in September 2018. Members agreed: (a) the Board of Trustees were jointly and severally responsible for Board decisions; and (b) Committees of the Board including the Property Committee should not take on executive powers.
- 5.5 Board of Trustees Standard Agenda - The Audit and Risk Committee Chair and Museum Director observed the time allocated to discuss scientific activities at the Board of Trustees may be insufficient. Consideration should be given to establishing a standard agenda which prioritised time to discuss major activities like science.
- 5.6 Collections Emergency Storage - The cost of temporary emergency storage for the collections and the process for getting Treasury/DCMS approval to incur the expenditure needed to be established.
- 5.7 Attendance - April’s attendance data for other large London national museums was published by DCMS on 7 June 2018. At that time only the V&A (still in the first twelve months post the opening of the Exhibition Road quarter) and the NHM were showing an upward trend in attendance. There was no reliable intelligence on what the upturn was attributed to. However, the NHM marketing campaign to family audiences in London and the South-East from February seemed to be a significant factor.
- 5.8 Dippy on Tour - Birmingham had 40k visitors in the initial 4 weeks and were reporting good retail sales. The initial indication was Birmingham will not achieve significantly higher visitor numbers than Dorchester. It may be Exhibitions do not need to be held in big cities as smaller county towns will have a bigger impact. The impact on local business turnover in Dorchester was significant in some cases with an uplift of 25%.
- 6. ANNUAL ACCOUNTS 2017/18 AND AUDIT COMPLETION REPORTS (PAPER TAC 29/2018)**
- 6.1 The Director of Finance and Corporate Services presented the Annual 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, the co-opted member and Chair of the Board of Trustees on 13 June 2018. The Committee reviewed the Annual Report and the Financial Statements, made recommendations to improve the clarity of the narrative and raised questions.

ACTION

6(b) Annual Report

- 6.3 It was observed the Annual Reports of other Museums and Galleries were substantially longer than the NHM's Annual Report. The Annual Report was approved subject to the recommended amendments.
- 6.4 Average Days' Sickness - The average days' sickness per year for permanent and fixed term contract staff was 4.5 days per full time equivalent which was low for the public sector.
- 6.5 Self-Employed Staff - There were very few staff categorised as self-employed. Before staff were employed budget holders completed the Employment Status Service online tool available on the HMRC website. This was to ensure the Museum was compliant with HMRC guidance.
- 6.6 Challenges 2017/2018 - The NHM required DCMS Ministerial approval for the Museum Annual Report and Accounts as the DCMS Minister laid the DCMS Group Accounts before Parliament. An early draft of the Annual Report and Accounts was submitted to DCMS for comment and a second draft for final approval. However, DCMS had requested a change to the wording. The Committee discussed the wording needed to highlight the significant financial challenges faced by the Museum during 2017/2018 and going forward. Financial challenges impacted the Museum's ability to support capital and maintenance expenditure. The Committee delegated responsibility for agreeing the wording with DCMS to the Director of Finance and Corporate Services.
- 6.7 Natural History Drawings - Four volumes of natural history drawings were received in late 2016/17 and were subject to a prior year adjustment. One volume was received in 2017/18.
- 6.8 Sustainability - The Museum was required to report key sustainability performance data which was not audited in the Annual Report. The Director of Finance and Corporate Services agreed to discuss the increase in Water and Energy consumption with the Estates Department Energy and Sustainability Manager. The Energy and Sustainability Manager will be reporting to the Audit and Risk Committee in November 2018.
- 6.9 Performance Indicator Information, Including Those Listed in the Funding Agreement - The Number of impressions in Facebook and Twitter was a new indicator. The indicators which the Museum agreed to report to DCMS will be reviewed when the next DCMS Funding Agreement is negotiated.
- 6.10 Pension Entitlements - MyCSP Limited was responsible for administering the Principal Civil Service Pension Scheme (PCSPS). MyCSP provided the Annual Report figures for Directors. It was unlikely any query in relation to the figures would be answered quickly.
- 6.11 Governance Statement Board Attendance - DCMS had queried the attendance figures.

NG

NG

WH

6(c) Financial Statements

- 6.12 Note 10 Collections - The information relating to the stewardship of the collections had not been reduced since the informal review of the accounts by members on 13 June 2018. The Museum had only capitalised expenditure since 1 April 2001 for acquisitions in excess of the capitalisation threshold. There was, therefore, a stewardship responsibility to report on the remainder of the collections which formed the bulk.
- 6.13 Significant developments during 2017/18 and 2018/19 - The note included the Museum Archives Store flood in April 2018. Significant developments which occurred up to the signing of the Accounts were required to be reported.

ACTION

- 6.14 The papers going to the 3 July 2018 Board of Trustees will include the same version of the Annual Report and Financial Statements reviewed by the Audit and Risk Committee. Any substantive changes required to be made to the documents will be reported to the Board of Trustees. The main issue related to the wording in the Annual Report which needed to be agreed with DCMS. The Annual Accounts submitted for signature by Chair of the Board of Trustees and the Accounting Officer will include the changes agreed by the Audit and Risk Committee during the 26 June 2018 meeting.
- 6(d) NAO Audit Completion Report (including Management Letter)**
- 6.15 The NAO Director presented the NAO Report and thanked the Director of Finance and Corporate Services and the Finance Team for their assistance during the audit process.
- 6.16 Overall Conclusion – The Comptroller and Auditor General was expected to certify the 2017/18 accounts with an unqualified audit opinion and without modification.
- 6.17 List of Identified Unadjusted Misstatements - The unadjusted items identified by the NAO were not material. The Audit and Risk Committee endorsed the reasons given by management for not adjusting the unadjusted misstatements.
- 6.18 Internal Control Issues - The Museum will respond to the control issues identified by the NAO at the 1 November 2018 Audit and Risk Committee.
- 6(e) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter**
- 6.20 Item 6(e) was taken at the start of the meeting.
- (a) Trading Company Accounts*
- 6.21 The audit of the accounts was complete. The accounts will be approved by a Directors' meeting the week commencing 25 June and will be presented to the Board of Trustees for information only.
- (b) Kingston Smith Management Letter*
- 6.22 The Kingston Smith Partner presented the Management Letter.
- 6.23 Observations Arising From Current Year - The only observation related to the need to review the Deed of Covenant dated 20 February 1995 with the Museum's solicitors to ensure that it was still relevant.
- 6.24 Outstanding Observations Arising From Previous Year - Stock - There was a difference between the total stock figure per the accounting system and the total stock value per the stock system which cannot be accounted for. Part of the discrepancy related to a long standing difference from 2014/15 and a decision may be taken to write this off. The Museum will increase the number of stocktakes and the number of reconciliations between the two systems. However, until there was an improved stock system in place reconciliations will require manual intervention. Although the stock difference may be due to theft it was not significant on a turnover of circa £8m and was well below the industry 3% benchmark.
- 6.25 Sector Update - Preparing for the Introduction of Making Tax Digital for VAT - From 1 April 2019, organisations who are registered for VAT will have to comply with the new Making Tax Digital (MTD) requirements. Compliance for many organisations will require fundamental changes to existing processes and systems which can have significant cost implications.

ACTION

6(f) Audit and Risk Committee Approval

6.26 Members:

Recommended for approval by Trustees on 3 July 2018 the accounts for:

The Natural History Museum;

The Natural History Museum Special Funds Trust;

The Natural History Museum Benevolent Fund.

7. DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL - MAY 2018 (PAPER TAC 30/2018)

7.1 The Director of Finance and Corporate Services presented his paper.

7.2 General Fund Increase - The forecast year end outturn for the General Fund was above the original budget. There were cost savings in relation to slippage on capital/projects. However, the majority of the increase reflected a good start to the year for visitor related income, in particular for Retail and On-site donations and venue hire, all of which were significantly ahead of the Original Budget. Reported revenue was only down due to the timing of scientific grant income recognition.

8. TRUSTEES' AND DIRECTORS' EXPENSES 2017/18 AND DIRECTORS' GIFTS AND HOSPITALITY REGISTER 2017/18 (PAPER TAC 31/2018)

8.1 The Director of Finance and Corporate Services presented the paper. The Committee reviewed the Trustees' and Directors' Expenses and Directors' Gifts & Hospitality 2017/18.

8.2 Use of Taxis - The NHM Business Expenses Guidelines set out guidance on the use of taxis and the approved taxis company. Staff must use public transport wherever possible. There was, however, more the Museum could do in relation to using environmentally-friendly taxis firms.

9. HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 32/2018)

9.1 The Head of Risk & Assurance presented her report.

9.2 Audit Plan 2018/19 - The Audit and Risk Committee Chair, co-opted member and Head of Risk and Assurance reviewed the 2018/19 plan against the updated Risk Universe on 13 June 2018. The Audit and Risk Committee Chair and co-opted member also made recommendations for audits in 2019/20. The 2018/19 plan was agreed by the Audit and Risk Committee.

9.3 Some progress had been made on this year's plan, however, (a) work was still ongoing on the 2017/18 plan; and (b) extra work had been requested which was not on the plan e.g. a freedom of information appeal and a review of Tier 2 immigration. The Chair asked that the Audit and Risk Committee were updated on the Tier 2 review in November 2018.

JD

9.4 Contract Letting and Procurement - Contracts Database - On 21 June 2018 the Director of Finance and Corporate Services, Procurement, the Information Manager and Head of Risk and Assurance met to discuss progress and next actions. The Audit and Risk Committee Chair said the Committee wished to see good progress at their meeting in November 2018. The Director of Finance and Corporate Services observed that the process needed to be manageable within the available resources.

NG

ACTION

10. BOARD ASSURANCE FRAMEWORK QUARTER 1 (PAPER TAC 33/2018)

- 10.1 The Museum Director presented his paper.
- 10.2 The Committee found the Museum Director's commentary on each risk very helpful. The Board Assurance Framework was a documentation of the action being taken to manage the risks and it was a good discipline for risk owners to review progress on a quarterly basis. Risk owners were trying to ensure greater consistency in the narrative. The Audit and Risk Committee Chair was concerned that in some cases there was no internal or external assurance in place. The Museum Director agreed to discuss the omission with risk owners.
- MD/JD
- 10.3 K7 Maintaining Aged and Failing Estate - The Property Committee was not able to consider in depth "Maintaining Aged and Failing Estate" as the Museum was only able to spend £2m per annum rather than the necessary £10m. There was a backlog maintenance figure of £70m. The Head of Estates was presenting on the risk at the November 2018 Audit and Risk Committee.
- KR
- 10.4 G3 Data and Digitisation - There was no assurance provided in relation to the risk. The Chair of the Audit and Risk Committee agreed to speak to the Trustee advising the Museum on digital and technology about the risk and assurance. The Chair of the Board of Trustees observed he wished to reconsider the need for a Digital Technology Advisory Committee. It was noted a long term mitigation plan was to "continuously improve measurement, monitoring and publicity for the impact of digital collections data across collections management, scientific research and engagement". The Museum Director agreed to raise the request to accelerate this action with the Director of Science.
- HN
SG
MD/IO
- 10.5 H2 Centres of Excellence - The Science Advisory Committee had discussed the establishment of centres of excellence in detail. However, the member who sat on the Scientific Advisory Committee did not believe the Advisory Committee provided any assurance or oversight in relation to the risk. The Chair of the Audit and Risk Committee asked that metric/internal and or external assurance was put in place to demonstrate action was being taken.
- MD/IO
- 10.6 L2 Cyber Security and Resilience - The Museum was working towards full Cyber Essentials compliance. A Government backed scheme which protected, against the most common cyber-attacks. NHM had, achieved compliance in 36 out of 40 areas.
- 10.7 A member expressed the view the Audit and Risk Committee should be worried as it was unusual for similar organisations to have so many red risks. The number of red risks highlighted the need for: (a) better internal and external assurance to be provided to the Committee; and (b) the acceleration of some actions.

11. PRESENTATION BY THE MUSEM DIRECTOR ON THE STAFF SURVEY 2017

- 11.1 The Museum Director made his presentation on the Staff Survey.
- 11.2 The Museum Director gave an update on the last staff survey which took place over the period 22 February - 10 March 2017 and the action taken by the Executive Board. The next survey was in September 2018 and in future a staff survey will be an annual exercise. The survey was open to staff, contractors, volunteers and agency colleagues. The Board of Trustees will receive feedback on the next survey taking place in September at their November 2018 meeting.
- MD
- 11.3 Members would like to receive feedback following the September 2018 survey on: (a) where there was a significant difference in the results and the questions had not changed from 2017; and (b) the actions which will be taken by the Museum to address concerns.

ACTION

11.4 The Museum always received a comparison with the previous year's survey and a normalised data set from other organisations. Data was also analysed by directorate, department, gender and length of service.

12. PRESENTATION BY HEAD OF INTERNATIONAL ENGAGEMENT ON TREASURES OF THE NATURAL WORLD

12.1 The Head of International Engagement made his presentation.

12.2 The Head of International Engagement gave a detailed presentation on: (a) the project aims and KPIs; (b) the business model and a financial summary; (c) managing risk to the collections, reputation and finances; and (d) the impact achieved, the challenges and the lessons learned.

12.3 Singapore - Singapore achieved visitors of approximately 97k whereas the venue hosts aimed for 100k visitors. Visitor numbers of 97k was, however, a good result for the venue hosts as: (a) the venue was an exhibition hall not a national museum; (b) an art exhibition normally achieved 150k visitors; and (c) the Science Museum Large Hadron Collider exhibition in Singapore achieved 60k visitors.

12.4 Members thanked the Head of International Engagement for his excellent presentation. The Audit and Risk Committee Chair wished the Head of International Engagement who was leaving the Museum well for the future and thanked him for his work.

13. FUTURE AGENDA ITEMS, NOVEMBER 2018 RISK PRESENTATIONS AND THE IDENTIFICATION OF EMERGING RISKS SINCE THE LAST MEETING

13.1 Presentations for November 2018 had been agreed for the following risks and the presenters notified:

(a) Head of Estates - D2 - "The imperative to reduce contract costs for Hard and Soft Facilities Management by a minimum of 5% (c£200,000 across the services) leads to a decline in service levels and reduced operational effectiveness".

(b) Energy and Sustainability Manager - Energy Management K5 & K6 Sustainability Plan.

13.2 In addition, it was agreed during the meeting that the Head of Masterplanning and Projects will give a presentation on the progress of the Collections Task Force at the November 2018 meeting.

14. ANY OTHER BUSINESS

14.1 There was no other business.

15. CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS

16. DATE OF THE NEXT MEETING

16.1 The next meeting will be held at 10.00 a.m. on Thursday 1 November 2018

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ACTION

KEY TO ACTION INITIALS

Executive Board	- EB	Hilary Newiss	- HN
Michael Dixon	- MD	Robert Noel	- RN
Jan Day	- JD	Ian Owens	- IO
Neil Greenwood	- NG	Simon Patterson	- SP
Stephen Green	- SG	Kevin Rellis	- KR
Wayne Hitchings	- WH	Dave Thomas	- DT
Keith Jennings	- KJ		