

THE BRITISH MUSEUM

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

Introduction

The Trustees of the British Museum have pleasure in submitting their Annual Report and Accounts for the year ended 31 March 2005.

Overview of financial performance 2004/05

2004/05 marked success in bringing the Museum's finances back onto a sound financial footing. Actions had been put in train in 2001/02 to reduce annual costs by £6m, by reducing staffing levels, bringing three departments back onto the Bloomsbury site, disposing of surplus properties and improving cost efficiency in the use of resources. A target was set for the Museum to return to break even in 2004/05.

The actions have all been completed and the target of returning to break even in 2004/05 has been met. The operating surplus of £2.5m on the consolidated income and expenditure account is taken after deducting £3.2m from income to fund capital expenditure. Taking one year with another, the Museum expects to need to spend between £5m and £6m per annum on capital expenditure to replace or extend the life of its assets. The operating surplus is sufficient to fund capital expenditure at this level.

The future

The task now is to sustain the balance of operating income and expenditure while realising the Museum's plans for the future and addressing the effects of past underinvestment through the judicious application of newly rebuilt reserves.

At the 31 March 2001 the Museum's unrestricted reserves stood at £12m. Over the past four years they have been built up through property disposals and other actions to stand now at £73m. £15m must be reserved at all times to provide continuing assurance that the solvency of the Museum will not be put at risk by unforeseen short term income and expenditure variances. The balance of £58m provides a good starting point for taking the Museum forward.

Investments

It is the Trustees' policy to invest the Museum's permanent endowment trust funds so as to maximise the income earned on them while maintaining their real capital value over the long term. The investment policy for other trust funds is to maximise overall returns. The trust funds were reinvested in common investment funds in January 2004 with the aim of improving returns and simplifying management and monitoring.

Both of these aims were met in 2004/05 with the permanent endowment funds recording capital gains of 12.3% while generating income of 5.0% and other Trust Funds achieving combined gains of 17.8%. The FTSE 100 index increased by 9.7% over the same period

A subcommittee of the Trustees has been established to advise on the investment of the Museum's funds and to review the performance of the investments.

Performance Indicators

The Three Year Funding Agreement between the Museum and the Department for Culture, Media and Sport establishes six core targets for the Museum. In common with other museums and galleries, the Museum has agreed a number of other indicators with the Department for Culture, Media and Sport. These indicators are set out below and achievement against the specific targets is described in the following narrative:

| Performance Indicator | 2001-02 Actual | 2002-03 Actual | 2003-04 Actual | 2004-05 Actual |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Museum in London | | | | |
| no. of visitors: | 4,813,000 | 4,623,500 | 4,622,169 | 4,778,200 |
| % of repeat visitors: | 43% | 40% | 37% | 37% |
| % of Greater London visitors: | 20% | 22% | 21% | 21% |
| no. of children in educational programmes: | 142,000 | 165,900 | 193,510 | 201,898 |
| % of ethnic minority visitors | 6.5% | 6.8% | 7.2% | 7.6% |
| no. of child visitors: | 951,000 | 858,000 | 902,353 | 943,072 |
| no of C2DE socio-economic visitors | 555,000 | 580,000 | 527,000 | 530,000 |
| % of over 60's visitors: | 11% | 11% | 14% | 14% |
| no. of major gallery & exhibition sponsorships: | 4 | 4 | 6 | 3 |
| special exhibition visitors: | 324,000 | 159,591 | 36,097 | 245,844 |
| membership numbers: | 14,364 | 15,234 | 15,974 | 14,205 |
| Museum in Britain | | | | |
| outreach learners: | 3,234,000 | 4,713,000 | 5,468,492 | 4,953,840 |
| no. of British loan venues: | 86 | 95 | 94 | 161 |
| off-site visitors UK: | 121,000 | 130,768 | 84,100 | 290,025 |
| no. of Treasure Act cases processed: | 397 | 422 | 530 | 584 |

| Performance Indicator | 2001-02 Actual | 2002-03 Actual | 2003-04 Actual | 2004-05 Actual |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Museum in the World | | | | |
| no. of international visitors to the Museum: | 2,647,000 | 2,404,220 | 2,495,971 | 2,389,100 |
| no. of foreign loan venues: | 89 | 114 | 117 | 127 |
| no. of visitors to international exhibitions: | 563,000 | 611,104 | 1,289,000 | 1,221,957 |
| no. of web site visits: | 4,491,000 | 6,850,818 | 7,751,329 | 7,565,805 |
| Capacity | | | | |
| % of collection stored at correct environmental conditions: | 71% | 71% | 66% | 67% |
| % of collection documented to stated international electronic standards: | 31% | 31% | 33.2% | 36.2% |
| % of display collection internet-accessible: | 8% | 9.7% | 10.3% | 10.5% |
| % time open (museum): | 69% | 69% | 69% | 69% |
| % of visitors very satisfied: | 75% | 72% | 79% | 79% |
| growth in income per visitor: | 36% | -3% | -2% | 1.1% |
| G-I-A per visitor (actual and virtual): | £3.60 | £2.99 | £2.72 | £2.73 |
| average days lost sick per employee: | 8.8 | 8.1 | 7.2 | 6.9 |

The number of visitors to the Museum increased by 3% in 2004/05 and is well ahead of the 4,400,000 target. Nearly a half of these visitors are from overseas, representing every continent on the globe.

The school visits are very popular and are all pre-booked to ensure they fit in with the flow of other visitors. Despite this limitation on numbers, 9% more children (201,898) visited under this programme in 2004/05, ensuring that the 150,000 target was fully met. The combination of more schoolchildren and more visitors in general ensured that the 943,072 total for child visitors was also ahead of its 930,000 target.

Considerable effort has been put into bringing the Museum's collection to a wider geographical audience and social profile. Links with regional museums have been very successfully strengthened: 161 loans were made to British venues in 2004/05, 71% more than in the previous year and more than double the target of 80. The number of visitors to these loans exceeded all expectations and is reflected in a tripling of the reported figure for off site UK visitors in the UK.

Treasure – Finding Our Past toured Cardiff, Manchester and the Hancock Museum, Newcastle. The Queen of the Night was displayed at Birmingham and Cardiff. The Radiant Buddha went to Birmingham and Bradford and the Across the Board exhibition was staged at Segendum Fort at Wallsend. This large programme of loans and exhibitions shared with regional museums across Britain has gone a long way towards widening the profile. The very successful Mummy: *the inside story* exhibition achieved its aim of bringing in new visitors and the forward marketing plan is focusing on activities, of which the Ground Force Africa Garden is an example, that will attract new audiences.

The reported growth in visitors to the Museum in socio economic groups C2DE does not do justice to this activity and the indicated number of 530,000 remains below the target of 600,000. In part this reflects a 1% reduction in their share of the British population but the confidence level in this indicator is also limited by the sampling and voluntary questionnaires used for gathering the data .

International links were also strengthened by further activity in international loans and touring exhibitions. As well as increasing the number of venues, the exceptional number of visitors to exhibitions in 2003/04 was nearly matched for a second year. Over 2,000,000 people have visited the Eternal Egypt exhibition in the course of its four year tour of the USA and Canada. Comparable numbers have seen the Treasures of the World's Cultures exhibition in Japan, Malaysia and Korea.

Further Ancient Civilisations websites were launched during the year: Ancient China, Mughal India and Imperial China and an umbrella site. Together with the existing Ancient Egypt and Mesopotamia sites, they have been extensively visited and represent the channels for 4,953,840 outreach learners. When the main Museum and COMPASS sites are further taken into account we received 7,565,805 visits to all our websites, well ahead of the 5,500,000 target.

The Museum is implementing plans for improvements to its storage of some 7 million objects. Minor improvement projects were completed during the year and major projects to deliver more significant improvements in the quality of collection storage have commenced.

210,000 new electronic object records of items were logged on the collection management system in 2004/05. Some 2,500,000 are now completed. The Museum's forward plans include the improvement of the quantity and quality of electronic documentation of the collection and making more of these images and information available on the website as priorities.

The continuing reduction in sickness and absenteeism reflects improving management skills, staff training and welfare policies across the Museum and substantial recent investment in organisational development.

Report of the Audit Committee

The task of the Audit Committee is:

- to monitor on behalf of the Board that:
 - the Director and staff are acting within the terms set down by law, regulation, other guidance and within the authority given by the Board, with efficiency and probity
 - major risks to the strategy are identified and are being managed
 - resources are being used effectively and efficiently
 - the accounting process has integrity and effective internal controls are in place
 - reports received under the Museum's policies are investigated and acted upon.
- to review and recommend to the Board and the Accounting Officer the acceptability of the Museum's annual accounts for signature and their laying before Parliament in accordance with the Acts
- to review and provide assurance to the Board and the Accounting Officer concerning the Statement on the System of Internal Control.

The Audit Committee reports to the Board and during the year met four times, covering a range of topics including the following:

- approval of the forward internal audit plan
- the results of internal audit reviews
- security of the collection
- the Museum's risk register
- testing of assurance arrangements with managers
- resourcing of the Museum's internal audit function
- the Museum's response to the introduction of the Freedom of Information Act
- the Museum's response to consultation on the proposed new Charity accounting SORP.

FOREWORD TO THE ACCOUNTS

Basis of Preparation of Financial Statements

The Financial Statements follow the form directed by the Secretary of State with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992; in essence to meet the requirements of the accounting standards issued by the Accounting Standards Board and the Statement of Recommended Practice *Accounting and Reporting by Charities* (SORP) in so far as those requirements are appropriate. A copy of the Accounts Direction may be obtained by contacting the Director of Finance at the British Museum.

Accounting Policies and Practices

The Museum is complying with the requirements of the Charities SORP. It has chosen to expand the normal Statement of Financial Activity and distinguish revenue from capital funds, in order to provide a clear expression of its accountability as an organisation providing services to the public. An Income and Expenditure Statement is also provided to remove further anomalies created by timing differences between related income and expenditure.

Results for the Year

The Museum achieved an operating surplus of £2,517,000 (£1,729,000 in 2003/04), investment gains of £1,554,000 (£690,000 in 2003/04), exceptional income of £8,241,000 and incurred early retirement costs of £1,138,000.

The operating surplus is stated after deducting £3,223,000 of income to fund capital expenditure (£3,786,000 in 2003/04). A further £1,632,000 capital expenditure has been funded by donors or from reserves.

Reserves

At the 31 March 2005 the Museum's total reserves were £509 million. They were employed as follows:

| | £m |
|---|-----------|
| Collection items acquired since 31 March 2001 | 28 |
| Land, buildings, plant and equipment | 383 |
| Permanent endowment trust funds | 11 |
| Restricted capital funds | 6 |
| Restricted revenue funds | 8 |
| Unrestricted reserves | <u>73</u> |
| Total | 509 |

The collection items, the fixed assets and the permanent endowment trust funds are fully employed for the operation of the Museum and are not available for any other purposes. The restricted capital funds represent donations and disposal proceeds which may only be used for specific capital projects.

The restricted revenue funds may only be used for the acquisition of specified types of object for the collection or for funding staff for specified activities.

Subject to Trustees' policies and Government resource accounting constraints, the unrestricted reserves are available for investing in the Museum's future. Of the £73 million unrestricted reserves at 31 March 2005, £45 million is available for capital expenditure and £28 million may be used either for revenue or capital expenditure.

Trustees have directed that unrestricted revenue reserves should not be allowed to fall below £5 million nor unrestricted capital reserves fall below £10 million. This is to provide continuing assurance that the solvency of the Museum will not be put at risk by unforeseen short term income and expenditure variances.

Going Concern

The British Museum receives grant-in-aid from the Department for Culture, Media and Sport. The Department has confirmed the level of funding it will make available for the year ending 31 March 2006. It is the budgetary policy of the Board to maintain adequate reserves and to budget over a period of years so as to balance income with expenditure and to fund capital expenditure in full, so that the Museum is able to present a continuing programme of work consistent with its aims and resources.

The Trustees are confident they can ensure forward compliance with the budgetary policy for the foreseeable future. Accordingly, the Trustees consider it appropriate to prepare the Museum's financial statements on the going concern basis.

The British Museum

The British Museum was founded by Act of Parliament in 1753 to care for the collection of Sir Hans Sloane and is now governed in accordance with the British Museum Act 1963. The Museum's principal activity is to hold for the benefit of humanity a collection representative of world cultures and ensure that the collection is housed in safety, conserved, curated, researched and exhibited. It is one of the most popular museums in the world, receiving 4.8 million visitors in 2004/05. It holds for the nation a collection of antiquities, prints and drawings, ethnography, and coins and medals that is amongst the finest in the world. The collection derives from all continents and over 2 million years of human history. Responsibilities and activities flow from the custodianship both of the collection and of the building in which they are housed. The collection is exhibited for the visiting public in London and, more widely, through loans to other museums, both in the UK and abroad and through the Museum's websites. It is enhanced by means of purchases and gifts, through excavation and fieldwork undertaken by Museum staff. The Museum acts as an international centre for scholarly activity, making the collection available for research and discussion. It aims to fulfil its functions efficiently, effectively, economically and in a friendly and accessible manner.

Departments

The Museum comprises a directorate and 19 other departments split between collection and resources. The collections departments are: Africa, Oceania and the Americas; Ancient Egypt & Sudan; Ancient Near East; Asia; Coins & Medals; Conservation, Documentation & Science; Exhibitions; Greek & Roman Antiquities; Learning and Information; Prehistory & Europe; Prints & Drawings. The resources departments are: Communications; Development Office; Facilities Management; Finance; Human Resources; Information Services; Marketing; Operations; Photographic Imaging; Projects.

Housing the Collection

Custodianship of the Museum's collection and main building is vested in the Trustees. The Museum's main site is at Bloomsbury where all its departments are now based. Two buildings in Hoxton provide additional workshops and storage. Textiles and archaeological and general materials are stored at a property in Hammersmith shared between the British Museum, the Science Museum and the Victoria and Albert Museum.

Finance and Support for the Museum - Connected Entities

The Museum is a Non-Departmental Public Body subject to a Management Statement and Financial Memorandum agreed with its sponsoring department, the Department for Culture, Media and Sport (DCMS). It is an exempt charity under schedule 2 of the Charities Act 1993. The Museum is funded by a combination of grant-in-aid allocated by DCMS and income secured through a range of commercial and fund-raising activities, sponsorship and activities for which a charge is made. Since its foundation, gifts have been received from private sources in the form of objects for the collections, property for housing the collections and financial support for the Museum's objectives. The Trust Funds established with financial donations are directed towards the general purposes of the Museum or towards specific areas of its activities in accordance with the wishes of the benefactors.

The British Museum Company Ltd, a limited company wholly owned by the Trustees, is an exempt charity that furthers the educational objectives of the Museum through publishing curatorial activities and research and, through its subsidiary British Museum Ventures Ltd, acts as its main retailing and off-site trading arm. It is separately administered and three Trustees of the Museum and the Museum's Director and Deputy Director (Resources) are directors of the company. The company made an operating profit of £731,000 in 2004/05 (£543,000 in 2003/04) and made a Gift Aid donation of £630,000 (£668,000 in 2003/04) to the Museum.

The British Museum Great Court Ltd is a limited company wholly owned by the Trustees, acts as the Museum's trading arm within the Museum estate for catering and income generating activities other than retailing. Its Directors are senior employees of the Museum. During the year the company made an operating profit of £1,139,000 (£847,000 in 2003/04) and made a Gift Aid donation of £1,225,000 (£910,000 in 2003/04) to the Museum.

The British Museum Development Trust (BMDT), an exempt charitable trust, acts as the Museum's fundraising arm. It was separately administered until 1 April 2005. Three Trustees of the Museum

are on its Board of Trustees. During the year, the development department raised income of £2,940,000 for the Museum (£8,934,000 in 2003/04) and the Museum made a grant to the Trust of £592,000 (£699,000 in 2003/04) to cover running costs. A list of the BMDT Trustees can be found in *Appendix 1*. On 1 April 2005, the operations, staff and assets of the Trust were transferred to the British Museum, continuing the process of integrating fundraising activities within the Museum.

The work of the Museum is supported by two ‘friends’ associations. British Museum Friends is a registered charitable trust that furthers collecting, public services and conservation and services the needs of the Friends. It is separately administered and independent of the Museum and a majority of its Council are not Trustees or senior employees of the Museum or of other connected entities. During the year it made grants of £515,000 to the Museum (£654,000 in 2003/04).

The American Friends of the British Museum (AFBM) is committed to supporting the Museum’s development by raising funds for the Museum in the United States. It is administered in New York. It is independent of the Museum and a majority of its Board Members are not Trustees or senior employees of the Museum or of the BMDT. During the year it made grants of £504,000 to the Museum (£333,000 in 2003/04).

Some curatorial departments are also supported by groups of supporters: the Caryatids (Greek & Roman Antiquities), the Friends of the Near East (Ancient Near East), and the Patrons of Old Master Drawings (Prints and Drawings).

The Board of Trustees

The governing body is the Board of Trustees whose members are appointed for fixed terms of service and are listed in *Appendix 1*. They are non-executive and unpaid. The Board meets quarterly to lead and control the Museum and is aided in this respect by three subcommittees of the Board: the Standing Committee, the Audit Committee and the Nominations and Governance Committee. Matters for the Board’s decision and the respective responsibilities of the Board, Trustees’ Committees and Management are clearly defined. The Board has access to independent financial advice and the Governance Manager ensures that Board procedures are followed.

In particular, the Board:

- appoints the Director, subject to the approval of the Prime Minister and determines his contract of employment. The Board reviews the Director’s performance annually
- seeks to give a full account of the Museum’s affairs in this Report and Financial Statements which it publishes annually
- takes due cognisance of the Financial Memorandum and Management Statement agreed with the DCMS and of the Three Year Funding Agreement
- establishes policies and strategy covering the major aspects of the Museum’s work
- considers and agrees the Plan to fulfil the policies
- monitors the achievement of the Plan.

The Accounting Officer

Mr Neil MacGregor is the nominated Accounting Officer for the Museum. The Accounting Officer is responsible under the Board for the overall organisation, management and staffing of the Museum and its procedures in financial and other matters, including conduct and discipline. The Accounting Officer is responsible to Parliament and to the Accounting Officer of DCMS for resources under his control. The essence of the role of Accounting Officer is a personal responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper accounts, for prudent and economic administration, for the avoidance of waste and extravagance and for the efficient and effective use of all resources under his charge. The Accounting Officer has a responsibility to see that appropriate advice is offered to the Board on all these matters. These include the provision of assurances contained in the Report and Financial Statements.

Internal Control

Both the Board and the Accounting Officer have ultimate responsibility for the system of internal control applied at the Museum. The system employed is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The main components of the system are: a defined Trustees' Board and Committee structure, a defined Directorate, Management Group and task force structure, a set of policies agreed by the Board, a risk management process, a financial reporting and monitoring process and an internal audit function.

Trustees and Senior Staff Transactions 2004/05

None of the Trustees, members of key management, staff or persons connected with them has undertaken any material transactions with the Museum in 2004/05. The Museum reimbursed Churchill College Cambridge £11,406 towards the costs of secretarial support for the Chairman. The full register of interests of the Trustees is held at the Museum, where it may be seen by application to the Governance Manager.

Staff Policies

The British Museum endeavours to safeguard the quality of its work by ensuring staff of the highest calibre are recruited, that they are well trained and that they are well managed and work in an environment in which they can give of their best. Regular communications with staff are effected by a number of means:

- the British Museum consultative committee meets quarterly to allow matters raised by staff to be aired between management and union representatives; employees are encouraged to discuss with their representatives any matters about which they are concerned and factors affecting the Museum. The Chairman and Director attend one meeting each year
- minutes of Management Group meetings are placed on the Museum intranet
- the Directorate holds informal weekly meetings open to all staff, with presentations and open discussion of topical issues

- the Museum Plan is made available in summary form on the Museum's intranet and the Directorate held open meetings with staff to explain the principles underlying it
- office notices are regularly issued to advise staff of events, job opportunities, organisational changes, common procedures and where to find information.

The British Museum is an equal opportunities employer. It recruits people based on merit and seeks to recruit from the diverse communities in London and nationally. It has a published HR policy on the recruitment, employment and development of staff regardless of their gender, ethnicity, sexual orientation or disability. The Museum also has procedures to adjust work or the environment if appropriate when a person's circumstances or abilities change.

The Health and Safety manager has maintained awareness in the organisation and continues to achieve improvements in health and safety practice. A health and safety committee meets quarterly, acting as a forum to consider accident records and for health and safety issues to be aired between management and staff representatives.

A confidential employee assistance programme, offering independent professional help on personal issues whether work related or otherwise, is available to all staff and continues to have a steady uptake.

Payment Policy

The Museum aims to abide by the Better Payment Policy and to settle bills within 30 days or by the due date. In 2004/05 it paid 71% of invoices within the target.

Changes in Fixed Assets and Future Developments

There were no significant changes in fixed assets during the year. The Museum is developing a programme of improvements to the buildings and the care of the collections.

Accounting Officer Neil MacGregor

Trustee Sir John Boyd

Trustee David Lindsell

13 July 2005

STATEMENT OF TRUSTEES' AND ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 9 (4) and (5) of the Museum and Galleries Act 1992, the Trustees of The British Museum are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The accounts are prepared to show a true and fair view of the Museum's financial activities during the year and of its financial position at its year end.

In preparing the Museum's accounts the Trustees are required to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply them on a consistent basis
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards and statements of recommended practice have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Museum will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport designated Neil MacGregor as the Accounting Officer for the Museum. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

Accounting Officer Neil MacGregor

Trustee Sir John Boyd

Trustee David Lindsell

13 July 2005

STATEMENT ON INTERNAL CONTROL

1. **Scope of responsibility**

As Accounting Officer I, Neil MacGregor, have responsibility for maintaining a sound system of internal control that supports the achievement of the British Museum's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As Chairman of the Audit Committee of the Board of Trustees I, David Norgrove, have delegated responsibility from the Board of Trustees for satisfying myself and the Board that such a sound system of internal control is maintained within the British Museum.

The Museum has a three-year Funding Agreement with its sponsor department, the Department for Culture, Media and Sport, which includes targets in support of the Department's own Public Service Agreement targets and which identifies the most significant risks to achievement of the Museum's objectives. Progress against the Funding Agreement targets is monitored at least twice a year.

2. **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Museum's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. **Capacity to handle risk**

The Accounting Officer has overall responsibility for the Museum's risk management framework. The Directorate Group, which meets to receive and consider reports or recommendations for action or decision to the Accounting Officer, co-ordinates the management of risk within the Museum's departments and ensures that the Museum's risk register is kept up-to-date. It is supported for this purpose by the Director of Finance, with advice from Internal Audit. Risk management within departments is supplemented by risk assessments and monitoring by project managers for cross-departmental projects.

4. The risk and control framework

The Museum Management Group and the Directorate Group notify new risks as they arise to the Director of Finance, who maintains the Museum's risk register. The Directorate Group regularly reviews the risks on the risk register, reassesses their likelihood of occurrence and potential impact and considers indicators for monitoring the risk, actions to reduce the likelihood and appropriate responses should the risk materialise. The responsibility for managing each risk is assigned to a senior manager in the Museum.

The Audit Committee of the Board of Trustees reviews the risk register and actions taken at each of its meetings. It focuses on the risks scored highest for combined likelihood and impact and challenges the Museum's officers for evidence of good management. It holds meetings with the Museum's middle management to assure itself that risk management and internal controls are thoroughly understood and effectively implemented at operating level.

The risk management priorities for the Museum during 2004/05 have been to establish structures and responsibilities for implementing the Plan, to modernize processes to improve outputs, to build public support, to develop effective space planning, to address security issues and to invest in organisational development.

Risk management is embedded within the organisation through established business planning and project management processes, which ensure that risks to achieving business plan initiatives are identified as the initiatives are developed and project risks are considered at each project gateway. Significant progress has been made in designing, documenting and implementing a comprehensive approach to managing emergency situations. Further attention will be paid in 2005/06 to the development of business continuity & recovery plans and ensuring that risk management is applied appropriately to the Museum's operational activities.

5. Review of effectiveness

We have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors, who issue an annual report that includes the Head of Internal Audit's opinion of the overall adequacy and effectiveness of the risk management, control and governance processes
- the Directorate Group, which reports on the effectiveness of risk management and the Museum's system of internal controls to the Accounting Officer, who reports to the Audit Committee four times each year

- the Audit Committee, which has oversight of the internal audit function. The Chairman of the Audit Committee reports to the Board of Trustees annually for its approval on the effectiveness of risk management and the Museum's system of internal control, quarterly to provide updates on progress against action points on the risk register, and as required for emerging issues related to risk management
- the executive managers within the Museum, represented by the Museum Management Group, who have responsibility for the development and maintenance of the internal control framework and who advise the Directorate on risks and risk management
- quarterly reports from the Head of Security to the Directorate Group
- comments made by the external auditors in their management letter.

In addition, all budget-holders provide the Accounting Officer with annual Assurance Statements.

We have been advised on the implications of our review of the effectiveness of the system of internal control, by the Board and the Audit Committee. We plan to address weaknesses and ensure continuous improvement of the system is in place.

The system of internal control has been in place in the British Museum for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. We will ensure that there is continuous improvement to the system.

Neil MacGregor
13 July 2005

David Norgrove
13 July 2005

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 19 to 38 under the Museums and Galleries Act 1992. These financial statements have been prepared in the form directed by the Secretary of State for Culture, Media and Sport and approved by Treasury; they have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 and 25.

Respective responsibilities of the Trustees, the Accounting Officer and Auditor

As described on page 13, the Trustees and the Director of the British Museum, as the Accounting Officer, are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions funded via Parliament. The Trustees and the Director are also responsible for the preparation of the Foreword and Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary of State for Culture, Media and Sport thereunder, and whether in all material respects the expenditure, income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the other contents of the Foreword are not consistent with the financial statements, if the British Museum has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 to 16 reflects the British Museum's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the British Museum's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with the United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Director in the

preparation of the financial statements, and of whether the accounting policies are appropriate to the Museum and the group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure, income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the British Museum and Group at 31 March 2005 and of the incoming resources, application of resources and cash flows of the group for the year then ended and have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure, income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

15 July 2005

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