

**BOARD OF TRUSTEES OF THE ROYAL ARMOURIES**

**ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012**

Presented to Parliament pursuant to paragraphs 29 (7) and 30 (4) of Schedule 1 to the National Heritage Act 1983.

Ordered by the House of Commons to be printed on 26 March 2013

HC 248

LONDON: The Stationery Office

£14.75

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ISBN: 9780102982367

Printed in the UK by The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office

ID 2548219 03/13 28338 19585

Printed on paper containing 75% recycled fibre content minimum

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## **TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT**

### **INTRODUCTION**

The Royal Armouries is the United Kingdom's National Museum of Arms and Armour. It is Britain's oldest museum, and one of the oldest museums in the world. It has one of the largest collections of arms and armour in the world, comprising of the National Collection of Arms and Armour, National Artillery Collection, and National Firearms Centre (NFC). It is also the keeper of the Tower of London history.

The Royal Armouries began life as the main royal and national arsenal and was originally housed in the Tower of London. Indeed the Royal Armouries has occupied buildings within the Tower for making and storing arms, armour and military equipment for as long as the Tower itself has been in existence.

In 1990, the decision was taken to establish a new museum in the north of England in which to house the bulk of the collection of world-wide arms and armour. As a consequence the main site of the Royal Armouries opened in Leeds in 1996. A continuous presence has been maintained in the Tower of London and in 1995 the Royal Armouries assumed responsibility of Fort Nelson, Portsmouth, which houses that part of the national artillery collection not held by the Royal Collection, the Royal Artillery Collection, or on loan around Great Britain. It also houses the Board of Ordnance Archive relating to artillery. The Royal Armouries also has a long term agreement to display at the Frazier History Museum in Louisville, Kentucky.

### **STRUCTURE, GOVERNANCE AND MANAGEMENT**

The Royal Armouries has the status of a non-departmental public body, operating in the public sector but at arm's length from its sponsor department, the Department for Culture, Media and Sport (DCMS). The Royal Armouries agreed a *Management Statement* and *Financial Memorandum* with the DCMS in 2002/03 and receipt of Grant-in-Aid is dependent upon the Royal Armouries' compliance. The Royal Armouries is an exempt charity under the Charities Act 1993.

The governing body is the Board of Trustees, which was established in 1984 in accordance with the National Heritage Act 1983. Trustees are appointed by the Secretary of State for Culture, Media and Sport, with the exception of two Trustees, one of whom is appointed by HM The Queen, and the Constable of the Tower of London who is an ex-officio member of the Board.

The Board of Trustees is responsible for overseeing the Royal Armouries affairs and determining the overall strategy for the Royal Armouries. The number of Trustees who may serve at any one time may not be less than 6 or more than 11. A list of Trustees who served in the financial year is given on page 4. Trustees are not remunerated for their services but are eligible to claim reasonable expenses. The Board met three times during the year.

The Board of Trustees has the following charitable objectives under the provisions of the National Heritage Act 1983:

- To care for, preserve and add to the objects in the collection of arms, armour and associated objects
- To secure that the objects are exhibited to the public
- To secure that the objects are available to persons seeking to inspect them in connection with study or research
- To maintain a record relating to their collection, to arms and armour generally and to the Tower
- To promote the public's enjoyment and understanding of arms and armour, both by means of the Board's collection and by such other means as they consider appropriate.

The Board of Trustees has appointed a Director General and Master of the Royal Armouries who is responsible for providing leadership to the Royal Armouries. The Director General and Master also holds responsibility as Accounting Officer. The Director General and Master reports to the Board of Trustees in all matters relating to the Royal Armouries performance.

From 24 August 2012 the role of Accounting Officer was held by the Interim CEO. Further details are provided in the Governance Statement.

There are four sub-committees of the Board:

- Finance and Capital Development Committee
- Knowledge and Audience Development Committee
- Audit Committee
- Remuneration Committee

## Board of Trustees of the Royal Armouries

The following persons were members of the Board of Trustees of the Royal Armouries in 2011/12 and served on the sub-committees shown:

	<b>Date of appointment</b>	<b>Expiry of appointment</b>
<b>Chairman</b>		
Ann Green CBE FCMI FRSA (Trustee from 10.11.98 – 27.04.03) <i>Six month extension until new chair appointed</i>	28.04.03	27.10.11
Wesley Paul	03.01.12	02.01.16

Between 28.10.11 and 02.01.12 General the Lord Dannatt was acting Chair

### Members

Patricia Langham CBE	04.11.04	03.11.12
Jon Hammond Booth	02.12.04	19.05.12
Marie Stevens	19.09.05	03.01.12
Professor Richard Holmes CBE TD JP	26.09.05	30.04.11
Duncan Wilson OBE	01.09.07	31.08.11
Chris Case	10.11.08	09.11.16
General the Lord Dannatt GCB CBE MC DL	01.08.09	31.07.13
Hemant Patel	12.07.10	11.07.14
Major General Sir Sebastian Roberts KCVO OBE	05.02.11	04.02.15
Stephen Smith	10.05.11	09.05.15
Mark Urban	03.09.12	02.09.16

## Trustee Sub-Committees

<b>Sub Committee</b>	<b>Chair</b>	<b>Members</b>
<i>Audit</i>	Duncan Wilson (to 31.08.11) Chris Case (from 01.09.11)	Ann Green (to 27.10.11) Chris Case (to 31.08.11) Wesley Paul (from 03.01.12 to 01.11.12) Hemant Patel Gev Lynott (co-opted external member to 31.03.12) Andrew Broome (co-opted external member from 01.11.12)
<i>Finance and Capital Development</i>	Hemant Patel	Ann Green (to 27.10.11) Wesley Paul (from 03.01.12) Marie Stevens (to 03.01.12) Duncan Wilson (to 31.08.12) Chris Case Stephen Smith (from 23.06.11)
<i>Knowledge Development (merged with Audience Development on 27.09.11)</i>	Richard Holmes (to 30.04.11)	Ann Green Pat Langham Richard Dannatt
<i>Audience Development (merged with Knowledge Development on 27.09.11)</i>	Marie Stevens	Ann Green Jon Hammond Booth Chris Case Sebastian Roberts (from 31.03.11) Stephen Smith (from 23.06.11)
<i>Knowledge and Audience Development (from 27.09.11)</i>	Pat Langham (to 03.11.12) Wesley Paul (from 04.11.12)	Ann Green (to 27.10.11) Wesley Paul (to 03.11.12) Sebastian Roberts Jon Hammond Booth (to 19.05.12) Stephen Smith
<i>Remuneration</i>	Ann Green (to 27.10.11) Wesley Paul (from 03.01.12)	Richard Holmes (to 30.04.11) Marie Stevens (to 03.01.12) Duncan Wilson (to 31.08.11) Hemant Patel Chris Case (from 01.09.11) Richard Dannatt (from 12.01.12)

It is with great sadness we report the death of Richard Holmes on 30 April 2011.



## **Recruitment and Appointment of New Trustees**

The process for appointing new trustees is in accordance with the procedures defined by the DCMS under which descriptions of the roles required would be advertised, interviews conducted and recommendations made for appointment by the Secretary of State for Culture, Media and Sport.

Upon appointment new trustees go through a formal induction process, which includes a full briefing by the Chairman, Accounting Officer and members of the Executive Team.

## **Executive Team**

Lt Gen Jonathon Riley – Director General and Master (left 19 November 2012)

Chris Walker – Finance and Administration Director (appointed 25 May 2012)\*

Peter Armstrong – Creative and Development Director

Steve Burt – Museum Director (retired 28 December 2011)

Graeme Rimer – Academic Director (retired 29 February 2012)

Col David Collins – National Firearms Centre Director (left 6 December 2011)

Col Frank Riley – Head of National Firearms Centre (appointed 16 November 2011)

Brian Ball – Finance and Administration Director (left 10 May 2012)

Andrew Scott – Interim CEO (appointed 30 May 2012, left 24 August 2012)

\* Chris Walker was appointed Interim CEO on 24th August 2012 and continues to act in this capacity.

## **Staff Communications**

Communications between staff and senior management are held monthly through staff briefings and e-newsletters which cover strategy, performance and updates on site development. Staff representation is by the Prospect Trade Union.

## **Sickness Absence**

The average number of days lost per head due to sickness absence during the year was 8.6 (2010/11: 6.5).

## **Equal Opportunities**

It is the Royal Armouries' policy that all individuals shall have equal opportunity for employment and advancement in the Royal Armouries on the basis of their ability, qualifications and relative merits. There is no discrimination based on gender, marital status, sexual orientation, race, religion or physical disability. The Royal Armouries is committed to making the policy effective and will continually monitor and review its employment practices to ensure all relevant staff receive appropriate training.

### **Data and Information Risk**

The Finance and Administration Director is the Senior Information Risk Owner and is responsible for the development of information risk policies and protocols. During the year the Royal Armouries has drafted new policies to ensure it adheres to Cabinet Office requirements relating to information risk and handling with further developments anticipated throughout 2012/13.

An isolated incident involved the unauthorised removal of a PC. Management believe this had a redundant hard drive and no sensitive personal data incidents have been reported during the financial period. Therefore no report has been made to the Information Commissioner's Office.

### **Financial Instruments and Risk**

Details of financial instruments are given in note 24 to the financial statements. There is not considered to be any material risk in relation to financial instruments.

### **Relationship between Charity and Other Parties**

Details of related party transactions are contained in note 23 to the financial statements.

The Royal Armouries is a non-departmental public body whose parent body is the DCMS. The DCMS is regarded as a related party.

The Frazier History Museum in Louisville, Kentucky, where the Royal Armouries has a long term agreement to display, is regarded as a related party. The previous Chairman of the Royal Armouries was a non-executive board member of the Frazier History Museum until her Royal Armouries tenure ended in October 2011 at which time Jon Hammond Booth, Royal Armouries Trustee, agreed to take on the role. Since the departure of Jon Hammond Booth in May 2012, the current Chairman of the Royal Armouries, Wesley Paul, has been invited to attend board meetings of the Frazier History Museum.

The Tower of London houses part of the Royal Armouries' national collection of arms and armour and the Royal Armouries is also the keeper of the Tower of London history. However, the Tower of London itself is in the care of Historic Royal Palaces. The relationship between the Royal Armouries and Historic Royal Places is defined in a Memorandum of Understanding. A Trustee of the Royal Armouries, General the Lord Dannatt, is also a Trustee of Historic Royal Palaces.

In 2009 a decision was taken by the Royal Armouries Board of Trustees to set up a trading company to run commercial activities previously undertaken by the charity. Royal Armouries Trading & Enterprises Ltd, incorporated on 14 September 2010, is a wholly-owned subsidiary of the charity. The charity transferred its commercial trading activities to the new company on 1 April 2011. The Company issued 150,000 £1 shares on 29 July 2010 which became fully paid up on 29 March 2011.

A new trust, *The Arms and Armour Heritage Trust*, has been formed which has the ability to award grants that can support the achievement of the Royal Armouries charitable objectives as well as grants to other charities supporting the efficiency of the Armed Services. The Arms and Armour Heritage Trust is completely self regulating and the Trust Deed ensures that no serving Royal Armouries board member can be a trustee. The Accounting Officer and Finance and Administration Director will attend meetings but have no voting powers. A Commercial Licence Agreement has also been agreed detailing the charges to be made by the Royal Armouries for administrative support and venue hire provided. The Royal Armouries awarded grants of £469,000 to The Arms and Armour Heritage Trust during the year.

## **PERFORMANCE INDICATORS**

Until the funding agreement covering the current spend period is agreed and signed by the Royal Armouries and the DCMS both parties have agreed to continue to utilise the 17 obligatory performance indicators previously agreed for one further year. The actual performance achieved against each of the indicators for 2010/11 and 2011/12 is set out in the table below.

The performance indicators for 2011/12 reflect the effects of reduced operational activities arising from the 15% cuts to Grant-in-Aid following the 2010 spending review.

Those key performance indicators marked with an asterisk do not include figures for the Tower of London, where the information is either not available from Historic Royal Palaces or else is not relevant.

<b>Performance Indicator</b>	<b>2010/11 Out-turn</b>	<b>2011/12 Out-turn</b>
Total number of visits	462,753	417,028
Number of unique users visiting the website	403,379	409,859
Number of children aged 16 and under visiting the Royal Armouries	136,628	124,348
Number of adult UK visitors (aged 16+) from NS-SEC groups 5-8 attending the Royal Armouries *	78,280	65,413
Number of adult UK visitors (aged 16+) from an ethnic minority background attending the Royal Armouries *	6,947	5,708
Number of UK visitors (aged 16+) who consider themselves to have a limiting long term illness, disability or infirmity *	12,557	10,564
Number of overseas visitors	117,588	120,809
Number of children under 16, in formal education, attending the Royal Armouries in facilitated and self directed visits	22,185	12,711
Number of children under 16 participating in on-site organised activities	29,936	29,048
Number of instances of children under 16 participating in outreach activities outside the Royal Armouries	3,827	-
Number of adults (aged 16+) participating in organised activities at the Royal Armouries	51,381	46,327
Number of adults (aged 16+) participating in outreach activities outside the Royal Armouries	1,552	-
Percentage of visitors who would recommend a visit	99.5%	99.5%
Admissions income *	£156,000	£71,000
Trading income *	£315,000	£337,000
Fundraising income *	£1,964,000	£1,026,000
Number of UK loan venues *	107	106

## **EXHIBITIONS AND DISPLAYS**

### **Tower of London**

In time to celebrate the Queen's Diamond Jubilee, the final rooms in the historic White Tower were reinterpreted and opened to the public in March 2012. The five year development began with the *Henry VIII: Dressed to Kill* exhibition and has seen six of the most historic rooms in the White Tower transformed to showcase some of the finest arms and armour in the world. The White Tower is now host to stories of great British institutions including, the Royal Armouries, the Royal Family and the Royal Mint. The Royal Armouries history weaves through all floors, from the great institutions to the grand storehouse, the Royal Armours to the Royal Observatory. The White Tower now showcases the history of the Royal Armouries from its beginning in the Kings Privy Wardrobe to the National Museum it is today. The White Tower is now not only the spiritual home of the Royal Armouries, but an iconic showpiece for one of the finest collection of arms and armour in the world.

### **Fort Nelson**

On 6 August 2011, the newly redeveloped Fort Nelson opened to a record number of visitors. Over four years of planning, funding, tendering, building and training had finally paid off, with every person involved proud of this addition to the history of Fort Nelson. Fort Nelson has seen the construction of a domed visitor's centre, providing breathtaking views over Portsmouth Harbour, and which includes a dedicated retail area and Café 1871. A new visitor entrance crosses the refurbished Victorian drawbridge into the highlight of Fort Nelson, the *Voice of the Guns* Gallery. This glass sided gallery showcases 14 of the most famous exhibits from the Royal Armouries' artillery collection, including the iconic Turkish Bombard that pounded the walls of Constantinople 600 years ago and two sections of the infamous Iraqi Super Gun, from the regime of Saddam Hussein, bolted together for the first time and stretching over 20 metres from floor to ceiling. Finally, six new social history galleries were developed to tell the story of the Fort and those who lived and worked within its walls for over 150 years. The redevelopment of Fort Nelson was an all encompassing Royal Armouries project with nearly every member of staff involved.

### **North America**

For over five years the Royal Armouries has worked in partnership with the Frazier History Museum, displaying some of its finest objects in Louisville, Kentucky. In February 2012, both museums worked together to re-organise these displays in order to provide a greater presence for the Royal Armouries, and create a larger temporary exhibition space for the Frazier History Museum. Discussions continue to determine the best way for the partnership to develop.

## **LEARNING AND ACCESS**

### **Leeds**

One of the biggest impacts of the museum re-organisation, due to reduced Government funding, was the loss of key members of the Leeds education department through voluntary redundancy in March 2011. This resulted in the Royal Armouries' inability to deliver a strong and effective educational product until new staff were recruited and a new, quality product made available. A decision was made to suspend all school activity until September 2011 when a re-launch with new staff and a new educational product would take place.

Following this re-launch, the educational response from schools has been positive, with 99% satisfaction levels and bookings full at least two months in advance. The Royal Armouries' new product is based around 4 key strands of English Civil War, World War I, Tudors and the Middle Ages, all of which include 45 minutes of handling activity.

### **Fort Nelson**

The launch of Discover@FortNelson took place in September 2011. The brand new facility boasts a state of the art classroom which uses the latest interactive technology to make history come to life allowing school children to explore the Fort, combining objects and images, archives and AV, performance and hands-on activity. The programme includes pre and post visit lesson plans on Florence Nightingale for Key Stage 1 (Ages 5 – 7), World War II for Key Stage 2 (Ages 7 – 11) and World War I for Key Stage 3 (Ages 11 – 14). Work has also begun to develop a STEM module (Science, Technology, Engineering and Mathematics), that the museum intends to sell to other similar forts, particularly in the USA as part of the North America Strategy.

### **National Firearms Centre**

Firearms education for Army recruits from Catterick Garrison continues to produce a regular income stream and efforts are being made to expand this business within the military and other government departments. Application has been made to become an approved Continuing Professional Development (CPD) provider to the legal profession. Once accredited, the NFC will be able to offer Firearms Awareness courses and those attending will earn CPD points. Initial discussions with several law societies have been very encouraging. The feasibility of providing Firearms Awareness education to universities and colleges that offer Forensic Science courses is also being examined.

## **COLLECTIONS MANAGEMENT**

### **Collections Management System (CMS)**

2011 saw the launch of a three year project to replace the current system. Initial work involved the development of a system specification which went out to tender in mid 2012 and the purchase of IT hardware to digitise our collection. Temporary resource has been recruited to assist in cleansing incorrect data and the input of missing data in advance of population onto the new system.

### **Policy and Procedure**

The Collections Department has ensured that all policies and procedures are in place and that these are adhered to. This is an area that affects the whole organisation not just collections and is administered by the Company Administrator and Executive Officer.

### **Enquiries**

Curatorial staff received, on average, 50 enquiries a month from a diverse range of people and organisations. This included a number of film makers and computer games manufacturers as well as the general public.

### **Accreditation**

The accreditation of a museum is always a complex task. Every department, policy and procedure is audited to ensure that the most professional and up to date systems are in place, and that the museum runs not just efficiently but ethically. The Royal Armouries received its full accreditation from the Museum and Library Association in 2011.

### **Major Acquisitions 2011/12**

Details of acquisitions and donations made during 2011/12 are included in note 9 to the financial statements.

## **PUBLIC ENGAGEMENT**

### **Events**

The spending review and the subsequent reduction of Grant-in-Aid saw the unfortunate loss of the horse shows and performance led interpretations at Leeds, and therefore a reduction in the number of events that were feasible during 2011/12. As a result of this, a new visitor experience team was developed to deliver a programme with a greater emphasis on hands-on activities throughout the day, rather than specific shows. Although the Royal Armouries continues to provide horse shows, sword fighting and events, these are bought in from external companies and are focused on the school holiday period.

During the year the Royal Armouries brought in a range of new activities to supplement the horse shows and events, tribute was paid to our armed forces through our traditional Armistice Day service and along with the National Media Museum and the National Railway Museum, the Royal Armouries celebrated the 10<sup>th</sup> Anniversary of free entry to national museums.

Fort Nelson saw visitor numbers double over the summer period with a 98% satisfaction rate from the new interactive displays in the Voice of the Guns and social history galleries.

### **History in Your Hands**

Six full day seminars were held by the Leeds museum between April 2011 and March 2012 with over 200 people attending these fascinating insights into the collection including; The Battle of Towton; Fakes, Forgeries and Replicas; Japanese Arms and Armour; and for the first time, Police Firearms & Restraints.

The Museum also hosted two international delegations (Chinese and Libyan) in partnership with the University of Huddersfield, gave 26 special request lectures and handling sessions along with seven general public lectures during the summer, and delivered a new 10 week masters degree level course module on the theme of Tournaments for Leeds University students.

The Royal Armouries was also host to a number of VIPs including The Hermitage Museum, St Petersburg, Russia; Yale School of Architecture; National Army Museum, Poland and the Defence Communications Advisor for the International Defence Council.

### **Conferences**

Due to the severe weather in 2010, the conference on *Identifying Battlefield Finds* had to be moved to June 2011. Despite this, over 100 experts attended where eight papers were delivered examining the process of interpreting pieces recovered from battlefield sites and how to tap in to the wealth of expert knowledge held within the museum.

### **Publications**

In 2011 a partnership was developed with Extraordinary Editions to develop one of the most iconic manuscripts within the Royal Armouries known internally as I.33. This is one of the oldest known manuals of swordsmanship in the Western Canon and one of the oldest in the World. The manuscript, renamed *The Illuminated Fight Book* was photographed to enable a full size facsimile of the manuscript to be produced in a limited edition, complete with a companion volume that has a full transcript and translation of every page.



## **CONSERVATION AND CARE OF THE COLLECTION**

Three major projects dominated the work of this department: The conservation and cleaning of over 100 objects in preparation for the detailed photography of Carlo Paggiarino's double volume book on the collection; The conservation, preparation and movement of some of the biggest objects in the collection for the Fort Nelson re-opening; and the mass of weapons added to the White Tower as part of the new store house room in the basement. This, coupled with over 2,000 objects prepared for the Museum's general work, led to one of the conservation department's busiest years.

One of the most interesting objects conserved for the White Tower was the Uniform Coat of the Duke of Wellington c. 1835 (XVI.8) made for him when he was Constable of the Tower of London. The main conservation interest was the metal threads and spangles (sequins) on the epaulettes which had tarnished. The tarnish was removed by gentle damp swabbing of the surfaces with a mixture of carefully chosen chemicals. This was carried out under a microscope to make sure no metal threads were pulled away from the epaulette. Residues were removed by careful swabbing using deionised water.

## **FUNDRAISING AND SPONSORSHIP**

This year saw the completion of the fundraising strategy for the Fort Nelson re-development, and the opportunity to thank all the funders and stakeholders with a reception and open day event in September 2011 bringing years of development activity to a happy close. Attention immediately turned to the projects and developments at Leeds and the Tower of London.

Corporate sponsorship efforts began with the Voice of the Guns corporate event in April 2011, attended by HRH Prince Michael of Kent. The event enabled the Development team to pursue new contacts and convert the excellent relationship with Hampshire County Council into a £10,000 grant. Corporate sponsorship focus then turned towards building continuing relationships with the corporate sector, establishing firm pledges for continued long term support, and the introduction of the Royal Partners scheme in advance of 2012 to further the successful partnership with Historic Royal Palaces and maximise the unique joint benefits Royal Armouries and Historic Royal Palaces can offer.

With Fort Nelson complete focus quickly moved to an application in July 2011 to DCMS/Wolfson Galleries Improvement Fund in support of the Line of Kings. In December Royal Armouries was awarded £100,000 towards the project to be drawn in 2012/13. An application in conjunction with the Conservation Department to the Clothworkers Fund in

October 2011 was also successful, granting Royal Armouries £25,000 for a 1-year arms and armour conservation internship starting in April 2012.

The launch of the new Warfare Gallery Project and the development of its fundraising strategy saw the continuation of excellent relationships with past funders of Fort Nelson and the development of new contacts. An application to the regional grants scheme of the Heritage Lottery Fund was unfortunately unsuccessful, though discussions are ongoing regarding mutual working going forward.

A new Patrons programme was launched in June 2011, and the Royal Armouries has been pleased to welcome four founding Patrons to the scheme. Our Patrons support is particularly valuable at a time when so many new and exciting developments are being pursued.

Royal Armouries would like to thank all donors for their generous contributions and dedication to preserving this magnificent collection.

The future promises to be an exciting one with the new capital campaign for the Warfare Gallery Development Project at Leeds and its associated funding strategy, and the completion of the refurbishment of the White Tower revitalisation of the Line of Kings exhibition.

The Royal Armouries would like to thank the following for their generous support:

- Heritage Lottery Fund
- HISTORY™
- Worshipful Company of Armourers and Brasiers
- Clothworkers Guild
- Hampshire County Council

## **ENVIRONMENT AND SUSTAINABILITY**

From 2011/12 public bodies are obliged to include a sustainability report within the annual report and accounts unless the body falls under the de-minis threshold for reporting of 250 full time equivalent staff or floor space of less than 1,000 metres. As Royal Armouries full time equivalent staff for 2011/12 was 145 we are not required to include a report.

The Royal Armouries continues to explore innovative ways of generating green energy in liaison with Leeds City Council and Canal & River Trust (formerly British Waterways). It is expected that 2015 will see the completion of the Leeds flood alleviation scheme along the

River Aire at which time the Royal Armouries are looking at the possibility of constructing an Archimedes screw turbine system on the weir alongside the museum.

The Royal Armouries are also investigating the potential for solar and biomass technologies as a source of renewable energy for the Leeds site.

## **FUTURE DEVELOPMENT PLANS**

The Royal Armouries next period of strategic growth is vitally important. The Leeds museum has seen much success and visitor numbers for the area have peaked at a substantial level of penetration and market achievement.

Whilst the Royal Armouries is proud of this record, it also recognises its responsibility to reach greater sections of the public throughout the UK whether this is through in-person visits or virtual visits using the website and researching opportunities to do this including the possible development of a new collection management system with the facility for greater public access.

Education will continue to play a critical role as the Royal Armouries reaches new audiences across all ages, genders, cultural backgrounds and national identities.

As the Royal Armouries looks to the future it is realistic about the challenges that lie ahead. The economy, both in the UK and globally, is beset with many problems. It is against this difficult background that we will be looking to position the Royal Armouries for its next phase of exciting growth and development.

This will require funding at a time when the burdens on UK taxpayers are already overwhelming. The Royal Armouries will therefore look to other sources of funding to accomplish this growth.

## REFERENCE AND ADMINISTRATION DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS

A register of Trustees' interests is held and this is regularly updated. It is available on request.

The Secretary of State for Culture, Media and Sport was appointed principal regulator of the Royal Armouries on 1 June 2010, with the implementation of the relevant provisions under the Charities Act 2006.

### Royal Armouries Addresses

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## FINANCIAL REVIEW

### Overview of Financial Position

The financial statements have been prepared in accordance with the Statement of Recommended Practice 2005 (SORP 2005), Accounting and Reporting for Charities and by reference to the Government Financial Reporting manual. In accordance with the SORP, the total amount of grant and other income received for capital projects is included in the Statement of Financial Activities on page 48.

In 2011/12 the Royal Armouries recorded nil net incoming resources before transfers for general unrestricted funds. In addition, a restricted funds surplus of £15k has been recorded by the Royal Armouries Development Trust. More information on this can be found at note 25 on page 70. A write down of the value of the Fort assets to reflect their fair value following the completion of the redevelopment work resulted in a net outgoing of resources before transfers of £762k for designated funds.

The Royal Armouries Statement of Financial Activities (SOFA) is set out on page 48 of this document. Incoming resources for the period amounted to £10,126k which included Grant-in-Aid amounting to £7,901k. Resources expended amounted to £10,935k, resulting in net outgoing resources of £809k (before transfers and revaluations). £1,554k was attributable to depreciation provisions, £681k from an impairment following the formal valuation of Fort Nelson upon completion of the build and a further £139k resulting from the write off of low value assets previously capitalised within assets under construction; these were financed from the capital project income credited to designated and restricted funds in previous years.

Visitor levels to the Royal Armouries during 2011/12 were 6% lower than budgeted and 10% lower than last year. As a result of the completion of the Fort Nelson build and reduced capital activity at the Tower of London, contributions from the Heritage Lottery Fund, DCMS/Wolfson and Historic Royal Palaces have led to the reduction in sponsorship and donations of £941k to £1,026k. Our share of gate income from Historic Royal Palaces has contributed £227k towards the Tower of London operating costs.

Total resources expended included salaries and related employee costs of £4,699k, this being £1,066k lower than 2010/11 as a result large scale redundancy costs incurred during 2010/11 and the associated effect on 2011/12 headcount. Salary and related employee expenditure accounted for 43.0% of operational cost with depreciation and impairments at £2,374k for 21.7%.

With the consent of the Secretary of State for Culture, Media and Sport the Board of Trustees of the Royal Armouries has, subject to a number of conditions, awarded a grant of £469k to The Arms & Armour Heritage Trust. The trust is required to use the grant for the purpose of promoting enjoyment, knowledge or the understanding of arms and armour.

### **Balance Sheet**

Of the fund balances at 31 March 2012:

- restricted funds, subject to specific restriction by the providers of the funds, amounted to £48,464k (2010/11: £46,889k), the majority of which comprise the value of land and buildings;
- designated funds, set aside to finance tangible fixed assets other than those classed as restricted, amounted to £4,589k (2010/11: £5,377k); and
- the surplus on general unrestricted funds available for use in furtherance of the general objectives of the Royal Armouries amounted to £763k (2010/11: £763k).

By virtue of the National Heritage Act 1983, the Royal Armouries was vested with the property and objects, which formed part of the collection of arms and armour, or were associated with the maintenance or administration of the collection. The value of the collection was not identified in the records passing into the Royal Armouries ownership and the Trustees have determined that the cost of obtaining valuations for the pre 2001 collection is not commensurate to the benefits provided by doing so. In accordance with the Financial Reporting Manual, additions to the collection since 1 April 2001 are capitalized and recognized in the Balance Sheet, at the cost or value of the acquisition. Such items are not depreciated or revalued as a matter of routine. Acquisitions to the value of £175k were capitalised in 2011/12. Following the completion of the redevelopment of Fort Nelson a full revaluation was carried out which resulted in an impairment of £681k to the value of the building and plant.

Debtors have reduced by £1.1m reflecting accrued income for contributions from the Heritage Lottery Fund and others towards capital projects during 2010/11. The £0.8m decrease in creditor's results from large accruals during 2010/11 including; capital works relating to the redevelopment of Fort Nelson, the White Tower and a number of projects at Leeds, together with redundancy accruals and taxation and social security creditors.

Under the terms of its government grant, the Royal Armouries is required to break-even, taking one year with another. It does not commit funds beyond those available, even though this means that some projects cannot be pursued and others can proceed only as fast as funding permits. It actively pursues other sources of funding for activities that cannot be financed by grant. Nevertheless the future financial viability of the Royal Armouries is critically dependent on continued government Grant-In-Aid. The funds of the Royal Armouries are adequate to support its future requirements only in the technical sense that commitments are not made beyond the resources available.

### **Reserves Policy**

As part of the annual planning and budget setting process the Trustees review and approve the level of readily available reserves appropriate to the scale, complexity and risk profile of the Royal Armouries. The policy on reserves is reviewed by the Trustees on an annual basis.

Although Grant-in-Aid historically accounts for over 75% of its income, which provides limited exposure to liquidity risk, the reductions resulting from the 2010 Spending Review place more pressure on the requirement to cover the remainder of operational costs from self-generated income, which is volatile. The risk is managed through the Royal Armouries policy to ensure that the level of reserves provides a comfort level for shortfall in income and to underpin cash-flow and budgetary risks particularly arising from capital expenditure projects.

With the consent of DCMS, £285k of Royal Armouries Development Trust reserves were released against the Fort Nelson redevelopment cost incurred during 2011/12.

Although the Royal Armouries total reserves at 31 March 2011 are shown as £54 million on the balance sheet, all but £763k is tied up in restricted funds, fixed assets and the Royal Armouries Development Trust Fund, none of which can be used for other purposes.

In order to improve investment income the Royal Armouries Development Trust placed £400k with Charles Stanley, professional investors, in late 2010 to invest in low risk government and fixed interest stocks and funds that can be readily converted back into cash. Disposals were made during the year to fund the reserves access and the balance currently stands at £128k.

## Payment of Creditors

The Royal Armouries continues to review the efficiency of its operations and aims to comply with best practice wherever possible. The Royal Armouries aims to settle all bills within 30 days or in accordance with the supplier's terms of business. In 2011/12, the Royal Armouries paid approximately 71% (2010/11: 80%) of supplier invoices within the target of 30 days. A small amount of interest was incurred via the Late Payment of Commercial Debts (Interest) Act 1988 due to the late settlement of various utility invoices.

Wesley Paul  
Chairman

Dated 22 March 2013

Chris Walker  
Accounting Officer

Dated 22 March 2013



## **REMUNERATION REPORT**

### **Remuneration Committee**

The membership of the Remuneration Committee is:

Ann Green (Chairman) – to 27.10.11

Wesley Paul (Chairman) – from 03.01.12

Marie Stevens – to 03.01.12

Richard Holmes – to 30.04.11

Duncan Wilson – to 31.08.11

Hemant Patel – from 22.01.11

Chris Case – from 01.09.11

Richard Dannatt – from 12.01.12

### **Policy on the Remuneration of the Director General and Master and Directors**

The emergency budget following the election of the Coalition Government in 2010 imposed a two year pay freeze on all staff except those earning a full time equivalent salary of less than £21,000. These staff received a full time equivalent pay award of at least £250 in 2010/11 and 2011/12. The Government announced further sanctions in the 2011 Autumn Statement that will restrict the pay award possible to 1% of the overall pay bill for a further two years.

The Remuneration Committee reviews the salaries of the Accounting Officer and Directors. One pay award was made to a Director in 2011/12 after the Remuneration Committee met, and there is no evidence to indicate that this was subsequently reviewed by the Committee. In order to guard against this situation arising again, the terms of reference and organisation of the Committee are being reviewed and the Board has put in place the additional measures described in the Governance Statement.

### **Policy on Duration of Contracts, Notice Period and Termination Payments**

The Director General and Master and Directors are permanent employees of the Royal Armouries. Notice periods are between three and six months and all termination payments are in accordance with the Royal Armouries contractual terms.

### **Civil Service Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament

each year. Pensions payable under classic, premium or classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an 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, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

### **Cash Equivalent Transfer Value**

A Cash Equivalent Transfer Value (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 a 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real Increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include 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.

The following disclosures have been audited.

**2011/12 Figures** (2010/11 figures are shown in brackets)

	Remuneration	Annual Equivalent Salary	Accrued pension at pension age as at 31 March 2012 and related lump sum	Restated CETV at 31 March 2011	CETV at 31 March 2012	Real increase in CETV	Real increase in pension / related lump sum at pension age
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
J Riley	95 (95)	95 (95)	5-10 / n/a	43	70	20	0-2.5/n/a
J Murray	-(15)	-(80)	-	530	-	-	-
P Armstrong	66 (64)	72 (64)	5-10 / n/a	97	118	11	0-2.5/n/a
S Burt	53 (62)	63 (63)	35-40 / n/a	632	678	-	n/a /n/a
P Doherty	-(32)	-(65)	-	6	-	-	-
G Rimer	49 (49)	49 (49)	20-25 /65-70	485	512	-	n/a /n/a
D Collins	31 (40)	45 (45)	0-5 / n/a	10	19	7	0-2.5/n/a
B Ball	64 (19)	64 (58)	5-10 / n/a	60	93	26	0-2.5/n/a
F Riley	17 (-)	45 (-)	0-5 / n/a	0	4	4	0-2.5/n/a

Remuneration is gross salary only as no overtime or allowances are paid to Directors. No bonuses were paid during 2010/11 or 2011/12. Trustees receive no emoluments however they are reimbursed for legitimate expenses, see note 4b of the financial statements.

The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration of the highest paid director in the Royal Armouries in 2011/12 was £95k (2010/11 £95k). This was 4.9 times (2010/11 5.2) the median remuneration of the workforce, which was £19k (2010/11 £18k). Remuneration includes salary and allowances but does not include employer pension contributions.

Janice Murray left 19 May 2010

Peter Doherty left 28 September 2010

Colonel Frank Riley was appointed on 16 November 2011.

Colonel David Collins left on 6 December 2011.

Steve Burt retired under voluntary redundancy terms on 28 December 2011. Following HM Treasury approval, a compromise agreement was agreed with Mr Burt to allow him to receive an unreduced pension as if he had retired aged 65. The cost of buying out the actuarial reduction on his pension was £55,000 and he also received £19,451 pay in lieu of notice. These amounts were in addition to the remuneration shown in the table above.

Graeme Rimer retired under voluntary redundancy terms on 29 February 2012. Mr Rimer received a compensation payment of £41,000 and £15,288 pay in lieu of notice. These amounts were in addition to the remuneration shown in the table above.

Brian Ball left on 10 May 2012.

Lt Gen Jonathon Riley resigned with effect from 19 November 2012. He received £23,750 pay in lieu of notice in line with his contractual terms and £500 contribution to legal costs.

Wesley Paul  
Chairman

Dated 22 March 2013

Chris Walker  
Accounting Officer

Dated 22 March 2013

## STATEMENT OF THE TRUSTEES' AND THE ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Schedule 1 Section 29 of The National Heritage Act 1983 the Secretary of State for Culture, Media and Sport (with the consent of HM Treasury) has directed the Board of Trustees of the Royal Armouries to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Royal Armouries and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Trustees and the Accounting Officer are required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* and in the Statement of Recommended Practice 2005 Accounting and Reporting for Charities have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Culture, Media and Sport had designated the Director General and Master as the Accounting Officer of the Royal Armouries. From 8 May 2012 the Interim CEO was designated as the Accounting Officer. Further details are provided in the Governance Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Board's assets, are set out in the Accounting Officers memorandum issued by HM Treasury.

The Trustees and the Accounting Officer who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that the Royal Armouries has disclosed all relevant information to their auditors. Having made enquiries of the Board of Trustees and the Board's auditor, the Accounting Officer has confirmed that he has taken all the steps that he ought to have taken in order to make himself aware of any information relevant to the audit and to establish that the auditor is aware of that information.

Wesley Paul  
Chairman

Dated 22 March 2013

Chris Walker  
Accounting Officer

Dated 22 March 2013

## **ROYAL ARMOURIES GOVERNANCE STATEMENT**

### **Purpose**

This statement covers the Royal Armouries governance arrangements for the year ended 31 March 2012 and up to the date the financial statements were approved by the Board of Trustees. I was appointed Interim Chief Executive and Accounting Officer in August 2012 and since then I have initiated a thorough review of core processes and controls across the whole support services operation. The intention of these changes is to guard against any repetition of the circumstances which have led to the Comptroller and Auditor General qualifying his audit opinion on regularity referred to in the Audit Report.

The Accounting Officer is responsible for maintaining a sound system of internal control, which supports the Royal Armouries' policies, aims and objectives whilst safeguarding the public funds and departmental assets for which the Accounting Officer is personally responsible, as set out in Managing Public Money.

### **Governance Framework**

The Royal Armouries is the United Kingdom's National Museum of Arms and Armour, comprising the National Collection of Arms and Armour, National Artillery Collection, and National Firearms Collection. It is also the keeper of Tower of London history. It is Britain's oldest museum, and was established in its current format under the National Heritage Act 1983, which sets down the statutory duties as follows:

- care for, preserve and add to the objects in the collections
- secure that the objects are exhibited to the public
- secure that the objects are available for study and research
- maintain a record relating to their collections, arms and armour in general and the Tower
- generally promote the public's enjoyment and understanding of arms and armour

Operationally, the Royal Armouries is a Non Departmental Public Body sponsored by the Department for Culture, Media and Sport (DCMS). The formal relationship with DCMS is captured in a Framework Document between the two organisations, which sets out the broad parameters within which the Museum should operate. Copies of this document and any subsequent amendments are placed in the libraries of both Houses of Parliament and made available to the public on the Royal Armouries website.



Royal Armouries is also an exempt Charity and subject to the relevant law and practice of a Charitable body in the delivery of its objectives.

The Strategic direction of the Royal Armouries is set by a Board of non executive Trustees, who also serve as Trustees of the Charity. One Trustee is appointed by HM The Queen; the Constable of the Tower of London is an ex-officio Trustee and the remaining Trustees and Chair are appointed by the Secretary of State for Culture, Media and Sport.

Operational issues and the implementation of strategy are delegated to an Executive Team led by the Director General and Master of the Armouries. On the advice of the Board of Trustees, DCMS appointed the Director General and Master of the Royal Armouries to be the Accounting Officer. Chapter 3 of *Managing Public Money* sets out the responsibilities of an Accounting Officer and these include: personal responsibility for safeguarding the public funds for which they have charge, propriety and regularity in handling public funds and ensuring that the Royal Armouries is run according to the highest standards of governance, decision-making and financial management.

#### *Change in Accounting Officer*

The Accounting Officer and Director General and Master during the period 1 April 2011 to 31 March 2012 was Lt General Jonathon Riley. Subsequent to the year end, allegations were made relating to the regularity of certain actions which led to the suspension of Jonathon Riley whilst investigations were undertaken. During this period, the Board appointed an Interim Chief Executive Officer (CEO) to undertake the duties of the Director General, and DCMS in turn appointed the Interim CEO as Accounting Officer.

Jonathon Riley resigned as Director General and Master and Accounting Officer on 16 November 2012.

The Interim CEO and Accounting Officer for the period 8 May to 24 August 2012 was Andrew Scott and since 24 August 2012 has been Chris Walker. The role of Master of the Armouries was not filled during this period and remains vacant. The Chair of the Board, Wesley Paul, and the Chair of the Audit Committee, Chris Case, have worked closely with the Accounting Officers, DCMS and the Executive team to ensure that an effective control environment and appropriate governance arrangements are maintained. This has included regular meetings with the Interim CEO and key members of the Executive Team; more frequent review of management information and analysis of feedback from the investigation noted above. In addition, the Chair of the Board has met regularly with DCMS who have provided support and guidance throughout.

## **Significant Internal Control Weaknesses during 2011-12**

At an operational level a number of issues came to light after the year end relating to control processes in HR, procurement and payment of business expenses. These have raised significant concerns about weaknesses in policies and procedures in these areas, although they are not considered to have had a material impact on the *true and fair* view of the financial statements.

The civil service pay guidance issued by HM Treasury in February 2011 made it clear that in 2011-12, the pay freeze for those earning over a full-time equivalent of £21,000 per annum would apply, as announced by the Government at the Emergency Budget in June 2010. Royal Armouries did not have a separate pay remit agreed with DCMS and HM Treasury and there were three instances relating to two employees in 2011/12 where appropriate documentation was not held on file to explain why pay awards were made outside the civil service pay guidance. Consequently it has not been possible to confirm that these pay awards were regular, and the Comptroller and Auditor General has qualified his opinion on regularity accordingly. A further incidence has been noted in early 2012/13 before the additional measures noted below were put in place.

In order to guard against a repetition of these events the following measures have been put in place to reinforce controls:

1. Appointment of an experienced HR Director on a fixed term contract to ensure controls are robust and are operating effectively
2. Internal Audit to undertake a review of core processes and procedures with Finance and HR and report to Audit Committee
3. Review of procurement and travel & expenses policy by Audit Committee

The Royal Armouries has in place policies and procedures to manage conflicts of interest. At each Board and committee meeting all attendees are asked to declare any conflict of interest and the details are recorded in the formal minutes. A register of interests for Trustees and Directors is maintained and updated bi-annually. Potential conflicts of interest are required to be disclosed in advance and where appropriate the individual concerned takes no direct part in the decision making process. Likewise, potential conflicts of interest in the procurement and recruitment processes are required to be disclosed and the individuals should not participate in the decision making process. Following the end of the period two potential conflicts of interest came to light and were subject to independent investigation. In both cases, the Accounting Officer and Trustees are satisfied that no material loss arose but there is a case to strengthen the existing policies, procedure and culture, including a review by Audit Committee of the policies relating to procurement and expense payments. In

addition the policies and procedures will be reissued to all staff and Committee Members and incorporated in the induction process.

The Board and Audit Committee also recognise their responsibilities for the supervision of the Executive Team and the assessment of risk. A new Chairman was appointed on 3 January 2012 and is taking steps to strengthen the composition of the Board and reorganise its sub Committees. The Board has previously met three times a year, and in future this will be increased to four or five occasions. Looking further ahead, the Board and the Accounting Officer believe that there needs to be a change in culture at the Royal Armouries, and the following actions are being taken:

1. The Board has initiated a review of core processes and controls across the whole support services operation, under the banner "back to basics", with the aim of ensuring that these are fit for purpose for a National Museum and provide for adequate checks and balances at all levels. This will be led by the Interim CEO.
2. As part of this review, the approach to risk management process is being updated. Risk will be embedded to a greater degree in departments and responsibility for risk management will be included within the job remit for each Head of Department, who will be expected to maintain a formal risk register in consultation with the local management team. These local registers will be reviewed by the Executive team and Audit Committee, and the most serious issues escalated to the Board.
3. In order to provide greater safeguard against the override of controls by senior management, the membership of the Audit Committee has been reviewed and an assessment of skills and experience undertaken. As a result a new member has been appointed from the legal profession with detailed experience of risk management and controls. In addition, the Terms of Reference and frequency of meetings for both the Audit Committee and the Board will be reviewed and regular meetings arranged between the Chair of Audit Committee, Accounting Officer and Chair of the Board.
4. The current contract for Internal Audit work expires 31 March 2013 and the business will be retendered in 2012/13. In the intervening period the scope of work has been reviewed and the number of days purchased has been increased. The previous approach has been to schedule Internal Audit work on a rolling basis to provide coverage of key areas spread over a number of years. The increased number of days will enable this cycle to be completed more quickly and in greater depth.

## The Board

The Board met three times in 2011/12, once each at Royal Armouries sites in Leeds, the Tower of London and Fort Nelson. The Board considers the information presented to it and where appropriate will request amendments to formats or such additional information as may be required to improve the understanding of the operations and activities. As noted above, the intention is for the Board to meet more frequently in future, to ensure that an adequate level of supervision is maintained.

A number of vacancies arose during the period, and the recruitment of new Trustees will proceed in 2012/13 based on a review of the mix of current Trustees' skills and experience, an assessment of the effectiveness of the Board and the future needs of the Royal Armouries, in particular to reflect the increasing importance of maximising private sector income and communicating effectively with our audiences.

Ann Green's term as Chair ended on 27 October 2011. General the Lord Dannatt was appointed as Acting Chair on 27 October 2011 and served until 3 January 2012 when Wesley Paul was appointed for a term of 4 years. At 8 March 2013, the Board comprised the Chairman and 6 Trustees and full details are included on page 4 of this report.

Table of attendance at meetings during 2011/12:

	Board	Audit	Finance Capital Development	& Knowledge & Audience Development	Remuneration
Ann Green	2/2	0/2	0/2	0/1	1/1
Wesley Paul	1/1	1/1	1/1	1/1	*
Pat Langham	2/3	-	-	2/2	1/1
Jon Hammond Booth	2/3	-	-	3/3	-
Marie Stevens	1/2	-	1/2	1/1	1/1
Chris Case	2/3	3/3	3/3	1/1	*
Richard Dannatt	3/3	-	-	-	*
Hemant Patel	3/3	3/3	3/3	-	1/1
Duncan Wilson	1/2	1/1	1/1	-	0/1
Sebastian Roberts	3/3	-	-	2/3	-
Stephen Smith	2/3	-	1/2	1/2	-

*\*Were not members of Remuneration Committee at the time of the last meeting in September 2011 but have since become members.*

In collaboration with the Accounting Officer, the Trustees are responsible for setting and approving the strategy and key policies and for monitoring progress towards achieving these objectives. The Royal Armouries has a Strategic Plan which identifies the direction of the organisation for the forthcoming five years. The plan is considered by the Board and when approved, submitted to DCMS. From this, an annual Business Plan is developed for each area of activity and delivery delegated to the Executive team. These plans are submitted to the Board in March of each year and when approved, submitted to DCMS. The Business Planning process includes a review of recent activity and lessons learnt.

Over the course of the year key topics discussed by the Board included:

- Review of strategic objectives
- The redevelopment of Fort Nelson
- Development plan for galleries in Leeds
- Development of international partnerships including North America and Canada for the proposed *Dangerous Arts* exhibition
- Establishment of Royal Armouries Trading & Enterprises Ltd as a dedicated commercial trading entity
- Staffing structure

In addition, the Board have considered the control weaknesses identified by the investigation noted above and have put in place the additional measures already described.

Board Papers are prepared by the Executive Team and circulated at least one week prior to meetings. Regular reports are provided on strategy, policy, governance, financial position, meetings of sub committees and operational issues. The Board considers these to be of an appropriate standard to support detailed discussion, and where relevant supplementary information is provided through verbal update or presentation at the meeting.

Subsequent to year end, the Chairman of the Board has initiated a review of strategic priorities drawing on knowledge and experience from both within the Royal Armouries and across the Museum and Academic worlds. Separate groups have been set up to consider the management of the Collection; the historic context and the academic priorities. These groups will report to the Board during 2013 to inform the development of a new strategic plan.

### **Committees of the Board**

The Board has established a number of Committees to provide support and monitoring on matters of risk, control and governance. These Committees are Remuneration; Finance and Capital Development; Knowledge and Audience Development and Audit.

#### *Remuneration Committee*

The Remuneration Committee reviews the salaries of the Accounting Officer and Directors. One pay award was made to a Director in 2011/12 after the Remuneration Committee met, and there is no evidence to indicate that this was subsequently reviewed by the Committee. In order to guard against this situation arising again, the terms of reference and organisation of the Committee are being reviewed and the Board has put in place the additional measures described under the analysis of significant control weaknesses above.

#### *Finance and Capital Development Committee*

This committee has responsibility for reviewing the annual budget, quarterly re-forecasts, the outturn and all capital projects and income generating ventures valued at more than £50,000. The Accounting Officer, Finance and Administration Director and Creative Development Director routinely attend the meetings.

#### *Knowledge and Audience Development Committee*

This committee considers aspects of communication, education and outreach. The Accounting Officer, Head of Collections and Creative Development Director routinely attend the meetings.

#### *Audit Committee*

The Board has delegated authority to the Audit Committee for reviewing the integrity of the annual report and accounts together with the effectiveness of the system of internal control and risk management systems. Specific duties include working with the external auditors to consider the nature and scope of the audit together with its outcomes, cost effectiveness and the audit fee. The Audit Committee will also review and discuss with management and auditors the financial statements including Accounting Policies, significant judgements and estimates and compliance with relevant financial reporting standards. Finally, the Audit Committee reviews and comments on the Governance Statement and the appointment of Internal Auditors, together with the scope of their work and its outcomes.

The committee members have diverse skills which include recent and relevant financial experience, governance, risk and health and safety matters. The Accounting Officer and Finance and Administration Director and the internal and external auditors routinely attend the meetings.

The committee has received and reviewed reports and presentations from the management, internal and external auditors to fulfil its term of reference. In particular the committee considered:

- Accounting principles, policies and procedures adopted in the financial statements and the accounting issues dealt with in the accounts
- External audit planning document, the detailed findings following audit and recommendations therein
- Areas covered by internal audit during 2011/12 which included a general IT review, the implementation of the trading company and key financial controls.
- Policies due for renewal
- Ongoing enhancement of the risk register and development of a heat map

- Proposals put forward to improve archival storage and record keeping, both electronic and hard copy

As noted elsewhere, a number of control issues came to light during 2011/12. Audit Committee sought appropriate assurances from the Executive about remedial action and brought these to the attention of the Board where no satisfactory response was received. The Board then initiated the further actions set out in the section on *significant control weaknesses*.

A report from Audit Committee has been adopted as a standing item on the Board Agenda to ensure that matters of risk and control receive the appropriate attention, and a review of Audit Committee effectiveness is planned for 2012/13.

### **Subsidiary Companies**

Royal Armouries Trading & Enterprises Ltd (RATE) became operational in April 2011 with the objective of delivering the commercial activities of the Royal Armouries including the retail outlets and ticketed events in Leeds and from August 2011 the new visitor centre at Fort Nelson. RATE is a wholly owned subsidiary of the Royal Armouries and is managed by an independent Board of Directors with relevant skills and experience including sales, finance and marketing. The objectives of RATE are set out in its Memorandum and Articles of Association and its Statutory Accounts are approved by the Board of RATE and subject to external audit by the Comptroller and Auditor General.

A number of measures are in place to provide assurance to the Accounting Officer that RATE is operating in accordance with the best interests of the Royal Armouries. These include a Service Level Agreement and a Trustee who serves on both Boards. In addition, the Accounting Officer is also appointed as a Director of RATE and attends Board meetings in that capacity together with a senior member of the Royal Armouries finance team. The RATE business plan is agreed with the Royal Armouries Board and there are regular updates to the Royal Armouries Board on the financial performance of RATE activities and the anticipated financial contribution for the year. Where necessary, action is taken by the Royal Armouries Board to address underperformance, and the RATE Board was reorganised in December 2012 following a review of the skills and experience required to take the business forward.

## **Directorate and Executive Team**

The Accounting Officer is supported by a Directorate team comprising:

Creative and Development Director  
Museum Director (until 28 December 2011)  
Academic Director (until 29 February 2012)  
Head of National Firearms Centre  
Finance and Administration Director

Following the retirement of the Museum and Academic Directors, the Head of Collections and General Manager, Operations joined the Group which meets regularly and on a monthly basis is joined by a wider group of key senior managers. The Directorate owns the Strategic Plan at executive level and is also responsible for keeping under review all controls, policies and procedures – and in particular to ensure at an operational level that the organisation complies with changes in the law or with instructions and guidance from the sponsoring departments, H.M. Treasury, and the Charity Commission. With effect from 24 August 2012 the permanent Finance and Administration Director has been appointed Interim CEO, and during this period an Interim Head of Finance has been in post to ensure adequate segregation of duties is maintained.

The Executive, consisting of the Directorate and all senior managers is the custodian of the annual business plan and its main business is assessing progress; considering and implementing changes and realigning resources to respond to changes in the operating environment.

Minutes for all the above meetings are made available to the Board and discussed as necessary.

## **System of Internal Control**

The Accounting Officer and the Board are responsible for setting a system of internal control and reviewing its effectiveness and the Executive is responsible for implementing and maintaining the system of controls. This system is designed to manage rather than eliminate the risk of failing to achieve aims, objectives and policies; it therefore provides reasonable but not absolute assurance of effectiveness.

Where significant risks are recognised and accepted then potential impacts are identified and appropriate mitigating actions put in place. The key areas identified in our strategic risk register are:



- Continued pressure on public sector funding

A 15% real terms cut in Grant-in-Aid is being effected across the Museum sector in the period of the current spending review (2011/12 – 2014/15). There has already been a significant impact for the Royal Armouries on staffing levels, in particular on the operational areas and in the amalgamation of the Interpretation and Education Teams. The overall economic situation remains subdued and the outlook for the next spending review is equally tough. In response, the Royal Armouries has set up Royal Armouries Trading & Enterprises Ltd to provide a focus for commercial activities; a more business like culture is being embedded across the organisation and fundraising opportunities are being actively pursued.
- Building a strong leadership team

The Museum and Academic Directors retired during the year and the Finance and Administration Director left on 31 May 2012. Jonathon Riley resigned as Director General and Master and Accounting Officer on 16 November 2012. This represents a significant loss of experience in both knowledge of the Collection and in the operation of the Organisation. A new Finance and Administration Director joined in July 2012 and other responsibilities have been reallocated between experienced members of staff pending appointment of suitable long term replacements with appropriate knowledge and experience.
- Financial impact of maintaining the Armouries physical infrastructure

The Museum in Leeds was built in the mid 1990s and is now reaching the stage where further investment is required to maintain its effective operation. Professional advice has been sought to quantify the likely commitment over the next 20 years, and a strategy for immediate, medium and long term development will be developed by the Accounting Officer and the Board during 2012/13.
- Attracting and retaining a skilled workforce

The cut in Grant-in-Aid and Public Sector pay freeze have both had a significant impact on staffing. As set out in note 4 to these Accounts, the average number of employees fell from 178 in 2010/11 to 145 in 2011/12. The overall picture is largely determined by external factors, but within this the Royal Armouries actively seeks to provide development opportunities wherever possible for existing staff; to support relevant structured training and to take advantage of new funding opportunities – for example, the generous support of the Clothworkers Guild for a bursary post in the Conservation team.

- Maintaining the engagement with our audiences and stakeholders  
Our audiences range from the Academic Community to the many hundreds of thousands whom are welcomed each year to our venues and events; from those who support us financially to those who look to us to inform, educate and entertain. A common thread is the expectation that what we offer will be of the highest quality and will engage and challenge. This requires an investment not only financially but in terms of expertise, time and imagination. Our programme to reinvigorate the offer at the Tower of London is progressing well and the *Line of Kings* project is scheduled for 2012/13; the new *Voice of the Guns* gallery at Fort Nelson opened in Autumn 2011 and has been well received; and in Leeds we have started a major project to redevelop the *Warfare* gallery.
- Significant control weakness  
As already noted, a number of control weaknesses were identified in 2011/12. Action has been taken to address these and progress will be monitored by the Accounting Officer and Audit Committee.

### **Independent Assurance**

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control and the review is informed by the work of the internal auditors and the executive directors who have responsibility for the development and maintenance of the internal control framework, and also by comments made by the external auditors in their management letter and other reports.

In order to provide the assurance necessary to support completion of this Governance Statement, the current Accounting Officer has relied on a review of the reports provided by the Internal Auditor; the minutes of Trustee and Committee meetings; discussions with the Chair of Audit Committee and other long serving Trustees together with the information provided by the current Executive Team; a detailed review of the Management Accounts and the remedial actions described above to address the identified control weaknesses.

Internal Audit for 2011/12 was provided under contract by KPMG. 26 days of audit time were scheduled for the financial year and specific audits were undertaken on:

	<b>OPINION</b>
• IT General Controls	Weak
• Royal Armouries Trading Company	Satisfactory
• Key financial controls	Satisfactory

Overall KPMG concluded that the 'weak' opinion on IT General Controls prevented them from being able to provide an opinion on the control environment as a whole. The Accounting Officer and Audit Committee have therefore sought assurance that there has been no material misstatement from other sources including a review of Management Accounts; the assurances provided by KPMG in previous years that the control environment was effective and the action taken by management post year end, including the appointment of a new Finance and Administration Director. The individual detailed Internal Audit reports have been considered by Audit Committee and included 4 Priority 1 recommendations, 6 Priority 2 recommendations and 5 Priority 3 recommendations. Audit Committee expressed concern at the outcome of the IT audit and a new IT Manager has been appointed post year end whose remit specifically includes dealing with the internal audit issues. The Accounting Officer has agreed with the senior management team a plan to resolve the identified issues and Audit Committee will review progress at forthcoming meetings prior to a follow up audit by KPMG later in 2012/13.

### **Compliance with the Corporate Governance Code**

The Royal Armouries is moving towards compliance with the intentions of the 'Corporate governance in central government departments: Code of Good Practice 2011', in so far as it is relevant for an NDPB. In addition to the review of core processes and controls, the key areas the Board and Management are seeking to address/improve are discussed within this Governance Statement and include:

- increasing the frequency of Board meetings;
- engaging in a formal process of rigorous evaluation of the Board's own performance every year;
- reviewing the structure of sub-committees to support the Board; and
- embedding risk management to a greater degree within departments;

### **Data and Information Security Management**

The Royal Armouries has an information management strategy with which all staff must comply. The Royal Armouries Head of Library, Archives and Records Management acts as the Departmental Records Officer, Freedom of Information Officer and Data Controller. The Royal Armouries Finance and Administration Director has been designated as the Senior Information Risk Owner and Freedom of Information champion. Particular focus for 2012/13 will be our IT infrastructure and will include the establishment of new collections management systems, improved management information systems including financial and audience data, data storage, archives and records, the website, communications and the virtual museum.

The Royal Armouries have reviewed the status of information and data security during the year to ensure that information is correctly managed and safeguarded. These are contained in the Royal Armouries Records and Information Management Policy and the Information Security Policy. A prioritised action plan is in progress to address the requirements of the Cabinet Office.

The requirements of the government's transparency agenda have been implemented within the required time lines. Staff capacity and systems are in place to carry through this work on a continuous basis.

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2011/12.

Chris Walker  
Accounting Officer

Dated 22 March 2013

Wesley Paul  
Chairman

Dated 22 March 2013

Chris Case  
Chairman, Audit Committee

Dated 22 March 2013

## **THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Board of Trustees of the Royal Armouries for the year ended 31 March 2012 under the National Heritage Act 1983. The financial statements comprise: the Consolidated Statement of Financial Activities, the Group and Museum Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Board of Trustees, Accounting Officer and auditor**

As explained more fully in the Statement of the Trustees' and the Accounting Officer's Responsibilities, the Trustees and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Heritage Act 1983. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board of Trustees of the Royal Armouries' and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Trustees of the Royal Armouries; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Trustees' and Accounting Officer's Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Basis for qualified opinion on regularity**

As explained in the attached report, the Royal Armouries awarded pay increases to two members of staff and there is no evidence that the requisite HM Treasury approval was obtained. HM Treasury's Civil Service Pay Guidance sets out the details of the 'pay remit process' which covers the pay setting arrangements for public sector workers in NDPBs. I have concluded that this expenditure is not in conformity with the authorities which govern it and is, therefore, irregular.

### **Qualified opinion on regularity**

In my opinion, except for the payments made in respect of pay increases awarded to two employees, in all material respects the resources expended and incoming resources recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Further details of the reasons for my qualified opinion on regularity can be found in my report on pages 45 to 47.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Board of Trustees of the Royal Armouries' affairs as at 31 March 2012 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Heritage Act 1983 and Secretary of State directions issued with HM Treasury consent there under.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued with HM Treasury consent under the National Heritage Act 1983; and
- the information given in the sections headed Structure, Governance and Management, Future Development Plans and the Financial Review included within the Trustees' and Accounting Officers Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with HM Treasury's guidance.

**Amyas C E Morse**  
**Comptroller and Auditor General**

**Dated**                      **25 March 2013**

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

## REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

### Introduction

The Royal Armouries has the status of a non-departmental public body, operating in the public sector but at arm's length from its sponsor department, the Department for Culture, Media and Sport (DCMS). It is the United Kingdom's National Museum of Arms and Armour and an exempt charity under the Charities Act 1993. The governing body of the Royal Armouries is the Board of Trustees, which was established in 1984 in accordance with the National Heritage Act 1983. The DCMS appoints the Accounting Officer on the advice of the Board and the current Accounting Officer is the interim Chief Executive.

Under the National Heritage Act 1983, I am required to examine, certify and report on the financial statements of the Board of Trustees of the Royal Armouries. In addition to the requirements to obtain evidence to give me reasonable assurance that the Board of Trustees of the Royal Armouries financial statements are free from material misstatement, I am also required to give an opinion that the transactions are, in all material respects, in conformity with the authorities which govern them (a regularity opinion).

### Purpose of report

The purpose of this Report is to explain my audit opinion and the background to the regularity qualification of my audit opinion in respect of two pay awards and to note the steps taken in respect of this matter by the interim Chief Executive and the Board of Trustees.

### Qualified audit opinion arising from irregular expenditure on three pay awards to two employees

HM Treasury's Civil Service Pay Guidance sets out the details of the 'pay remit process' which covers the pay setting arrangements for public sector workers in NDPBs, as well as civil servants throughout the civil service.

The Civil Service Pay Guidance 2011-12 established that the two year pay freeze for public sector workforces announced by the Government at the Emergency Budget<sup>1</sup> in June 2010 would come into effect from 2011-12, for those earning above the full-time equivalent of £21,000 per annum. Civil servants without a pay deal in place for 2010-11 at the time of the Emergency Budget entered the pay freeze in 2010-11 and will also exit it in advance of other workforces. The Civil Service Pay Guidance 2012-13 established that public sector pay awards will average at one per cent for the two years following the pay freeze, as announced by the Chancellor of the Exchequer in the 2011 Autumn Statement.

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<sup>1</sup> *Budget 2010*, HM Treasury, June 2010



The Royal Armouries entered the pay freeze in 2010-11. If the Royal Armouries wished to increase pay for those earning above £21,000, approval should have been sought via submission of a pay remit to DCMS and HM Treasury. The Royal Armouries did not have a separate pay remit agreed with DCMS and HM Treasury in either 2010-11 or 2011-12. In addition, the Royal Armouries does not have a pay remit in place permitting pay awards above one per cent for 2012-13.

The Royal Armouries awarded pay increases to two employees who were earning above the full-time equivalent of £21,000 per annum during 2011-12. One employee was awarded two pay increases for £5,000 and £4,000 and another employee received a pay increase of £6,000. In addition, a further £7,000 (17.5%) pay award has been granted to a third employee during 2012-13, which is in excess of a one per cent increase permitted.

There is insufficient evidence that due process was followed in awarding these pay increases; and insufficient documentation to support any exceptional circumstances to justify pay increases for the three individual members of staff.

There is also no evidence that HM Treasury approval was obtained. In the absence of approval, these payments must be deemed to be irregular. I have therefore qualified my audit opinion on regularity.

#### **Actions of the Board of Trustees and Interim Chief Executive**

The interim Chief Executive and the Chairman of the Board of Trustees have stated in the Governance Statement that they have initiated a thorough review of core processes and controls across the whole support services operation to guard against any repetition of the circumstances which led to the pay awards being made without appropriate approvals.

On becoming aware of the pay increases and the other issues described in the Governance Statement, the Board of Trustees commissioned an independent investigation and, with the new interim Chief Executive, has initiated the further actions set out in the section on significant control weaknesses in the Governance Statement. This includes:

- the appointment of an experienced HR Director on a fixed term contract to ensure controls are robust and are operating effectively;
- Internal Audit will undertake a review of core processes and procedures with Finance and HR; and
- In order to provide greater safeguard against the override of controls by senior management, the membership of the Audit Committee has been reviewed and an assessment of skills and experience undertaken.

**Amyas C E Morse**

**Comptroller and Auditor General**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

25 March 2013

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Unrestricted funds		Restricted funds	Total funds	Total funds
		General	Designated		2011/12	2010/11
		£000	£000	£000	£000	£000
<b>Incoming resources</b>						
<b>Incoming resources from generated funds</b>						
Voluntary Income						
Grant-in-Aid	2	7,318	583	-	7,901	8,389
Grant DCMS / Wolfson		-	-	-	-	237
Other voluntary income		84	-	942	1,026	1,730
Share of HRP gate income	3	227	-	-	227	175
Activities for generating funds						
Income from trading activities		454	-	-	454	451
Conservation income		10	-	-	10	8
Investment Income		5	-	9	14	5
<b>Incoming resources from charitable activities</b>						
Events income		194	-	-	194	260
Educational income		39	-	-	39	77
Other operating income		157	-	104	261	178
<b>Total incoming resources</b>		<b>8,488</b>	<b>583</b>	<b>1,055</b>	<b>10,126</b>	<b>11,510</b>
<b>Resources expended</b>						
<b>Costs of generating funds</b>						
Costs of generating voluntary income	4	(387)	-	(2)	(389)	(301)
Fundraising trading: costs of goods and services	4	(737)	(16)	(32)	(785)	(729)
<b>Charitable activities</b>						
Care of the collection	4/5	(2,829)	(130)	(268)	(3,227)	(2,554)
Education	4/5	(562)	(37)	(76)	(675)	(721)
Visitor experience	4/5	(3,506)	(342)	(722)	(4,570)	(4,685)
<b>Governance costs</b>	4	(95)	-	(2)	(97)	(75)
<b>Other outgoing resources</b>						
Redundancy costs and holiday pay	4	(372)	-	-	(372)	(858)
Impairment / write down of Fort redevelopment	4	-	(820)	-	(820)	-
<b>Total resources expended</b>		<b>(8,488)</b>	<b>(1,345)</b>	<b>(1,102)</b>	<b>(10,935)</b>	<b>(9,923)</b>
<b>Net incoming / (outgoing) resources before transfers</b>		-	(762)	(47)	(809)	1,587
Transfers between funds		-	(94)	94	-	(40)
<b>Net incoming / (outgoing) resources before other recognised gains / (losses)</b>		-	(856)	47	(809)	1,547
(Loss) / Gain on revaluation of investments		-	-	13	13	2
(Loss) / Gain on revaluation of assets		-	68	1,515	1,583	2,162
<b>Net movement of funds</b>		-	<b>(788)</b>	<b>1,575</b>	<b>787</b>	3,711
Fund balances as at 1 April 2011		763	5,377	46,889	53,029	49,318
<b>Fund balances as at 31 March 2012</b>		<b>763</b>	<b>4,589</b>	<b>48,464</b>	<b>53,816</b>	<b>53,029</b>

All activities are on an ongoing basis.

There are no recognised gains or losses in the current or preceding year, other than the net incoming / (outgoing) resources as disclosed in the Statement of Financial Activities.

The notes on pages 51 to 71 form an integral part of these accounts.

THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2012

	Notes	2011/12		2010/11	
		Group	Museum	Group	Museum
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Intangible Assets	7	58	58	73	73
Tangible Assets	8	50,824	50,824	49,824	49,824
Heritage Assets	9	2,106	2,106	1,931	1,931
Investments	12	128	-	398	-
Investments in Subsidiary	13	-	150	-	150
		<u>53,116</u>	<u>53,138</u>	<u>52,226</u>	<u>51,978</u>
<b>Current Assets</b>					
Stocks	14	62	-	62	62
Debtors	15	819	833	1,940	1,939
Cash at Bank and in Hand		2,052	1,847	1,949	1,758
		<u>2,933</u>	<u>2,680</u>	<u>3,951</u>	<u>3,759</u>
<b>Creditors</b>					
Amounts falling due within one year	16	(2,108)	(2,045)	(2,894)	(2,892)
		<u>825</u>	<u>635</u>	<u>1,057</u>	<u>867</u>
<b>Net Current Assets</b>					
		<u>53,941</u>	<u>53,773</u>	<u>53,283</u>	<u>52,845</u>
<b>Total Assets less Current Liabilities</b>					
Provision for Liabilities and Charges	17	(125)	(125)	(254)	(254)
		<u>53,816</u>	<u>53,648</u>	<u>53,029</u>	<u>52,591</u>
<b>Net Assets</b>					
<b>Represented by</b>					
<b>Income Funds</b>					
Restricted Reserves	21	48,464	48,296	46,889	46,451
Unrestricted Reserves					
Designated funds	21	4,589	4,589	5,377	5,377
General	21	763	763	763	763
		<u>53,816</u>	<u>53,648</u>	<u>53,029</u>	<u>52,591</u>

The notes on pages 51 to 71 form an integral part of these accounts.

The financial statements of pages 48 to 50 were approved by the Board of Trustees and were signed on their behalf by:

Chris Walker  
Accounting Officer

Dated 22 March 2013

Wesley Paul  
Chairman

Dated 22 March 2013

## THE BOARD OF TRUSTEES OF THE ROYAL ARMOURIES

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2011/12	2010/11
		£000	£000
Net cash inflow from operating activities	22	<b>2,199</b>	<b>4,019</b>
Returns on investment and servicing of finance	22	<b>14</b>	<b>5</b>
Capital expenditure and financial investment	22	<b>(2,110)</b>	<b>(3,405)</b>
Increase in cash		<b><u>103</u></b>	<b><u>619</u></b>

Cash balances comprise money held in commercial bank accounts and cash in hand.

The notes on pages 51 to 71 form an integral part of these accounts.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 Accounting policies**

#### **1.1 Basis of accounting**

These accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the required valuation methods for financial instruments. The accounts comply with the Charities SORP 2005, applicable accounting standards, and the requirements of the Companies Act 2006 and HM Treasury's Financial Reporting Manual. The accounts have been prepared in accordance with the accounts direction given by the Secretary of State for Culture, Media and Sport, with the approval of the Treasury, a copy of which can be obtained from the Royal Armouries.

The consolidated financial statements incorporate those of the Royal Armouries Development Trust and Royal Armouries Trading & Enterprises Ltd. Royal Armouries Foundation, Inc and Arms and Armour Heritage Trust are not consolidated into the Group Accounts as they are independent of the Royal Armouries.

All financial statements are made up to 31 March 2012. The consolidation has been carried out on a line by line basis.

#### **1.2 Fundamental accounting concept**

The future financial viability of the Royal Armouries is critically dependent upon continued government grant. The funds of the Royal Armouries are adequate to support its future requirements only in the technical sense that commitments are not made beyond the resources available.

The Trustees are satisfied, on the evidence available, that Grant-in-Aid the Secretary of State has made available, together with estimated events admission fees and other income over the next 12 months, is adequate to meet known and reasonably foreseeable circumstances likely to arise in that period. Should unforeseen circumstances costs and losses arise, the Royal Armouries aims to absorb these within the resources available to it, but may have to look to the Department for Culture, Media and Sport for further assistance in exceptional circumstances. The Trustees believe, therefore, that the accounts can be prepared on the basis of a going concern.

#### **1.3 Incoming resources**

Income from donations and grants, including capital grants, is included in incoming resources when these are receivable. Sponsorship and donation income is recognised as income when the conditions for its receipt have been met. Commercial income is recognised upon performance of services rendered in accordance with contractual terms.

#### **1.4 Expenditure**

Expenditure is classified under the principal categories of costs of generating funds, costs of charitable activities and governance costs, rather than the type of expense, in order to provide more useful information to the users of the accounts.

Costs of generating funds are those associated with generating voluntary income and the cost of trading activities, which includes the cost of goods sold and other associated costs.

Resources expended on charitable activities comprise all the resources incurred in undertaking its work to meet its charitable objectives. Such costs include those incurred on conserving and managing the collection, providing an educational and interpretation programme and all costs associated with customer service.

Governance costs include Trustee expenditure and internal and external audit costs.

Support costs, where possible, have been directly allocated to an activity cost category, or alternatively, apportioned on the basis of floor area occupied by an activity, or by the number of people employed within an activity. Directorate and Administrative Support have been allocated using headcount whilst Shared Services has been allocated based upon floor space.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1 Accounting policies (continued)

#### 1.5 Fund accounting

General funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the Royal Armouries.

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes. The use of the designated funds is set out in the notes to the accounts.

Restricted funds are funds subject to specific restriction by the providers of the funds or the purposes of the appeal.

Transfers between funds occur when designated funds allocated for collection acquisitions are moved to restricted funds and backlog depreciation following tangible fixed asset revaluations.

#### 1.6 Intangible fixed assets

Intangible fixed assets reflect the cost of software licences for a number of front line and back office systems together with the cost of developing the Royal Armouries' website. Depreciation is provided in the year following capitalisation on a straight line basis over 3 years.

#### 1.7 Tangible fixed assets

In line with Treasury guidance and FRS15, the buildings were valued at depreciated replacement cost in March 2009 and the remaining lives adjusted accordingly.

Other tangible fixed assets other than the collection assets (see note 1.8) were professionally revalued as at 31 March 2006 and by the use of indices issued by the Office for National Statistics and Building Cost Information Service thereafter. Depreciation is provided on all tangible assets from the year following acquisition at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful life as follows:

Buildings	29 years, 47 years & 48 years
Plant & machinery	14 years, 17 years & 27 years
Fixtures, fittings & equipment	3 to 10 years

Tangible fixed assets are defined as assets costing £2,500 or more with a useful life of greater than 1 year. All fixed assets, excluding IT, are revalued to current cost using either a range of appropriate price indices or professional revaluation. Where the net book value of a fixed asset is higher than its recoverable amount, it will be impaired and written down to its recoverable value.

#### 1.8 Heritage fixed assets

The Royal Armouries is the National Museum of Arms and Armour and has one of the largest collections of arms and armour in the world which comprises the National Collection of Arms and Armour, National Artillery Collection and National Firearms Centre. It is also the keeper of the Tower of London history.

The collection of heritage assets is held to support the Royal Armouries' charitable objectives defined in the National Heritage Act 1983 including; the care and preservation of the collection; increasing knowledge, understanding and appreciation of the collection; upkeep of records relating to the collection and Tower of London.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1 Accounting policies (continued)**

#### **1.8 Heritage fixed assets (continued)**

The Trustees do not consider that reliable cost or valuation information can be obtained for the vast majority of the collection. This is because of the diverse nature of the assets held, the uniqueness of certain individual items, the number of assets held and the lack of comparable market values. The Trustees also consider the cost of obtaining valuations is not commensurate to the benefits of inclusion to the user of the accounts.

The Royal Armouries does not therefore recognise these assets on its Balance Sheet, other than acquisitions since 2001 which are reported at cost, where the object was purchased or at the museum curator's best estimate of market value where the object was donated. The threshold for capitalisation is £2,500 for individual collection additions.

As the additions are deemed to have indeterminate lives and high residual values the Trustees do not consider it appropriate to charge depreciation.

Subject to the approval of the Trustees, the Royal Armouries may dispose of items from the collection and this normally occurs when the item is deemed unsuitable for retention in the collection and disposal is not detrimental to the public interest, where it is a duplicate of an item already held or the object is damaged. It is usual for disposal proceeds to be used in furtherance of the collection.

Expenditure which, in the Trustees view, is required to preserve or clearly prevent further deterioration of individual collection items is charged to the Statement of Financial Activities when it is incurred.

#### **1.9 Stock**

Stock is valued at the lower of cost or net realisable value and comprises goods for resale.

#### **1.10 Pensions**

Present and past members of staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a non contributory and underfunded scheme. Although the scheme is a defined benefit scheme, liability for payment of future benefits lies with the PCSPS. The Royal Armouries, and other bodies covered by PCSPS meet the cost of pension cover provided for staff they employ by payment of charges calculated on an accruing basis. There is a separate statement for the PCSPS as a whole. Contributions are included as expenses in the Statement of Financial Activities in the period to which they relate.

#### **1.11 Operating leases**

Rentals applicable to operating leases are charged to the Statement of Financial Activities on a straight line basis, over the lease term.

#### **1.12 Taxation**

The trading profits generated through Royal Armouries Trading & Enterprises Ltd are paid to the parent under Gift Aid and the levels of non-primary purpose trading remaining in the main charity are such that no corporation tax provision has been made.



## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1 Accounting policies (continued)**

#### **1.13 Grants**

With the consent of the Secretary of State for Culture, Media and Sport the Board of Trustees of the Royal Armouries has awarded two grants during the year. The grants are recognised in the Financial Statements once the recipient Trust has accepted the terms and conditions attached to the grant in writing.

#### **1.1.4 Financial Instruments**

The Royal Armouries classifies its financial assets into loans and receivables and available for sale.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Consisting of trade and other debtors there is no intention to trade these loans and receivables and these assets are valued at amortised cost less impairment, where appropriate.

Available for sale financial assets are investments that the Royal Armouries does not plan to hold until maturity. Subsequent to initial recognition these assets are recorded at fair value, with any realised and unrealised gains and losses reflected in the Statement of Financial Activities.

All financial liabilities are recorded at amortised cost.

#### **1.15 Provisions**

Provisions are recognised when it is probable that a transfer of economic benefits will be required to settle an obligation and a reliable estimate of the amount can be made.

#### **1.16 Holiday Pay Accrual**

The 2011/12 financial statements include an accrual for outstanding holiday pay due to employees as at 31 March 2012. The movement on the accrual is included in note 4 to the Financial Statements.

#### **1.17 Investment in Subsidiary**

In the Museum accounts the investment in its subsidiary undertaking, Royal Armouries Trading & Enterprises Ltd is stated at cost.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2. Grant-in-Aid

Grant-in-Aid received in 2011/12 was £7,901,000 (2010/11: £8,389,000). The full amount has been credited to income during the year.

The money is available for running costs, capital improvements and collection purposes in accordance with the funding agreement. The sum of £512k (2010/11: £709k) has been designated by the Trustees for the purposes of capital projects. The sum of £71k (2010/11: £76k) has been designated by the Trustees for the purposes of collection purchases.

### 3. Share of gate income generated at the Tower of London

	2011/12 £000	2010/11 £000
Historic Royal Palaces	<u>227</u>	<u>175</u>

### 4. Total resources expended

	Staff costs £000	Other direct costs £000	Impairment, Depreciation & Disposals £000	Allocated Support Cost £000	2011/12 £000	2010/11 £000
<b>Direct Costs</b>						
Cost of generating funds						
Cost of generating voluntary income	177	101	-	111	389	301
Fund raising: cost of goods and other costs	230	229	48	278	785	729
Charitable activities						
Care of the collection	1,129	529	386	1,183	3,227	2,554
Education	215	97	109	254	675	721
Visitor Services	707	911	1,011	1,941	4,570	4,685
Governance	-	97	-	-	97	75
Write down of Fort redevelopment	-	-	820	-	820	-
Redundancy / Early retirement / Holiday pay	372	-	-	-	372	858
	<u>2,830</u>	<u>1,964</u>	<u>2,374</u>	<u>3,767</u>	<u>10,935</u>	<u>9,923</u>
<b>Support Costs</b>						
Directorate	497	248	-	(745)		
Administrative support	556	448	-	(1,004)		
Shared services	816	1,202	-	(2,018)		
	<u>1,869</u>	<u>1,898</u>	<u>-</u>	<u>(3,767)</u>		
	<u>4,699</u>	<u>3,862</u>	<u>2,374</u>	<u>-</u>		

#### Governance costs

	2011/12 £000	2010/11 £000
Trustee expenditure	16	21
Audit fees (see note 6)	81	54
	<u>97</u>	<u>75</u>

#### 4a Staff Costs

	2011/12 £000	2010/11 £000
Salaries and wages	3,387	3,955
Agency staff	157	51
National Insurance contributions	236	270
Superannuation	547	631
Early retirement costs	42	44
Utilisation of provisions	(79)	(94)
Redundancy costs	404	1,003
Holiday pay (see note 1.16 to the financial statements)	5	(95)
	<u>4,699</u>	<u>5,765</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. Total resources expended (continued)

Following the constraints stemming from the 2010 Spending Review, the Royal Armouries offered a further voluntary redundancy scheme in late 2011 and 7 employees, including two Directors, left between January and March 2012.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
<£10,000	-	-	14	-	14	-
£10,000 - £25,000	6	-	26	1	32	1
£25,000 - £50,000	1	-	8	2	9	2
£50,000-£100,000	-	-	1	4	1	4
<b>Total number of exit packages</b>	7	-	49	7	56	7
<b>Total resource cost (£0,000)</b>	131	-	815	349	946*	349

\* Actual payment made in 2011/12 was £686k against which the accrual and provision made in 2010/11 of £670k was released.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year the decision was made.

The average number of employees, analysed by function, was:

	Group and Museum	
	2011/12	2010/11
Cost of generating voluntary funds	6	6
Fundraising: cost of goods sold and other	16	17
Care of the collection	52	49
Education	10	15
Visitor Experience	61	91
	<b>145</b>	<b>178</b>

#### Director General and Master of the Armouries

Details of the Director General and Master of the Armouries and Directors remuneration are contained within the Remuneration report.

#### Employees receiving remuneration over £60,000

The number of employees, including the Director General and Directors whose emoluments as defined for taxation purposes amounted to over £60,000 in the year were as follows:

	2011/12	2010/11
£60,001 - £65,000	1	2
£65,001 - £70,000	1	-
£75,001 - £80,000	-	-
£90,001 - £95,000	1	1

#### Pension Scheme

Under the terms of Schedule 1 of the National Heritage Act 1983, the Board of Trustees of the Royal Armouries provides pensions for staff, and employment with the Royal Armouries is included among the categories of employment to which a superannuation scheme under section 1 of the Superannuation Act applies. In accordance with the schedule, the Royal Armouries pays a monthly sum determined by the Treasury to meet its liabilities under the Principal Civil Service Pension Scheme (PCSPS) attributable to the future pensions in respect of employees who are or have been in the service of the Royal Armouries.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. Total resources expended (continued)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Royal Armouries is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2011/12, employers' contributions of £545k were payable to the PCSPS (2010/11: £626k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires and not benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £2k (2010/11: £5k) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0k, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were less than £1k. There were no prepaid contributions at that date

### 4b. Trustees

No member of the Board of Trustees of the Royal Armouries received any emoluments during the year. Eleven Royal Armouries Trustees, two Royal Armouries Development Trust Trustees and three Non-Executive Directors of Royal Armouries Trading & Enterprises Ltd were reimbursed for their travel and subsistence expenses during the year, which amounted to £15,396 (2010/11: Twelve Royal Armouries Trustees, one Royal Armouries Development Trust Trustee and two Non-Executive Directors of Royal Armouries Trading & Enterprises Ltd amounting to £21,196).

### 5. Grants Awarded

With the consent of the Secretary of State for Culture, Media and Sport, the Board of Trustees of the Royal Armouries have, subject to a number of conditions, awarded grants of £469k (2010/11: nil) to The Arms & Armour Heritage Trust. The Trust is required to use the grant for the purpose of promoting enjoyment, knowledge or understanding of arms and armour.

Grants falling due under one year

	<b>Group</b>	
	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Commitment as at 1 April 2011	-	-
Grants awarded during the year	469	-
Grants settled during the year	(5)	-
<b>Commitment as at 31 March 2012</b>	<b>464</b>	<b>-</b>

Grants falling due under one year

	<b>Museum</b>	
	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Commitment as at 1 April 2011	-	-
Grants awarded during the year	444	-
Grants settled during the year	-	-
<b>Commitment as at 31 March 2012</b>	<b>444</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. Net Incoming / (Outgoing) Resources

	2011/12 £000	2010/11 £000
Net incoming resources is stated after charging:		
Operating lease rentals	399	399
External auditor for audit work	62	38
Internal Auditor	19	16
Legal services	79	62
Travel and subsistence costs	135	108
Writedown of trading stocks to net realisable value	-	9

All auditors' remuneration was in respect of audit work. £59,500 was charged by the National Audit Office on behalf of the Comptroller and Auditor General who now also audits Royal Armouries Trading & Enterprises Ltd and £2,000 by Volans, Leach and Schofield.

### 7. Intangible Fixed assets (Group and Museum)

	Website Development £000	Software Licences £000	Total £000
Cost as at 1 April 2011	69	115	184
Additions	26	-	26
Revaluation	-	-	-
<b>Cost as at 31 March 2012</b>	<b>95</b>	<b>115</b>	<b>210</b>
Amortisation as at 1 April 2011	39	72	111
Amortisation during year	17	24	41
<b>Amortisation as at 31 March 2012</b>	<b>56</b>	<b>96</b>	<b>152</b>
<b>Net Book Value at 31 March 2012</b>	<b>39</b>	<b>19</b>	<b>58</b>
Net Book Value at 31 March 2011	30	43	73

### 8. Tangible Fixed assets (Group and Museum)

	Assets under construction £000	Buildings £000	Plant and Machinery £000	Fixtures Fittings and Equipment £000	Total £000
<b>Cost</b>					
As at 1 April 2011	2,883	42,914	3,962	4,272	54,031
Additions	1,233	-	103	414	1,750
Transfers	(3,977)	2,796	852	329	-
Disposals	(139)	-	-	-	(139)
Impairment	-	(396)	(285)	-	(681)
Revaluations	-	1,573	59	42	1,674
<b>As at 31 March 2012</b>	<b>-</b>	<b>46,887</b>	<b>4,691</b>	<b>5,057</b>	<b>56,635</b>
<b>Depreciation</b>					
As at 1 April 2011	-	1,789	444	1,974	4,207
Charge for the year	-	927	225	361	1,513
Disposals	-	-	-	-	-
Revaluation	-	66	6	19	91
<b>As at 31 March 2012</b>	<b>-</b>	<b>2,782</b>	<b>675</b>	<b>2,354</b>	<b>5,811</b>
Net Book Value at 31 March 2011	2,883	41,125	3,518	2,298	49,824
<b>Net Book Value at 31 March 2012</b>	<b>-</b>	<b>44,105</b>	<b>4,016</b>	<b>2,703</b>	<b>50,824</b>
Charitable activities	-	38,592	3,527	2,365	44,844
Other activities	-	5,513	489	338	6,340
<b>Total</b>	<b>-</b>	<b>44,105</b>	<b>4,016</b>	<b>2,703</b>	<b>50,824</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 8. Tangible Fixed assets (Group and Museum) (continued)

Following the completion of the redevelopment of Fort Nelson, a full valuation on the basis of depreciated replacement cost was carried out by Rushton International, RICS qualified asset valuers, in January 2012, deemed valid as at 31 March 2012. This valuation identified a number of one-off costs incurred during the difficult build and this has resulted in impairment to the building and plant of £681k. Upon completion, the Royal Armouries has also determined £139k of cost previously capitalised in assets under construction was below the threshold for capitalisation.

The building will be depreciated over a 29-year period & plant and machinery over a 14-year period.

A full valuation of the Leeds Museum building on the basis of depreciated replacement cost was carried out by Rushton International as at 31 March 2009. Following this valuation the building will be depreciated over a 48-year period & plant and machinery over a 17-year period.

As a result of the surrender of the lease on the car park, 24,000 square feet of storage space was acquired to house part of the Royal Armouries' collection, the National Firearms Centre. The NFC has also been valued on the basis of depreciated replacement cost by Rushton International as at 31 March 2009 with the building being depreciated over a 47-year period & plant and machinery over a 27-year period.

A full valuation on all fixtures and fittings was also carried out by Rushton International as at 31 March 2006. The values thereafter have been adjusted using indices issued by the Office for National Statistics.

### 9. Heritage Fixed Assets (Group and Museum)

	Armour and Weapons £000	Works of Art £000	Archive £000	Total £000
Cost or valuation as at 1 April 2011	1,848	35	48	1,931
Additions	163	-	12	175
<b>Cost or valuation as at 31 March 2012</b>	<b>2,011</b>	<b>35</b>	<b>60</b>	<b>2,106</b>
Cost	1,255	35	60	1,350
Valuation	756	-	-	756
<b>Total</b>	<b>2,011</b>	<b>35</b>	<b>60</b>	<b>2,106</b>

There have been no disposals of heritage assets during 2011/12.

The collection comprises 348 pieces of armour or weapons, 5 works of art and 10 sets of archive material that were either acquired or donated since 2001. This represents a very small part of the overall collection which is detailed further in note 11.

Additions at cost in 2011/12 comprise the following:

- a rear main plate of a gorget, etched and formerly gilded from an armour of the Duke of Savoy, German, probably Augsburg, about 1559	£3,000
- a sword (Glamdring: the sword of Gandalf) designed and made by the people who made the original prop for the motion picture <i>Lord of the Rings</i>	£4,090
- a Pappenheim rapier, associated with Christian Carl Graf von Giech, Germany, about 1635	£11,400
- a pair of mitten gauntlets, Italian, probably Milanese, about 1500	£6,000
- a flintlock cavalry carbine by Robert Brooke, the lock engraved with the cipher of King James II, English, about 1685	£15,000
- an extremely rare cased set of tools for making percussion caps	£3,750
- a folio volume of 26 lithographs entitled <i>sketches in Afghaunistan</i> by James Atkinson of the East India Company's Bengal Medical Service, London, 1842	£4,015
- a pair of arm defences (splints) from an infantry half armour, probably German, about 1510. Preserved in the Tollermarche Armoury at Helmingham Hall, Suffolk since the 16 <sup>th</sup> Century	£4,000
- a Russian Izhmash Nikonov AN-94 5.45mm calibre assault rifle, purchased new in 2011	£3,995
- a rare 17 <sup>th</sup> Century English Pikeman's Cuirass with punched and incised decoration	£8,000
- a bound collection of 18 <sup>th</sup> Century military manuals including <i>Manoeuvres or Practical Observation of the Art of War</i> by Major William Young and <i>Instructions for Young Officers</i> by General Wolfs, London, 1786	£5,029
- a 19 <sup>th</sup> Century half red morocco with marbled board by Daniel de la Feuille, Amsterdam, 1692, titled <i>Le Maitre D'Armes ou l'exercice de l'epee seule dans sa perfection. Dedie a Monsigneur Le Duc de Bourgogne</i>	£2,781

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. Heritage Fixed Assets (Group and Museum)

Donations in 2011/12 comprise:

- A Heckler and Koch machine gun mounted on a Heckler and Kock anti-aircraft mount from the Civil Nuclear Constabulary fleet of armed nuclear transport ships, calibre 7.65 x 51mm, German circa 2000, valued at £4,500.

- A Smith and Wesson Magnum revolver heavily decorated by Edward Evans Goldsmiths, Horsham, with 400gm of white gold and platinum and 980 brilliant cut, evenly matched natural diamonds. Manufactured in USA and proofed in the UK for domestic sale. The revolver was surrendered to Sussex Police in 1997 and gifted to the Royal Armouries in 2011, valued at £100,000.

### 10. Five year financial summary of heritage asset transactions

	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
<u>Purchases</u>					
Armour and weapons	59	66	52	37	126
Works of art	-	-	-	-	3
Archive	12	10	15	5	-
<u>Donations</u>					
Armour and weapons	104	9	23	160	105
Works of art	-	-	-	-	-
Archive	-	-	-	-	-
<b>Total</b>	<b>175</b>	<b>85</b>	<b>90</b>	<b>202</b>	<b>234</b>

### 11. Further information on museum collection of heritage assets

The collection of heritage assets is broken down into three sections: armour and weapons, works of art and archives.

The collection is preserved at three sites across the United Kingdom; the Tower of London, the head office and main museum in Leeds and at the Museum of Artillery at Fort Nelson near Portsmouth. In addition, many objects are loaned to exhibitions and long term displays nationally and internationally. A display of around 300 objects occupies a dedicated floor at the Frazier History Museum in Louisville, Kentucky, USA.

Upon acquisition, items are assigned a unique reference number and this, together with details on the provenance, location, valuation, conservation history, academic and other general information, is recorded on the collection management database.

#### Armour and weapons

The core collection was founded on the arsenal of the British army preserved in the Tower of London, augmented by Royal arms and armour brought into the Tower in 1649 and by purchases, gifts and other forms of acquisition since 1831. The core collection comprises 10,000 pieces of armour and 42,000 weapons, ranging from the Neolithic period to the present day from across the globe.

Fort Nelson in Portsmouth houses that part of the national artillery collection not held by the Royal Collection, the Royal Artillery Collection or on loan to other institutions.

The National Firearms Centre contains a collection of 14,000 weapons which were initially formed by the Ministry of Defence Pattern Room in Enfield and latterly the Royal Ordnance Factory in Nottingham. This collection was gifted to the Royal Armouries by the Ministry of Defence in 2005.

The NFC collection services the User Group identified by the MOD and comprises the Police, UK Border Agency, HM Revenue and Customs and various military and forensic organisations.

Approximately 2,000 pieces of armour are on display with 500 on loan; 5,500 weapons are on display with 2,000 on loan. The remainder is available to the public in the museums study collections.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11. Further information on museum collection of heritage assets (continued)

#### Works of art

The museum holds approximately 1,000 pieces of art, comprising paintings, prints, drawings, sculptures and other works of art. Of these 25 are on display within the museum.

Many of these artworks are represented in the image library; a developing resource providing income for the museum. A particular focus will be the recording of the artworks held in the archives at the Tower of London which are expected to generate significant interest from potential purchasers.

#### Archive

The archives contain some 20 or so major collections, including those of the previous Master of the Armouries, Sir James Mann, and the Royal Small Arms Factory, Enfield, as well as some 900 individual documents, many relating to the history of the Tower of London and its institutions, and including maps and plans, early photographs and stereographs.

#### Heritage assets of particular importance

Some of the objects are of exceptional international importance including four of the six surviving personal armours of Henry VIII, the armours of Charles I, Charles II and James II, all of which have been in the collection since the time of their original owners in the 16<sup>th</sup> and 17<sup>th</sup> centuries.

Among many important artillery pieces on display at Fort Nelson are two remarkable examples: a huge bronze bombard cast in two parts and weighing a total of 20 tons, made in 1464 for the Turkish Sultan Mehmet II, and a mid 15<sup>th</sup> Century wrought iron gun, probably made in England and now known as the Bofstedt Bombard, one of very few guns of this period surviving in Europe today.

The National Firearms Centre holds many pieces which are of considerable historical and technological importance. These include the first production example of what in World War I would become the famous, or infamous, Maxim machine gun made at the Royal Small Arms Factory, Enfield, in the early 1890s, serial number 1.

There is also a collection of 'sealed pattern' weapons, each produced to act as the exact model against which all other examples of that particular firearm, which could be made in the tens of thousands, were to be judged.

There is also a unique set of manufacturing gauges used at the Royal Small Arms Factory in the production of the Pattern 1853 Enfield percussion rifled musket. The manufacture by machine of all the components of this rifle represented a breakthrough in mass production technology and was a watershed in achieving the creation of complex objects from truly interchangeable parts.

The library holds a small number of medieval manuscripts, including the earliest known fencing manual, a medieval firework book, and two manuscripts relating to the tournament, as well as special collections of early print books on fencing manuals, and military manuals and drill books.

Further information regarding iconic pieces of the collection is available on the Royal Armouries website.

#### Preservation and management

The core collection is managed by a team of specialist curators and registrars who control the collection in accordance with policies approved by the Board of Trustees. The condition of the collection is maintained by a dedicated team of specialist conservators. Both groups report to the Museum Director. Further information on the preservation and management of the collection, including the detailed conservation policy, is available on the Royal Armouries website.

The NFC has its own dedicated team of curators and an artificer who report to the Director of the NFC.

The archive is managed by the archivist, who is also in charge of the library and photographic archive, and reports to the Museum Director.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11. Further information on museum collection of heritage assets (continued)

Collection Management Database

2011 saw the launch of a three year project to replace the Royal Armouries' current system. Initial work involved the development of a system specification which went out to tender in mid-2012 and the purchase of IT hardware to digitise our collection. Temporary resource has been recruited to assist in cleansing incorrect data and the input of missing data in advance of population onto the new system.

### 12. Investments

	Group	
	2011/12 £000	2010/11 £000
Investments as at 1 April	398	-
Additions	159	396
Disposals	(433)	-
(Loss) / gain in value	4	2
<b>Investments as at 31 March</b>	<b>128</b>	<b>398</b>

The investments comprise government stock, fixed interest bonds and funds. All are held within the Royal Armouries Development Trust

Subsequent to initial recognition these assets are recorded at fair value, with any realised and unrealised gains and losses reflected in the Statement of Financial Activities.

### 13. Investments in subsidiary

The museum owns 100% of the issued share capital of Royal Armouries Trading & Enterprises Ltd.

Royal Armouries Trading & Enterprises Ltd has capital consisting of 150,000 £1 shares all of which have been issued at par. The share issue occurred on 29 July 2010 and became fully paid up on 29 March 2011.

### 14. Stocks

	Group	
	2011/12 £000	2010/11 £000
Stocks valued at cost	70	69
Less: provisions for publications and other slow moving stocks	(8)	(7)
	<u>62</u>	<u>62</u>

### 15. Debtors

	Group	
	2011/12 £000	2010/11 £000
Trade debtors	102	2
Other debtors	233	297
VAT recoverable	273	352
Prepayments and accrued income	287	1,290
Provision for bad debts	(76)	(1)
	<u>819</u>	<u>1,940</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 15. Debtors (continued)

	<b>Museum</b>	
	<b>2011/12</b>	2010/11
	<b>£000</b>	£000
Trade debtors	-	2
Other debtors	<b>233</b>	297
Gift aid due from Royal Armouries Trading & Enterprises Ltd	<b>37</b>	-
Other amounts due from Royal Armouries Trading & Enterprises Ltd	<b>105</b>	-
VAT recoverable	<b>275</b>	352
Prepayments and accrued income	<b>184</b>	1,289
Provision for bad debts	<b>(1)</b>	(1)
	<b>833</b>	1,939

Group debtors include a balance of £273k with HM Revenue & Customs. There are no other material balances with the Whole of Government Accounts bodies at 31 March 2012.

### 16. Creditors: amounts falling due within one year

	<b>Group</b>	
	<b>2011/12</b>	2010/11
	<b>£000</b>	£000
Trade creditors	<b>6</b>	-
Income tax and Social Security	<b>126</b>	237
Other creditors	<b>852</b>	11
Grants	<b>464</b>	-
Accruals and deferred income	<b>660</b>	2,646
	<b>2,108</b>	2,894

	<b>Museum</b>	
	<b>2011/12</b>	2010/11
	<b>£000</b>	£000
Trade creditors	-	-
Income tax and Social Security	<b>126</b>	237
Other creditors	<b>844</b>	11
Grants	<b>444</b>	-
Accruals and deferred income	<b>631</b>	2,644
	<b>2,045</b>	2,892

Group creditors include a balance of £76k with HM Revenue & Customs and £50k with the Cabinet Office. There are no other material balances with the Whole of Government Accounts bodies at 31 March 2012.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 17. Provisions for Liabilities and Charges (Group and Museum)

	Redundancy £000	Early Retirement £000	Utility Costs £000	Total £000
Balance as at 1 April 2011	39	165	50	<b>254</b>
Utilisation of provision	(39)	(40)	-	<b>(79)</b>
Release of provision	-	-	(50)	<b>(50)</b>
<b>Balances as at 31 March 2012</b>	<b>-</b>	<b>125</b>	<b>-</b>	<b>125</b>
Liability due within one year	-	31	-	<b>31</b>
Liability due after one year	-	94	-	<b>94</b>

The early retirement provision reflects ongoing costs for those employees aged over 50 previously made redundant. The final charge against this provision will be in the year to March 2018 and as the time value of money is not material the values are not discounted.

### 18. Contingent Liabilities (Group and Museum)

There were no contingent liabilities as at 31 March 2012.

### 19. Capital Commitments (Group and Museum)

	2011/12 £000	2010/11 £000
Capital expenditure contracted but not provided for in the accounts	-	868
Capital expenditure authorised but not contracted for	<b>610</b>	268

Capital commitments relate to the new collection management database and gallery upgrades at Leeds and the White Tower.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 20. Analysis of group net assets between funds

	<b>Group</b>		Restricted funds £000	<b>Total</b> £000
	Unrestricted funds			
	General £000	Designated £000		
Funds balances as 31 March 2012 are represented by:				
Intangible fixed assets	-	58	-	<b>58</b>
Tangible fixed assets	-	4,531	46,293	<b>50,824</b>
Heritage fixed assets	-	-	2,106	<b>2,106</b>
Investments	-	-	128	<b>128</b>
Current assets	2,871	-	62	<b>2,933</b>
Current liabilities	(1,983)	-	(125)	<b>(2,108)</b>
Provisions for Charges & Liabilities	(125)	-	-	<b>(125)</b>
<b>Total net assets</b>	<b>763</b>	<b>4,589</b>	<b>48,464</b>	<b>53,816</b>

	<b>Museum</b>		Restricted funds £000	<b>Total</b> £000
	Unrestricted funds			
	General £000	Designated £000		
Funds balances as 31 March 2012 are represented by:				
Intangible fixed assets	-	58	-	<b>58</b>
Tangible fixed assets	-	4,531	46,293	<b>50,824</b>
Heritage fixed assets	-	-	2,106	<b>2,106</b>
Investments	150	-	-	<b>150</b>
Current assets	2,680	-	-	<b>2,680</b>
Current liabilities	(1,942)	-	(103)	<b>(2,045)</b>
Provision for Charges & Liabilities	(125)	-	-	<b>(125)</b>
<b>Total net assets</b>	<b>763</b>	<b>4,589</b>	<b>48,296</b>	<b>53,648</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 21. Statement of funds

	1 April 2011	Income	Expenditure	Group Revaluation	Transfers	31 March 2012 £000
	£000	£000	£000	£000	£000	
Unrestricted funds						
General fund	763	8,488	(8,488)	-	-	763
Designated fund	5,377	583	(1,345)	68	(94)	4,589
Total unrestricted funds	<u>6,140</u>	<u>9,071</u>	<u>(9,833)</u>	<u>68</u>	<u>(94)</u>	<u>5,352</u>
Restricted funds						
Land and Buildings	37,542	-	(816)	-	-	36,726
National Firearms Centre	1,436	-	(40)	-	-	1,396
Sponsorship and						
Donations	2,647	920	(126)	-	285	3,726
Heritage Assets	1,279	-	-	-	71	1,350
Donated Assets	652	104	-	-	-	756
Revaluation Reserve	2,895	-	(91)	1,515	23	4,342
RADT	438	31	(29)	13	(285)	168
Total restricted funds	<u>46,889</u>	<u>1,055</u>	<u>(1,102)</u>	<u>1,528</u>	<u>94</u>	<u>48,464</u>
<b>Total funds</b>	<b><u>53,029</u></b>	<b><u>10,126</u></b>	<b><u>(10,935)</u></b>	<b><u>1,596</u></b>	<b><u>-</u></b>	<b><u>53,816</u></b>

	1 April 2011	Income	Expenditure	Museum Revaluation	Transfers	31 March 2012 £000
	£000	£000	£000	£000	£000	
Unrestricted funds						
General fund	763	8,488	(8,488)	-	-	763
Designated fund	5,377	583	(1,345)	68	(94)	4,589
Total unrestricted funds	<u>6,140</u>	<u>9,071</u>	<u>(9,833)</u>	<u>68</u>	<u>(94)</u>	<u>5,352</u>
Restricted funds						
Land and Buildings	37,542	-	(816)	-	-	36,726
National Firearms Centre	1,436	-	(40)	-	-	1,396
Sponsorship and						
Donations	2,647	1,205	(126)	-	-	3,726
Heritage Assets	1,279	-	-	-	71	1,350
Donated Assets	652	104	-	-	-	756
Revaluation Reserve	2,895	-	(91)	1,515	23	4,342
Total restricted funds	<u>46,451</u>	<u>1,309</u>	<u>(1,073)</u>	<u>1,515</u>	<u>94</u>	<u>48,296</u>
<b>Total funds</b>	<b><u>52,591</u></b>	<b><u>10,380</u></b>	<b><u>(10,906)</u></b>	<b><u>1,583</u></b>	<b><u>-</u></b>	<b><u>53,648</u></b>

The use of restricted funds is restricted to specific purposes by conditions imposed by the providers of the funds or the nature of the appeal. The Leeds Museum building was funded by a combination of public and private sector finance, and those funds have been utilised wholly on the development of the Leeds Museum. In addition, the Royal Armouries has received other donations and contributions for specified purposes. Those funds have been or will be wholly utilised for their intended purpose.

The Designated fund is a fund which the Board of Trustees of the Royal Armouries has designated as being allocated to finance capital expenditure other than that associated with the Land and Buildings.

The Royal Armouries Development Trust restricted fund is available for the promotion and furtherance of any of the Royal Armouries' charitable purposes as the Trustees, with the consent of the Royal Armouries' Board of Trustees think fit. With the consent of DCMS £285k of Royal Armouries Development Trust reserves were released against the Fort Nelson redevelopment cost incurred during 2011/12.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 22. Cash flow information (Group)

#### a) Reconciliation of changes in resources to net flow from operating activities

	2011/12 £000	2010/11 £000
Net incoming / (outgoing) resources	878	3,751
Interest receivable	(14)	(5)
Depreciation	1,554	1,484
Disposal of fixed assets	139	45
Disposal of investments	433	-
Asset impairment	681	-
Revaluation of investments	(4)	(2)
Revaluation of fixed assets	(1,674)	(2,161)
(Increase) / decrease in stocks	-	5
(Increase) / decrease in debtors	1,121	(1,354)
Increase/ (decrease) in creditors	(786)	2,311
Provision for Liabilities & Charges	(129)	(55)
<b>Net cash inflow from operating activities</b>	<b><u>2,199</u></b>	<b><u>4,019</u></b>

#### b) Analysis of cash flows

	2011/12 £000	2010/11 £000
Returns on investment and servicing of finance		
Interest received	14	5
<b>Net cash inflow for returns on investment and servicing of finance</b>	<b><u>14</u></b>	<b><u>35</u></b>
Capital expenditure and financial investment		
Intangible fixed assets	(26)	(28)
Tangible fixed assets	(1,750)	(2,896)
Heritage fixed assets	(175)	(85)
Investments	(159)	(396)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b><u>(2,110)</u></b>	<b><u>(3,405)</u></b>

#### c) Reconciliation of net cash flow to movement in net funds

	2011/12 £000	2010/11 £000
Increase / (decrease) in cash in the period	103	619
Increase / (decrease) in net funds in the period	103	619
Net funds at 1 April	1,949	1,330
<b>Net funds at 31 March</b>	<b><u>2,052</u></b>	<b><u>1,949</u></b>

#### d) Analysis of net funds

	1 April 2011 £000	Cash flow in period £000	31 March 2012 £000
Cash	1,949	103	2,052
<b>Net funds</b>	<b><u>1,949</u></b>	<b><u>103</u></b>	<b><u>2,052</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 23. Related party transactions

The Royal Armouries is a non-departmental public body whose parent department is the Department for Culture, Media and Sport. During the year the Royal Armouries had a number of transactions in the normal course of business and at full arms length with the Department, which is regarded as a related party.

The Royal Armouries regards the Frazier History Museum as a related party as a result of a member of the Royal Armouries board sitting on the board of the Frazier History Museum Board until May 2012. Since May 2012 the current Royal Armouries Chairman has been invited to attend meeting of their board. As a result of the Constable of the Tower of London sitting on the Royal Armouries board, Historic Royal Palaces is regarded as a related party. One of Royal Armouries' Trustees was also Chief Executive of the Greenwich Foundation which loans a number of collection objects from the Royal Armouries.

The following table highlights the financial transactions in the year together with the balances outstanding at the end of the financial year.

	2011/12 Income £000	2011/12 Costs £000	2011/12 Debtor £000	2011/12 Creditor £000
Frazier History Museum				
- recharges for trips to US to update our galleries within the museum	8	-	2	-
Historic Royal Palaces				
- contribution to costs (£227k), sponsorship and retail income. Costs relate to Tower entrance fees and our share of operating costs	324	81	216	92

There were transactions during the year with the previous Accounting Officer, Jonathan Riley, and with one Trustee, Richard Holmes, neither had any direct payments however their publications were available through our Retail operation. There were no other material related party transactions with the Trustees, key managerial staff, or other related parties during the year.

### 24. Financial Instruments

#### Credit risk

The Royal Armouries has cash deposits of £2,052k (2010/11: £1,949k) which are held with National Westminster Bank Plc, part of the UK Government owned RBS. Royal Armouries has never suffered any loss in relation to cash held by its bankers. 73% of trade and other debtor balances are with related parties or organisations working closely with us so the risks are not regarded as material.

#### Liquidity risk

The Royal Armouries has no borrowings and relies primarily on DCMS grants for its cash requirements. Grant-in-Aid accounts for 78% of income (2010/11: 73%). This is further enhanced by the Trustee reserve policy which sets out the level of general reserve required as a minimum. They are therefore not exposed to liquidity risk.

#### Interest rate risk

The Royal Armouries draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements. Under 1% of overall incoming resources, £14k (2010/11 £5k) was generated from interest earned during 2011/12 so the Royal Armouries is not exposed to interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 24. Financial Instruments (continued)

Foreign currency risk

All material assets and liabilities are denominated in sterling so they are not exposed to any currency risk.

Fair value

The balances shown on the Balance Sheet and in the notes to the accounts for fixed asset investments, short term deposits, receivables and payable have a maturity of less than one year and therefore it is assumed that the fair value of these is approximate to the book value.

#### Financial assets and liabilities by category

	Available for sale Financial Assets 2011/12 £000	Group Loans and Receivables 2011/12 £000	Other Financial Liabilities at amortised cost 2011/12 £000	Total 2011/12 £000
Fixed asset investments	128	-	-	128
Cash	-	2,052	-	2,052
Trade and other debtors	-	425	-	425
Trade and other payables	-	-	(1,880)	(1,880)
	<u>128</u>	<u>2,477</u>	<u>(1,880)</u>	<u>725</u>

	Available for sale Financial Assets 2010/11 £000	Group Loans and Receivables 2010/11 £000	Other Financial liabilities as amortised cost 2010/11 £000	Total 2010/11 £000
Fixed asset investments	398	-	-	398
Cash	-	1,949	-	1,949
Trade and other debtors	-	1,450	-	1,450
Trade and other payables	-	-	(2,658)	(2,658)
	<u>398</u>	<u>3,399</u>	<u>(2,658)</u>	<u>1,139</u>

	Loans and Receivables 2011/12 £000	Museum Other Financial Liabilities at amortised cost 2011/12 £000	Total 2011/12 £000
Cash	1,847	-	1,847
Trade and other debtors	443	-	443
Trade and other payables	-	(1,818)	(1,818)
	<u>2,290</u>	<u>(1,818)</u>	<u>472</u>

	Loans and Receivables 2009/10 £000	Museum Other Financial Liabilities at amortised cost 2009/10 £000	Total 2009/10 £000
Cash	1,758	-	1,758
Trade and other debtors	1,449	-	1,449
Trade and other payables	-	(2,656)	(2,656)
	<u>3,207</u>	<u>(2,656)</u>	<u>551</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 25. Royal Armouries Development Trust

Registered Charity Number 803617

The Royal Armouries Development Trust is a charity connected to the Royal Armouries. It was established on 10 May 1990 to pursue such charitable purposes as the Trustees, with the consent of the Board of Trustees of the Royal Armouries, think fitting. The Development Trust solely supports the development of the Royal Armouries.

As a result of some Trustees sitting on both boards it is deemed there is common control and hence the Accounts are consolidated into the Royal Armouries' financial statements.

Royal Armouries Development Trust accounts are independently examined by Volans, Leach and Schofield, Woodhouse Lane, Leeds.

	2011/12 £000	2010/11 £000
<b>Income and Expenditure Account</b>		
Income	22	23
Administrative costs	(4)	(2)
Grant to Royal Armouries	(285)	(5)
Grant to the Arms and Armour Heritage Trust	(25)	-
Interest receivable	9	1
(Loss) / gain on investments	13	2
<b>Surplus/Deficit</b>	<b>(270)</b>	<b>19</b>
<b>Balance Sheet</b>		
Investments	128	398
Current assets	62	42
Creditors	(22)	(2)
<b>Net Assets</b>	<b>168</b>	<b>438</b>
Unrestricted reserves	150	135
Restricted reserves	18	303
<b>Total Funds</b>	<b>168</b>	<b>438</b>

The restricted fund relates to donations received to fund the developments at Fort Nelson.

### 26. Royal Armouries Trading & Enterprises Limited

The Royal Armouries owns all the issued share capital of 150,000 issued shares of £1 nominal value of Royal Armouries Trading & Enterprises Ltd, a company registered in England and Wales. The company's principal activities are retail, catering, sale of images and licensing and third party conservation works. The company commenced trading on 1 April 2011. The share issue occurred on 29 July 2010 and became fully paid up on 29 March 2011.

	2011/12 £000	2010/11 £000
<b>Profit and Loss Account</b>		
Turnover	845	-
Cost of sales	(280)	-
Gross profit	565	-
Administrative expenses	(528)	-
<b>Operating profit</b>	<b>37</b>	-
Gift Aid payable to the Royal Armouries	(37)	-
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>-</b>	<b>-</b>

No salaries and wages have been paid to employees, including directors, during the year. Contracts for employment for the company's personnel are held by the Royal Armouries and the trading company incurs a management charge which includes personnel costs.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 26. Royal Armouries Trading & Enterprises Limited (continued)

#### Segmental Analysis (2011/12)

	Leeds £000	Fort Nelson £000	Tower £000	Total £000
Turnover	481	167	197	<b>845</b>
Cost of sales	(201)	(77)	(2)	<b>(280)</b>
Gross profit	280	90	195	<b>565</b>
Administrative expenses	(254)	(139)	(135)	<b>(528)</b>
<b>Operating Profit</b>	<b>26</b>	<b>(49)</b>	<b>60</b>	<b>37</b>
Gift aid payable to the Royal Armouries	(26)	49	(60)	<b>(37)</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

All income has been directly allocated to the relevant location and costs have been directly allocated to the location where known. All other costs have been apportioned on a split turnover.

Income from the trading company has been consolidated onto the Statement of Financial Activities on the trading activity, conservation, events and other operating income lines. Costs have been included in the cost of generating funds and the appropriate charitable activities.

	2011/12 £000	2010/11 £000
<b>Balance Sheet</b>		
Current assets	336	150
Creditors	(186)	-
<b>Net Assets</b>	<b>150</b>	<b>150</b>
<b>Shareholder Funds</b>	<b>150</b>	<b>150</b>

Creditors include £105k due to the parent charity for outstanding management charges and £37k Gift Aid payable within nine months of the Balance Sheet date.

### 27. Financial commitments (Group and Museum)

As at 31 March 2012 the Royal Armouries had annual commitments under non-cancellable operating leases as follows:

	Land £000	Other £000	2011/12 £000	2010/11 £000
Operating lease which expires within one year	-	3	<b>3</b>	2
Two to five years	-	16	<b>16</b>	21
More than five years	371	-	<b>371</b>	371
	<b>371</b>	<b>19</b>	<b>390</b>	394

### 28. Post Balance Sheet Events

The financial statements were authorised for issue by the Accounting Officer and Trustees on the date they were certified by the Comptroller and Auditor General.

As described in the Governance statement Lt Gen Jonathon Riley resigned as Director General, Master and Accounting Officer on 19 November 2012.



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ISBN 978-0-10-298236-7



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