

**THE NATURAL HISTORY MUSEUM
TRUSTEES' AUDIT AND RISK COMMITTEE
TAC 02/2023**

97th meeting of the Natural History Museum's Audit and Risk Committee
10.00 a.m. on Thursday 27 October 2022

Present

Hilary Newiss (Chair)
Professor Sir Stephen Sparks FRS
Harris Bokhari OBE
Colin Hudson – independent member
Luke Fairless – independent member

In Attendance

Lord Stephen Green (Chair of Trustees)
Dr Doug Gurr (Museum Director)
Neil Greenwood (Executive Director of Finance and Corporate Services)
Kevin Coughlan (Risk & Assurance Manager)
Alex Macnab (Director, DCMS Financial Audit, NAO)

Action

1 Apologies for absence

- 1.1 Apologies were received from Sebastian Groth, Audit Manager, NAO and David Fox (observer), Head DCMS Finance Business Partners

2 Declarations of interest and Register of Interests

- 2.1 There were no new declarations made.

3 Minutes of the meeting held on Thursday 23rd June 2022

- 3.1 Members approved the minutes subject to one minor change.

4. Matters Arising from the minutes

- 4.1 Members reviewed the matters arising and closed one completed item around fraud training.
- 4.2 the Committee are reviewing the revised risk management policy and priority 3 recommendations later in the meeting
- 4.3 A paper will be presented to the Board on technology improvements, which will identify areas for possible efficiencies and investment.
- 4.4 Electricity usage given as part of the sustainability report will be clarified for the 2022–23

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5. Museum Director's Report and Key Strategic Risks 2022/23 Q2

- 5.1 The Director presented risk register as at the end of July 2022, after the Quarter 1 (Q1) happened. No material changes are expected because of the Q2 review next week. The early autumn statement from the Chancellor in mid-November may possibly have in relation to capital expenditure or government funding.
- 5.2 There is a risk around energy prices and security of supply. The team have accordingly reviewed and refreshed the existing contingency plans and backup supply arrangements.
- 5.3 The new culture minister has now yet visited the Museum, though they have been to some others. Outside of DCMS the Museum will continue to work closely with other government departments, such as BEIS and Defra to help achieve its strategy.
- 5.4 Recruitment risk has been downgraded to green due to a well-received pay award, and roles filled in philanthropy team. More progress is still needed in respect of tech roles however and this risk may increase again in the Q2 review.

6. Executive Director of Finance & Corporate Services' Financial Review April - September 2022

- 6.1 The Executive Director of Finance & Corporate Services presented the financial position to end of September, halfway through year. The paper reflects reforecast particularly on income side due to a significant improvement on previous forecast at end of Q1, driven by visitor related income and from a strong performance from venue hire. Visitor numbers have already exceeded the original annual budget of 2.9m, with the revised forecast now 4.9m
- 6.2 The operating surplus year to date and the increase in the forecast outturn has also benefited from a significant 'vacancy factor' – budgeted roles unfilled – which reflects difficulties in recruiting and increasing turnover in a number of areas. There is now a plan in place for technology recruitment, but the more senior roles remain difficult to fill.
- 6.3 Major financial risks include inflation impacts, which will hit next year on operating costs. This is impacting on construction costs and will hit energy prices when the current forward agreements expire at the end of the financial year.
- 6.4 The Museum is scheduled to receive £3.1m Covid support for this year, subject to 'continuing assessment of need'. There is no longer a direct covid impact on staff in terms of operations. More general challenges around the employment market are giving a greater impact than covid. Covid is only about 10% of the total sickness absence.
- 6.5 The Committee were interested in feedback about membership and whether the decline in membership is due to a lack of a paid exhibition? NG explained there was a definite correlation but expanded capacity on Wildlife Photographer of the Year, means this sells out later in the day. There is a trade-off between selling memberships when entry is at capacity or tickets on the day.
- 6.6 The most successful membership schemes have a business model driven by having continuous temporary exhibitions (Tate, for example) which would not suit NHM. The

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idea that Membership can be viewed as gateway to patronage is backed up by little evidence. The reporting line for the team has now been moved to Visitor Experience where it can be better joined up with event planning and catering. The Museum is also looking at a digital membership product, with the first iteration to be launched shortly.

- 6.7 SS enquired about benefits of having a museums pass, as is common in some European countries. DG explained the challenges of this, such as technology and GDPR and was therefore cautious about the cost vs benefit trade off. As the six largest museums are free it would focus on temporary exhibitions. There may be potential where there is overlap and this would have to be carefully investigated.

7. Management Response & Update to Moore Kingston Smith and NAO Recommendations 2021/22

- 7.1 The Executive Director of Finance and Corporate Services presented an overview of the response to the external audit recommendations, of which there were two from the National Audit Office and one from Moore Kingston Smith. The external auditors will pick their management letter points up at their interim audits in February 2023.

8. NAO Audit Planning

- 8.1 The NAO gave a verbal update on audit planning for FY 22/23. ISA315 introduced a new approach to risk assessment which impacts all UK audits and they need time additional time to go through this and understand its impact. Should be more focus on planning, procedures/ controls. The risks may be similar to previous years, but more nuanced for this year. The NAO will present their full planning report at the next meeting.

9. Risk and Assurance – Q2 Progress Report

- 9.1 KC gave an update on his work to date and progress in organising additional external reviews. Two audit reports are presented for discussion along with an analysis of outstanding recommendations.
- 9.2 KC gave an update on progress against the counter fraud functional standard (GovS 015), noting that despite presenting additional evidence to DCMS, the score was reduced from 90% to 80% with a lack of any feedback or comments on the additional information provided.
- 9.3 Some recent actions had resolved the outstanding points and KC planned to respond to DCMS shortly. These actions included signing the Memorandum of Understanding with the Government Internal Audit Agency to allow NHM access to specialist fraud reviewers, and Finance now having uploaded the latest gifts & hospitality returns to the internet.
- 9.4 SG emphasised the fact the Museum is starting major construction programmes, so the Museum needs to have good counter fraud assurance in place. NG noted this but mentioned that classic frauds are often around small works, so good assurance is needed over these. There is a procurement/ supply chain audit scheduled for January 2023 and it will have an emphasis on where there may be most potential for fraud.

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- 9.5 The Committee considered the analysis of outstanding recommendations KC presented, prioritising the most important outstanding for follow up. KC had kept some open not because they were major but because he had been told they were expected to be sorted imminently. However, the Committee felt it was better to only focus on key recommendations; all open ones will be reviewed again with a 'minimalist eye'.
- 9.7 KC finally presented recent internal audit reports. The first of these was on Collections Security. One member asked if there had been any recent thefts from the collections. KC said he was not aware of any, but there is also a delay in reporting losses from the collections.
- 9.8 HN expressed the view that many current protests want to make a point relating collections to current issues, rather than seeking to damage them explicitly. The Director explained Museum has a clear response / procedure. We are comfortable that we are doing everything we can, but whether this is enough is open. XR are very organised and rehearsed. Whilst intelligence exists, it will never be perfect.
- 9.9 The Committee also took interest in the note related to collections keys/ access for back of house and storage areas. KC explained there was an ongoing review involving the Head of Registry and Heads of Collections. This aimed to review and standardise access and will be influenced by the new visitor access system / procedures. KC will request that the Head of Registry provides a brief overview of the findings as part of annual collections assurance in May 2023, in response to interest from the Committee.
- 9.10 The second report presented corporate governance review, addressing oversight of policies, including communication and ownership. The future intention is to sweep through all policies on a bi-annual basis. There is some 'tidying up' to do and making the policy process clearly structured and managing it on an overall level.
- 9.11 There is no set process for deciding which policies need to be reviewed by the Committee or Board of Trustees and this has often been ad-hoc in the past. The Committee agreed they should be the arbiter of what goes to Board but need to be equipped to make the judgement.
- DG
SG 9.12 The Committee agreed a framework was needed, as without this they will either see nothing or see too much. **Action** - DG / SG will discuss which Museum policies should be reviewed by the ARC and what their function will be – whether they will act as filter / initial discussion before a policy is presented to the Board or act as a delegated approval on their behalf.

Action

10. Risk Management Policy

- 10.1 KC presented the revised risk management policy to the Committee. The policy is meant to help staff and managers with their responsibilities around risk management and how to think about / treat risks in their area.
- 10.2 The Committee discussed risk categorisation and criteria, with a view that too many risks currently get rated as red. Red should only be for the most serious ones and needs to be more based on judgement, with quantitative scores helping give guidance.
- 10.3 The Committee passed on other feedback on the policy, which will be integrated into the redraft.

11. Cyber Risk

- 11.1 NG introduced the paper on cyber risk. Previous annual assurance reports focussed heavily on input and activity rather than risk. The Information Security Manager is now working on a new approach which introduces descriptions of controls to better articulate what we have in place and how this aligns better in practice.
- 11.2 The Technology Services team are currently planning a desktop exercise for a ransomware attack response and working with Risk & Assurance on conducting a penetration test in early 2023. Meetings with the Cyber GSec team in government have also been scheduled to understand what they can offer on gap analysis and self-testing.

12 Future agenda items and other matters

- 12.1 The next meeting will be held at 10.00 a.m. on 8 February 2023.
- 12.2 HN suggested having a deep dive into project management at the next meeting as UNP, HNM Unlocked represent major financial and reputational risks. Current assurance is received via Infrastructure Committee but there is no direct visibility to the Committee, who may want to do own diligence. The Infrastructure Committee was set up because of the importance of these projects and the need for ongoing assurance. The Audit & Risk Committee agreed to look at the structure of assurance arrangements rather than the content for now and have a conversation between the Chairs of the two committees, to gain 'meta-assurance' going forwards.
- 12.3 Finally, the Committee noted this was Hilary Newiss' last meeting as both Chair and member and also Stephen Sparks' last meeting before both step down as Trustees. The Committee thanked them both for their work.
- 12.4 Harris Bokhari takes over as Chair for the February meeting. HN commented that she felt there was no better way to understand the institution from a Board perspective than to be a member of the Audit & Risk Committee.

Key to action initials

Doug Gurr

DG

Neil Greenwood

NG

Stephen Green

SG