



Royal Botanic Garden Edinburgh

2009-10 Audit

Annual Report to the Board of Trustees and the Auditor General for Scotland

22 September 2010

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1 Executive Summary

Purpose of the report

- 1.1 We have audited the financial statements of the Royal Botanic Garden Edinburgh (RBGE) for 2009-10, and examined aspects of RBGE's performance and governance arrangements. This report sets out our key findings.
- 1.2 This report meets the mandatory requirements of the Code of Audit Practice and International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.

Audit conclusions

Financial results

- 1.3 For the year ended 31 March 2010, RBGE reports an overall surplus for the year, after adjusting for grant-in-aid and notional costs, of £130,000 (£614,000 deficit in 2008-09).
- 1.4 The surplus reflects the partial reversal of the 2008-09 impairment of investments held with Kaupthing, Singer and Friedlander Limited. The Board of Trustees recently approved a proposal to sell the investments to a third party at the rate of 67p in the pound, and thus £181,000 of the prior year impairment was reversed in 2009-10.
- 1.5 The Corporate Plan 2010-2015 highlights that RBGE's financial position is unsustainable, and that reserves will be exhausted after 2011-12 at current levels of activity. Current financial projections assume modest reductions in grant-in-aid and do not reflect the anticipated cuts in public expenditure of up to 25%. RBGE is reviewing its financial strategy and scenario plan for potentially of significant cuts in grant-in-aid in order to understand how they can respond to the tightening financial position.

Financial Statements

- 1.6 We intend to provide an unqualified opinion on the 2009-10 financial statements of RBGE, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Board of Trustees on 7 October 2010.
- 1.7 We were presented with draft financial statements and accompanying working papers in line with the revised timetable. As in previous years, the working papers were of a high standard.
- 1.8 The main audit issue related to the accounting treatment of the KSF impairment following the decision of the Board of Trustees to sell the investment to a third party. An audit adjustment to write back the impairment by £181,000 was proposed and accepted.

Governance

- 1.9 We found that RBGE's governance arrangements continue to operate well and within a generally sound control environment, although we noted that internal audit highlighted some high risk control findings in relation to corporate governance arrangements around attendance at Board meetings and the decision making process undertaken by the Board

outwith formal meetings. The Board have agreed an action plan to address these recommendations.

- 1.10 We confirm that RBGE complies with good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of RBGE.
- 1.11 During the year, RBGE has taken steps to enhance its governance arrangements, and has developed a performance management system that captures time and costs objectives to strengthen performance management and delivery of corporate objectives.

Performance

- 1.12 During the year, an independent visiting group carried out a strategic review of the RBGE, covering research, conservation, education and visitor services. The report of the visiting group concluded that "RBGE operates effectively and provides value for money in all its areas of operations". This is an excellent endorsement of RBGE and its activities by an independent group of specialists.
- 1.13 The two key findings of the review highlighted the need for capital expenditure for the living collection and to tackle staff development issues. Management have reviewed and responded to the points raised in the report. A response to the Report was presented to Trustees at their meeting on 30 June. We have recommended that RBGE formalise an action plan of its response to issues raised and report to the Board of Trustees on the progress of recommendations.

Next Steps

- 1.14 Matters arising from the financial statements audit have been discussed with the Director of Corporate Services. We have made a number of recommendations, which are set out in the action plan at Appendix B.

Use of this report

- 1.15 This report has been prepared solely for use by RBGE to discharge our responsibilities under the Code of Audit Practice, and should not be used for any other purpose. This report is part of a continuing dialogue between RBGE and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in RBGE's systems and work practices.
- 1.16 The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Acknowledgements

- 1.17 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the RBGE staff.

Grant Thornton UK LLP
22 September 2010

2 Financial results

Income and expenditure

- 2.1 Table 1 highlights the financial results for RBGE for the year ending 31 March 2010, showing the surplus for the financial year adjusted for grant-in-aid funding. The overall surplus for the year, after adjusting for grant-in-aid and notional costs was £130,000 (£614,000 deficit in 2008-09).

Table 1: Financial Results for 2009-10 (£'000)

	2010	2009
Income	3,150	2,568
Expenditure	(12,019)	(11,209)
Operating deficit	(8,869)	(8,641)
Adjustments for notional costs etc	(13)	61
Impairment charge relating to short term investments in KSF	181	(546)
Deficit for the year	(8,701)	(9,126)
Grant-in-aid	8,831	8,512
	130	(614)

Source: Royal Botanic Garden Edinburgh 2009-10 financial statements

- 2.2 In 2008-09, RBGE held £1.1 million of short term investments with Kaupthing, Singer and Friedlander Limited (KSF). The bank entered administration in October 2008, and the administrators of the bank indicated that unsecured creditors would receive only 50p in the pound of their investments back. Accordingly, RBGE impaired their investments by 50% (£546,000) as at 31 March 2009, which contributed significantly to the deficit in 2008-09. In the July board meeting, the Trustees agreed to a proposal to sell the investment to a third party for 67p in the pound, and accordingly the impairment charge has been reversed by £181,000 in 2009-10. Excluding this one off item, RBGE remained in deficit by £51,000 for 2009-10.
- 2.3 There was a charge of £96,000 for the Garden's share of the Voluntary Early Severance Scheme, which was in operation during the year.
- 2.4 Income has increased by £582,000 (23%) over the year, reflecting new government grants received in the year), and an increase in gift aid received from the BTC. Expenditure has increased by £810,000 which is mainly due to higher staff costs (£394,000), the costs of the voluntary redundancy scheme in the year (£175,000), and higher depreciation charges (£43,000) as the John Hope Gateway centre became operational in the year

Reserves

- 2.5 Table 2 shows the level of reserves held by RBGE at 31 March 2010, split into restricted funds, unrestricted funds and endowments.

Table 2: Group Reserves at 31 March 2010 and 2009 (£'000)

Reserve	2010	2009
General Fund	(316)	(190)
Trustees	327	80
Total unrestricted	11	(110)
Revaluation Reserve	10,179	9,175
Deferred Capital Grants	29,356	27,280
Projects	394	283
Total restricted	39,929	36,738
Endowments	872	672
Total reserves	40,812	37,300

Source: Royal Botanic Garden Edinburgh 2009-10 financial statements

- 2.6 The general fund remains in deficit, and was in deficit by £316,000 as at 31 March 2010. The 2009-10 deficit is largely caused by the costs of the Voluntary Early Severance Scheme but the significant overall deficit is a matter for concern. This position is not sustainable in the longer term and action will be required to better align costs and funding. We have commented further on RBGE's financial position in paragraph 2.13. The Trustee's Fund has increased by £247,000 which reflects the impairment reversal of KSF funds, and the higher gift aid received from BTC.
- 2.7 The Board of Trustees have determined a target level of unrestricted reserves of £500,000, compared to an actual position of £11,000. It is not clear how Trustees will be able to achieve the target reserves level in the current economic climate. We understand that this will be on the agenda for the Trustees Strategy Day in October 2010.
- 2.8 Endowments have increased in the year, due to an upwards revaluation of endowment fund investments. This reflects the upturn in the stock market performance to the year to 31 March 2010.

The Botanics Trading Company Limited

- 2.9 The Botanics Trading Company Limited (BTC) is a wholly owned subsidiary, with 100% of the shareholding held by the Trustees of RBGE. The main business of BTC is to carry out trading activities for the RBGE, and any available profits after tax are paid to RBGE as gift aid.
- 2.10 For the year ending 31 March 2010, BTC reported an operating profit of £177,000 (2008-09: £49,000), and the accumulated deficit on the profit and loss account was £17,000 (2008-09: a deficit of £19,000). BTC pays its taxable profits in the year to RBGE using the gift aid mechanism, and this minimises the tax liabilities of the company's profits. Table 3 shows the results of BTC split across retail and catering operations in comparison with the prior year outturn.

Table 3: BTC results (£'000)

	2010	2009
Retail shops	43	(31)
Commercial	134	80
Profit before tax	177	49

Source: BTC management accounts

- 2.11 The financial position of BTC has significantly improved, and the results for the year highlight the significant positive impact on BTC's commercial activities from the opening of the John Hope Gateway Centre. Gift aid of £176,000 is due to RBGE from BTC, a significant increase from £32,000 in 2008-09, reflecting the importance of the commercial success of BTC to the overall financial position of RBGE.
- 2.12 The results of our audit of BTC have been reported to Board in a separate 'Key Issues Memorandum' document. Our audit of BTC did not identify any significant matters that impacted on the Group financial position.

Looking forward

- 2.13 RBGE faces significant financial pressures over the next few years including forecast reductions in public sector finances, which may have a material impact on future funding settlements. The five year Corporate Plan published in March 2010, sets out financial projections for the next 5 years to 31 March 2015, a summary is highlighted below in Table 4:

Table 4: Financial projections

	2010-11 £'000	2011-12 £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000
Income	10,348	9,958	9,757	9,561	9,644
Expenditure	10,348	10,348	10,491	10,637	10,786
Surplus/(Deficit)	0	(390)	(734)	(1,076)	(1,142)

Source: Corporate Plan 2010/11 to 2014/15

- 2.14 The anticipated deficit by 2014-15 is clearly unsustainable for an organisation the size of RBGE, and there is not sufficient reserves to support a deficit position after 2011-12.
- 2.15 In addition, the projections presented in the Corporate Plan, published in March, will require to be updated following Scottish Government determination of the future grant-in-aid payments. The current projections on anticipated grant-in-aid reductions (2.5%) are modest compared to anticipated cuts in government expenditure of up to 25%.
- 2.16 The Board of Trustees should continue to monitor the financial performance of RBGE and ensure financial projections are updated once Scottish Government decisions on funding become clear. RBGE will need to consider the future scope of the organisation if grant-in-aid is cut significantly.

Action plan point 1

The Centre for Middle Eastern Plants

- 2.17 RBGE created a new wholly owned subsidiary in April 2010, the Centre for Middle Eastern Plants Limited (CMEP). The purpose of CMEP is to operate consultancy and commercial

contracts in the Middle East, as a separate brand of RBGE. Management consider CMEP an important opportunity for RBGE to gain a new and potentially significant income stream in an area in which it has excellent experience and credentials.

- 2.18 The Board of Trustees approved £70,000 from the Board Reserve as start up funding for CMEP, of which £67,500 had been utilised by 31 March 2010. As this exceeded the expected requirements, the Company is likely to require additional financial support from RBGE in its start up year. CMEP is currently forecasting a profit of £19,000 for the year to 31 March 2011.
- 2.19 The Board should continue to monitor the financial and operational performance of CMEP. Any financial support to CMEP should be considered in line with the requirements of charities supporting commercial subsidiaries.

Action plan point 2

3 Financial statements

Introduction

- 3.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on RBGE's overall financial position.
- 3.2 We audit the financial statements and give an opinion on whether:
- they give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, on the state of affairs of RBGE as at 31 March 2010 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
 - they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers; and
 - in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- 3.3 We also review the Statement on Internal Control by:
- considering compliance with Scottish Government guidance;
 - considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work

Key risks

- 3.4 Our Audit Approach Memorandum for 2009-10 set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the risks identified and reported our findings in our Interim Audit Report. Our work at that time enabled us to conclude on a number of key risk areas.
- 3.5 The Audit Committee has confirmed that it is not aware of any additional material risk areas facing RBGE, including significant fraud risks that we are required to consider for the purposes of our audit

Audit conclusions

- 3.6 We intend to provide an unqualified opinion on the financial statements, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Audit Committee and the Board.
- 3.7 We carried out our audit in accordance with the final audit approach memorandum presented to the Audit Committee in November 2009. Our audit is substantially complete, subject to the following finalisation procedures:

- review of the provision or contingent liability relating to the Gateway project; and capital commitments as at 31 March 2010
- review of the final version of the financial statements (including the annual report and the foreword)
- obtaining and reviewing the signed letter of representation
- updating our post balance sheet events review, to the date of signing the accounts
- obtaining and reviewing the letter from the solicitors on legal claims.

Matters arising from the financial statements audit

- 3.8 We were presented with draft accounts on 21 June 2010, in line with the revised timetable. The working papers provided continue to be of good quality.
- 3.9 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix B.

Investment and Treasury Management - Deposits with KSF

- 3.10 In 2008-09, RBGE recognised an impairment of 50% in the value of their investments with KSF, reflecting the report of the administrators indicating that 50p in the pound would be returned to the bank's unsecured creditors. Since then, RBGE has received 30p in the pound from the administrators (£331,200)
- 3.11 During 2009-10, the administrators revised their estimates, and indicated a range of 65p to 78p in the pound would be returned to unsecured creditors, but did not give a timetable of when payouts were likely to occur. Accordingly, RBGE decided not to adjust their impairment charge due to the uncertainty of when payments would be received.
- 3.12 A number of third parties approached RBGE during the year, offering to acquire the KSF investment at a set rate. The Board of Trustees, at their meeting in June 2010, accepted one offer to acquire the KSF investment for 67p in the pound. Under Financial Reporting Standard 21, *Events after the Balance Sheet date*, this is considered a post balance sheet event that requires the financial statements to be adjusted, as it confirms the value of an impaired asset. As such, RBGE reversed the previous impairment charge to 67%, and released £181,000 to the income and expenditure account.
- 3.13 In addition to the matters raised above, there were a number of other minor presentational changes that arose during the course of our audit and these have been made to the accounts.

Adjusted misstatements

- 3.14 There was one adjustment processed by management as a result of the post balance sheet event relating to the KSF deposits. The impact of the adjustment is to reduce the deficit and increase net worth by £181,000.

Table 5: List of adjusted misstatements

Adjustments affecting reported results	I&E/SOFA		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
KSF Impairment To reverse the prior year's impairment to reflect the post year end valuation.		Impairment charge 181,000	Investments 181,000	

Unadjusted misstatements

- 3.15 Our audit work identified two proposed amendments to the accounts of £4,535 and £10,190, which have not been processed by management on the basis of materiality. The adjustments relate to the under accrual of the year end gas accrual and a difference on investments to the broker's statement respectively.

Table 6: List of unadjusted misstatements

Adjustments affecting reported results	I&E/SOFA		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Accruals Under accrual of the gas utility charges	Expenditure 5			Creditors 5
Investments Differences between additions/disposals and third party confirmation from the broker			Investment additions 11	Investment disposals 11

- 3.16 The overall effect of the unadjusted misstatements would be to increase the deficit for the year by £5,000 and decrease the net worth by £5,000.
- 3.17 The Audit Committee should satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.

Evaluation of key controls

- 3.18 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of RBGE's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements. We reported our findings to management in our interim management report, which was presented to the February 2010 audit committee.
- 3.19 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.

- 3.20 Internal audit services during 2009-10 were provided by Baker Tilly UK Audit LLP. The Internal Auditors have concluded that RBGE had an adequate framework of control over the systems they examined during the year.

Statement on Internal Control (SIC)

- 3.21 The Statement on Internal Control sets out the arrangements established and operated by RBGE for reviewing the effectiveness of the system of internal control and the identification and management of risk. We have examined RBGE's arrangements and processes for compiling the SIC. In addition, we read the SIC and considered whether the statement is in accordance with our knowledge of RBGE.
- 3.22 We reviewed the draft SIC and are satisfied that it complies with guidance contained in the Scottish Public Finance Manual that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate, and that the contents of the Statement are consistent with the information obtained from our normal audit work.
- 3.23 We will conclude on the appropriateness of the SIC once we have received and reviewed the annual report of the internal auditors.

Annual report

- 3.24 We considered RBGE's arrangements for compilation and submission of the annual report and received a complete draft annual report in sufficient time to undertake the required audit procedures prior to reporting to the Audit Committee.
- 3.25 We reviewed the draft annual report and are satisfied that the content of the annual report, including the remuneration report, is in accordance with the Government Financial Reporting Manual, the Charities SORP and our knowledge of RBGE.

4 Governance

Introduction

- 4.1 Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation.
- 4.2 As part of our 2009-10 audit, we assessed the adequacy of RBGE's governance arrangements against good practice standards for the public sector. Overall, we found that RBGE's governance arrangements operated well and within a generally sound control environment. RBGE complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of RBGE.
- 4.3 During the year, RBGE has taken steps to enhance its governance arrangements, and has developed a performance management system that captures time and costs objectives to strengthen performance management and delivery of corporate objectives. RBGE employs an adapted version of the Balanced Scorecard which is organised into five perspectives (Scottish Government National Outcomes, Impacts, Activities, Resources and Governance) and translates the mission and strategy into achievable objectives and measures.
- 4.4 Our Audit Approach Memorandum for 2009-10 set out the key risks relating to the governance aspects of our audit. Exhibit two below highlights the work completed against each risk area.

Key risk	Work completed
<p>Investment and Treasury Management</p> <p>On the 8th of October, Kaupthing Singer and Friedlander Ltd (KSF), the UK division of the Icelandic Bank, Kaupthing, was placed into administration by the High Court of England and Wales. RBGE held deposits of £1.1 million with KSF, of which £0.6 million related to the Board of Trustee's unrestricted reserves; and £0.5 million relating to the VAT element of the John Hope Gateway project. These balances remain frozen while the bank is in administration.</p> <p>The Auditor General for Scotland issued a report under Section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 to draw the attention of the Scottish Parliament to the potential loss of RBGE's deposits. The report was presented with the 2008-09 financial statements and discussed at the Scottish Parliament's audit committee.</p>	<p>In 2008-09, RBGE prepared revised treasury management policies, and these have been monitored and updated throughout the year. RBGE now maintains a counterparty limit, restricting deposits to 7 of the largest UK banks to a maximum of £300,000. The Board of Trustees also has a Investment Committee which reviews and approves all significant investment decisions.</p> <p>RBGE has now received 30p in the pound in distributions from the administrators of KSF. During the year, the administrators indicated that the overall return from deposits had been revised upwards from 50p to a range of between 65 and 75p in the pound.</p> <p>At their meeting in June 2010, the Board of Trustees decided to sell their investment to a third party, receiving 67p in the pound.</p>

Key risk	Work completed
<p>The Gateway Project</p> <p>The John Hope Gateway - Scotland's National Biodiversity Centre was completed in the summer of 2009 and is now open to the public. The project involved the construction of a new building at the Edinburgh Garden to host the biodiversity exhibitions, and to increase commercial facilities with a new shop and café.</p> <p>As the capital project has now been completed, it will no longer be classified as an asset under construction. RBGE should confirm the valuation method to be used for the Gateway building and if required, perform an impairment review at the year end to confirm.</p> <p>The success of the Gateway Project in attracting new visitors to the Garden and developing new income streams is vital to the future financial success of RBGE's operations.</p>	<p>The Gateway project is now operational, with the building opening in October 2009, and receiving its official opening by HM The Queen in July 2010. Visitor numbers for the year since opening have been significantly higher than the previous year, indicating the Gateway centre will contribute significantly to the commerciality of the Edinburgh garden.</p> <p>The contractor for the building entered administration shortly before completion, and this has led to some delays in some aspects of the building.</p> <p>We recommend that the Board continue to monitor the completion aspects of the Gateway project and consider future liabilities arising from the remaining contract work.</p>

Corporate Governance

- 4.5 Internal audit issued a draft report on Corporate Governance arrangements during the year. The report concluded that corporate governance arrangements are satisfactory, although there was 2 high risk action plan points from the report:
- A register of Trustee attendance should be maintained at each Board and subcommittee meeting
 - Special Board meetings should be called where fundamental strategic decisions are to be made outwith the normal Board reporting timetable.
- 4.6 The Board of Trustees considered the report at their meeting in July 2010 and an action plan was agreed to meet the recommendations raised in the report.

5 Performance

Introduction

- 5.1 Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
- 5.2 The Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure best value in the use of resources.

Best value

- 5.3 During 2009-10, RBGE updated its approach to best value by completing the Scottish Government's best value checklist. The checklist confirms that the arrangements for best value at RBGE are well developed for the majority of the best value principles.
- 5.4 During the year, an independent visiting group carried out a strategic review of the RBGE, with the following aims:
 - to review the progress being made with the research and conservation activities, and quality and impact of the education programme and visitor services of the RBGE
 - to make recommendations to the Scottish Government concerning RBGE strategies, current activities and future plans as set out in the Corporate Plan and the document 'Strategic Research for SEERAD 2005-2010'
- 5.5 The report of the visiting group was issued to RBGE on 8 March 2010. Overall the report concluded that "RBGE operates effectively and provides value for money in all its areas of operations". The report highlighted two key areas for RBGE to consider:
 - there is a need for capital expenditure, particularly for housing the living collection.
 - there are staff development issues that require to be addressed
- 5.6 RBGE have responded positively to the report's findings, and provided responses to each finding. In particular, RBGE has set out proposals for capital expenditure in the 2010-2015 Corporate Plan that will address capital expenditure concerns, although the funding has not been approved or agreed at this stage. The response to the report was provided to the Trustees at their meeting on 30 June 2010. We would recommend an action plan to respond to and act upon the report's recommendations is produced and updates provided to each Board meeting.

Action plan point 4

Efficient government

- 5.7 The Scottish Government has set RBGE an efficiency saving target of £1.428 million over the 3 years to 2010-11. These efficiency targets will be achieved from: securing co-funding from other research funders for projects; improving working practices for maintenance and utilities; and deploying staff more effectively.
- 5.8 Table 7 highlights the performance of RBGE's efficiency programme over the year versus the annual target.

Table 7: Efficiency targets for three year period to 2010-11

	2008-09 outturn £'000	2009-10 outturn £'000	Cumulative outturn	Cummulative Target to date (08-09 and 09-10)
Co-funded science projects	331	311	642	559
Shared Services with NMS (BCP)	6	6	12	12
ICT Contract Negotiations	15	12	27	28
Maintenance - Improved Management Regime	20	20	40	56
Restricted fundraising	1,305	99	1,404	0
Unrestricted fundraising	311	83	394	0
Manpower re-organisation	20	38	58	75
Total	2,008	569	2,577	730

Source: Royal Botanic Garden Edinburgh

- 5.9 Overall RBGE continues to meet its annual efficiency targets, and has already achieved its three year target as set by the Scottish Government. The main area of success in the efficiency savings come from the receipt of fundraising for capital projects.

Audit Scotland National Reports

- 5.10 Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.
- 5.11 As part of our audit, we have considered RBGE's response to the national reports issued during the year.

Report	Response
Scotland's Public Finances	RBGE received and noted the report, but it was not formally presented to the audit committee or the Board.
Improving Public Sector Purchasing	RBGE received and noted the report, and it was sent to procurement for review. No action plan was produced.

- 5.12 We noted that RBGE does not have a formal procedure in place to ensure Audit Scotland national reports are reviewed and considered by the relevant management committee to ensure good practice from these reports is identified and incorporated into the organisation.

Action plan point 5

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.

To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.

To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none">• We are independently appointed by the Auditor General for Scotland.• The firm has been assessed by Audit Scotland as complying with its required quality standards.• The engagement lead and client service manager are subject to rotation in line with the firm's requirements.• We comply with the Auditing Practices Board's Ethical Standards.• We have not provided any non audit services in 2009-10.

ISA260 reporting requirement	Key messages
Audit Approach	<p>Our approach to the audit was set out in our 2009-10 audit approach memorandum. We have planned our audit in accordance with auditing standards and Audit Scotland's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at RBGE for financial statement audit purposes.
Accounting Policies	<p>RBGE has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the Charities SORP.</p> <p>The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by the Charities SORP.</p> <p>We have considered RBGE's financial plans and consider it appropriate for the RBGE to continue to account on a going concern basis.</p>
Material Risks	<p>The Audit Committee should confirm that it is not aware of any additional material risk areas facing RBGE, including significant fraud risks.</p> <p>We have requested from the Accountable Officer a Letter of Representation, to state that there are no additional material risks and exposures as at October 2010, which should be reflected in the financial statements.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to RBGE have been recognised in the accounts as at June 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>
Audit Adjustments	<p>No audit adjustments were required to be processed.</p>

ISA260 reporting requirement	Key messages
Unadjusted Errors	<p>We have identified two unadjusted errors to the accounts which require reporting to those charged with governance. The unadjusted errors relate to the under accrual of the year end gas accrual and a difference on investments to the broker's statement. The overall effect of the unadjusted misstatements would be to decrease the surplus for the year by £4,535.</p> <p>The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.</p> <p>This adjustments are summarised at Appendix B.</p>
Other Matters	<p>We have made recommendations in respect of some areas for improvement in internal control. Recommendations and agreed action are listed in the Action Plan at Appendix C.</p>

B Action Plan

Rec. No.	Para Ref	Finding	Risk	Recommendation	Management response	Implementation date and responsibility
1		<p>Financial position</p> <p>The Corporate Plan for the five year period to 2014/15 highlights an increasing deficit which is unsustainable.</p> <p>In addition, RBGE will be required to update their projections following confirmation of Scottish Government funding intentions, with current projections of up to 25% cuts in government spending.</p>	High	<p>RBGE should begin scenario planning on potential cuts in government spending.</p> <p>The Board of Trustees may have to consider the viability of certain parts of the organisation.</p>	<p>Agreed.</p> <p>Scenario planning will take place at the Annual Planning Conference in preparation for the Board Strategy Day in October</p>	<p>Regius Keeper</p> <p>October 2010</p>
2		<p>The Centre for Middle Eastern Plants (CMEP)</p> <p>The Board approved start up funding of £70,000 for CMEP. However the company may require more funding from the Board in future.</p> <p>RBGE must ensure financial support provided to CMEP is affordable, and meets the regularity requirements of support to the trading subsidiaries of charities.</p>	Medium	<p>The Board should continue to monitor the financial and operational performance of CMEP.</p> <p>Financial support should be reviewed to ensure it complies with relevant charities regulations.</p>	<p>Agreed</p> <p>The situation continues to be monitored on a monthly basis.</p>	<p>The Board of Trustees and Senior Management Group</p> <p>Head of Finance</p> <p>October 2010</p>

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3		<p>John Hope Gateway Centre</p> <p>The Centre is now operational, although there are some completion issues that require to be resolved.</p> <p>The main contractor has entered administration and this is delaying some aspects of completion.</p> <p>A contingent liability has been recognised in the accounts for the possibility of future liabilities for the construction phase of the project.</p>	Medium	The Board should continue to monitor the completion of the Gateway project, and consider future liabilities arising from the completion process.	Agreed	Board of Trustees
4		<p>Strategic Review</p> <p>The visitors group has reported back on the results of the Strategic Review undertaken during 2009-10.</p> <p>The report highlights a number of action plan points for RBGE to consider.</p>	Medium	<p>An action plan should be produced to answer the recommendations of the strategic review.</p> <p>Progress against the action plan should be reported regularly to the Board.</p>	Agreed	<p>Director of Entrepreneurial Services</p> <p>March 2011</p>

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5		<p>Audit Scotland national reports</p> <p>RBGE does not have a formal process for receiving and reviewing Audit Scotland national reports.</p>	Low	<p>Management should ensure all relevant national reports produced by Audit Scotland are received and reviewed in a timely manner.</p> <p>Reports should be considered by relevant management committees and if appropriate, an action plan to implement performance improvement recommendation should be produced.</p>	Agreed	<p>Head of Finance</p> <p>August 2010</p>



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