

TRUSTEES' AUDIT AND RISK COMMITTEE

99th meeting of the Natural History Museum Audit and Risk Committee
14:00 on Wednesday 01 February 2023

Present

Harris Bokhari (Chair)
Colin Hudson – independent member
Luke Fairless – independent member

In Attendance

Lord Stephen Green (Chair of Trustees)
Sir Patrick Vallance (Incoming Chair of Trustees)
Dr Doug Gurr (Museum Director)
Neil Greenwood (Executive Director of Finance and Corporate Services)
Kevin Coughlan (Internal Audit Manager)
Alex Macnab (Director, DCMS Financial Audit NAO)
Shannon Holmes (Audit Manager, DCMS Financial Audit, NAO)
Anjali Kothari (Partner, Moore Kingston Smith)
Ed Haslam (DCMS Finance)

Action

Harris Bokhari, the new Chair of the Audit & Risk Committee opened the meeting, by welcoming new attendees, including the incoming Chair of Trustees, Sir Patrick Vallance.

The Chair acknowledged his predecessor Hilary Newiss's contribution and all the work she had put into the Committee.

1 Apologies for Absence

- 1.1 No apologies were received. Due to the recent terms of two trustees finishing in January 2023 and significant delays in the Government's public appointments process, the Committee is inquorate for this meeting. Any decisions or approvals required will be taken to the Board of Trustees in February 2023 for their sign off. Professor Jane Francis will join the Committee from May, which will restore the quorum but there will be a vacancy on the committee until the other new trustees are appointed.

2 Declarations of interest and Register of Interests

- 2.1 There were no new declarations made

3 Minutes of the meeting held on Thursday 27 October 2022

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

4. Matters Arising from the Minutes

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

Action

- 4.2 Several issues, such as the Risk Management Policy, Investment Policy and Benevolent Fund will be addressed with specific papers later in the meeting.
- 5. Audit and Risk Committee Terms of Reference, Annual Cycle of Information and Audit and Risk Charter and Strategy**
- 5.1 The Internal Audit Manager introduced the documents. The Terms of Reference and Charter and Strategy had only minor changes. The Annual Cycle of Information had slight updates, to reflect changed operating processes.
- HB
NG 5.2 The Committee approved all documents. CH noted that the Terms state that the Committee have an external assessment every five years. Since the last one happened in 2016, another one is overdue. **ACTION** – HB, NG to discuss organising a new review.
- 5.3 To help the Committee gain sufficient assurance over infrastructure risks, the Chair of the Audit & Risk Committee will have quarterly meetings with the Chair of the Infrastructure Committee.
- 6. Museum Director's Report and Key Strategic Risks Q3**
- 6.1 The Director highlighted the significant increase arising from inflation (covering several areas), energy price rises and the rise in business rates. This will have a significant impact on the operating budget for 23-24 and beyond, and which will be presented at the Trustees meeting on 21 February 2023. As an example, Estates operational costs will increase from c£13m to c£18m for 2023-24.
- 6.2 Recruitment and retention remain a risk, however recent actions have helped to alleviate the pressures with the Technology Services department and with project managers. Turnover however remains high in some areas (e.g. Development in excess of 20%) Part of this is building on potential of applicants who might not meet all the criteria. Currently this is manageable if it is monitored to ensure it doesn't start to increase again.
- 7. Risk Universe**
- 7.1 The Chair introduced the Risk Universe (RU), which identifies what the risks are across the Museum and maps them to internal audit coverage and wider assurance.
- 7.2 The RU will factor into the risks that will be actively managed throughout the year. This is a 'bottom up' exercise that doesn't necessarily flag up all the most important risks, for example the Urban Nature Project, so it is useful to do a 'top down' exercise as well.
- 7.3 One Committee member thought for typical usage, a reader would focus on the RED 25 risks, which some don't have independent checks against. For some of these, independent checks would be impractical, so the Museum needs to rely on management assurance.
- 7.4 Whilst The RU is more structured and user friendly than it previously has been, care is needed to ensure it does not become a time-consuming exercise or becomes over cluttered.
- 7.5 The external auditors asked a question on fraud detection and gave an example from one of their other clients. They stressed the need to look out for 'clever' frauds. Cost of living pressures might help people rationalise actions such as fraud or theft more. For example, taking from petty cash.
- KC
NG 7.6 DCMS expect to be notified of major frauds, but nothing of note has been raised with them across all their Arm's Length Bodies. However, all places need to challenge themselves on this and ensure they are doing sufficient work to both prevent and detect fraud.

Action

ACTION – KC, NG to pick up where fraud is the most likely and demonstrate how both prevention and detection are managed.

8. Draft Audit Plan 2023-24

- 8.1 The Internal Audit Manager presented the first draft of the audit plan for 2023-24. Members asked for clarifications about resourcing and timing. The draft plan drawn up was meant to include work for 2023-24 and 2024-25, with the second year also intended to act as a reserve list.
- 8.2 Resources will be matched to the plan once it has been seen by the Management Board, so they have the chance to raise any questions or concerns on scheduled audit work for their areas.
- 8.3 The intention is to get further to support from the Government Internal Audit Agency who are being trialled this year for audits on key financial controls and contract management. The GIAA should be able to provide cross-government insights and specific audit experience (e.g., Construction fraud).
- 8.4 AK mentioned she is used to seeing 5-year audit plans. As the Museum has only done 1-year plans previously, the Internal Audit Manager preferred to build this into a 2-year plan for now and assess how well this works.

9. Executive Director of Finance and Corporate Services' Financial Review April - December 2022

- 9.1 The Executive Director of Finance and Corporate Services presented the financial position to the end of December 2023 (Q3). The forecast outturn for the operating surplus and the General Reserve has both increased since the Q2 forecast and remain significantly ahead of the Original Budget. This has been driven primarily by visitor related income (forecast visitors now 5m; Original Budget 2.9m), a strong performance from venue hire, with the team having their busiest November ever and a high vacancy factor, saving money in the short term.
- 9.2 On capital expenditure, there have been some supply problems, with construction inflation and slippage, leading to increases in planned expenditure. Other large financial risks relate to variations, where extra work may be required. As an example, during the pile digging for 2 new buildings as part of the UNP, whilst no conservation issues arose, many unrecorded pipes were discovered, increasing costs.
- 9.3 Both the Urban Nature Project (UNP) construction contract, which runs until January 2024 and the contract for the new collections database (RECODE) lasting for two years, are now let and represent significant commitments. The Museum aims to mitigate against issues with supplier resilience through the initial due diligence when appointing a contractor.

10. NAO Audit Planning Report 2022/2023 – outline

- 10.1 The NAO Director highlighted two new areas of focus - the Introduction of the International Standard on Auditing (ISA) 315, covering assessment the risk of material misstatement including income recognition and accounting judgements, and fraud. The Committee also noted the change in approach to how materiality is calculated.
- 10.2 Significant accounting judgements include donations and grants where there is judgement over the recognition point and for the valuation of land and buildings.
- 10.3 The Committee questioned the NAO on the valuation of land and buildings, as from the Museum's perspective this has no practical benefit and requires money and time resources.

Action

It is also potentially misleading as the valuation and any movement feeds straight through to reserves and the balance sheet and therefore distorts the available reserves position. The Committee noted that this is an Accounting Standards Board requirement, but this does not address the concern.

DCMS
NAO

- 10.4 **ACTION** – DCMS and NAO will relay concerns to various fora - internally at DCMS, Treasury and the Accounting Standards Board.

11. Investment Policy

- 11.1 The Director of Finance and Corporate Services presented a revised investment policy. The changes to policy allowed an increase in the total to be held with one institution and the Museum's bank. The investment strategy will be for a regular flow monthly maturing deposits. An updated signatory list to cover changes in trustees and staff was also presented.
- 11.2 The Committee recommended the policy and revised signatory list to be presented to the Board of Trustees for full approval.

12. Benevolent Fund

- 12.1 The Director of Finance and Corporate Services presented a paper which aimed to resolve the issue of whether the Benevolent Fund should continue to be operated as a separate entity.
- 12.2 The Benevolent Fund serves a defined purpose, which is to help staff who may be in severe financial difficulty by way of loans or non-repayable grants. This is distinct from the Museum's charitable purpose and as such Charity Commission approval would likely be required (and likely not forthcoming) to consolidate within the Museum even as a restricted fund. Therefore, the Committee agreed to keep the Benevolent Fund as a separate entity.

NG

- 12.3 Whilst the fund is not widely used, it needs to be available for emergency situations and has helped staff in the past. HR are aware of the fund when considering cases of hardship, however NG agreed he would reflag this to the HR Director.

13. Moore Kingston Smith pre-audit letter for the year ended 31st March 2023

- 13.1 The MKS partner also highlighted the impact of ISA 315 and consideration of the highest risk areas. These are still judged to be management override and revenue recognition, the same as previous years.
- 13.2 MKS were queried on their level of fee increase and asked to reconsider and resubmit. This will be submitted to the Board of Trustees for approval.

14. Risk & Assurance Progress Report

- 14.1 The Committee were updated on the progress of the audit plan in the year to date and an overview of related work, including an assessment of work that should be completed by the end of the year. Work to close outstanding audit recommendations was ongoing and the aim was to complete this for the May Committee.
- 14.2 Several large non-audit priorities included revising the Risk Management Policy and working with the Learning & Development team to develop a new fraud training course, to tie in with a new learning management platform.
- 14.3 One member asked for the progress report to be clarified slightly to make it easier to see if at year end, the audit plan had been completed or not.

Action

- 14.4 The Director asked if for future meetings, the Committee may want to get a broader H&S update and if the annual H&S report sufficient? There are significant H&S risks, for example with the handling of hazardous materials, lab work, onsite construction, remote fieldwork, though there are good management processes and mitigations in place for these risks. This will be picked up in the Annual Health and Safety report which is presented to the Committee in May.

15. Revised Risk Management Policy

- 15.1 KC presented the revised risk management policy to the Committee. Changes around risk scoring had been discussed at the last Committee meeting and KC had now redrafted the responsibilities section for clarification. Management Board is the key operational board for the Museum and includes all of the Executive Board. As this board is responsible for core risk management, it is where the accountability is focussed.
- 15.2 Committee members were interested about how the risk appetite statement worked in practice. NG agreed it is not straightforward and may be too simplistic to define as a low / med/ high risk. In practice decisions are made on case-by-case basis in a variety of management and approval for and decision-making processes. The Director gave a practical example of how thinking through risk appetite helped with the work on revising the brand position.

16 Audit and Risk Committee Effectiveness - self assessment

- 16.1 Members approved the updated self-assessment review, which had been updated by members individually prior to the Committee.

17. Risk presentation on the response to protests

- 17.1 The Deputy Head of Security and Head of Communications presented their paper on the response to protest activity. The Committee noted that the presentation was thorough and educational and demonstrated a high level of preparedness.

18. Future Agenda Items and AOB

- 18.1 The Chair would like to focus future 'deep dive' risk presentations on the key strategic risks to help the Committee gain a better understanding of them. The Chair invited members to e-mail him with suggestions for future risk presentations.
- 18.2 The Committee will request a 'deep dive' into cyber risk in a future meeting. LF requested that in a deep dive for cyber risk we consider business continuity and outlined several scenarios he would like addressed as part of it.
- 18.3 This was Stephen Green's last Committee meeting, as his term chairing the Board of Trustees finishes in March 2023. Whilst not a Committee member, he has been a regular attendee and feels attendance is one of the best ways to understand what is happening in the organisation. The Committee are grateful for his time and knowledge.
- 18.4 The next meeting will be held on 03 May 2023

KEY TO ACTION INITIALS

Harris Bokhari	HB	Doug Gurr	DG	Neil Greenwood	NG
Colin Hudson	CH	Luke Fairless	LF	Kevin Coughlan	KC