

NATIONAL ARMY MUSEUM
REGISTERED CHARITY NUMBER 237902
FINANCIAL STATEMENTS
31ST MARCH 2006

NATIONAL ARMY MUSEUM
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YEAR ENDED 31ST MARCH 2006

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NATIONAL ARMY MUSEUM
FOREWORD AND REPORT OF COUNCIL
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REFERENCE AND ADMINISTRATIVE INFORMATION

Introduction

The accounts for the National Army Museum are presented for the financial year ended 31 March 2006. The accounts are prepared in accordance with a direction given by the Secretary of State for Defence under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales.

The National Army Museum is a charity registered with the Charity Commission (reference no. 237902).

Address and principal office of Museum

National Army Museum, Royal Hospital Road, Chelsea, London SW3 4HT

Professional Advisers

Bankers

Lloyds TSB Bank Plc
4th Floor
Hays Lane House
1 Hays Lane
London SE1 2HA

Solicitors

Charles Russell	Penningtons
8-10 New Fetter Lane	Bucklersbury House, 83 Cannon Street
London	London
EC4A 1RS	EC4N 8PE

Auditors

National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Internal Auditors

Daly, Hoggett & Co
5-11 Mortimer Street
London
W1T 3HS

Investment Advisers

Richard Nunneley
ABN Amro
82 Bishopsgate
London
EC2N 4BN

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STRUCTURE, GOVERNANCE AND MANAGEMENT

Background Information

The National Army Museum (NAM) was established by Royal Charter in 1960 to collect, preserve, and exhibit objects and records relating to the Regular and Auxiliary forces of the British Army and of the Commonwealth, and to encourage research into their History and Traditions. Devolved status was accorded to the Museum under the terms of the National Heritage Act 1983. The annual Grant-in-Aid, made through the Ministry of Defence (MOD), is administered by the Director of the Museum on behalf of the governing body, the Council of the National Army Museum.

Appointment of Members of Council

At a Privy Council Meeting on 22 May 2002, Her Majesty The Queen approved amendments to the Royal Charter of the National Army Museum. In line with para 7(2) of the amended Royal Charter the Members of Council at the date on which the Article came into effect, who had been nominated by the Army Board continued to be Members of the Council and the *ex officio* Members ceased to be Members from that date. In line with para 7(3) of the amended Royal Charter, vacancies in the Membership occurring after the coming into effect of the amended Royal Charter are filled by persons nominated by the Council and approved by the Army Board. Para 8(1) of the amended Royal Charter states that the Chairman of the Council of the National Army Museum shall be nominated by the Council from among its Members and shall hold office (unless he or she shall earlier resign) for the residue of the period for which he or she has been appointed a Member. General Sir Jack Deverell was elected Chairman of Council at the 125th Meeting on 7 September 2005.

Council has chosen to subscribe to the Commissioner for Public Appointments Code of Practice for Public Appointments Procedures. In particular, Members of Council have affirmed their commitment to the Seven Principles of Public Life.

A Register of Interests is maintained for Members of Council. This may be inspected on request at the Museum by prior appointment with the Director.

Members of Council

Admiral Sir Jeremy Black GBE KCB DSO

General Sir Jack Deverell KCB OBE from June 2005 (Chairman)

The Rt Hon Lord Freeman PC MA FCA CRAeS from June 2005

Mr Richard Marriott CVO TD until June 2005

The Hon David McAlpine

The late Sir Nigel Mobbs until September 2005

The Right Reverend Peter J Nott

Professor Brian Holden Reid MA PhD FRHistS FRGS FRUSI

The Lady Vaizey

Major General Charles G C Vyvyan CB CBE MA MSc from June 2005

General Sir John Waters GCB CBE JP DL (Chairman) until June 2005

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Recruitment, Appointment and Training of Trustees

New Members of Council are sought through national advertisement with subsequent applicants being interviewed by members of Council assisted by external assessors. Recommendations are then made for approval by the Army Board. All new trustees receive information as laid down by the Charity Commission. They also visit the Museum for Induction training provided by the Museum Director.

Organisation Structure and Decision-Making Process

The overall direction and operation of the NAM is vested in the Council of the Museum. The Council of the National Army Museum consists of up to nine members who serve for a period of three years from the date of their nomination. The day-to-day operations are controlled by the Director of the NAM with the assistance of a Management Team.

The following were the members of the Management Team during the year:

Dr Alan J Guy	Director
Dr Peter Boyden	Assistant Director (Collections)
Mike O'Connor	Assistant Director (Operations)
David Smurthwaite	Assistant Director (Museum Services)

Frequent meetings of the Management Team take place, together with meetings involving Heads of Department and subject specialists to ensure the smooth running of the NAM, with reference to the Museum Mission Statement and the Museum's Risk Management Policy & Matrix of Risks. The Matrix of Risks, which is regularly updated, is used as the basis of Internal Audit.

Internal Re-organisation

From 1 June 2005 the opportunity was taken to effect a change in the organization of the Administration Division. The position of Strategic Facilities Manager was deleted from the NAM organisation, this role having been subsumed into a newly-formed Operations Division, headed by an Assistant Director (Operations). The new Division encompasses the former Administration Division, including warding and security, but with the exception of the Department of Human Resources, which for the time being reports immediately to the Director; the Department of Retail Services which now reports to the Assistant Director (Museum Services) and the contract caterer, whose work in the Museum is overseen by staff of the Museum Services Division.

On 1 May 2005, the Department of Human Resources (HR) was formally constituted to take over and expand duties formally carried out by the Personnel Section of the Museum Secretariat, which was part of the Administration Division. There is direct input from the Department into Management Team Meetings, Management Team Sub-Committees, the Internal Audit process and reports to Council and Council Sub-Committees.

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OBJECTIVES AND ACTIVITIES

The Mission Statement

The NAM's Mission Statement is:

'To interpret and communicate the objects in the Museum's care in ways which inspire, provide enjoyment and provoke questions from the NAM's visitors.'

The NAM has an important role on behalf of the Nation as a repository of the history and heritage of the British Army, as well as supporting the Defence Purpose through its contribution to the Army's image in society; to the remembrance of those who have served, and to the education of Servicemen and Servicewomen. In addition, the NAM sees its wider educational role in the community as important in contributing to the delivery of The National Curriculum and Life-Long Learning. Visitors are currently admitted to the NAM Chelsea, and all the Exhibitions there, free of charge.

Review of Activities

The NAM Council's aspirations for the future development of the Museum have, in the year ended 31 March 2006, been mediated through a rebranding process which resulted in a newly expressed Purpose for the Museum approved by Council at the 126th Meeting held on 26 October 2005. The Museum wished to demonstrate its contribution to the Defence Purpose, and to be more widely recognized as a focal point for the Army's material heritage, ethos and *esprit de corps* so that the NAM acts as a link between the Army and Society, helping to ensure that the two never grow apart. The NAM's Purpose is thus:

- (i) to reconnect the Army with society;
- (ii) to explain the Army so that everyone can see how it has protected society over time;
- (iii) to explain what the Army did/does, why it did it, how it did it and the impact it has had on the nation;
- (iv) to use objects in its Collections as tools to deliver the Story of the Army and not as an end in themselves;
- (v) to link the past with the present.

This Purpose was arrived at through a period of intense research and consultation, involving staff at all levels of the Museum and mediated through a team of external consultants drawn from Messrs Wolff-Olins and Prince Research Consultants (PRC) Ltd. Expenditure related to this vital activity appears in the Statement of Financial Activities under the headings Restricted Grant-in-Aid Fund: Cost of Charitable Activities.

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In detail, the Museum conducted an indepth study of those areas of work - collections management, branding, service delivery, diversity and access - which had been identified as essential to the future development of the NAM. In broad terms the conclusions were as follows:

- Create a strong 'user friendly' brand that communicates positives to the Museum's clients - whether they are actual visitors to NAM Chelsea, or users of its services
- Engage the MOD at the proper level of sponsorship and support for the Museum
- Progress the development of NAM Chelsea as a public attraction, for service delivery and as a focal point for fund-raising activities
- Develop the Museum's potential for sustainable revenue generation
- Put in place a staffing policy and structure which properly supports the Museum's needs and provides scope for staff development
- Implement the Acquisitions & Disposals Policy to the fullest extent, concentrating in future on those Collection items of core significance to the Story of the British Army, as expressed in the newly minted Purpose
- Continue to rationalize, and reduce, the scale of the NAM's Heritage Military Vehicle Collection, currently accommodated, on a temporary basis, at DSDC (North), Donnington so that it is in line with the Purpose, and of a size commensurate with the resources likely to be available to house and maintain it in future.

ACHIEVEMENTS AND PERFORMANCE

Creating a Museum 'brand'

The pre-2005 Mission Statement: "To Collect, Preserve and Exhibit Objects and Records relating to the History of the British Army from c1415 until the Present Day, so that the Achievements, History and Traditions of the British Army should be better made known" was reconsidered so that, as stated earlier, it is now:

'To interpret and communicate the objects in the Museum's care in ways which inspire, provide enjoyment and provoke questions from the NAM's visitors.'

This is much more dynamic than the former version, and means in practice that to appeal more widely to our users, to opinion-formers and decision-makers, grant-making bodies, potential sponsors, donors and 'friends' of all kinds, the NAM's image needs to be changed from a military/antiquarian one to a museum of British history and culture, with a distinctive 'brand', vision and personality evident in all its activities.

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NAM Chelsea

The Museum Council has stated that it wishes to progress the development of NAM Chelsea as a public attraction, which not only delivers the relevance demanded by the public, but which also concentrates on the strengths of the existing building and minimises its weaknesses. In so doing it is providing a platform for fund-raising, although for the time being this development will have to be carried on through a process of 'refreshment', rather than costly refurbishment, using Grant-in-Aid to regenerate zones within the Chelsea building as a showcase for potential stakeholders.

Collections Review

The Collections are the Museum's 'stock in trade' and as such are the basic reason for its existence. For many reasons, acquisition had until 2003 been favoured over accommodation or exposition. Meaning, purpose and significance have often only been recovered, or imagined, with difficulty. Long-standing accommodation problems at Chelsea, Sandhurst and elsewhere have contributed to this situation, but the progressive implementation of the Museum's Acquisitions & Disposals Policy, which began in earnest in 2003 in relation to the Collection of Heritage Military Vehicles (HMsVs), has led to a searching review of the Museum's priorities, in line with its newly expressed Purpose.

The heart of the HMsV Collection, the most challenging part of the Museum's holdings to manage, consists of vehicles selected over many years by the former Royal Corps of Transport (RCT) to illustrate the development of British military transport from the 1920s to the 1960s. There was (and is) no comparable collection in any military museum in the United Kingdom - or for that matter in the World. It represents a vital and irreplaceable link in the material history of the British Army. The predominant curatorial effort during the year was expended on this Collection, together with assessing the difficult options surrounding its future location. Overall, since January 2005, some 165 heritage road vehicles, railway locomotives and equipments have been reduced, through loan and gift to appropriate organisations, to some 117, with a further reduction planned. In 2005/06 the MOD extended financial support for the NAM to maintain the HMsV Collection at Donnington until 31 August 2006. The understanding, advice and support of the MOD in securing this important Collection for the time being is warmly acknowledged.

In other areas of work, during the year staff of the Department of Conservation carried out preservation procedures on a wide range of materials, gave advice on storage and other preventative conservation methods, and in these and other ways contributed to the overall success of the Museum. While most of this work was concentrated upon items in the NAM's own collections advice was also given to other institutions - particularly regimental and corps museums sponsored by the MOD.

Accessions to the Collections

Accessions and retrospective cataloguing are entered on the Museum's centralized Collections Database and Network Infrastructure (CABAL). The Department of Computer Services has continued to plan the future of the CABAL system with an emphasis on integration with a Website Content Management System and the seamless integration of the Department of Photography's conversion to digital photography. Our main database platform has been upgraded from Filemaker 6 to the latest version 8, bringing with it many enhancements.

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The number of new Accession Numbers issued during 2005-06 totalled 2,506 (2004-05: 1,375) out of 6,287 (2004-05: 5,192) accessions entered, divided between the following departments: Weapons, Equipment & Vehicles (WEV): 1,572 (520); Archives, Photographs, Film & Sound (APFS): 404 (464); Fine & Decorative Art (FDA): 425 (305); Uniform, Badges & Medals (UBM): 105 (85). In addition, 258 (485) new records were created by the Department of Printed Books in this period.

The Documentation Team continued to keep pace with new accessions over this period despite a period of downtime after Christmas due to the upgrading of CABAL. The entry of records for existing items in the collections continued during the year, with the following totals being entered on CABAL:

Master Records entered:	6,287
Part Records entered:	20,179
Printed Books entered:	258

This provided overall totals for CABAL entries 1998 to 2006 as follows:

NAM new Accessions:	24,495
CABAL total Data Records:	55,878
CABAL total Part Records:	193,807

These records document some 450,000 individual artefacts. The Museum's Negative List Database currently holds 104,300 photographic records and forms an integral part of CABAL. It links digital images to catalogue records with a total of 35,705 scanned images now loaded onto CABAL of which 16,601 have data records linked to them. All new digital photography is formatted in such a way that new images are incorporated into CABAL as a matter of course.

The Computer Services Department has continued to enter data on objects currently on display, cross-referencing data resources and creating location reports. The Documentation Team has progressed work on formatting, terminology and data standards, Object Names (badges and medals) and keywords. Desktop access to digitised Accession Registers has been provided for staff.

Acquisitions

During the year the Museum acquired a number of important objects whose potential acquisition was measured against two overriding criteria: did they tell a story relevant to the Army and did they link the past with the present, as required by the newly expressed Purpose? With the generous financial assistance of the Society of Friends of the National Army Museum (SOFNAM) the Museum was successful at auction in acquiring two historic items originally owned by General James Wolfe, the hero of Quebec (1759), namely his campaign candlestick and a very early portrait miniature.

The letters and photograph albums of Captain Philip Asprey MC, dating from the First World War, proved another significant accession during the year, and forming a welcome addition to the Museum's substantial holding of Buffs (Royal East Kent Regiment) records. The Museum was successful at auction in bidding for 18 letters of General Sir Charles Napier 1807-50, many of which deal with the neglected subject of the military's response to the Chartist agitation of 1839. Also secured at auction were the letters of a wife of a gunner in the Royal Artillery at the end of the Napoleonic Wars. Such material is rare in the extreme and its acquisition shows the Museum's commitment to reflecting the totality of life in the Army.

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Access

The number of visitors to NAM Chelsea in 2005-06 totalled 107,576 (2004-05: 119,972) a disappointing fall of 10% on the previous year. The first three months of the financial year (April-May-June 2005) had seen a year-on-year increase, but the terrorist attacks in London on 7 July 2005 and subsequent alarms had a palpable effect on visitor numbers. Overall, a reduction of 10% on the previous year's total was by no means as bad as some other London museums, which registered declines averaging 30% but, month-by-month, the impact is very apparent. July, August, September and October 2005 saw a reduction in visitor numbers year-on-year by 22%, and although there was a partial recovery from November 2005 comparability was not fully restored until March 2006. In contrast, and possibly due to the fall in visitors occasioned by terrorism, the number of users who accessed the Museum remotely by Email, website, letter or telephone rose by nearly 79% to 933,758. This means that during 2005-06 the NAM had purposeful contact with 1,094,000 users from its Chelsea base. If the outreach total for the year is included this figure rises to over 1.2 million people from Great Britain and overseas, a positive indication of the NAM's growing impact on public consciousness.

Special Exhibitions & Permanent Galleries

The work of the staff in conjunction with the Museum's team of external consultants focussed on deliverable projects that would quickly capture the attention of the public in line with the Museum's Purpose. Accordingly, the Museum's exhibition programme for 2005-06 saw the opening of four Special Exhibitions together with refurbishment work in the Permanent Galleries and the completion of a major new gallery *The Kids' Zone*, ready for opening to the public on 10 April 2006.

The first Special Exhibition of the year was a unique photographic display of military graffiti, opened on 5 September 2005. Photographs taken in Iraq in October 2004 by WO2 Giles Penfound, Chief Photographer in the Army Combat Camera Team, were enlarged for use as graphic panels in an innovative and darkly humorous display which attracted significant Press interest. The need to leave a footprint or a mark in time is common to the warrior and traveller alike. It is no surprise then that today's soldiers should embrace the 'art' of graffiti to reflect the universal trials and tribulations that beset them, whether boredom, disillusionment or fear. The availability of these images through the Army demonstrates the important link between the Museum and the men and women who serve in the armed forces today.

The second Special Exhibition of the year was *Finding the Fallen*, which opened on 11 November 2005. This was based around a recent collaboration between the NAM and the Discovery TV Channel. A series of five programmes was made in 2005 about the archaeological excavation of British trenches on the Great War battlefields of France and Belgium. The series was intended as an investigation of life in the front line, but it actually revealed more about the grim reality of death in action, as the archaeologists uncovered human remains. The Exhibition was designed by the Museum not to illustrate the series, but to explain the process of this new discipline of battlefield archaeology.

To reinforce the Museum's new Purpose, a third Special Exhibition, *Intrigues and Bloody Encounters*, was mounted in the Lower Foyer, comprising watercolours by *The Times* war artist and TA soldier, Matthew Cook, illustrating his experiences in Iraq in 2003 and 2004. The watercolours were accompanied by a large, intact, official portrait of Saddam Hussein recovered from Basra by a unit of the Royal Engineers.

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On 17 March 2006, St Patrick's Day, the fourth Special Exhibition, *Painting the Troubles*, opened to the public, showing paintings and drawings by former National Serviceman, Dr Ralph Lillford, created during several visits to Northern Ireland in the early 1970s. Running until 24 September 2006, the exhibition is accompanied by a catalogue by Jenny Spencer-Smith, Head of the Museum's Department of Fine & Decorative Art, and has been covered by BBC TV and radio in Northern Ireland, as well as appearing in various National Press listings. It is believed to be the first exhibition of its kind dedicated to this difficult subject and challenges public expectations and perceptions of an Army museum.

Inspiring Learning for All

The total number of visitors who engaged with the Education Department this year was 124,780, broken down into various categories. The number of Primary (4,880) and Secondary (9,526) students attending the Museum has stayed in line with previous years, as has the number of Special Needs visitors. Sixth Form visits (322) have increased over last year's figures, as did Adult Groups (6,931). Over 2,500 serving soldiers and veterans also visited Chelsea.

Outreach saw a significant increase over last year's numbers, with 93,863 people having face-to-face contact with Museum staff. A considerable proportion of this number resulted from the National Army Museum's presence at the VE-VJ *Living Museum* Commemorative Event, organized by the MOD, in St. James Park (4-10 July 2005). The Museum's Education Department was responsible for the concept and feasibility testing of this event for the 60th Anniversary Commemorations World War II Project Team, Ministry of Defence. *The Living Museum* attracted an official total of 85,000 visitors. It gave some indication of what might be achieved in future through targeted Outreach in conjunction with the Sponsor Department.

The year's programme of Lunchtime Talks once again provided adult and family education to a very disparate audience of 1,891 people, and covered a vast range of topics with lecturers drawn from both internal and external sources. The Department also hosted five Study Days and Conferences, with 355 paying attendees, covering such subjects as the Battle of Waterloo and Battlefield Archaeology.

The Special Events programme saw a wide range of periods and subjects delivering weekend events, such as *Valiant Creatures* (3-4 September 2005) which explored the role of animals in war, and *Jive Christmas* (10-11 December). The latter theme was chosen as a final celebration in a year marking the sixtieth anniversary of the end of the Second World War in Europe and the Far East. The Museum entrance became a wintry Berlin checkpoint and recreations of British Army barrack rooms in Malaya and Palestine demonstrated how the serving soldier kept the Christmas spirit alive.

On the weekend of 6-7 August the Museum was host to *Camouflage* a weekend of activities for children planned by the National Army Museum to offer young people a glimpse of life as a soldier. Initiative challenges demonstrated problem-solving, teamwork and leadership potential. Armed with all this knowledge children could then enter 'The Mind Zone' to test Army knowledge over three scenarios using state of the art interactive panels. From 26 November to 21 December the Museum acted as host to the BBC World War II 'People's War' Pod. This created a unique archive opportunity for anyone to share their stories with the rest of the nation and to provide a personal account of Britain during the Second World War. The results can be shared by all at www.bbc.co.uk/ww2, and they will become an important resource for future generations.

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The Education Department, in concert with the Department of Public Relations, and working to the rebranding process, as well as recent Museum, Library and Archives Council (MLA) initiatives, identified a need for formal qualitative analysis of visitor experiences. The Museum's visitor response cards have hitherto largely catered for complaints. Positive, or more complex, visitor responses have mostly been gathered in an ad hoc and visitor-initiated fashion in the form of letters, for example:

Thank you to all the staff for the hard-work which ensured such a well-run, amusing, touching, interesting "Jive Christmas" last Saturday! I enjoyed every minute of it and now have 2 wartime hats just like my mother used to wear. More please!

Comments such as these can be analysed qualitatively using the Generic Learning Outcomes (GLOs) template provided by Inspiring Learning for All (ILfA), an MLA initiative. The statement clearly shows that this visitor had a good response in terms of Knowledge and Understanding; Skills; Enjoyment, Inspiration and Creativity; and Activity, Behaviour and Progression – four of the five GLOs identified by ILfA.

The range of participation by NAM staff in external events requiring expertise in the history and achievements of the Army can be gauged from the following select examples:

Television programmes:

Finding the Fallen (Discovery Civilisation/Yap Productions)

First and Last (ITV)

The Real Dad's Army (Channel 4)

Two Men in a Trench (BBC 2 and History Channel)

Timewatch (Channel 4)

Secrets of the Somme (Channel 5 and History Channel)

Battlefield Detectives (Channel 5 and History Channel)

European outreach (lectures):

France

Germany

Hungary

Conference organized by the International Committee of Museums and Collections of Arms and Military History (ICOMAM), Canada. ICOMAM is a Committee of the International Council of Museums (ICOM).

Pastoral Care

The NAM continued its Pastoral Care Policy for Regimental & Corps Museums, helping museums in Cardiff, Inverness, Westerham, Bexley Heath, Portsmouth, Windsor, Enniskilling, and Leicester with Heritage Lottery Fund (HLF) applications or gallery re-displays. Assistance was also provided in Washington and London to the planning of the National Museum of the United States Army (NMUSA), to which the NAM is a consultant.

The Museum ran two five-day training courses for Regimental Museum Curators during the year and these were attended to capacity.

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Information Technology & Communications

Intensive work was carried out in the last quarter of the financial year on the redevelopment of the NAM Website, thereby successfully meeting a re-branding deadline in March 2006. This involved structural and design changes to the site, as well as a revision of most of the existing content and the sourcing of new images and icons throughout. New and revised content was provided for large sections of the Website - particularly in the form of Access provision through Gallery Guides, Online Exhibitions and Trails, and the Fact Files and Research sections.

Trading Activities

After the successes of recent trading years it is a matter of regret to have to report a decline in relation to the NAM Shop - £135,608 trading income in 2005/06, compared with £176,126 in 2004/05. The details are in the Notes to the Financial Statements, Section 5, Commercial Trading Operations. Some of this can be explained by the fall in visitor numbers to NAM Chelsea registered after the events of 7 July 2005, as reported earlier. Increased user access via the Museum's website does not compensate for that. Additionally, it proved to be a far from easy matter to replace the high-performing Retail Services Manager who left the Museum's service in November 2004. As the Financial year 2006/07 unfolds however, signs are much more promising with the appointment of a new Retail Services Manager in November 2005, stock reorganization, improvements to the orientation area of the Museum where the Shop is situated and, from April 2006, record visitor figures to the Museum. It is hoped that these circumstances, and the increased penetration of the NAM into the public consciousness, will result in better figures for the trading year in progress.

Managing People

The Museum staff are its most important asset.

During the year the Department of Human Resources has begun what will become an annual review of all existing Museum Human Resource policies and their compatibility with legislation and good practice.

The following new Policies have been introduced:

- Managing Attendance at Work Policy
- Domestic Violence Policy
- Flexible Working Policy
- Leave Entitlement Policy

Two existing Policies were revised:

- Standards of Conduct required of Staff relating to Equal Opportunities at Work, Harassment, Bullying, Fighting and Incidents of Violence at Work
- Museum Dress Code

Other initiatives taken by the Department include exit interviews with every member of staff leaving the Museum service; calculations of the overall cost of sick absence for the organization, with strategies for its reduction; a strategy for effective recruitment and retention; an analysis of stress at work and its implications; staff opinion surveys; a Job Evaluation System to ensure a fair and consistent approach to pay and grading.

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FUTURE PLANS

Much of what has been reported above represents work in progress and it will be continued into the Financial Year 2006/07 and subsequent years.

The most significant objectives are as follows:

Delivering the new Brand

The time frame of the story told by the Museum will begin in 1066, and its content will centre upon the relevance of the Army to the development of Britain, and the contribution of the British soldier to world history. The permanent displays will be presented in four major galleries as follows:

The Making of Britain 1066-1783
Changing the World 1784-1904
World Wars 1905-1945
Fighting for Peace 1946-2006

To provide a suitable context for the visitor, the Museum's lower foyer will house an Orientation Area in which three questions (Why are wars fought? Who fights them? What are the Results of warfare?) will be posed and answered through a multi-projector 'Visualisation Centre'. The Orientation Area will lead straight into the first gallery where the story will start with the Norman Conquest. Each gallery will be story led, and only objects which contribute to effective story-telling will be selected for display.

Each gallery must meet the following criteria in presenting its story to the visitor:

- Be accessible to a family audience
- Link the past to the present
- Offer multiple perspectives on objects and issues
- Bring stories to the fore
- Show a common editorial voice
- Be aware of the problems of hindsight
- Have content appropriate to all the principal learning styles

Understandably, these developments must be subject to funding and efforts will be made to engage the Sponsor Department, the MOD, with this project; to attract non-MOD grants and to fund-raise independently.

'Quick Wins'

In the meantime, in order to demonstrate to the Museum's many stakeholders that change is happening and provide a platform for fund-raising, six 'Quick Wins' have been proposed for implementation, also as funding allows. These are the operation of a Children's Gallery (Kids' Zone), completed at the end of 2005-06 and opened to the public in April 2006; the introduction of an Orientation Area; the use of the major public corridors at NAM Chelsea building as interpretative prologues and epilogues for the galleries; the introduction of a number of new museum trails; the renewal of the Museum's website, and the re-location, renewal and re-launch of the Museum's Reading Room as the Templer Study Centre, in memory of the Museum's founder, Field Marshal Sir Gerald Templer (1898-1979).

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Providing for the future of the Heritage Military Vehicle and other Collections currently held at DSDC (North), Donnington

This remains an area of major concern for the Museum. With the support of the Sponsor Department the Museum is seeking to ensure the future of this unrivalled Collection, whether it be through care at the NAM or by dispersal or disposal to museums accredited by the MLA or other well-founded institutions where collections care and public access may be ensured.

Involving the Staff

With all these projects in mind; to improve internal communication, to maintain the flow of ideas for the development of the Museum, and to oversee the implementation of gallery plans and 'Quick Wins', a system of interlocking staff groups has been created.

Floor Teams -	involved with display, interpretation and the production of content
Website Team -	implementing digitalisation and user delivery
Access Group -	overseeing the management of the collections, their learning potential, audience development and visitor services
Staff/Management Forum -	addressing issues of Museum 'culture' and providing for consultation and feedback

These groups report to a Control Group of senior management and subject specialists which in turn reports to the Management Team and the Director.

Managing People Better

The process of policy development led by the Department of Human Resources will continue in 2006/07 with the completion of a fully revised Child Protection Policy, a Volunteer Policy, a Work Experience Policy and a fully revised Disciplinary & Inefficiency Policy.

All the policies listed will be incorporated in a comprehensive National Army Museum Staff Handbook.

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FINANCIAL REVIEW

Results for the Year ended 31 March 2006

Total incoming resources for the Museum in 2005-06 amounted to £5,314,261 (2004-05 £5,632,785). The principal funding source of the Museum is Grant-in-Aid funding received from the Ministry of Defence. In 2005-06 this was £4,871,374 (2004-05 £5,167,932). Total resources expended amounted to £5,931,307 (2004-05 £5,307,362). After adjustment for notional charges and other recognised gains and losses, the net movement in funds for the year showed an increase of £190,081 (2004-05 £1,028,520).

The Museum's net assets as at 31 March 2006 amounted to £20,546,120 (31 March 2005 £20,356,039).

Changes in Fixed Assets

Movements in fixed assets are shown in note 8 to the accounts.

Policy on reserves

The NAM's reserves, are defined for the purposes of this policy, as the amounts shown as 'Investments' and 'Net Current Assets' which are attributed to unrestricted funds. As at 31 March 2006, the level of the Museum's reserves stood at £765,199 (31 March 2005 £768,316).

The NAM aims to build up its restricted funds so that they can be used as needed in accordance with restrictions imposed by the donors.

Grant-in-Aid funds are used to support the day to day operations of the NAM.

The NAM aims to grow its unrestricted funds by means of prudent investment so that it has sufficient funds available to deal with such matters that arise as are not covered by Grant-in-Aid.

Investment Policy

The NAM invests surplus funds other than Grant-in-Aid in prudent investments with the aim of maximising funds towards the future development of the Museum. As a result these funds will be invested in British Government Fund Gilts, Cash Investments and Equity Bond Funds. Professionally managed equity based funds which have long-term growth as their key objective are also acceptable.

The NAM is not permitted to invest Grant-in-Aid funds.

Relationship with related parties

Details of related parties and transactions with these parties are shown in note 18 of the financial statements.

**NATIONAL ARMY MUSEUM
FOREWORD AND REPORT OF COUNCIL
YEAR ENDED 31ST MARCH 2006**

Payment of Creditors

The Museum adheres to the Government-wide standard on the payment of creditors by aiming to settle all undisputed bills within thirty days or in accordance with suppliers' terms of business.

The Museum's actual payment performance during the year was that 100% (2004/05 100%) of bills were paid within the thirty day target.

Equal Opportunities & Disabled Persons

The Museum is committed to managing staff solely on the basis of actual performance in the job and to considering new applicants solely on the basis of ability to do the job, and is seeking ways to encourage applications from people with disabilities. The Museum has issued an Equal Opportunities Policy, and monitors staff and applicants' disability status, as well as their age, ethnic background and marital status.

Employee Involvement

Senior Management maintain communication with NAM employees through Health and Safety Committee Meetings with staff and trade union representatives as well as through departmental meetings, informal meetings, and by internal memoranda. In addition, there is regular access to Human Resources and Finance Committee Meetings, which report formally to the Director.

Post Balance Sheet Events

There have been no post balance sheet events up to and including the date of signature of these accounts, which might affect the reader's understanding of the financial statements.

Auditors

These accounts are audited by the Comptroller and Auditor General in accordance with the Museum's Royal Charter. No non-audit services are provided to the Museum by the auditor.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Museum's auditors are unaware. Furthermore, the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant information and to establish that the Museum's auditors are aware of that information.

DR ALAN J GUY
DIRECTOR

GENERAL SIR JACK DEVERELL
CHAIRMAN, ON BEHALF OF
COUNCIL

National Army Museum
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NATIONAL ARMY MUSEUM
REMUNERATION REPORT
YEAR ENDED 31ST MARCH 2006

REMUNERATION POLICY

The Director of the National Army Museum is employed by the Council of the Museum on terms and conditions that are similar to MOD civil servants. His salary is set on an annual basis by the Audit and Remuneration Committee of Council.

Other members of the Management Team are also employed on terms and conditions similar to MOD civil servants. Their salary levels are set by the Museum's Human Resources Committee and approved by the Director.

SALARY AND PENSION ENTITLEMENTS

The salary and pension entitlements of the Management Team of the Museum were as follows (with comparative salary disclosures for 2004/05).

	Dr A Guy	Mr P Boyden	Mr M O'Connor
	£	£	£
Salary including London Weighting 2005/06	86,723	50,217	46,513
Salary including London Weighting 2004/05	74,419	45,185	40,966
Real increase in pension at 60	2,282	1,158	891
Total accrued pension at 60	31,796	19,934	2,906
Cash equivalent transfer value of pension at 31 st March 2006	558,000	333,000	35,000
Cash equivalent transfer value of pension at 31 st March 2005	471,063	304,000	23,000
Real increase in cash equivalent transfer value	41,000	19,000	12,000
Age	55	54	49

Mr D Smurthwaite withheld his consent to disclose the above information.

None of the above received any benefits in kind during the year (2004/05 £Nil).

No members of the Council received any remuneration during the year (2004/05 £Nil). During the year reimbursements were made to five members of the Council totalling £1,060 (2004/05 £621) for travel and subsistence and £1,180 (2004/05 £1,054) for hospitality.

For 2005-06 employers' pension contributions for the Museum as a whole of £380,531 were payable to the PCSPS (2004-05 £268,790) at rates based on salary bands as follows:

Band one	-	£18,000 and under	16.2%
Band two	-	£18,001 - £37,000	18.6%
Band three	-	£37,001 - £63,500	22.3%
Band four	-	£63,501 and over	24.6%

Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

NATIONAL ARMY MUSEUM
REMUNERATION REPORT
YEAR ENDED 31ST MARCH 2006

Salary

“Salary” includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue and Customs as a taxable emolument.

Pension Benefits

Pension benefits are provided through the Principal Civil Service Pension Schemes (PCSPS). This scheme is an unfunded multi-employer defined benefits schemes but the National Army Museum is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts for these schemes, which are published and laid before the House of Commons.

Principal Civil Service Pension Scheme (PCSPS)

From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under the classic, premium and classic plus are increased annually in line with the changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality ‘money purchase’ stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years’ pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up or commute some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

The real increase in CETV is effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

NATIONAL ARMY MUSEUM
REMUNERATION REPORT
YEAR ENDED 31ST MARCH 2006

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves the scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

DR ALAN GUY
DIRECTOR

GENERAL SIR JACK DEVERELL
CHAIRMAN, ON BEHALF OF
COUNCIL

National Army Museum

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**NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006**

STATEMENT OF COUNCIL'S AND DIRECTOR'S RESPONSIBILITIES

Under Section 30(3) of the National Heritage Act 1983 and law applicable to charities in England and Wales, the Council is required to prepare financial statements for each financial year which give a true and fair view of the National Army Museum's financial activities and of its financial position at the end of the year.

In preparing financial statements, giving a true and fair view, the Council is required to:

- Observe the accounts direction issued by the Secretary of State in compliance with Charity Law, including the relevant accounting and disclosure requirements, and apply suitable accounting policies 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, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the charity will continue in operation.

Under law applicable to charities in England and Wales, the Council is responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the charity and which enable the Council to ensure that the financial statements comply with the applicable law. The Council is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Secretary of State has appointed the senior full time official, the Director, as the Accounting Officer for the National Army Museum. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of Parliamentary funded (Grant in Aid) finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Bodies' Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

DR ALAN GUY
DIRECTOR

GENERAL SIR JACK DEVERELL
CHAIRMAN, ON BEHALF OF
COUNCIL

National Army Museum

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NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer and members of Council we have joint responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives set by the Council of the National Army Museum in the Museum's Corporate Plan, while safeguarding the public funds and the Museum's assets for which the Accounting Officer is personally responsible in accordance with the responsibilities assigned in *Government Accounting*.

2. The purpose of the system of internal control

The system of internal control is designed to manage to a reasonable level, rather than eliminate all risk of failure to achieve the Council's policies, aims and objectives for the Museum; it can therefore only provide reasonable, and not absolute, assurance of effectiveness.

The system of internal control is based on an ongoing process of assessment and scrutiny, overseen by the Audit & Remuneration Committee of the National Army Museum Council, designed to identify and prioritise the principal risks to the achievement of the Council'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. The system of internal control has been in place in the National Army Museum for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts. The Museum believes its system of internal control accords with Treasury guidance.

3. Capacity to handle risk

We have responsibility for reviewing the effectiveness of the system of internal control. The Museum has established the following process to achieve this:

- Management seeks to identify and evaluate any risks to the Museum's business in the context of their potential impact on the achievement of the objectives set by the Council of the National Army Museum.
- The identification, and evaluation, of risk is an integral part of the Museum's performance management, with the provision of appropriate risk awareness and risk management training.
- The Museum has in place a statement of Risk Appetite and Strategy supported by a Risk Register and Matrix.
- The Museum structures already in place, or which will be introduced progressively, to manage risk, in line with the provisions of the Museum's *Corporate Plan*, *Government Accounting*, the NAM Financial Memorandum, Treasury guidance and other statements of best practice.
- Meetings of the Museum Director and Senior Management Team, including sub-committees of the Management Team covering Finance, Human Resources, Health & Safety at Work, Security and Governance.

NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006

4. The risk and control framework

The Council approved at its 120th Meeting on 30th March 2004 the Museum's Statement of Risk Appetite and Strategy and Risk Matrix. This identifies and controls risks across the whole range of its activities, including museological concerns, as well as building, security, finance, employment and governance issues. The risk matrix records and grades the key risks that the Museum faces, lists the controls that are in place to mitigate the risk, details any action required, assigns control of the risk to an individual and gives a review date and who they must report to. The Audit & Remuneration Committee of Council reviews the risk matrix annually and reports its findings to the full Council.

The National Army Museum has an externally provided Internal Audit facility. The work of the Internal Audit facility is informed by an analysis of the risk to which the Museum is exposed, and annual Internal Audit plans are based on this analysis. The analysis of risk and the Internal Audit plans are endorsed by the Audit & Remuneration Committee and approved by me. At least annually, the Head of Internal Audit (HIA) provides me with a report on Internal Audit activity in the Museum. The report includes the HIA's independent opinion on the adequacy and effectiveness of the Museum's system of internal control.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors, the Audit & Remuneration Committee of Council, which oversees the work of the Internal Auditor, the Senior Management Team within the Museum, which has responsibility for the development and maintenance of the control framework, and comments made by the External Auditors, the National Audit Office (NAO), in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council, the Audit & Remuneration Committee of the Council and a plan to address weaknesses and ensure continuous improvement of the system is in place. Weaknesses identified from these reviews are fully considered, and agreed recommendations for improvements implemented at the first opportunity.

DR ALAN J GUY
DIRECTOR

GENERAL SIR JACK DEVERELL
CHAIRMAN, ON BEHALF OF
COUNCIL

National Army Museum

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NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE SECRETARY OF STATE FOR DEFENCE**

I have audited the financial statements of the National Army Museum for the year ended 31 March 2006 under the Museum's Royal Charter of 1960 as amended in 1988. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and current asset investments, and the accounting policies set out within them.

Respective responsibilities of the Council, the Director, and the Auditor

The Director, as Accounting Officer, and the Council are responsible for preparing the Foreword and Report of Council, the Remuneration Report and the financial statements in accordance with the Charities Act 1993, and directions made thereunder by the Secretary of State for Defence, and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). These responsibilities are set out in the Statement of Council's and Director's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland). I have been appointed as auditor under the Museum's Royal Charter dated 26 October 1988, and report in accordance with regulations made under Section 44 of the Charities Act 1993.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence. I also report whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Foreword and Report of Council is not consistent with the financial statements, if the National Army Museum has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 20 to 21 reflects the entity's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Council's and Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the National Army Museum's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and Report of Council and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE SECRETARY OF STATE FOR DEFENCE (continued)**

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and the Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Army Museum's circumstances and are 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure, income and resources funded by Grant in Aid 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 and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence, of the state of the National Army Museum's affairs as at 31 March 2006 and of the incoming resources and application of resources of the National Army Museum for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State for Defence; and
- in all material respects the expenditure, income and resources funded by Grant in Aid 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

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

NATIONAL ARMY MUSEUM
STATEMENT OF FINANCIAL ACTIVITIES
YEAR ENDED 31ST MARCH 2006

	NOTE	Unrestricted Funds	Restricted Funds	Restricted Grant in Aid Funds	Total Funds 2005/06	Restated (1) Total Funds 2004/05 £
		£	£	£	£	£
INCOMING RESOURCES						
Incoming resources from generated funds:						
Voluntary income:						
Grants and donations		7,672	71,296	60,000	138,968	102,660
Activities for generating funds:						
Commercial trading operations:	5	197,079	-	-	197,079	250,074
Investment income	2	27,752	13,321	13,705	54,778	47,568
		232,503	84,617	73,705	390,825	400,302
Other incoming Resources						
Grant-in-aid (operating)		-	-	4,756,374	4,756,374	5,052,932
Grant-in-aid (purchases)		-	-	115,000	115,000	115,000
Sundry income		48,883	-	3,179	52,062	64,551
TOTAL INCOMING RESOURCES		281,386	84,617	4,948,258	5,314,261	5,632,785
RESOURCES EXPENDED						
Cost of generating funds:						
Fundraising costs of grants and donations	4	-	-	9,328	9,328	7,057
Commercial trading operations	4 & 5	163,969	2,705	53,259	219,933	216,341
		163,969	2,705	62,587	229,261	223,398
Cost of charitable activities:						
Collections and exhibitions	4	31,987	181,686	3,513,490	3,727,163	3,414,377
Curatorial	4	-	67,635	789,420	857,055	779,262
Education	4	-	40,581	297,683	338,264	292,211
Publicity	4	-	13,527	664,166	677,693	514,585
		31,987	303,429	5,264,759	5,600,175	5,000,435
Governance Costs	4	-	-	60,931	60,931	41,290
Notional Charges	6	-	-	40,940	40,940	42,239
TOTAL RESOURCES EXPENDED	7	195,956	306,134	5,429,217	5,931,307	5,307,362
Net incoming /(outgoing) Resources Before Transfers						
		85,430	(221,517)	(480,959)	(617,046)	325,423
Gross transfers between funds	16	(90,000)	-	90,000	-	-
Reversal of Notional Charges	6	-	-	40,940	40,940	42,239
Net Incoming/(outgoing) Resources for the year		(4,570)	(221,517)	(350,019)	(576,106)	367,662
Other recognised gains and losses						
Unrealised gains/(losses)						
Investments		-	36,765	-	36,765	17,097
Revaluation of assets		(450)	754,187	(24,315)	729,422	643,761
NET MOVEMENT IN FUNDS		(5,020)	569,435	(374,334)	190,081	1,028,520
Balances brought forward at 1 April 2005		1,111,381	17,428,117	1,816,541	20,356,039	19,327,519
Balances carried forward at 31 March 2006		1,106,361	17,997,552	1,442,207	20,546,120	20,356,039

None of the Museum's activities were acquired or discontinued during the year. All of the Museum's recognised gains and losses for the year are included above.

(1) All prior period restatements arise from changes required by the adoption of the 2005 Charities SORP. These changes merely reclassify incoming and outgoing resources into new categories. The changes have no impact on the prior period's Statement of Total Recognised Gains and Losses.

NATIONAL ARMY MUSEUM

BALANCE SHEET

YEAR ENDED 31ST MARCH 2006

	Notes	2006		2005	
		£	£	£	£
Fixed Assets					
Tangible assets	8	17,681,584		17,096,238	
Heritage assets	9	1,359,579		1,262,521	
Investments	10	<u>228,177</u>		<u>191,412</u>	
			19,269,340		18,550,171
Current Assets					
Stock of finished goods		37,643		39,513	
Debtors	11	181,039		159,309	
Cash	12	<u>1,215,412</u>		<u>1,899,336</u>	
		1,434,094		2,098,158	
Current Liabilities					
Creditors:					
Amounts falling due within one year	13	<u>157,314</u>		<u>292,290</u>	
NET CURRENT ASSETS					
			<u>1,276,780</u>		<u>1,805,868</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			<u>20,546,120</u>		<u>20,356,039</u>
RESERVES					
Unrestricted Funds			1,106,361		1,111,381
Restricted Funds	14		17,997,552		17,428,117
Restricted Grant-in-Aid Funds			<u>1,442,207</u>		<u>1,816,541</u>
	15		<u>20,546,120</u>		<u>20,356,039</u>

The financial statements were approved by the Council on

2006 and signed on its behalf by:

DR ALAN J GUY
DIRECTOR

GENERAL SIR JACK DEVERELL
CHAIRMAN

NATIONAL ARMY MUSEUM
CASH FLOW STATEMENT
YEAR ENDED 31ST MARCH 2006

	Unrestricted Funds £	Restricted Funds £	Restricted Grant in Aid Funds £	Total Funds 2005/06 £	Total Funds 2004/05 £
Net cash inflow/(outflow) from operating activities (see below)	(42,358)	46,421	(341,010)	(336,947)	917,951
Return on investments and servicing of finance					
Interest received	27,752	6,711	13,705	48,168	41,285
Investment income	-	6,610	-	6,610	6,283
	27,752	13,321	13,705	54,778	47,568
Capital Expenditure					
Payments to acquire:					
Tangible fixed assets	-	(32,270)	(284,927)	(317,197)	(191,863)
Heritage assets	-	(11,485)	(85,573)	(97,058)	(90,113)
Proceeds on sale of fixed assets	-	-	12,500	12,500	-
	-	(43,755)	(358,000)	(401,755)	(281,976)
Increase/(decrease) in cash	(14,606)	15,987	(685,305)	(683,924)	683,543

Reconciliation of Changes in Resources to Net Cash Inflow/(Outflow) from Operating Activities

Changes in resources before revaluations	(4,570)	(221,517)	(350,019)	(576,106)	367,662
Investment income	(27,752)	(13,321)	(13,705)	(54,778)	(47,568)
Depreciation	1,453	281,259	162,599	445,311	441,453
Loss on disposal of fixed assets	-	-	3,462	3,462	12,248
Increase/(Decrease) in creditors	(19,529)	-	(115,447)	(134,976)	228,410
Decrease in stocks	1,870	-	-	1,870	6,361
Decrease/(Increase) in debtors	6,170	-	(27,900)	(21,730)	(90,615)
Net cash inflow/(outflow) from operating activities	(42,358)	46,421	(341,010)	(336,947)	917,951

The notes on pages 27 to 38 form a fundamental part of these financial statements.

NATIONAL ARMY MUSEUM
FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2006

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, the Statement of Recommended Practice: Accounting and reporting by Charities issued in 2005 and guidance issued by H.M. Treasury.

The accounts have been prepared under the historical cost convention modified by the revaluation of tangible fixed assets and investments and by the inclusion of notional costs.

(b) Grants Receivable

Revenue grants are credited to incoming resources on the earlier of the date of receipt or when they are receivable, unless they relate to a grant for expenditure in future accounting periods, in which case they are deferred.

Grants for the purchase of fixed assets are credited to a restricted fund within incoming resources when receivable.

(c) Voluntary Income

The Museum derives voluntary income from monies placed in donation boxes in the Museum. This income is recognised in the statement of financial activities when received and is used for the purchase of artefacts.

(d) Tangible Fixed Assets and Depreciation

Fixed assets are stated at their estimated current cost. For land and buildings this estimate is based on independent professional valuations obtained every five years, updated in the intervening years by the application of appropriate indices. For other assets, the estimate is based on historic cost updated thereafter by the application of appropriate indices. Fixed assets with a cost of less than £1,000 are not capitalised.

Depreciation is provided on all tangible fixed assets on a straight-line basis over their estimated useful lives. These are principally:

Leasehold Buildings	50 years
Computer Equipment	5 years
Fixtures and Fittings	10 years

(e) Heritage Assets

Prior to 1st April 2001 the National Army Museum's collection items were not valued or capitalised in the Accounts. In accordance with the requirements of FRS 15 and SORP 2005 additions to the collection from 1st April 2001 with a cost greater than £1,000 have been capitalised where reliable cost information is known. These assets are not depreciated. The Museum does not include donated heritage assets in the accounts due to the costs of valuation.

Prior to 1st April 2001 expenditure on exhibits was written off in the year it was incurred. The Museum's collections at 31st March 2001 have not been valued and capitalised due to the significant costs involved in obtaining a reliable valuation.

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(e) Heritage Assets (continued)

Depreciation is not provided on inalienable and historic assets due to their high residual value. The carrying value of individual items is reviewed annually and written down where required.

The Museum's collecting activities are subject to the availability of objects and financial resources for collections management with every effort made to achieve a balanced collection in terms of both geography and chronology. The acquisitions policy also takes into account the needs of other museums.

The Museum maintains full details of its collection on a computerised database, access to which is available to the general public on request.

(f) Investments

Investments are included at their market value as at the year-end. Gains or losses arising from disposals of fixed asset investments, together with unrealised gains and losses are included in the statement of financial activities.

(g) Stocks

Stocks are stated at the lower of cost or net realisable value.

(h) Taxation

As a Registered Charity, the National Army Museums' charitable status has been recognised by the Inland Revenue. Non-recoverable Value Added Tax (VAT) arising from expenditure is charged to the statement of financial activities. All expenditure is stated net of any recoverable VAT.

(i) Restricted and unrestricted funds

Restricted funds are to be used for specified purposes as laid down by the donor. Expenditure which meets these criteria is identified to the fund, together with a fair allocation of overhead costs.

Unrestricted funds are donations and other incoming resources received or generated for the Museum's charitable purposes.

(j) Basis of Cost Allocation

The classification of incoming resources and resources expended has been amended to comply with the charities SORP 2005. Comparatives have been reanalysed accordingly.

Collections and exhibitions costs are those incurred in acquiring and preserving objects and records relating to the British Army for the education, inspiration and enjoyment of the present generation and its successors, together with the presentation of the Museum's collections to its users.

Curatorial costs are those incurred in the research and interpretation of the Museum's collections to its users, including dealing with enquiries from the general public.

Education costs are those incurred in engaging and educating the general public, including children, in historic and contemporary issues relating to the British Army.

Publicity costs are those incurred in promoting the Museum to its users and also the branding and development of the Museum's image and marketing.

Governance costs include those incurred in the governance of the charity and its assets and are primarily associated with constitutional and statutory requirements.

Costs, including support costs, that are shared by more than one function have been apportioned on a basis consistent with the estimated use of resources.

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(k) Pensions Cost

Museum staffs, except shop personnel, are covered by the provisions of the Principal Civil Service Pension Scheme, which provides benefits based on final pensionable pay. The pensions cost charged to the Statement of Financial Activities is represented by the contributions payable under the PCSPS to the Paymaster General at rates determined from time to time by the Government Actuary.

(l) Notional Costs

In accordance with accounting requirements laid down by HM Treasury, the statement of financial activities include notional costs to reflect the full costs of the National Army Museum's activities.

	Unrestricted Funds	Restricted Funds	Restricted Grant in Aid Funds	Total Funds 2005/06	Total Funds 2004/05
	£	£	£	£	£
2. Investment Income					
Interest receivable	27,752	6,711	13,705	48,168	41,285
Other investment income	-	6,610	-	6,610	6,283
	<u>27,752</u>	<u>13,321</u>	<u>13,705</u>	<u>54,778</u>	<u>47,568</u>

3. Allocation of support costs

The Museum allocates its support costs as shown in the table below and then further apports those costs between the charitable activities undertaken. Support costs are allocated on a basis consistent with the use of resources.

Support Costs	Allocated to Charitable Activities	Allocated to Costs of generating funds	Governance	Total
	£	£	£	£
General administration	103,208	1,860	-	105,068
Information technology	61,462	-	-	61,462
External Audit	-	-	8,100	8,100
Internal Audit	-	-	4,751	4,751
Accountancy Services	12,070	-	-	12,070
Legal and other Professional Fees	121,838	-	-	121,838
Trustees expenses	-	-	2,241	2,241
	<u>298,578</u>	<u>1,860</u>	<u>15,092</u>	<u>315,530</u>
TOTAL 2005/06	<u>298,578</u>	<u>1,860</u>	<u>15,092</u>	<u>315,530</u>
	<u>271,520</u>	<u>2,283</u>	<u>9,275</u>	<u>283,078</u>
TOTAL 2004/05	<u>271,520</u>	<u>2,283</u>	<u>9,275</u>	<u>283,078</u>