

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

86th Meeting on Thursday 31 October 2019

Present

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

In Attendance

Prof Dame Janet Thornton (Trustee)
Sir Michael Dixon (Director)
Neil Greenwood (Executive Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Kevin Coughlan (Senior Auditor)
Jamie Patterson (Audit Manager, National Audit Office)
Kristi Motala (Audit Lead, National Audit Office)

Tim Littlewood (Executive Director of Science) was in attendance for item 11.

ACTION

1 APOLOGIES FOR ABSENCE

- 1.1 Lord Green of Hurstpierpoint (Chair of Trustees), Alex Clark (Director, DCMS Financial Audit NAO) and Keith Jennings (Head of Masterplanning and Projects) sent their apologies.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 35/2019)

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

3 MINUTES OF THE MEETING HELD ON TUESDAY 25 JUNE 2019 (PAPER TAC 36/2019)

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

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 37/2019)

- HN** 4.1 Corporate Governance Code - 02/05/19 para 10.4 -The Chair of the Audit and Risk Committee had organised a lunch in the Natural History Museum for the Audit Chairs of the Science Museum, V&A and Imperial War Museum and will raise Corporate Governance Code compliance at their lunch - item closed.

5 MUSEUM DIRECTOR'S REPORT (PAPER TAC 38/2019)

- MD** 5.1 The Director presented his paper
- 5.2 Counter-Fraud Preparedness and Training - The Museum Director thanked the Head of Risk and Assurance for her detailed submission to the Cabinet Office and for preparing an excellent e-training course - please also see item 10.
- 5.3 Appointments to the Board of Trustees - Recommendations for a science appointment and an appointment with public engagement experience had gone to ministers for approval.
- MD** 5.4 Board Review Process -The Museum Director will consult with the Board of Trustees' Chair on whether the Global Head of the Crowe Non-Profit Unit undertaking the Board review should attend the next Board. The Board Review report will be discussed at the February 2020 Board meeting. The Museum Director agreed to enquire which Trustees had been interviewed as part of the process.
- 5.5 Dippy on Tour - Dippy opened at the National Museum of Wales in Cardiff on 18 October 2019. There are two more venues after Cardiff, Rochdale and Norwich. Total visitor attendance of 2 million should be achieved. The May 2020 Board of Trustees meeting will be held in Rochdale.
- 5.6 The Urban Nature Project (hitherto the Gardens Programme) - The Urban Nature Project (hitherto the Gardens Programme) was gathering momentum and designers had been appointed.
- MD/NG** 5.7 The Science and Digitisation Centre (hitherto Collections Programme) - The Science and Digitisation Centre capital funding bid had been a major focus of the Museum over the summer and autumn. HM Treasury liked the project and NHM were asked to submit a full-scale bid for the Chancellor's Budget which had since been postponed due to the election. However, an announcement on national infrastructure investment was still possible. Members urged that Directors and Trustees identify a way to facilitate progress as far as was possible in a period of purdah starting on 6 November 2019 to acquire £7m. £7m had been requested in year one of the Museum's funding bid to develop a concept design for the Centre. It was observed the Museum cannot be sure of the amount of space needed to store the collections offsite and the building shape (footprint) until the concept design for the technological challenge of storing and retrieving the Museum's collections had been completed. It was noted the PR for the British Library project and their concept of underground storage had been very successful.
- 5.8 Cultural Investment - The Museum had not benefited from the £250m of funding for the culture and creative sector recently announced by the Culture Secretary. This included £19m for the digitisation of a range of different types of cultural content not just collections to allow people to enjoy Britain's national cultural resources from their own home.
- 5.9 Organisational Changes - A new Chief Information Officer had been appointed and was due to start in early February 2020. Final interviews were in progress for a Director of Communications and Marketing. Interviews were also taking place the week beginning 4 November 2020 for a Director of HR to replace the former Head of HR role. Once these roles were filled other roles will be added to the proposed Management Board. A Head of Legal was starting on 11 January 2020.

ACTION

- 5.10 Staff Survey 2019 - The staff survey had closed with an impressive 87% response rate. It included new questions and had been a very useful survey. The Museum Director had been able to view anonymised responses in real time. There were issues around pay after years of pay restraint. The action after the last survey had resulted in 33% more individuals believing action will be taken as a result of this survey. There will be some comments on the survey results at the November 2019 Board of Trustees meeting and a fuller presentation in February next year. The scores in relation to opportunities to express views and interdepartmental working had improved.
- 5.11 **Major risks 2019/20**
- 5.12 Members found the Museum Directors summary very useful and the detail recorded in the templates reassuring. It also triggered a wish to see the completed work in the galleries and the collections.
- 5.13 **Emerging Risks and Changes to the External and Internal Environment**
- 5.14 It was observed that it was important to identify new risks and not be solely focussed on the major risks for 2019/20.
- 5.15 New Museum Director – The Museum Director was retiring in 2021. A member commented he was retiring in 2020 and this had resulted in several senior staff in his organisation becoming unsettled and vulnerable to being head hunted. It was noted the appointment of a new Director of Human Resources represented a move by the Museum to focus more on people.
- 5.16 Brexit - The Department of Digital, Culture, Media and Sport (DCMS) was spending a lot of time on managing Brexit. Although many organisations had defined Brexit as a single risk the Museum Director believed the risk should be devolved to different areas of risk. However, the Museum did report to DCMS on the individual risk areas identified by DCMS. Areas of focus for the Museum were; (a) the movement of cities specimens between the UK and EU; (b) key contractors particularly the Museum's caterers who employ a significant number of European and Non-European employees; (c) a potential reduction in visitors; and (d) individual purchases from the EU e.g. large pieces of scientific equipment.
- 5.17 It was observed the most significant risk for the Museum was not receiving funding for the Science and Digitisation Centre due to Government's pre-occupation with Brexit which may not be resolved by the general election.
- 5.18 The General Election - The Museum had not engaged with the opposition recently. After the general election the Museum may need to step up engagement with Government significantly.
- 5.19 Sustainability Strategy - Environmental activism was on the rise and the Museum's new strategy will require NHM to demonstrate greater credentials in terms of the sustainability of its own operations. The Museum must know what to do and have a plan to get there. This risk needed to be carefully defined as a standalone risk and not treated as a subset of the risk in relation to a failure to create an appealing brand identity. The Museum Director was: (a) due to meet the Head of Sustainability at Land Securities on 5 November 2019; and (b) had requested the assistance of the Museum trustee who had global sustainability credentials and his team.
- 5.20 A member observed the Museum's strategy should be a sustainability strategy. All organisations need to set out how they were going to remain sustainable in 5, 10, 15 and 30 years. To remain in existence the Museum must be relevant to its stakeholders including society and the younger generation. Younger people were empowered and had a voice using social media bypassing the usual channels of engagement.

ACTION

- 5.21 Board of Trustees - The Board of Trustees did not represent the younger generation and the Museum needed to appoint Trustees in their 30s which was proving difficult. However, it may be possible to appoint younger people to the NHM advisory committees as a development programme for potential trustees. The Board Review was likely to make recommendations covering this issue. The NHM's perception audit identified that under 35s considered that Museums should be active and use their convening powers to bring people together to debate the major issues of the day e.g. climate change and the colonial past of developed world institutions.
- 5.22 The Colonial Past of Developed World Institutions and Restitution Claims - DCMS were considering the issue. Museums and NHM need to be more strategic in their international work, when deciding what countries they work with in the global south and why. This was more than a communication issue, the Museum needed to act. The legal position was the Museum cannot give its collections back, however, this was not acceptable to some foreign governments. There had been claims for the restitution of human remains and cultural artefacts held by the NHM and the Museum needed to be able to respond to such claims.
- 5.23 It was observed that: (a) it was key to encourage scientific interactions and capacity building in the global south; and (b) the use of the term colonial past was negative and emotive. There was positive work going on e.g. the Global Challenges Research Fund (GCRF) supported cutting-edge research that addressed the challenges faced by developing countries. The Museum needed a way to articulate the positive e.g. collections dating back 200 years may not be in existence if they were not held in the Museum.
- 5.24 The Audit and Risk Committee Chair and members supported the Museum Director's list of evolving risks. Members asked the Executive Board to consider how to take them forward and articulate them in the Museum's Risk Universe. The Museum Director will report on evolving risks further in his paper to the November 2019 Board of Trustees. The Ethics Policy going to the Board for approval will be helpful in addressing issues relating to donation and income sources.
- 6 EXECUTIVE DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL – SEPTEMBER 2019 (PAPER TAC 39/2019)**
- 6.1 The Executive Director of Finance and Corporate Services presented the report which reflected actual income and expenditure to 30 September 2019.
- 6.2 Resource Income and Expenditure - Visitor related income had been strong, however, the special exhibition programme had slipped to April/May next year. There were a record number of visitors in December 2018 and it was not certain this will be repeated in December 2019 thus reducing visitor related income. There were increases compared to the original budget for Venue Hire and the Ice Rink. Increased estates, energy and core expenditure costs will need to be reflected in the 2020/21 budget. It was noted that expenditure in the second half of the year was always higher resulting in less surplus being generated.
- 6.3 Capital Expenditure - The Museum had received additional capital grant in aid from the DCMS Infrastructure Fund of £3.5m to reflect the additional fire precautions programme and the repairs to the façade and roof of the Tring Ornithology Building. Work was progressing on the Tring façade. The contractor went on site at Tring at the end of August 2019 and there will be circa £1.5m expenditure by the end of the year. Fire precautions was, however, progressing at a slower rate. IT bulk storage equipment and science equipment expenditure were being brought forward to ensure the capital grant in aid allocation was fully utilised.
- 6.4 Ice Rink - Due to the Urban Nature Project (hitherto the Gardens Programme) the Ice Rink will be in its last year in 2020/21 resulting in a loss of income of circa £850k. There may be opportunities for other commercial exhibitions in the grounds, however, these will not replace the lost of £850k. How the £850k loss is managed will be discussed with trustees.

ACTION

7. MANAGEMENT RESPONSE AND UPDATE TO KINGSTON SMITH RECOMMENDATIONS 2018/2019 (PAPER TAC 40/2019)

- 7.1 The Executive Director of Finance and Corporate Services presented the paper.
- 7.2 The NAO 2018/19 report made no new recommendations and all the prior year recommendations had been completed. The report set out the ongoing response to the Kingston Smith recommendations as at October 2019. The Kingston Smith recommendations had either been actioned or will be completed as part of the year end processes for 2019/20.
- 7.3 Ice Rink Income and Expenditure - IMG have been asked to: (a) provide a copy of their audit report; and (b) grant permission for the Museum to write to their external auditors asking them to confirm that their audit work found no issues that would impact NHM commission figures. The contract between NHM and IMG allowed for this.

8. NATIONAL AUDIT OFFICE (NAO) AUDIT PLANNING REPORT 2019/20 (PAPER TAC 41/2019)

- 8.1 The Audit Manager, National Audit Office (NAO) presented the report.
- 8.2 Members of the Audit and Risk Committee were asked to consider: (a) whether the assessment of the risks of material misstatement were complete; (b) whether management's response to these risks was adequate; (c) the audit plan to address the risks; and (d) whether the financial statements could be materially misstated due to fraud.
- 8.3 **NAO Response to the Significant Risks**
- 8.4 Presumed Risk of Management Override of Controls - Under the International Standards on Auditing there was a presumed risk of management override for all audited bodies, though the NAO did not deem there to be a heightened risk at NHM.
- 8.5 Risk of Fraud in Revenue Recognition - Fraud in revenue recognition was a presumed, but rebuttable risk of material misstatement. The NAO had rebutted the risk of material misstatement for DCMS grant-in-aid, investment and membership, but not for the other material revenue streams.
- 8.6 **Areas of Audit Focus**
- 8.7 The NAO Audit Manager outlined matters which had a direct impact on the financial statements but did not represent a significant risk of material misstatement.
- 8.8 Valuation of Land & Buildings and Plant & Machinery - The NHM commissioned a full revaluation of Land and Buildings 2018/19 and planned to perform desktop valuations in the years before the next full revaluation. Given the size of property, plant and equipment in the Balance Sheet and the sensitivity of the valuation to small changes in assumptions this was area of focus which was directed by the regulators.
- 8.9 Investments - The NAO were looking at investments across the museums and galleries sector. In some cases investments were complex with risks relating to the asset, valuation and reputation. The NHM investments, however, were not significant and mostly sat within the Trading Company. The NAO will liaise with the Kingston Smith, the Trading Company auditors to establish their approach to gaining an understanding of the investments and review their work.

ACTION

- 8.10 It was noted there had been a discussion by NHM Trustees on sustainability and ethical investment. This was not the focus of NAO work. However, the NAO Audit Manager observed that the Trustees of other museums were interested in where investments were held. NHM investments were with CCLA one of the UK's largest charity fund managers. NHM investments were not in the CCLA ethical fund, however, this was likely to be reviewed in the light of the new Ethical Policy. It was noted, however, the CCLA ethical investment fund was not a sustainable fund.
- 8.11 IFRS 16: Leases - DCMS were implementing IFRS 16: Leases for 2019/20. FRS 16 applied to reporting periods beginning on or after 1 January 2019. Although the Natural History Museum will not implement IFRS 16 until 2020/21 the NAO were required to assess the completeness and accuracy of NHM leases. This was reported to the Audit and Risk Committee as it was an additional burden on the Finance Team. The data was signed off by the Executive Director of Finance and Corporate Services. The Committee and Trustees were not required to provide any assurance over the information. However, it was agreed that the Executive Director of Finance and Corporate Services will record the amount that DCMS will capitalise rather than treat as revenue expenditure in his annual report supporting the NHM 2019/20 accounts. NHM leases were not material, however, the Executive Director of Finance and Corporate Services did not wish to implement IFRS 16 in advance of the IFRS 16 timetable.
- 8.12 EU Exit - NHM received and managed significant grants from the EU. If the UK left the EU before the end of the financial year, there will be implications for the continued operation and funding of the grant streams. Whilst DCMS had committed to funding any grants applied for, there may be some complexities. The NAO will consider the position of the grant streams at year end to determine if there was any financial statement impact. It was noted the Museum was required to notify DCMS periodically of the position of its EU grants. Currently there was £5m/£6m at stake.
- 8.13 Materiality - The basis for the NHM Group materiality calculation is £94m which reconciled back to the NHM consolidated accounts 2018/19. The figure will be updated as the 2019/20 audit progressed.
- 8.14 Appendix C: Guidance for Governance - The Chair of the Audit and Risk Committee and the Head of Risk and Assurance will discuss the guidance.
- 8.15 Audit Fee - The Audit and Risk Committee members commended the NAO on the clarity of the report and approved the plan and audit fee for 2019/20.
- 9 HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 42/2019)**
- 9.1 The Head of Risk & Assurance presented her progress report and her report on Project Management Lessons Learned.
- 9.2 Cyber Security Penetration (Pen) Test Reports - The pen testing summaries (and a brief activity summary) went to Technology Governance Board on 15 October. The Executive Director of Finance and Corporate Services reported that generally the pen testing reports were positive and appropriate action was being taken. The Head of Risk and Assurance had followed up the key recommendations with the Information Security Manager and gave a brief outline of the action being taken to the Committee.
- 9.3 Risk and Assurance Audit Plan 2019/20 - Several additional reviews had been added to the plan and there was increased work in relation to Counter Fraud. The Museum Director and Head of Risk and Assurance will discuss the priorities on the Audit Plan and bring a revised plan to the February 2020 Audit and Risk Committee.

ACTION

- | | | |
|--------------|------|---|
| | 9.4 | <u>Outstanding Recommendations Priority 1 & 2</u> - These were reviewed regularly with the Head of Risk and Assurance and the Chair of the Committee. Members observed that in several cases progress was slow due to a lack of resources. There was concern that the organisation did not see internal audit as adding value by improving operations. The Head of Risk and Assurance explained she was regularly asked to carry out audits by managers as they did see the benefit. The Executive Director of Finance and Corporate Services observed that recommendations should not be accepted by managers if there were more important priorities. |
| | 9.5 | <u>Contracts Database</u> -The Executive Director of Finance and Corporate Services had made the decision, that the administration of the Contracts Register will be devolved to a nominated champion in each department. Champions will receive training on using the database. It was requested that the Audit Plan for 2020/21 included a review of the contracts data base to ensure it was being maintained adequately. |
| JD | 9.6 | <u>Official Absence Process</u> – It was requested that the Head of Risk Assurance Reported to the Health and Safety Manager that the Audit and Risk Committee were hoping to see substantial progress at their next meeting. |
| TL/JD | 9.7 | <u>Permanent Galleries</u> - A complete and comprehensive list of all the specimens on display in the galleries was not in place. It was observed this would be helpful if a member of the public enquired if an item was on display. There was a discussion as to how this piece of work could be expedited perhaps by bringing in volunteers or a temporary member of staff as happened in the case of the Trustees Artwork Collection. It was noted that records were kept of known specimen losses. It was agreed that there should be a report on the completeness of Collections Management data bases including the permanent galleries at the February 2020 Audit and Risk Committee. |
| NG | 9.8 | <u>Data Protection & Information Assurance Governance</u> - The Executive Director of Finance and Corporate Services agreed to follow up the General Data Protection Regulation (GDPR) work in relation to third parties handling personal data and protected data on the museum's behalf. |
| NG | 9.9 | <u>Tier 2 Sponsor Compliance</u> - The Chair of the Audit and Risk Committee asked to be assured the recommendations on the GDPR: Tier 2 Privacy Statement and HR Personnel Files data retention policies will be actioned |
| | 9.10 | <u>Freedom of Information (FOI)</u> - The Information Commissioner (ICO) had received a complaint about the handling of two FOI requests from the same individual. The requests had been refused by the Museum as vexatious. This was the first time the Museum had refused a request as vexatious. In discussion with the Museum Director and Director of Finance of Corporate Services it was decided to wait for guidance from the ICO rather than ask for legal advice. |
| | 9.11 | <u>Internal Communication</u> - Internal communication in staff emails etc. were not always written in a professional manner. The Information Management Group (IMG) had recognised there was a need to train staff and remind them they should always write for disclosure given the increase in subject access and FOI requests. |
| | 9.12 | Project Management Lessons Learned |
| | 9.13 | The Head of Masterplanning and Projects headed the Central Project Office (CPO). The Project Management Office (PMO) which sat within CPO was managed by the Head of PMO. The Head of Masterplanning and Projects' written response to the Committee noted the report had highlighted some areas where PMO can improve processes and add value to their work. Progress was being made on the recommendations. PMO needed to ensure that their processes for learning lessons were carried out at the most appropriate time, focused on the important lessons and added the maximum benefit to the way the Museum worked. |

ACTION

- 9.14 PMO had a well-defined lessons learned process and documents for recording and capturing Lessons Learned throughout the life of a project and checking that issues were addressed. The reported noted, however, that more needed to be done to communicate the benefit of the PMO Lessons Learned resource to the wider Museum. It was observed the most complicated projects were those carried out with partner institutions.

10 UPDATE ON THE GOVERNMENT FUNCTIONAL STANDARD GovS 013 (PAPER TAC 43/2019)

- 10.1 The Head of Risk & Assurance presented her report.

The Head of Risk & Assurance attend a DCMS Counter Fraud Awareness Event on 30 October 2019 at which the Permanent Secretary, DCMS and the Head of Fraud at the Cabinet Office spoke.

- 10.2 DCMS arm's length bodies will receive their assessment from the Cabinet Office by early 2020 and full compliance was expected by June 2020. The Cabinet Office 2020 assessment will focus on Counter Fraud Action Plans. The key areas where organisations needed to improve were Fraud Risk Assessment and the Counter Fraud Strategy. The Head of Fraud at the Cabinet Office stressed that Audit and Risk Committee input was needed on the Counter Fraud Strategy.

- 10.3 Government had concluded there was under reporting on UK public sector fraud in comparison with other countries and had introduced the concept of the fraud and error loss 'iceberg'. There had only been one minor identified fraud in the Museum so far in 2019/20.

- 10.4 Members commended the Head of Risk and Assurance on her report and were assured that the Museum was doing everything it could to address the risk of Fraud, Bribery and Corruption. Members were of the view the Museum's response was proportionate to the risk it faced.

- HN** 10.5 The Chair of the Audit and Risk Committee will discuss whether there was a need to push back on the amount of work needed to ensure full compliance at the lunch she had organised for the Audit Chairs.

- 10.6 It was noted 386 individuals had completed the NHM Counter Fraud, Bribery and Corruption e-training.

11 PRESENTATION BY ON THE MAJOR CORPORATE RISK G3 - FAILURE TO DELIVER LARGE SCALE DATABASING AND DIGITISATION OF THE COLLECTION UNDERMINES CURATION, RESEARCH COMPETITIVENESS AND IMPORTANCE OF COLLECTION (PAPER TAC 44 /2019)

- 11.1 The Executive Director of Science made his presentation.

- 11.2 The Executive Director of Science explained the key strands of work and collaborations in relation to digitisation and the Museums digitisation programme. Providing access to the Museum's collection was a statutory responsibility. Digital access was increasingly important for scientific and other use of the collection. In addition, unless the NHM increased the proportion of its collection that was digitally available it will lose its competitive position.

ACTION

- 11.3 The key challenges were: (a) the size of the Museum collection which is approximately 80m specimens; (b) obtaining funding for digitisation. Most countries had a national digitisation programme which the UK did not; and (c) developing digitisation workflow processes for many different types of specimens ranging from meteorites, fossils, large skeletons, and items preserved in jars. The goal was to have a digital surrogate for the majority of the 80m specimens. Digitisation included the image, associated information on the label and the research data. The Museum was leading the way on digitisation and had been shortlisted for two awards.
- 11.4 Currently there were almost 4.5m specimen records on the NHM data portal, however, this was only a small proportion of the collection. A key aim was, therefore, to increase the rate of digitisation as with current progress it will take many years to digitise the majority of the 80m collection.
- 11.5 Members discussed various solutions and approaches to the challenge and the digitisation rates based on different scenarios.

12 ANY OTHER BUSINESS

- 12.1 DCMS Governance Assurance Plans 2019/2020 - The Chair of the DCMS Audit and Risk Committee had expressed a strong view that Governance Assurance responses should be discussed and signed off by the entire Committee and not just be a response from the Chair. It was agreed that Governance Assurance responses will be discussed at the May Audit and Risk Committee when the annual governance reports from the Head of Risk and Assurance, Head of Health and Safety, Head of Security and Chief Information Officer were received. The May Audit and Risk Committee minutes will record this action.

NG/JD

13 DATE OF THE NEXT MEETING

- 13.1 The next meeting will be held at 10.00 a.m. on 4 February 2020

KEY TO ACTION INITIALS

Michael Dixon - MD
Jan Day - JD
Tim Littlewood - TL
Neil Greenwood - NG
Hilary Newiss - HN