

# Royal Botanic Garden Edinburgh

## Annual report on the 2012/13 audit



Prepared for the Royal Botanic Garden Edinburgh and the Auditor General for Scotland  
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Contents

<b>Key Messages .....</b>	<b>4</b>
2012/13 .....	4
Outlook.....	4
<b>Introduction.....</b>	<b>5</b>
<b>Financial statements .....</b>	<b>6</b>
Conduct and scope of the audit.....	6
Audit opinion & accounting issues .....	6
Significant findings (ISA260) .....	6
Financial position .....	7
Corporate governance and systems of internal control.....	8
<b>Appendix A: Action Plan .....</b>	<b>10</b>
Key Risk Areas and Planned Management Action .....	10

# Key Messages

2012/13

## Financial statements

We have given an unqualified opinion that the financial statements of the Royal Botanic Garden Edinburgh (RBGE) for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

## Financial position and use of resources

RBGE recorded an excess of expenditure over income transferred to reserves of £8.88 million and a small surplus of £0.03 million after the application of grant-in-aid.

The wholly owned subsidiary company, Botanics Trading Company which carries out retail and catering activities across the four gardens was able to gift aid its profit for the year of £0.316 million to RBGE

## Governance and accountability

In 2012/13, RBGE had adequate corporate governance structures in place. We examined the key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

## Outlook

RBGE's settlement from the Scottish Government is the same as last year (£11.1m). With rising maintenance and utility costs, this will add pressure to RBGE's budget.

A key future initiative reflected in RBGE's corporate plan is the North East Corner Masterplan; a programme of works designed to improve its research capability, reduce utility costs and lower CO2 emissions. This programme is a key part of RBGE's financial and environmental sustainability plans. One aspect of the Masterplan, the lecture theatre refurbishment, was completed in June 2013 and RBGE anticipate its income-generation capacity will increase over the coming years. The funding for the Masterplan has not been fully secured and remains a challenge for RBGE going forward.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Royal Botanic Garden (RBGE). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of RBGE and no responsibility to any third party is accepted.
3. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that RBGE understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Audit Committee.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

## Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 13 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of RBGE for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 8 October 2013.
9. We received the unaudited financial statements on 7 June 2013 in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 28 June 2013. RBGE is required to follow the 2012/13 Government Financial Reporting Manual (FRoM). As a non-departmental body which is also a registered charity, the FRoM requires RBGE to comply with the Statement of Recommended Practice on Accounting and Reporting by Charities (revised 2005) ("the SORP") and provide any additional disclosures as required by the manual. We can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings (ISA260)

10. During the course of the audit we identified one significant issue regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
11. **Capital payment in advance** - In 2012/13 the Scottish Government awarded RBGE an additional capital grant of £1.5m to advance planning of the North East Corner Masterplan. However, the discovery of asbestos in the lecture theatre building meant that work was delayed. As at 27 March 2013 work was certified to the value of £0.036 million and RBGE were billed for this amount (plus VAT). At the request of a member of the Estates staff this invoice was replaced with one for £0.190 million plus VAT. This resulted in a reported in-year capital spend of £0.154 million greater than actually incurred.

**Resolution:** The financial statements have been adjusted to reflect the correct value of the work certified at the year end.

## Financial position

### 2012/13 Outturn

12. The total grant-in-aid offered by the Scottish Government for 2012/13 was £11.20 million. This figure comprises an operating budget of £8.91 million, capital grant of £2.29 million and non-cash items of £1.76 million.
13. RBGE operated within the resource budgets for 2012/13 as detailed in Table 1 below which also shows the budget changes that occurred during the financial year.

**Table 1: Resource Budget**

	Initial Budget (£'m)	Final Budget (£'m)	Actual Outturn (£'m)	Under / (Over) spend
Resource DEL	10.1	<b>10.6</b>	10.6	0
Capital	1	<b>2.5</b>	2.3	0.2

Source: RBGE Annual Report and Consolidated Accounts 2012-13, and Grant in Aid Letter for 2012-13

14. As shown in Table 1, the overall underspend was £0.2m due to delays in the progress of the elements of the North East Corner Masterplan (principally the lecture theatre refurbishment and the nursery development).
15. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income transferred to reserves of £8.88 million (2011/12 £9.76 million). Once grant-in-aid income is allowed for RBGE achieved a small surplus of £0.03 million, 2012/13 (2011/12 surplus of £0.05 million).
16. Income from other sources was £4.36 million (2011/12 £3.65 million) principally due to increases in voluntary income and incoming resources from charitable activities. The wholly owned subsidiary Botanics Trading Company was able to gift aid its profit for the year of £0.316 million (2011/12 £0.380 million) to RBGE.

### 2012/13 Financial position

17. The Consolidated Balance sheet shows a net asset position of £46.49m at 31 March 2013. The comparative position as at 31 March 2012 was £43.71m.
18. Staff costs of £8.03m represent 62% of gross expenditure of £12.97m and 90% of operating grant-in-aid (£8.91m). Staff costs have decreased by £0.9m due to the voluntary exit scheme approved in 2011-12 and paid at the start of this year (June 2012). This represents a saving of 10%. However, it will become increasingly difficult to reduce costs further in this area without it

impacting on services, and this means that either savings will have to be sought in other areas or a higher income yield will be needed from income-generation strategies.

## Financial planning

19. RBGE's financial settlement for 2013/14 remains at the level set for 2012/13 (£11.1 million). Funding is likely to remain at a similar level for the next few years. This, together with rising maintenance and utility costs, will put RBGE's budget under increasing pressure. Although RBGE is pursuing a diverse income generating strategy this itself is likely to come under pressure if discretionary expenditure and voluntary/charitable donations reduce as a result of the economic climate. RBGE will need to manage both its budget and its income generation strategy closely going forward to ensure that the budget remains balanced.

## Corporate governance and systems of internal control

### Overall governance arrangements

20. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found RBGE had sound governance arrangements in place.

### Accounting and internal control systems

21. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
22. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
23. Internal audit is an important element of RBGE's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including:
  - General Ledger
  - Procurement and creditors/purchasing (including travel and subsistence)
  - Debtors and Income
  - Cash and Bank/Treasury Management

### Capital accounting

24. As part of our year end testing of capital expenditure we identified an item (refer paragraph 10 above) where payment had been made in advance of need. As noted, a contractor's invoice for certified works of £0.036 million (plus VAT) was replaced with an invoice for £0.190 million



(plus VAT). This resulted in RBGE receiving capital funding in excess of that to which it was entitled. The financial statements have been amended to reflect the correct position; however, the sponsor department (RESAS) has indicated that it will not allow the balance to be carried forward resulting in a loss of funding to RBGE. RBGE should review controls over the recording of and accounting for capital expenditure to ensure all such expenditure is appropriately identified and recorded in the correct accounting period.

**Action plan no 1**

## Prevention and detection of fraud and irregularity

25. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion RBGE's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## NFI in Scotland

26. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2012 but is not due to report until May 2014.
27. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate.
28. As RBGE do not use Scottish Government financial systems, any matches identified will be sent to RBGE Finance to investigate in the first instance. We will report the audit committee in due course should any issues be identified through this process.

## Standards of conduct and arrangements for the prevention and detection of corruption

29. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

## Acknowledgements

30. We would like to express our thanks to the staff of RBGE for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	<p><b>Capital accounting</b> RBGE should review controls over the recording of and accounting for capital expenditure to ensure all such expenditure is appropriately identified and recorded in the correct accounting period.</p> <p><i><b>Risk:</b> expenditure in advance of need may result in inaccurate financial reporting and expose RBGE to loss should the contractor fail to provide the relevant goods or services.</i></p>	<p>As part of the year end guidance Finance will again stress the requirements in relation to year end cut off for capital expenditure. Capital invoices and accruals at the year end will be subject to closer scrutiny.</p> <p>A new Head of Estates has been appointed at a higher grade and with more experience than the previous post holder. This will allow a more rigorous approach to be adopted for the management of capital expenditure projects and associated capital grant funding.</p>	<p>Head of Finance</p> <p>Head of Estates</p>	<p>31/03/14</p> <p>31/03/14</p>