

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

85th Meeting on Tuesday 25 June 2019

Present

Hilary Newiss in the Chair
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)
Alex Clark (Director, DCMS Financial Audit NAO)
Jamie Patterson (Audit Manager, National Audit Office)
Anjali Kothari (Partner, Kingston Smith)

Anjali Kothari (Partner, Kingston Smith) was in attendance for item 6(d) which was heard at the start of the meeting.
Katherine Montague (Interim Head of Human Resources) was in attendance for item 11.
Ian Golding (Interim Chief Information Officer) was in attendance for item 13.

ACTION

CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS

1. APOLOGIES FOR ABSENCE

1.1 There were none.

2. DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS (PAPER TAC 25/2019)

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

3. MINUTES OF THE MEETING HELD ON WEDNESDAY 2 MAY 2019 (PAPER TAC 26/2019)

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

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 27/2019)

- 4.1 The General Data Protection Regulation (GDPR) - Action Plan - 29/01/19 para 6.23 and 02/05/19 para 4.2 - The new Data Protection Officer had joined the network of Museum Data Protection Officers. The Director of Finance and Corporate Services had asked her to take a standard GDPR framework forward with the other Museums if appropriate. The Data Protection Officer had complimented the Museum on its current level of preparedness for GDPR.
- 4.2 In House Lawyer - 29/01/19 para 16.3 and 02/05/19 para 5.12 - The job description was ready. A decision will be made on whether to advertise the post before or after the summer holidays.

5. DIRECTOR'S REPORT AND BOARD ASSURANCE FRAMEWORK Q1 2019/20 (PAPER TAC 28/2019)

- 5.1 The Museum Director presented his paper
- 5.2 Fraud - There had been two attempts to fraudulently divert funds following 'phishing' attacks. An action plan had been put in place which covered prevention, communication and training, technical improvements and a crisis management response. A data breach alert was posted on the intranet.
- 5.3 Appointments to the Board of Trustees - The role specifications for the two trustee vacancies had gone for Department for Digital, Culture, Media and Sport (DCMS) ministerial approval on 24 June 2019. It was hoped to appoint before the September Trustees' Strategy Day. The Museum Director had agreed with the DCMS Appointments Unit that they should approach identified individuals who would improve the Board's diversity.
- 5.4 Extinction Rebellion - Extinction Rebellion had demonstrated peacefully at the Museum as NHM had allowed its facilities to be booked commercially for a meeting of the Geological Society's Petroleum Group. It was observed that with the launch of the new Museum Strategy to 2031 the Executive Board must actively focus on its brand positioning across all activities. NHM needed to explain clearly to the public, members and staff why the Museum engaged with the extractive industry to identify long term solutions to mankind's sustainability. The Museum used education and evidence based research to change minds. It was noted that extractive industry sponsorship of the arts and cultural institutions was also under scrutiny.
- 5.5 Brand Consistency - Members observed that the Museum must develop a clear understanding of its positioning when taking specific actions e.g. holding a vegetarian Trustees Dinner. In addition, the Museum should ensure consistency between its brand and actions to avoid brand hypocrisy.
- 5.6 Perceptions Audit - The Museum had commissioned DJS Research Ltd to undertake research with peers, partners, stakeholders and members of the public who have not visited for some time, to explore what they understand about the Museum's role and work. The Museum aims to use this year's results as a baseline for measuring how perceptions of the Museum change and as a tool to track the success of the new Museum Strategy. The research results will be presented at the Trustees' Strategy Day.
- 5.7 Ethics - The Museum was proposing to introduce a new Ethics Policy, Ethical Principles and a Code of Ethics. The Museum's Ethical Principles were a set of overarching commitment statements that underpin the Museum's ethical position. The trustees will be asked at the Trustees' Strategy Day to test these principles against a set of potential ethical scenarios. This interesting and difficult exercise had been undertaken by the Executive Board at its spring planning conference. It was noted, however, ethical principles were not sufficient on their own to form a position on the new Museum Strategy.

ACTION

- 5.8 It was observed the world was changing fast and “millennials” had a very different view of the world to which organisations must adapt.

Major Risks 2019/20

KF/FM

- 5.9 F1 - Failure to create and communicate a distinctive and appealing brand identity, placing us at a competitive disadvantage and negatively impacting our ability to engage audiences and stakeholders and attract external funding. - Members agreed that in the light of the new Museum Strategy and reputational challenges in dealing with protest action by organisations such as Extinction Rebellion the current score and controls in place for this major risk needed to be re-examined.
- 5.10 G1 - Failure to provide appropriate storage and storage environment (onsite and offsite) undermines long term preservation, conservation, add new collections and accessibility of the NHM collections. - Meetings were planned with a 10 Downing Street special advisor and the Chief Executive of UK Research and Innovation (UKRI) to get support. In preparation for the Spending Review, the Collections Programme Board had recommended that we work with Harwell Science and Innovation Campus to develop a proposal for a new Science Research Centre. Executive Board endorsed this proposal and will put forward the recommendation for discussion and decision at the Trustees' Meeting on 2 July 2019.
- 5.11 The Museum expected to hear late July, after the appointment of a new Chancellor of the Exchequer, whether there will be some form of Spending Review this summer. A revised business case for the collections programme will be ready for a possible spending review or a capital bidding process in the autumn.
- 5.12 G3 - Failure to deliver large scale databasing and digitization of collection undermines curation, research competitiveness and importance of collection. - It was noted that although the digitalised collections were a world-wide resource the publication of the One World Collection paper had been delayed. This was due to US concerns about the message the paper sent concerning the fact that: (a) the majority of the world's collections were held by a small number of institutions in the developed world: whereas (b) the majority of biodiversity came from the global south (tropics). France and Germany also held similar views.
- 5.13 The developed world needed to put in place plans to address the disparity with the global south. Support could for instance be provided to the national museum of Rio de Janeiro which was burned down. Support could take the form of encouraging the Brazilian Government to provide capital to rebuild the museum, curatorial salvage assistance and help with digitising their collection. Digitised specimens could be used as surrogates for the destroyed Brazilian collection.

6. ANNUAL ACCOUNTS 2018/19 AND AUDIT COMPLETION REPORTS (PAPER TAC 29/2019)

- 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 was an informal review of the accounts by the Chair of the Board of Trustees and the co-opted member on 28 May 2019. Written comments were received from the Chair of the Audit and Risk Committee and other members. The Committee reviewed the Annual Report and Financial Statements, made recommendations to improve the clarity of the narrative and raised questions. The Annual Report and accounts were approved subject to the recommended amendments.

ACTION

6(b) Annual Report

- 6.3 General Reserve The General Reserve had increased and the Museum was in a healthier position than this time last year.
- 6.4 Fair, Balanced and Understandable - It was noted the Audit and Risk Committee were required to advise the Board of Trustees and Accounting Officer that the annual report and accounts were fair, balanced and understandable.
- 6.5 Capital Investment - Capital grant in aid plus the operating surplus from commercial activities was insufficient to adequately meet the challenges of an ageing estate and in particular to provide: (a) the level of investment required for maintaining and improving even the basic storage facilities and environmental conditions required to care for the Museum's collections; and (b) upgrade health and safety systems.
- 6.6 Senior Management Bonuses - The salary and bonuses of senior management were dependent on delivery and performance. These were recorded in the accounts on a cash basis and managers did not receive a bonus for their final year working in the Museum.

6(c) National Audit Office (NAO) Audit Completion Report (including Management Letter)

- 6.7 The NAO Director presented the NAO Report
- 6.8 Overall Conclusion - There had been a smooth audit process and the NAO anticipated recommending that the Comptroller and Auditor General certify the accounts with an unqualified audit opinion and without modification.
- 6.9 Status of the Audit - The NAO Audit Manager gave an update on the status of the audit and outstanding audit queries.
- 6.10 Significant Risks - The NAO were satisfied there were no indications of management override of control or fraud in revenue recognition particularly in relation to donations income.
- 6.11 Valuation of NHM's Premises - The NAO had received the final report from their property expert who confirmed: (a) the valuation was undertaken in accordance with the standards; (b) assumptions were appropriate; and (c) the valuation was correctly reflected in the financial statements. Accounting Standard's guidance allowed flexibility in the assumptions used and different assumptions produced a significant range of valuations.
- 6.12 Adjusted Misstatements - There was one misstatement which has been adjusted and with which the NAO agreed.
- 6.13 Recommendations - There were no specific recommendations made this year. The NAO had followed up on the recommendations made in the previous year and were satisfied action had been taken by management.

6(d) The Natural History Museum Trading Company Limited and Kingston Smith Management Letter

Item 6(d) was taken at the start of the meeting.

- 6.14 *(a) Trading Company Accounts*
- 6.15 The audit of the accounts was complete and the accounts had been approved at a meeting of the directors of the Trading Company.

ACTION

- 6.16 Wildlife Photographer of the Year (WPY) - Although there was an operating loss from WPY the competition continued to generate revenue of circa. £2m for Retail and Touring Exhibitions. It was observed there were a number of similar competitions e.g. the BBC Countryfile Photographic Competition. Consultants had been commissioned to work with the Museum on developing the WPY brand.

(b) Kingston Smith Management Letter

- 6.17 The Kingston Smith Partner presented the Management Letter.

- 6.18 Matters Arising - There had been no checks by the Museum to verify the figures relating to the income and expenditure for the IMG ice rink. The Museum should inspect the figures or obtain an audit certificate from the IMG auditors. IMG take cash, debit/credit cards and contactless. It was noted Risk and Assurance regularly raised the need to verify commercial income from third parties in their audit reports.

6(e) Special Funds Trust

- 6.19 The objective of the Special Funds Trust was to apply the unrestricted income towards the furtherance of the work of the Museum for which provision was not made from public funds e.g. research posts and travel grants. Page 3 of the accounts described that funds were awarded in accordance with a policy determined by the Science Executive. This allocated the income equally between the four Science departments. Awards were only listed if they were made to corporate institutions.

6(f) Benevolent Fund

- 6.20 Income from the Benevolent Fund was used "to assist members of staff, in particular those less well paid, who may fall upon misfortune". Assistance was usually given by way of small grants or interest free loans. Consolidating the Fund within the Museum accounts had previously been discussed by the Audit and Risk Committee. The Director of Finance and Corporate Services, however, preferred to keep the Fund separate.
- 6.21 The Charity Law Association - The Charity Law Association had been asked by the Charity Commission to set up a Working Party to consider whether charitable objectives were met if charities engaged with or invested in organisations who failed to follow ethical policies e.g. fair supplier payment practices and climate change. The intention was to issue guidance to Charities, however, the terms of reference had not yet been formalised.

6(g) Audit and Risk Committee Approval

- 6.22 Members:

Recommended for approval by Trustees on 2 July 2019 the accounts for:

The Natural History Museum;

The Natural History Museum Special Funds Trust;

The Natural History Museum Benevolent Fund.

ACTION

7. DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL - MAY 2019 (PAPER TAC 30/2019)

- 7.1 The Director of Finance and Corporate Services presented his paper.
- 7.2 Commercial Income and Operating Expenditure - A revision of commercial income and operating expenditure forecasts had resulted in a reduction in the forecasted operating surplus to £2.3m. This reflected: (a) a reduction in admissions and membership income arising from the rescheduling of the special exhibitions programme into 2020/21; and (b) an increase in employers' pension costs. Temporary exhibitions had a lead time of 2 to 3 years and it was not possible, therefore, to fill the gap in the schedule.
- 7.3 Salary Expenditure - Salary Expenditure had increased by £1.6m due to the pensions increase it had, however, been partially funded by a £800k increased grant in aid.
- 7.4 Non Salary Expenditure - Non Salary Expenditure had increased by £441k due to: (a) health and safety expenditure on fire evacuation; and (b) a number of other small allocations e.g. Audiences of the Future, estates costs, and development costs in support of fundraising.
- 7.5 Capital Grant In Aid - The allocation for the year had increased by £3.5m for 2019-20 and £2.0m for 2020-21 following an award in May 2019 from the DCMS Infrastructure fund. The award was for fire precautions work at South Kensington and for the Ornithology Building at Tring. The contract for the Tring the Ornithology Building was due to be let imminently following a bat survey.

8. TRUSTEES' AND DIRECTORS' EXPENSES AND DIRECTORS' GIFTS AND HOSPITALITY REGISTER 2018/19 (PAPER TAC 31/2019)

- 8.1 The Director of Finance and Corporate Services presented the paper. The Committee reviewed the Trustees' and Directors' Expenses and Directors' Gifts and Hospitality 2018/19.

9. HEAD OF RISK and ASSURANCE PROGRESS REPORT (PAPER TAC 32/2019)

- 9.1 The Head of Risk and Assurance presented her paper and her report on gifts and hospitality.
- 9.2 Changes to the Audit Plan 2019/20 - The Director of Finance and Corporate Services had requested a review of payroll processes and changes to standing data was carried out.

IG/JD

- 9.3 External and Internal Infrastructure Pen Testing - Members requested that the Technology Governance Board reviewed Cyber Security Pen Test reports and provided the Audit and Risk Committee with a summary of their conclusions.
- 9.4 Outstanding Internal Audit Recommendations - These were reviewed by the Museum Director, Head of Risk and Assurance and the Audit and Risk Committee Chair on 14 May. It was concluded that adequate progress was being made on the longer standing items and no issues for follow-up were identified.

JD

- 9.5 Priority 2 Recommendations - It was agreed that the item relating to the Trustees' Collection could be closed following the final project report in October 2019.

ACTION

Gifts and Hospitality

- 9.6 The audit identified one or two instances where in the absence of a clear business purpose the acceptance of gifts and hospitality may not have been in line with best practice, for example, attending sporting events. Recording something in a register did not necessarily make it acceptable. The report recommended returns were checked by the Finance Team to ensure there was a business reason for acceptance. It was noted staff did request guidance from managers on whether they should accept offers of gifts and hospitality.
- MD** 9.7 It was agreed that the Museum Director would remind the Senior Management Team (SMT) that there was increasing external scrutiny relating to the acceptance of gifts and hospitality and there should be a business reason for acceptance.
- 9.8 Cabinet Office Freedom of Information Code of Practice - The Cabinet Office Freedom of Information Code of Practice July 2018 Section 8 covered Publication Schemes - Senior Executive Pay & Benefits. Section 8 stated amongst other things that public authorities should publish information that covered expenses and hospitality.
- 9.9 Currently there were statements on the Museum's website under Governance - Audit and Risk Committee that: (a) the Museum maintained a register of gifts and hospitality which was reviewed by the Audit Committee; and (b) Information on gifts, hospitality, allowances and expenses can be made available on request.
- MD/NG** 9.10 Members asked that: (a) the Board of Trustees was notified of the requirement that public authorities must publish information on expenses and hospitality; and (b) the appropriate format and level of detail required for publication was investigated.
- 10. GOVERNMENT FUNCTIONAL STANDARD COUNTER FRAUD - COUNTER FRAUD BRIBERY AND CORRUPTION STRATEGY, FRAUD AND BRIBERY RESPONSE PLAN AND WHISTLEBLOWING POLICY (PAPER TAC 33/2019)**
- 10.1 The Head of Risk and Assurance presented her paper.
- 10.2 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'.
- 10.3 Counter Fraud Profession Functional Standard GovS 013 - The Cabinet Office Centre of Expertise for Counter Fraud had introduced an annual assurance assessment process to determine how organisations were progressing against the Functional Standard GovS 013. The Museum and other ALBs with an annual spend below £100m must report to the Cabinet Office by 2 September 2019. The Cabinet Office will review the Museum's assessment and send it back with comments and recommendations.
- 10.4 Counter Fraud, Bribery and Corruption Strategy and Action Plan -The Head of Risk and Assurance had drawn up a Counter Fraud, Bribery and Corruption Strategy and Action Plan. The Strategy was based on a template provided by a Government Internal Audit Agency (GIAA) counter fraud specialist.
- 10.5 Proactive Detection Activity - Organisations were required to undertake activity to detect fraud in high risk areas where little was known. The internal audit programme and internal checks may be considered sufficient. However, the Cabinet Office had requested evidence of loss measurement and how the organisation was using data analytics to find fraud.
- 10.6 The Director of the NAO observed that other museums and galleries were going through the process of deciding on their response. He noted: (a) the Museum was more advanced in this than other bodies; and (b) Audit and Risk Committees often reviewed Fraud, Bribery and Corruption and other related Policies.

ACTION

- 10.7 Accountable Individual - Organisations were required to have an accountable individual at board level responsible for counter fraud and in the NHM this was currently the Museum Director. Organisations were also required to have a Senior Lead and Counter Fraud Champion. The Senior Lead should be a member of the Government Counter Fraud Profession by 2022.
- 10.8 Policy Approval - It was agreed that:
- MD/NG/JD /HN**
- (a) A list of policies which were approved by the Board of Trustees and those which had been delegated was made available to the Audit and Risk Committee Chair.
 - (b) The Museum Director, Director of Finance and Corporate Services, Head of Risk and Assurance and Audit and Risk Committee Chair will report to the Committee on the approval process for Fraud, Bribery and Corruption Policies.
 - (c) Members should provide any comments on the policies to the Audit and Risk Committee Chair.
- HN**
- 10.9 The Chair of the Audit and Risk Committee agreed to speak with the Chairs of other DCMS ALBs to investigate what was considered a proportionate response.
- 10.10 Code of Conduct for Board Members of Public Bodies - There were an increasing number of codes for public bodies to follow. On 24 June 2019 the Cabinet Office issued a new Code of Conduct for Board Members. The imminent NHM Board review by consultants needed to cover all the requirements to provide assurance the Museum was compliant.
- 11. PRESENTATION BY THE INTERIM HEAD OF HUMAN RESOURCES ON HUMAN RESOURCES - PEOPLE - RISK MANAGEMENT (PAPER TAC 34/2019)**
- 11.1 The interim Head of Human Resources (HR) had been in post 6 weeks. There was a HR team of approximately 17 people including health and safety and payroll. She was: (a) reviewing the HR team structure to ensure the Museum was well supported; (b) dealing with issues from the Staff Survey e.g. a need to increase diversity and the visibility of Directors; and (c) working on the recruitment of a number of senior roles. The Interim Head of HR's work was mainly project based rather than managing the day to day activity of the HR team.
- 11.2 The Interim Head of HR presented the HR risk register and outlined how risks were mitigated.
- 11.3 Recruitment - The Museum had 919 staff and 857 full time equivalents. NHM had a strong brand and HR were improving the Museum careers web page. Overall voluntary staff turnover was a healthy 14% and science was only 6.3%. The highest level of turnover was in Visitor Services. This was normal for the sector. The Museum paid relatively well at the entry point for Visitor Services staff.
- 11.4 Performance Management and Employee Conduct - Statistics suggested that performance management was not always robustly applied. It was observed this may impact negatively when staff respond to engagement surveys. It was noted staff under performance measures did not get a pay award.
- 11.5 Reward (Pay and Benefits) - The CGI payroll and CIPHR HR system were not easy to use. Staff were frustrated by limited career progression opportunities.

ACTION

- 11.6 The Museum did not operate a numerical performance appraisal system as: (a) pay increments were stopped by Government; and (b) there was limited funding available for the pay award. Staff were appraised on whether each individual objective in their forward job plan had been met. It was difficult, therefore, for senior staff to identify all the top performers, average performers, and poor performers on a bell curve of performance. In science group staff in fluidly graded posts were marked for promotion. The appraisal process did, include a learning and development plan which looked at promotion potential.
- 11.7 Members observed the lack of a numerical performance appraisal system linked to pay and promotion can lead to dynamic individuals leaving NHM. It was noted any change to the way pay was awarded must be agreed with the unions.
- 11.8 Training & Development - Staff applied to undertake the training advertised as part of the HR learning and development offer. As a result it was not clear if there was always a sufficient link between performance improvement, career progression objectives and training need. HR were refreshing the learning offer and will ensure managers understand training should be mandatory where there was a need.
- 11.9 Members said the Museum must identify the star performers, motivate and develop them for future promotion. Secondments to external organisations were available from the Civil Service and the Museum could consider introducing such a scheme internally
- 11.10 Staff Survey - A risk had been added in relation to the staff survey. The Interim Head of HR favoured frequent short ten point questionnaires with a full survey every few years. It was noted there was some very rich output in the post-survey focus groups summary.

12. FUTURE AGENDA ITEMS, NOVEMBER 2019 RISK PRESENTATIONS AND THE IDENTIFICATION OF EMERGING RISKS SINCE THE LAST MEETING

MD/KF

- 12.1 New Prime Minister - Stakeholder Map - The Collections Programme stakeholder map will be updated when the new Prime Minister, Cabinet and Ministerial team are in place.

13. TECHNOLOGY GOVERNANCE BOARD - UPDATE

- 13.1 The Interim Chief Information Officer made his presentation.
- 13.2 The Interim Chief Information Officer explained why the Technology Governance Board had been introduced. Technology programmes, investment, resources and activities needed to be governed in a 'connected' and holistic way. The Technology Governance Board ("Board") will actively reinforce the NHM's goal to promote and drive the digitisation of the NHM's business, ensuring the NHM continues to innovate and deliver on its digital, analytical and information assets to build a sustainable future and meet the challenges of the Museum's New Strategy based on a 'One Museum' approach.
- 13.3 The Technology Governance Board produced a red/amber/green dash board of the status of technology related projects and programme risk which went to the Executive Board. The dash board also showed which Museum group or board was accountable.

IG/JD

- 13.4 It was agreed:
- (a) the Technology Governance Board should be asked to review Cyber Security Pen Test reports and provide the Audit and Risk Committee with a summary of their conclusions; and
 - (b) to defer a decision on whether to co-opt a digital technology expert to the Audit and Risk Committee until October 2019.

ACTION

NG/JD

- 13.5 Chief Information Security Officer (CISO) Advisor - A Technology, Digital and Change Recruiter approached the NHM and offered to help the Museum find a pro bono CISO Advisor. Three candidates were interviewed and one selected. The CISO advisor who was acting in a personal capacity was happy to meet the Audit and Risk Committee Chair. It was agreed the terms of appointment for the CISO Advisor should be provided to the Audit and Risk Committee Chair.

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 31 October 2019

KEY TO ACTION INITIALS

Michael Dixon - MD

Jan Day - JD

Kate Fielding - KF

Neil Greenwood - NG

Ian Golding - IG

Fiona McWilliams - FM

Hilary Newiss - HN