

Royal Botanic Garden Edinburgh

Annual report on the
2013/14 audit

Appendix C



Prepared for the Royal Botanic Garden Edinburgh and the Auditor General for Scotland
October 2014

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.

Contents

| | |
|---|-----------|
| Key Messages | 4 |
| 2013/14 | 4 |
| Outlook..... | 4 |
| Introduction | 5 |
| Financial statements | 6 |
| 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 |
| Appendix A: Action Plan | 11 |
| Key Risk Areas and Planned Management Action | 11 |

Key Messages

2013/14

Financial statements

We have given an unqualified opinion that the financial statements of the Royal Botanic Garden Edinburgh (RBGE) for 2013/14 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.

Governance and accountability

In 2013/14, RBGE had adequate corporate governance structures in place. We reviewed board and committee papers and the Internal Audit function.

Financial position and use of resources

RBGE recorded a surplus of £0.262 million. This is as a result of generating additional income through education charges, commercial development activities and trading company income coupled with reduced operating costs with most budgets cut in 2013/14.

The wholly owned subsidiary company, Botanic Trading Company which carries out retail and catering activities across the four gardens was able to gift aid its profit for the year of £0.372 million to RBGE.

Outlook

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

In 2014/15 RBGE reinstated the maintenance budget to 2012/13 level for 2014/15, and to produce an overall balanced budget, reductions were made to other operating budgets.

A key future initiative reflected in RBGE's corporate plan is the North East Corner Masterplan; a programme of works designed to improve RBGE's research capability, reduce utility costs and lower CO2 emissions. This programme is an important part of RBGE's financial and environmental sustainability plans. Key capital developments for 2014-15 will be continuing Nursery works and construction of the Botanic Cottage.

RBGE's capacity for generating income gives it greater flexibility to pursue strategic activities across the garden, and remains a key focus going forward.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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 1](#) 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 19 February 2014, 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 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we were not required 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 2013/14 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 is anticipated to be formally issued and signed on 8 October 2014.
9. We received the unaudited financial statements on 17 July 2014 in accordance with the agreed timetable. The working papers were of a high standard, staff provided good support to the audit team and we completed our on-site fieldwork on 14 August 2014. RBGE is required to follow the 2013/14 Government Financial Reporting Manual (FReM). As a non-departmental body which is also a registered charity, the FReM 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 accounting estimates and judgements, as detailed below.
11. **Repairs and Maintenance invoice capitalised-** during our testing of capital purchases made during 2013/14 we identified four invoices which had invoice descriptions indicating that repairs and maintenance had taken place rather than enhancement or the creation of new assets. Further evidence was provided which supported the basis for capitalisation for three of the four invoices. One invoice did not meet the basis for capitalisation.

Resolution: At our meeting with RBGE officers, we agreed to disclose this as an unadjusted error in our ISA 260 report as the value was well below materiality levels and did not justify a re-working of the financial statements.

Financial position

2013/14 Outturn

12. The total grant-in-aid offered by the Scottish Government for 2013/14 was £12.40 million. This figure comprises an operating budget of £8.49 million, capital grant of £2.18 million and non-cash items of £1.73 million.
13. RBGE operated within the resource budgets for 2013/14 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 | 10.2 | 10.2 | 10.6 | (0.4) |
| Capital | 1 | 2.2 | 2.6 | (0.4) |

Source: RBGE Annual Report and Consolidated Accounts 2013-14, and Grant in Aid Letter for 2013-14

14. As shown in Table 1, RBGE spent £0.4 million more than the revenue grant from the Scottish Government. This additional spend was funded by gift aid from RBGE's wholly owned trading subsidiary, Botanics Trading Company, of £0.372 million (2012/13 £0.316 million); and income raised from commercial activities in areas such as education courses and commercial events.
15. RBGE spent £0.4 million more than their capital grant from the Scottish Government. This was funded by liquidating investments of £0.15 million for the Dawyk Hydo Scheme project and a general fundraising campaign supported by a variety of funders, for the Botanic Cottage project.
16. RBGE achieved an overall surplus of £0.26 million (2012/13 £0.49 million).

2013/14 Financial position

17. The Consolidated Balance sheet shows a net asset position of £48.84 million at 31 March 2014. The comparative position as at 31 March 2013 was £46.49 million.
18. Staff costs of £8.26m represent 66% of gross expenditure of £12.54m (62% in 2012/13) and 97% of operating grant in aid (2012/13 90%). This is due mainly to the fact that staff costs increased by 1% on last year due to a pay rise (1% increase in pay band and 2.1% progression through band), and operating grant in aid reduced by 4.6%. The trend is for staff costs to increase further, particularly with the change in pension contributions that will be introduced in 2015-16 which will increase staff costs for RBGE. It remains a challenge for RBGE to deliver services within funding allocations, and income generating activities are taking on a greater priority for financial sustainability.

Financial planning

19. RBGE's financial settlement for 2014/15 remains at the level set for 2013/14 (£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, rising costs will present a significant challenge for the organisation.
20. RBGE are expanding their estate under the strategic umbrella of the North East Corner Masterplan programme of capital expenditure. RBGE have a maintenance backlog of £6m approximately and the annual upkeep costs are set to grow as the capital estate is further developed.
21. RBGE introduced budget scenario planning during 2013-14 which was presented to the board of trustees on 5th March 2014 in recognition that RBGE would have to choose between strategic priorities for the coming year. RBGE opted to prioritise maintenance spend in 2014-15, with a budget of £0.545m, to ensure RBGE meets statutory requirements in relation to the estate.
22. RBGE will need to manage both its budget and its income generation strategy closely going forward to ensure that the budget remains balanced.

Action plan no 1

Corporate governance and systems of internal control

Overall governance arrangements

23. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall, RBGE has sound governance arrangements in place.

Accounting and internal control systems

24. 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.
25. 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:
 - Education
 - Events and Inverleith House
26. Where organisations outsource systems to a service provider, it is good practice for the service provider to arrange a Service Auditor Report. Cintra provide payroll services to RBGE and do not currently have any mechanisms in place to produce a Service Auditor Report.

Although these reports are not mandatory they provide good assurance to RBGE that controls within the payroll system are operating effectively.

27. **Resolution:** we recommend that RBGE keep this under review with Cintra.

Action plan no 2

IT Business continuity arrangements

28. As part of our audit work, we reviewed business continuity arrangements in the context of the IT problems experienced earlier in 2013/14.
29. We reviewed the post-incident report from the supplier and an internal report on business continuity planning. RBGE's approach is centred on a range of plans to respond to specific incident scenarios. The range of incident scenarios is limited, however, this is based on the context in which RBGE operates and the budget available. In light of the June 2013 incident, it now looks as if this approach to IT continuity and recovery may no longer be considered sufficient.
30. **Resolution:** RBGE have a desire to improve the options available and this is being considered as part of developing the IT strategy in conjunction with a new 5 year corporate strategy.

Prevention and detection of fraud and irregularity

31. 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

32. 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.
33. 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.
34. RBGE participated in NFI for the first time during 2012/13. RBGE identified one match which required further investigation. A breach of financial process was identified where an individual authorised orders for work carried out by his wife. The outcome of this was reported to the Audit Committee on 19 February 2014 in the fraud and losses schedule.
35. Audit Scotland's National Fraud Initiative Report was published on 26 June 2014. Fraud and errors worth £16 million were identified as part of this study, the largest and most diverse

detection exercise undertaken by Audit Scotland to date, which involved 127 public bodies across Scotland.

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

36. 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

37. 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 | 21-22 | <p>RBGE are operating a tight financial budget with rising maintenance, utility and staff costs in the future years.</p> <p>Good financial planning will be key to delivering services, in line with strategic objectives, and within a balanced budget.</p> <p><i>Risk: There is a risk that RBGE may not be able to control costs and generate the income required to remain financially sustainable at its current level of operations.</i></p> | <p>RBGE will continue to operate a detailed Corporate Planning and Budgeting process that is clearly aligned with its Strategic Objectives. This will also reflect the financial climate within which the RBGE operates.</p> <p>Routine financial reporting and budget monitoring will continue to monitor financial performance throughout the year.</p> | Director of Corporate Services | Ongoing |
| 2 | 26 | <p>RBGE's current payroll provider does not produce a Service Auditor Report for assurance purposes on the controls operating within the payroll system.</p> <p><i>Risk: RBGE have limited assurance on the controls operating within the payroll system.</i></p> | <p>Payroll service provision is currently under review. Any contract awarded in the future will require the service provider to supply a Service Auditor Report.</p> | Head of HR | 01/04/15 |