

THE NATURAL HISTORY MUSEUM

TRUSTEES' AUDIT AND RISK COMMITTEE

91st Meeting of the Natural History Museum Audit and Risk Committee
10.00 a.m. on Tuesday 26 January 2021
By remote access using Microsoft Teams

Present

Hilary Newiss in the Chair
Harris Bokhari
Professor Yadvinder Malhi
Robert Noel
Colin Hudson (co-opted member)

In Attendance

Lord Green of Hurstpierpoint (Chair of Trustees)
Dr Douglas Gurr (Museum Director)
Neil Greenwood (Executive Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance)
Alex Clark (Director, DCMS Financial Audit NAO)
Kate Medland (Audit Principle, National Audit Office)
Anjali Kothari (Partner, Moore Kingston Smith)

ACTION

The Audit and Risk Committee Chair welcomed Harris Bokhari and Professor Yadvinder Malhi to their first meeting.

1 APOLOGIES FOR ABSENCE

- 1.1 Beth Parry sent her apologies. The Museum Director had decided it was not necessary for Beth Parry to attend meetings of the Audit and Risk Committee.

**2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS
(PAPER TAC 1/2021)**

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

ACTION

3 MINUTES OF THE MEETING HELD ON THURSDAY 5 NOVEMBER 2020 (PAPER TAC 2/2021)

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

4. MATTERS ARISING FROM THE MINUTES 5 NOVEMBER 2020 (PAPER TAC 3/2021)

- 4.1 Members reviewed the matters arising and closed completed items.

5. AUDIT AND RISK COMMITTEE TERMS OF REFERENCE, ANNUAL CYCLE OF INFORMATION AND AUDIT AND RISK CHARTER AND STRATEGY (PAPER TAC 4/2021)

- 5.1 The Head of Risk and Assurance presented her paper. Members approved the proposed changes to their Terms of Reference and endorsed the Annual Cycle of Information and the Audit and Risk Charter and Strategy.

6. MUSEUM DIRECTOR'S REPORT (PAPER TAC 5/2021)

- 6.1 The Museum Director presented his paper

6.2 Emerging Risks 2021/22

- 6.3 The Museum Director set out the existing and emerging areas where the Committee would most benefit from focusing attention.

- 6.4 Action to Recover Visitor Numbers - The vast majority of the Museum's costs were fixed and each incremental visitor generated a positive marginal contribution. Once re-opening was permitted and social distancing measures were relaxed action was needed to recover visitor numbers. Directors were confident that NHM had adequate measures in place to ensure current government social distancing requirements were followed and the feedback from visitors was positive. Capacity was capped at five thousand visitors per day, visitors booked a timed ticket, galleries were closed where social distancing cannot be maintained, exhibition capacity reduced and there was increased deep cleaning. Five thousand visitors a day was above the numbers set out in the Museum's financial planning scenarios. If social distancing continued the challenge will be converting visitors to spending customers. A particular challenge was maximising the number of visitors to commercial exhibitions e.g. Fantastic Beasts.

- 6.5 Reckless Prudence - The Director urged the Committee to be live to the risks of "reckless prudence" where the Museum might feel good about multiple individual near term decisions but risked failing to deliver at the appropriate pace over the longer term. The Museum needed to take a long-term view in relation to the quality of the public offer, aging permanent galleries, permanent galleries used for collections storage e.g. the general herbarium and the quality of the temporary exhibition programme. The observation also applied to scientific reputation, state of the art science and scientific priorities. The Audit and Risk Committee Chair and members supported the view that in certain areas there needed to be a higher risk appetite and sense of urgency.

- 6.6 Complex External Expectations - Some topics required close monitoring and high judgement before the Museum made its views and decisions public. A set of final principles in relation to the Naming and Representation review will be going to the February 2021 Board of Trustees for approval and then to the Department for Digital, Culture, Media and Sport (DCMS). The Museum needs to ensure it is not misrepresented in the media.

ACTION

- 6.7 **Major Risks 2020/21**
- DG** 6.8 The Committee reviewed the major risks for 2020/21. The Museum Director said his future reports will draw the Committee's attention to any significant issues across the Museum.
- DG/NG/JD** 6.9 The Museum Director, Executive Director of Finance and Corporate Services and Head of Risk and Assurance will meet to discuss the presentation of major risks with a view to reducing the detail and ensuring the Board Assurance templates were used as tools/living documents. Members had previously expressed concern that the templates were produced largely for the benefit of trustees.
- 7. EXECUTIVE DIRECTOR OF FINANCE & CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL - DECEMBER 2020 (PAPER TAC 6/2021)**
- 7.1 The Executive Director of Finance and Corporate Services presented his paper. The paper reflected the first 9 months of 2020/21 and assumed the Museum will be closed to the public until 31 March 2021.
- 7.2 Self-Generated Operating Income - The forecast outturn for self-generated operating income showed a decrease of c.£17.4m.
- 7.3 Operating Expenditure Savings - Expenditure savings arose from a recruitment freeze, reduced utilities costs, reduced facilities management and business rate relief.
- 7.4 General Fund - The forecast General Fund amounted to £7.7m. The forecast did not include the redundancy programme announced to staff. Where possible, NHM were looking at alternative options to minimise compulsory redundancies including the option of using a voluntary exit scheme. Where this was not possible staff will be offered voluntary redundancy.
- 7.5 Designated Fund - A designated fund of £3.5m was forecast which included: (a) capital programme slippage and replanning; and (b) funds to underpin the Urban Nature Project which starts onsite at the end of the year. The fund-raising environment in the last year had been a challenge.
- 7.6 The Museum's General Reserve was low equating to c.2 months of operating expenditure. As a result, there had been discussions on increasing the General Reserve. However, as a public body receiving government funding it was not clear how a reserves policy is applied. Comparing the Museum's level of reserves with those of other museums and galleries was difficult due to the complexity of those bodies reserve figures. However, it appeared the Museum's General Reserve and Designated Reserve were low in comparison with other bodies.
- 7.7 Management Accounts - The Committee discussed the layout of the internal management accounts which can be set in any format the Museum chooses. The layout of the statutory accounts, however, was prescribed by Treasury and accounting standards. The operating surplus shown in the management accounts presented to the Committee did not reflect the true position. The Museum had made an operating loss due to the decreased net self-generated operating income of c.£17.4m. The loss was before the decrease was offset by additional government grant in aid £10.1m, the coronavirus job retention scheme income c.£2.8m and NHM non-recurring cost savings generated during the Museum closure.
- NG** 7.8 The Museum Director agreed the format of the management accounts would be changed from January 2021 to show an operating loss followed by an operating surplus after additional government support. The management accounts are seen by DCMS and will inform decision making. It was also observed the narrative in the statutory accounts which was not prescribed needed to strongly demonstrate that many of the Museum's cost savings were non-recurring.

ACTION

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| NG | 7.9 | <u>Reserves Policy</u> - Executive Director of Finance and Corporate Services will bring a paper on Reserves Policy to the April 2021 Audit and Risk Committee as part of the statutory accounts update. |
| | 8. | NAO PLANNING REPORT 2020/2021 (PAPER TAC 7/2021) |
| | 8.1 | The Director, DCMS Financial Audit NAO presented the audit planning 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. |
| AC | 8.3 | <u>Statutory Accounts Disclosures</u> - It was noted Treasury issued a Public Expenditure System (PES) paper (PES (2021) 01) which set out expectations for disclosures on Covid and Brexit. The Director, DCMS Financial Audit NAO will contact DCMS to see if guidance can be produced for the museums and galleries sector on how this should be applied. |
| HN | 8.4 | The Audit and Risk Committee Chair will raise the issue with the DCMS Chairs group. |
| NG/DG | 8.5 | <u>Accounting Disclosures</u> - As part of the update on accounting issues draft narrative disclosures will be brought to the April 2021 Audit and Risk Committee for approval on: (a) Going Concern; and (b) the impact of Covid-19 and Brexit. It was agreed pending further directions from government on accounts presentation the Museum will work on the assumption the narrative in the financial statements must be comprehensive and nuanced. |
| | 8.6 | <u>Going Concern Scenario Forecasts</u> - A member observed the NHM, and the external auditors should not spend significant time on scenario forecasts which will all be dependent on government funding. The Director, DCMS Financial Audit NAO confirmed the NAO will take a light touch pragmatic approach. It was pointed out government funding will be announced in the March 2021 budget reducing the need for extensive scenario forecasts for 2021/22 although they may be required for 2022/23. |
| | 8.7 | NAO Response to the Significant Risks |
| | 8.8 | <u>Valuation of Land and Buildings</u> - In accordance with Treasury Guidance the Museum's land and buildings were valued in the balance sheet on a depreciated replacement cost basis. The sale value of South Kensington and Tring, however, was much lower than depreciated replacement cost due to the expense of bringing the buildings into use and planning restrictions. The exception was Wandsworth where the value will be more and this must not be overlooked when negotiating a sale of Wandsworth. |
| | 8.9 | <u>Fraud in Revenue Recognition</u> - Fraud in revenue recognition was a presumed risk under the International Standards on Auditing (ISA). It was only a rebuttable risk where there was little chance of manipulation. Members agreed it was a standard prescribed risk which appeared in the planning documents of all revenue generating bodies. |
| | 8.10 | <u>Furlough Scheme</u> - The NAO had assessed the Museum's use of the Government's Coronavirus Job Retention Scheme as material based on a forecast of £2.4m. However, the Museum Director observed this did not fully reconcile with the NAO assessment of a materiality threshold for the Museum of £1.5m. |
| | 8.11 | The Director, DCMS Financial Audit NAO responded the NAO will take a nuanced approach to fraud in revenue recognition and their work on the furlough scheme will be proportionate to the value. |

ACTION

8.12 NAO Fees and Investigations

- 8.13 Fees - The increase in the audit fee agreed with the Museum as part of a three-year increase in January 2019 was approved. However, any further rise due to increased work on significant risks (e.g. the furlough scheme) would not be looked on favourably by the Museum.
- 8.14 The Museum Director thanked the Director, DCMS Financial Audit NAO for the clear planning report.
- 8.15 Investigations - The NAO were undertaking two investigations due to be published mid-March 2021: (a) Investigation into the Culture Recovery Fund - the report will set out DCMS's objectives for the fund and its work distributing the funding; and (b) Investigation into government funding of charities.

9. MOORE KINGSTON SMITH PRE-AUDIT LETTER 2020/2021 (PAPER TAC 8/2021)

- 9.1 The Partner Moore Kingston Smith presented the pre-audit letter.
- 9.2 Going Concern - The current forecast for the Trading Company was a likely operating loss. To assess going concern Moore Kingston Smith will look to see what level of documented support will be provided by the Museum as the parent holding company. Accounting guidance allowed for the Museum to provide short term support to the Trading Company in exceptional times.
- 9.3 Stock - In the absence of a stock take the auditors will consider alternative procedures such as a sample of stock transactions reconciled from the last stock take back to the year-end listing using sales and purchase information.
- 9.4 Remote Auditing - In 2019/20 the Museum Finance Team did remarkably well in a short period of time in facilitating remote auditing by Moore Kingston Smith. Moore Kingston Smith will also perform remote auditing in 2020/21. The key assessment for Moore Kingston Smith was to understand if anything had changed significantly since 2019/20.
- 9.5 NHM Recharge Costs - A difficult judgement was required by the Museum on the level of recharge costs from NHM to the Trading Company as it will impact the Trading Company operating loss/profit. The Museum would be interested to understand from the NAO the approaches of other museum and galleries. The Audit and Risk Committee Chair will raise the issue with the DCMS Chairs group.
- 9.6 Fees - The audit fee had been kept at the same level as 2019/20. Fees were based on the anticipated time spent and will be reduced if the time is less. The Committee approved the fees.
- 9.7 Trading Company - Directors and Officers Liability Insurance - In the event that the Trading Company was considered insolvent the Museum had directors' and officers' liability Insurance.
- 9.8 Trading Company Directors - The legal requirement was to have two to six Trading Company directors. It was agreed that the Museum would seek to appoint two additional Directors (the Museum Director and one additional Trustee) bringing the total to four.

10. HEAD OF RISK & ASSURANCE PROGRESS REPORT (PAPER TAC 9/2021)

- 10.1 The Head of Risk & Assurance presented her paper and her report Occupational Health and Safety (OH&S) Management System ISO 45001:2018 - Documented Information.

AC
HN

NG

ACTION

- 10.2 Internal Audits 2020/21 - There were no ongoing internal audits raising significant concerns and all the priority audits should be completed by the end of the year.
- 10.3 Status of Recommendations -The Committee were content with progress on audit recommendations.
- 10.4 Update on the Government Functional Standard Counter Fraud GovS 013 - In response to the Museum' self-assessment s against GovS 013 submitted on 19 August 2019 the Head of Risk and Assurance had received a DCMS report on Monday 25 January 2021 following a meeting with the DCMS Counter Fraud Lead. The Museum achieved 90% compliance with GovS 013. DCMS consider this to be excellent for an organisation that had carried out the assessment for the first time. The Museum was required to reach a fully compliant score of 100%. Revised evidence and documentation will be submitted in March 2021 as requested by DCMS.

NG/JD

- 10.5 The Executive Director of Finance and Corporate Services (Accountable Individual at Board Level) and Head of Risk and Assurance (Senior Lead) will discuss how NHM can achieve a 100% compliance and report back to the Audit and Risk Committee.
- 10.6 Occupational Health and Safety (OH&S) Management System ISO 45001:2018 - Documented Information - The Museum was awarded an OHSAS 18001 three-year accreditation certificate in May 2019 and was in the process of transitioning to the new ISO (International Organisation for Standardisation) 45001:2018 standard by September 2021. The review was undertaken at the request of Health and Safety Manager. The recent external audit by BSI indicated the Museum was well placed to achieve 45001 accreditation by September 2021.

11. DEPARTMENT FOR DIGITAL, CULTURE, MEDIA AND SPORT (DCMS) GOVERNANCE REFRESH, CHAIRS QUESTIONS (PAPER TAC 10/2021)

- 11.1 Members reviewed the DCMS questions for Audit and Risk Committee Chairs. Members were content they had clarity and there were no barriers to providing the necessary assurance.
- 11.2 Chair Appraisals - The Chair of the Board of Trustees had been approached by DCMS to arrange his appraisal. The Chair had requested the appraisal take place after the May 2021 Board of Trustees. The new Museum Director will have been in post 6 months. It was likely that the Director, Arts, Heritage and Tourism will carry out the appraisal.
- 11.3 Members and the Chair of the Board supported the drive for increased accountability in the public sector. It was noted, however, although the Museum Director was accountable to Parliament through the DCMS Permanent Secretary for safeguarding public funds a significant proportion of the Museum's income was self-generated. In addition, the Museum had an experienced and accountable Board with independent trustees established in statute.

12. AUDIT AND RISK COMMITTEE EFFECTIVENESS - SELF-ASSESSMENT (PAPER TAC 11/2021)

- 12.1 The Audit and Risk Committee pre-meeting attended by members, the Chair of the Board and Head of Risk and Assurance reviewed the National Audit Office (NAO) Audit and Risk Assurance Committee Effectiveness Checklist. In view of the DCMS Governance Refresh and to provide assurance to DCMS over the Committee's effectiveness additional information will be added to the checklist presented to the Committee. Members were of the view they were operating effectively. However, the operation of the Committee and its range of skills will be kept under review in the light of any changes to the Museum's financial planning and the risk register.

JD

HN

ACTION

12.2 The Director, DCMS Financial Audit NAO said in his view the NHM Audit and Risk Committee was operating effectively. It will be interesting to see the outcome of the DCMS Governance Refresh in relation to DCMS engagement with NHM (with independent trustees unlike other DCMS arms-length bodies) and the Audit and Risk Committee. It was noted DCMS may not have the resources to attend all arms-length bodies Audit and Risk Committees.

AK

12.3 Charity Governance Code – The Charity Governance Code had been updated. The Code aimed to help charities develop high standards of governance. The Code was not a legal requirement, however, recommended best practice was the board regularly publishes information on equality, diversity and inclusion and the board's composition. To do this organisations need measurement tools. The Museum Director asked if Moore Kingston Smith could direct NHM to best practice in other bodies.

13. FUTURE AGENDA ITEMS

DG

13.1 The Museum Director's next report will include a presentation on emerging risks and other risks where he had particular concerns.

14. ANY OTHER BUSINESS

14.1 There was no other business

15. DATE OF THE NEXT MEETING

15.1 The next meeting will be held at 10.00 a.m. on Thursday 29 April 2021.

KEY TO ACTION INITIALS

Alex Clark - AC

Jan Day - JD

Douglas Gurr - DG

Neil Greenwood - NG

Anjali Kothari - AK

Hilary Newiss - HN