

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

**89th Meeting on 30 June 2020
By remote access using Microsoft Teams**

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 (Executive Director of Finance and Corporate Services)
Jan Day (Head of Risk and Assurance/Committee Secretary)
Beth Parry (Chief of Staff)
Alex Clark (Director, DCMS Financial Audit National Audit Office)
Sebastian Groth (Audit Manager, National Audit Office)
Kristianne Motala (Audit Principal, National Audit Office)
Kate Medland (National Audit Office)
Anjali Kothari (Partner, Moore Kingston Smith)

ACTION

1 APOLOGIES FOR ABSENCE

1.1 Alex Clark (Director, DCMS Financial Audit NAO) sent his apologies.

2 DECLARATIONS OF INTEREST AND REGISTER OF INTERESTS PAPER TAC 27/2020)

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

3 MINUTES OF THE MEETING HELD ON TUESDAY 4 MAY 2020 (PAPER TAC 28/2020)

3.1 The minutes were accepted as a true record of the meeting subject to one minor amendment.

ACTION

4. MATTERS ARISING FROM THE MINUTES (PAPER TAC 29/2020)

- 4.1 Treasury Guidance on Sustainability Reporting - The Museum's Sustainability Report had been submitted to the Department for Digital, Culture, Media and Sport (DCMS). The Head of Sustainability had confirmed the Museum was compliant with DCMS requirements - item closed.

NG/CH

- 4.2 IFRS 16: Leases 31/10/19 - Para 8.10 - DCMS were implementing IFRS 16. IFRS 16 was not, however, currently part of the Charities Statement of Recommended Practice (SORP) therefore, it was unlikely NHM will implement IFRS 16 in 2020/21. NHM leases of circa. £400k were not material in relation to the Balance Sheet and liabilities. It was agreed a summary of adjustments to the NHM DCMS figures would be sent to the co-opted member for review and subject to this the item will be closed.

5. MUSEUM DIRECTOR'S REPORT (PAPER TAC 30/2020)

- 5.1 The Museum Director presented his paper.

Major Risks 2020/21

- 5.2 New Strategic Risk 6 - Covid-19 Response - A new risk 6 had been added to the list of major risks for 2020/21: 'the new normal for our commercial businesses is sufficiently different to previous circumstances to require a big adjustment to our business model'. The current business model relied on the NHM generating a commercial income operating surplus. The surplus contributed to operating costs and major project expenditure. Commercial income was likely to be significantly depressed over the next few years and additional government support was necessary to make up the reduced commercial income.
- 5.3 The announcement of a government support package for the cultural sector, museums and galleries was expected later in the week. There was, however, a probability that the government will not announce support beyond 2020/21 and will delay this until the spending review. As a result, the Museum will not be able to draw up a long term business model including if necessary a downsizing exercise. The likelihood of the risk had been assessed as a 4 (an 80% chance that the risk will be realised) and the impact as a 5 (a financial loss of £1m+).

MD

- 5.4 Following discussion it was agreed that going forward strategic risk 1 "we do not successfully make the case for government resource or capital support and fail to deliver necessary projects to support our long-term objectives" was reworded to cover capital support and resource support was split out and included in risk 6.

6. ANNUAL ACCOUNTS 2019/2020 AND AUDIT COMPLETION REPORTS (PAPER TAC 31/2020)

- 6.1 The Executive Director of Finance and Corporate Services presented the accounts for 2019/20 together with his supporting paper.

6(a) The Natural History Museum Annual Report and Accounts

- 6.2 Material amendments to the Annual Report since the informal review by the Chair of the Audit and Risk Committee, the co-opted member and Chair of the Board of Trustees on 15 June 2020 were brought to the Committee's attention. Members also recommended further changes to the report and raised queries.

ACTION

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| NG | <p>6.3 <u>Sustainability</u> - A member observed that it was not clear why: (a) the increase in Greenhouse gas emissions was primarily due the Combined Heat and Power unit being out of operation for three months; and (b) the unit being closed was not brought to the Property Committee's attention. An explanation was requested for both these issues.</p> <p>6.4 <u>Going Concern Assessment Criteria</u> - The Museum must be able to demonstrate its ability to meet its liabilities for a year after the date of signature. If the accounts were signed at the Board of Trustees on 7 July 2020 this will be 6 July 2021. However, the forecast outturn for the end of March 2021 was currently an operating deficit.</p> <p>6.5 <u>Laying the Annual Report and Accounts</u> - It was noted a number of the museums and galleries were opting to lay their accounts post the Parliamentary summer recess on 21 July 2020 (e.g. in September 2020) with a post recess external audit. In 2020/21 "“emphasis of matter”" statements which directed the readers' attention to the disclosures by management on the material uncertainty in relation to going concern were common in both the not for profit and commercial sectors.</p> |
| NG/MD | <p>6.6 <u>Parliamentary Summer Recess</u> - Following a discussion on the advantages of laying the accounts prior to the Parliamentary summer recess rather than post recess members agreed that the Museum should lay the NHM annual report and accounts prior to the recess. Members were of the opinion as the external audit of the accounts had been completed there would be extra audit work and cost in delaying until post recess. The NAO indicated that they will not qualify the Museum accounts but give a modified opinion to highlight an "“emphasis of matter”" statement on the material uncertainty relating to going concern. The material uncertainty was due to: (a) the collapse of NHM commercial income generation due to Covid-19; and (b) as a government support package for NHM had not been announced. The NHM had, however, received informal assurance that DCMS and the Treasury will not allow the NHM to reach a position of insolvency.</p> |
| NG/MD | <p>6.7 <u>Going Concern Assessment</u> - The Committee discussed the wording options for a going concern assessment in the NHM consolidated accounts. The NAO guidance to Audit and Risk Committees on Financial Reporting and Management during Covid-19 provided a useful guide. There was a material uncertainty due to Covid-19 as to whether the Museum will be able to continue to operate as a going concern and may be unable to discharge its liabilities in the normal course of business unless there was additional funding from Government or a significant curtailment of activities. It was agreed the final wording would be drafted by the Director of Finance and Corporate Services and agreed by the Museum Director as Accounting Officer and the Audit and Risk Committee.</p> |
| 6(b) NAO Audit Progress Report | |
| | <p>6.8 The NAO Audit Manager presented the NAO Progress Report</p> <p>6.9 <u>Unadjusted Misstatements</u> - The Committee considered the unadjusted misstatements and endorsed the reasons for not adjusting the misstatements.</p> <p>6.10 <u>Covid-19</u> - The Committee were content the NAO assessment included adequate allowance for the financial impact of Covid-19.</p> <p>6.11 <u>Progress on the Audit</u> - The audit of the financial statements was substantially complete and the only outstanding item to be submitted to the NAO was the Museum's going concern assessment.</p> |

ACTION

6.12 Material Uncertainty - Land and Buildings Valuation 2019/20 - Note 8 to the accounts set out the reason for the land and buildings valuation being reported as subject to 'material valuation uncertainty'. All Royal Institution of Chartered Surveyors (RICS) valuation surveyors were required to issue material uncertainty clauses. The member who specialised in property was comfortable with the valuations. It was noted the buildings at South Kensington and Tring were valued at depreciated replacement cost which did not equate to open market value. Members agreed note 8 was not misleading and it was not necessary to explain the difference between replacement cost and open market value.

6.13 Deferred Income - Deferred income was an extrapolation based on a sample rather than quantifiable error.

6.14 Debt Collection - There were two significant commercial debtors. One had fully paid the Museum and the other had paid all their debt with the exception of the final instalment on the agreed payment schedule which was not yet due. There was no reason to assume the final instalment would not be paid and as requested this will be reported to the Board of Trustees on 7 July 2020.

NG

6(c) The Natural History Museum Trading Company Limited Accounts and Moore Kingston Smith Draft Management Letter

6.15 Audit Progress - The accounts were complete with the exception of the principal risks and uncertainties and the assessment of going concern. The uncertainties will be updated to include the material uncertainty relating to the Trading Company operating as a going concern.

6.16 Emphasis of Matter and Going Concern - The Trading Company external auditors will require consistency of wording in the NHM parent company consolidated accounts and the Trading Company on material uncertainty and going concern. If the NAO raise an "emphasis of matter" statement in relation to the Museum consolidated accounts the draft letter of representation for the Trading Company will be changed to include an "emphasis of matter" statement.

6.17 Deed of Covenant - The legally binding obligation on the Trading Company to make a deed of covenant payment to NHM its parent charity can only be made if the Trading Company has sufficient cash to meet its contractual liabilities. Some cash had been paid to NHM and the Executive Director of Finance and Corporate Services was mindful of the caveat.

6.18 Audit Approach - Risks - There was one risk in respect of management override. However, the external auditors concluded the risk was mitigated by the controls. The auditors had been unable to physically verify the Trading Company assets in particular stock. As a stocktake had not taken place due to Covid-19 stock value was assessed by testing a sample of stock lines between September 2019 (the date of the last stocktake) and March 2020. The sample included stock lines which were dependent on exhibition openings e.g. Fantastic Beasts.

6.19 Trading Company Director's Approval - It was requested that the Trading Company accounts were approved at a meeting of the directors before they were presented to the Board of Trustees on 7 July 2020.

NG

6(d) Special Funds and Benevolent Fund

6.20 The audits of the Special Funds and Benevolent Fund were straightforward as the majority of the transactions related to investments. There had been no significant drop in investment value over the past year.

6.21 Remote Audit - The Moore Kingston Smith Partner thanked the NHM Finance Team for their excellent work on providing all the necessary information in a timely manner despite working remotely.

ACTION

6(e) Audit and Risk Committee Approval

6.22 Members:

Recommended for approval by Trustees on 7 July 2020 the accounts for:

The Natural History Museum (subject to the going concern assessment);

The Natural History Museum Special Funds Trust;

The Natural History Museum Benevolent Fund.

MD

- 6.23 DCMS Ministerial Approval - The Museum required DCMS ministerial approval to lay the accounts pre recess. It was agreed, therefore, the Museum Director would write to the DCMS Permanent Secretary to advise her of the Audit and Risk Committee's decision that a final version of the accounts will be sent to Trustees for approval at their meeting on 7 July 2020. This version will simultaneously be sent to DCMS for approval by the Secretary of State.

NG

- 6.24 National Audit Office - The accounts will be sent for Comptroller and Auditor General signature following the Board of Trustees' meeting.

- 6.25 The Audit and Risk Committee Chair thanked the external auditors for a constructive and useful discussion.

7. EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE SERVICES' FINANCIAL REVIEW FOR THE PERIOD APRIL - MAY 2020 (PAPER TAC 32/2020)

- 7.1 The Executive Director of Finance and Corporate Services presented his paper.

- 7.2 Forecast outturn and the General Fund - The forecast outturn for 2020/21 was an operating deficit of £5.7m compared with a budgeted surplus of £5.1m (i.e. a decrease of £10.8m), and a General Fund deficit at the year-end of £3.6m. There was uncertainty about the projections, however, the gravity of the financial position was clear.

- 7.3 Grant in Aid - Grant in Aid was currently being paid three months in advance rather than the normal monthly draw down.

- 7.4 Coronavirus Job Retention Scheme (CJRS) - The Museum received payment in May for the months of March and April.

8. TRUSTEES' AND DIRECTORS' EXPENSES 2016/17 AND DIRECTORS' GIFTS AND HOSPITALITY REGISTER 2019/2020 (PAPER TAC 33/2020)

- 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 2019/20 and had no comment to make.

9. HEAD OF RISK and ASSURANCE PROGRESS REPORT (PAPER TAC 34/2020)

- 8.1 The Head of Risk and Assurance presented her report.

- 8.2 Audit Plan 2020/21 - It was agreed that the ability of internal audit to provide an effective service in 2020/21 had been reduced due to: (a) the closure of Museum sites and the difficulty in conducting audits; and (b) the decision taken at the end of April to furlough the second member of the team.

ACTION

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| | 8.3 | The Committee agreed, therefore, that: (a) the 2020/21 audit plan should be deferred until 2021/22; and (b) priority should be given to monitoring key processes, for example, key financial controls and significant emerging risks. The key priorities identified should be reported to the Board of Trustees on 7 July 2020. |
| HN | | |
| MD/HN/JD | 8.4 | The Audit and Risk Committee Chair, Museum Director, Head of Risk and Assurance and if possible the Executive Director of Finance and Corporate Services will discuss and review the 3 year programme of work. |
| | 8.5 | <u>NAO Guide</u> - The NAO Guide for audit and risk committees on financial reporting and management during COVID-19 listed the areas the Audit and Risk Committee should consider in relation to the control environment. These included remote working and cyber security. |
| | 8.6 | <u>Financial Business Planning</u> - The main concern of Directors was financial planning due to the uncertainty around: (a) income projections; (b) the recovery of visitor numbers; and (c) the continuation of the furlough scheme. It will not be possible to draw any conclusions in relation to the strength of visitor related income until the NHM had been open to the public for four or five months. The Director of Finance and Corporate Services will present his financial review for the first few months of trading at the November Audit and Risk Committee meeting. The commercial income in April - May 2020 related predominately to science income, patrons, membership and licencing. |
| NG | 8.7 | <u>Covid-19 Lessons Learned</u> - A number of Museums had planned an audit in 2021 of the lessons learned from their response to Covid-19. The Museum Activation Programme Group (MAP) had already started work on capturing lessons learned. Operationally the Museum needed to ensure that if there was a second wave of Covid-19 in the Autumn and the Museum was required to close a second time: (a) any lessons from the March 2020 closure had been identified; and (b) there was a clear plan for opening up quickly. |
| MD/NG | 8.8 | It was observed the lead time for reopening the Museum will be less a second time. It was agreed that the new post Covid-19 risk should be broken down into a number of sub components and mitigation plans for each. A sub component financial planning should include the impact on contractual relations with suppliers e.g. caterers and the ice rink. |
| NG | 8.9 | <u>Cyber Security</u> - Members agreed that Cyber Security was very important. As staff were working from home trustees needed to be assured IT systems were secure. The Head of Risk and Assurance and Information Security Manager had selected consultants to carry out IT pen testing. The Audit and Risk Committee Chair observed funding should be made available by the Museum to allow the testing to take place. |
| NG | 8.10 | <u>Home Working Cyber Security e-Training</u> - It was suggested that the Museum should introduce e-training for home working with a test. It was noted, however, the Museum had annual Information Assurance and Cyber Security e-training with a test. In addition, while staff were working at home and there had been regular: (a) notifications to managers reminding them to ensure their staff had completed the training; and (b) intranet news items on security. The Audit and Risk Committee Chair supported the suggestion and the Executive Director of Finance and Corporate Services agreed to take the recommendation forward with the Chief Information Officer. |
| | 8.11 | <u>Freedom of Information</u> - For the first time the Museum had taken the decision to refuse a request for information as vexatious under section 14(1) of the Freedom of Information Act (FOIA). The Information Commissioner (ICO) had carried out an investigation and upheld the Museum's decision. The Records Manager had made a strong submission to the ICO on the Museums behalf. It was observed the Museum was to be congratulated on applying the FOIA exemption correctly. |

ACTION

9. AUDIT AND RISK COMMITTEE ANNUAL REPORT 2019/2020 (PAPER TAC 35/2020)

9.1 The Audit and Risk Committee Chair presented her report.

9.2 Introduction - Covid-19 Impact - As the final month of 2019/20 was dominated by the impact of Covid-19 and this will continue into 2020/21 it was agreed the Head of Risk and Assurance should draft an opening statement for the report. It should highlight the Audit and Risk Committees' opinion that without additional government support the NHM will be unable to continue to operate without a substantial curtailment of Museum activities and restructuring. The statement should be approved by the Museum Director and the Audit and Risk Committee Chair.

9.3 Committee's Opinion on Internal Audit Services - The ability of internal audit to provide an effective service in 2020/21 had been reduced. The report should note this and that priority will be given to monitoring key processes and significant emerging risks rather than a fixed programme of work. Ideally the report should include the list of priorities.

9.4 Audit and Risk Committee Terms of Reference - Membership - The current membership of the Committee was not compliant with the terms of reference which required at least three trustees. The Audit and Risk Committee Chair and Chair of the Board of Trustees had identified two trustees to invite to join the Committee.

12. FUTURE AGENDA ITEMS, NOVEMBER 2020 RISK PRESENTATIONS

12.1 Covi-19 Lessons Learned and Business Planning - The Committee will focus on Covid-19 lessons learned - closing and reopening and business planning.

12.2 Strategic Risk - There will also be a presentation on risk G2 - "We do not give NHM staff appropriate time, opportunities for involvement, and incentives to enable them to support the development of an additional site leading to resistance to the Collections Programme". Staff support was key in relation to the programme.

13. ANY OTHER BUSINESS

13.1 The meeting was the last to be attended by the current Museum Director as he was leaving the NHM at the end of September 2020. The Audit and Risk Committee Chair thanked him for all his help and support. The Audit and Risk Committee Chair and members had very much enjoyed working with him.

14. CLOSED SESSION WITH THE INTERNAL AND EXTERNAL AUDITORS

15. DATE OF THE NEXT MEETING

15.1 The next meeting will be held at 10.00 a.m. on Thursday 5 November 2020

KEY TO ACTION INITIALS

Michael Dixon - MD

Hilary Newiss - HN

Colin Hudson - CH

Neil Greenwood - NG

Tim Littlewood - TL