

Royal Botanic Garden Edinburgh

2017/18 Annual Audit Report



 AUDIT SCOTLAND

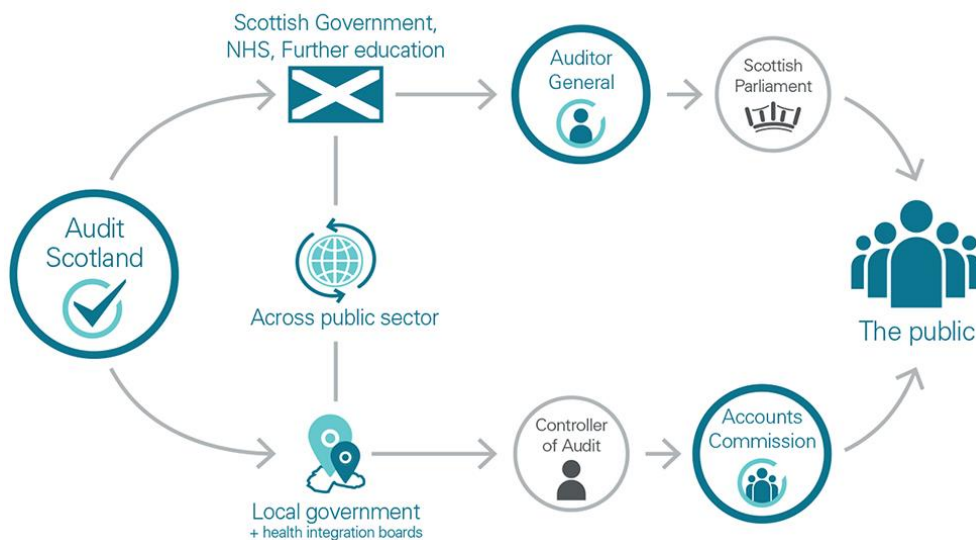
Prepared for the Royal Botanic Garden Edinburgh and the Auditor General for Scotland

3 October 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2017/18 annual report and accounts

- 1 In our opinion the financial statements of Royal Botanic Garden Edinburgh (RBGE) give a true and fair view of the financial position and their expenditure and income.
- 2 The other information in the Annual Report is consistent with the financial statements and prepared in accordance with the accounting framework.

Financial management

- 3 We concluded that RBGE has effective arrangements in place for financial management.

Financial sustainability

- 4 RBGE's financial position is sustainable but challenging in the short term.
- 5 There is an ongoing requirement to achieve additional self-generated income and to identify savings to break even. RBGE should use the existing financial sensitivity analysis and scenario planning to develop a more detailed medium to long term financial plan linked to corporate priorities.
- 6 RBGE's financial position in the medium term is a cause for concern should major investment in infrastructure not take place. Management project that, without major investment, the research and heritage glasshouses could require to be closed in 2025. This could have a significant impact on the services RBGE provides.

Governance and transparency

- 7 We concluded that RBGE has satisfactory governance systems in place; however, there is scope for improvement with respect to making committee minutes and papers readily available on its website.

Value for money

- 8 RBGE has a well developed performance management framework in place. Improvements are planned to help better demonstrate the direction of travel and to identify benchmark bodies to compare performance to.

Introduction

1. This report summarises the findings from our 2017/18 audit of Royal Botanic Garden Edinburgh (RBGE).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 15 February 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the RBGE annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- a review of RBGE's main financial systems
- an audit of RBGE's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions

4. RBGE has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in

accordance with the accounts direction from the Scottish Ministers. The RBGE annual report and accounts includes the following:

- Trustees' Report
- Governance Statement
- Financial statements and supporting notes.

5. RBGE is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £0.016 million as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to RBGE by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

The financial statements of RBGE for 2017/18 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Expenditure and income were in accordance with applicable enactments and guidance.

Audit adjustments were processed which, in total, were material. Improvements are underway to ensure year end cut off of income and expenditure is properly applied; and to create a robust breakdown of the revaluation reserve balance.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 3 October 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the Trustees' Report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. In respect of those matters which we are required by the Auditor General to report by exception, there are no accounting records in support of the capital revaluation reserve balance. This requires to be prepared and linked to the fixed asset register for land and buildings. Further details are reported at [Exhibit 3](#).

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 5 July 2018 in line with our agreed audit timetable.

17. The working papers provided with the unaudited financial statements were of a good standard, although there were no records to support the revaluation reserve balance at the time of our initial audit work. Finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross income for 2017/18 in line with audit standards.	£0.166 million
Performance materiality This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 40% of planning materiality.	£0.067 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£0.003 million

Source: Annual Audit Plan 2017/18

How we evaluate misstatements

22. It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

23. There was a material adjustment to the unaudited financial statements arising from our audit in relation to the Balance Sheet whereby the cash at bank and creditor balances were both understated by £0.290 million. This is explained at [Exhibit 3](#) below and did not have an impact on the net expenditure reported in the accounts.

24. There was a second material adjustment to the financial statements relating to the value of fixed assets. This related to nursery drainage infrastructure work carried out in 2015 with a net book value of £0.883 million which was erroneously revalued at nil in the unaudited accounts following the 2018 revaluation. This is explained at [Exhibit 3](#) below and did not have an impact on the net expenditure reported in the accounts.

25. There was a £0.164 million adjustment to the unaudited accounts relating to the downward revaluation of two assets not covered by previous revaluation gains. This charge was included in the gain/loss on revaluation when it should have been included as impairment within the cost of services in arriving at the net expenditure for the year on restricted funds. Further details are reported at [Exhibit 3](#) below.

26. There was a further adjustment to the accounts of £0.122 million to reflect income and expenditure that was processed in 2017/18 which should have been processed in 2016/17. This has the impact of increasing the net expenditure reported in the statement of financial activities in 2017/18. A matching prior year adjustment has been processed in the 2016/17 comparative figures which means there is no overall impact on the reserves balance at 31 March 2018. Further details are reported at [Exhibit 3](#) below.

27. There were two other misstatements which exceeded our reporting threshold. These are explained at [Exhibit 3](#) below and summarised in [Appendix 3](#) uncorrected misstatements and their impact on the annual report and accounts. If adjusted, this would have the impact of increasing the net cost reported in 2017/18 by £0.016 million. As £0.011 million of this adjustment would be to correct a prior year adjustment, the resultant impact on year end reserve balances is £0.005 million. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Significant findings from the audit in accordance with ISA 260

28. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.




29. These findings include our views about significant qualitative aspects of RBGE's accounting practices including:




- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Capital revaluation reserve</p> <p>Accounting standards require that any downward revaluations of fixed assets are debited/charged to the revaluation reserve, but only to the extent that there is an existing credit balance within the revaluation reserve due to previous increases in</p>	<p>Downward revaluations in 2017/18 not covered by prior revaluation gains accounted for £0.164 million of the overall revaluation gain of £6.480 million during the year. This relates specifically to the Botanics Cottage and the public toilets at the glasshouse.</p>

Issue	Resolution
<p>value arising from previous revaluations. Otherwise, the downward revaluation should be charged to expenditure in the Statement of Financial Activities.</p> <p>RBGE's land and buildings were professionally revalued at 31 March 2018 by City of Edinburgh Council. Audit testing identified that all revaluation movements were either credited or debited to the revaluation reserve with no impairment charge. i.e. RBGE has assumed that for each asset experiencing a downward revaluation in 2017/18 there was a sufficient historical surplus within the revaluation reserve to offset this.</p> <p>However, accounting records maintained by RBGE in relation to the historical revaluations of land and buildings have not been kept up to date and do not demonstrate which assets contribute to the revaluation reserve balance of £24.040 million.</p>	<p>An impairment adjustment of £0.164 million has been processed in the accounts. This has the impact of increasing the net expenditure on the restricted funds within the Statement of Financial Activities.</p> <p>RBGE have subsequently quantified the breakdown of the capital revaluation reserve.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Bank Reconciliation/Creditors balance</p> <p>The bank reconciliation at 31 March 2018 was prepared on the basis that a PAYE/ Pension Deductions payment for £0.290 million being accounted for as though it was paid in March 2018, whereas it was not paid until April 2018.</p>	<p>Management agreed that both the bank balance and the creditors balance had been understated by £0.290 million and corrected this in the audited accounts</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Fixed assets – drainage infrastructure</p> <p>Nursery drainage infrastructure work was carried out in 2015 which had a net book value at the end of 2017/18 of £0.883 million – prior to the revaluation carried out at 31 March 2018. Following the land and buildings revaluation, it was erroneously assumed that the value of this drainage work was incorporated into the value of the revalued land. This resulted in the drainage infrastructure work having a nil value in the unaudited accounts. However, as this drainage infrastructure work was excluded from the revaluation process, it continues to have a value.</p>	<p>We agree with management's view that the drainage infrastructure work continues to provide future economic benefit and should therefore be valued in the accounts. This has therefore been reinstated at its depreciated replacement cost of £0.883 million. While this increases the value of fixed assets and the capital revaluation reserve by £0.883 million, it does not have an impact on the net expenditure reported in the accounts.</p>
<p>4. Expenditure processed in the wrong accounting year</p> <p>Our sample testing of 2017/18 expenditure identified two separate transactions that were accrued twice in 2016/17, and then reversed in 2017/18. This was offset by another sample expenditure transaction that was processed in 2017/18 but related to 2016/17 expenditure. The net impact from this is that expenditure in 2016/17 is overstated by £0.022 million and 2017/18 expenditure is understated by the same amount.</p>	<p>We reported this in our interim management report in May 2018. A prior year adjustment of £0.022 million has been processed in the accounts.</p> <p>Management agreed to carry out detailed checking of year end transactions to ensure they are processed in the correct accounting year.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>5. Income for 2016/17 processed in 2017/18</p> <p>Our sample testing of 2017/18 income identified two separate transactions totalling £0.100 million that</p>	<p>We reported this in our interim management report in May 2018. A prior year adjustment of £0.100 million has been processed in the accounts. Management agreed to carry out detailed checking</p>

Issue	Resolution
<p>related to 2016/17 but were not processed until 2017/18. The impact from this is that income reported in 2016/17 is understated by £0.100 million and 2017/18 income is overstated by the same amount. As we sample tested around 84% of the value of income transactions posted during the year we are satisfied that these income errors do not breach our audit materiality level.</p>	<p>of year end transactions to ensure they are processed in the correct accounting year. Our audit testing of year end income did not identify any further cut off errors.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>6. Depreciation</p> <p>An asset was over depreciated in previous years, resulting in a negative book value of £0.011 million at 31 March 2017. A depreciation credit was therefore processed in 2017/18 to bring this back to zero.</p>	<p>This has been corrected in 2017/18 but means that depreciation was overstated in 2016/17 and understated in 2017/18. We acknowledge that this is an isolated error and have included this in our schedule of unadjusted misstatements at appendix 3.</p>
<p>7. Year end cut off</p> <p>Our audit testing of invoices received and payments made after the year end identified one item for £0.005 million that related to services received in 2017/18 that should have been accrued but wasn't.</p>	<p>We accept that this was an isolated case at the year end but have reported this as it is above our reporting threshold at exhibit 2. We have included this in our schedule of unadjusted misstatements at appendix 3.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>8. Provision for bad debts</p> <p>RBGE's debtors include debts over one year old of £0.026 million, and a further £0.027 million over 3 months old. There is no provision for bad debts within the accounts.</p> <p>There is a risk that not all debts over three months old will be fully paid.</p>	<p>We discussed the two largest outstanding balances with officers (one for £0.017 million and the other for £0.011 million). We were advised that these are still being actively pursued and RBGE are still confident of being paid these outstanding balances. Officers advised that RBGE have written off only minor amounts of bad debts in recent years as they have a good record of recovery.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>

Source: Audit of 2017/18 Accounts

Follow up of prior year recommendations

30. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

31. Three agreed actions were raised in 2016/17, although only one of these contained an agreed action to be taken by management. This related to the need to ensure the asset register is properly maintained as there were audit adjustments in this area in 2016/17. We are satisfied that the specific action reported last year has been addressed, however, we have raised a new action relating to the asset register regarding the requirement to link this to the capital revaluation reserve.

32. The two other matters raised in our 2016/17 annual audit report are still relevant and we have continued to report these in the action plan at [Appendix 1](#).

Part 2

Financial management



Main judgements

RBGE had effective overall management of the 2017/18 budget.

Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Financial performance in 2017/18

33. The main financial objective for RBGE is to achieve a break-even position each year on a cash income/spend basis. As a charitable Non-Departmental Public Body, RBGE is primarily funded by the Scottish Government by way of grant-in-aid. In 2017/18 RBGE received £9.495 million from the Scottish Government. This comprised an operating budget of £8.495 million and a capital budget of £1 million. An indirect funding allowance of £1.782 million was approved by the Scottish Government to cover non cash items.

34. This was supplemented by other income of £6.447 million including project funding. This also included gift aid from RBGE's wholly owned trading subsidiary, the Botanics Trading Company Ltd of £0.620 million.

35. Expenditure in 2017/18 totalled £16.872 million resulting in net expenditure of £0.930 million. This is analysed between unrestricted, restricted and endowment funds in [Exhibit 4](#).

Exhibit 4

Fund performance in 2017/18

Fund Performance	Income £m	Expenditure £m	Net Expenditure £m
Unrestricted	12,899	12,909	0.010
Restricted	3,012	3,918	0.906
Endowment	0.031	0.045	0.014
Total	15.942	16.872	0.930

Source: RBGE Consolidated Statement of Financial Activities 2017/18

36. The net expenditure is mainly due to depreciation in excess of capital funding of £0.883 million together with the impact of the £0.122 million prior year adjustment.

Donation to the Botanic Foundation

37. The Botanic Foundation was set up in 1997 to hold and manage funds to support RBGE, with the Foundation allocating these funds after reviewing applications and business cases. In June 2017 the Board of Trustees decided that any legacy income, which does not form part of RBGE's overall forecast, should be redirected to the Foundation, whilst ensuring the original wishes of the legator are maintained. In 2017/18 RBGE donated £0.612 million (2016/17: £1.048 million) of legacy income to the foundation. This has been recorded as expenditure in the accounts.

Internal controls

38. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that RBGE has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

39. Our findings were included in an interim audit report presented to the Audit Committee in June 2018. We concluded that the controls were operating effectively. While we reported some cut off issues relating to the beginning of the financial year (refer to [exhibit 3](#)) and a few issues regarding the payroll system, no significant internal control weaknesses were identified during the audit which could affect RBGE's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Budgetary processes

40. We also reviewed RBGE's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position.

41. We concluded that RBGE has strong budget monitoring and control arrangements that allow both trustees and senior staff to carry out effective scrutiny of its finances.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Part 3

Financial sustainability



Main judgements

RBGEs financial position is sustainable but challenging in the short term hence there are no significant concerns regarding the short term financial position.

There is an ongoing requirement to achieve additional self-generated income and to identify savings to break even. RBGE should use the existing financial sensitivity analysis and scenario planning to develop a more detailed medium to long term financial plan linked to corporate priorities.

Significant investment is required to some of RBGEs infrastructure properties over the medium term to sustain self-generated income.

Financial planning

42. The Board agreed the 2018/19 budget for RBGE in February 2018. The budget is set to meet an expenditure requirement of £12.365 million from the following income sources:

- Grant in aid - £8.495 million
- Self-generated income - £3.570 million
- Botanic Foundation - £0.300 million

43. The grant in aid allocation from the Scottish Government has been held at the 2017/18 level. Self-generated income was assessed by RBGE and has risen marginally to £3.870 million. Increases to the cost base, notably increases in salaries costs, require to be offset by salary savings of £0.080 million and savings in operational expenditure of £0.120 million. Given these additional pressures to increase income while reducing costs, delivering a balanced year end outturn will be challenging for RBGE.

44. The Board's Property Asset Management Plan 2018-2023 highlights that 27% of the estate is deemed appropriate or with minor deviations. However, over 70% requires action to address issues or significant issues in the short to medium timescale. Major projects such as the North East Corner (NEC) account for approximately 30% of the total property built environment and have a significant impact upon the ratings generated.

45. Management note that the continuing ability of RBGE to increase or sustain self-generated income will be impacted if the significant issues in the condition of its infrastructure are not addressed in the immediate future. They project that, without major investment, the research and heritage glasshouses could require to be closed in 2025. This could have a significant impact on the services RBGE provides.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

46. RBGE have secured an increase of £1.6 million to its capital grant for 2018/19, of which £0.600 million is to help address the backlog maintenance and £1 million is to progress the NEC to the next stage.

2017/18 financial position

47. The annual report and accounts show that RBGE and its group has net assets of £55.591 million, an increase of £5.836 million from 2016/17. The increase is mainly due to the impact from the revaluation of land and buildings (£6.644 million) offset by the reduction in the capital grants fund due to the accounting treatment requirements for capital funding and depreciation.

48. The general fund balance at the end of the year was £0.097 million, a decrease of £0.010 million from the balance in 2016/17. Overall, the financial position is stable.

Medium to long term financial planning

49. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

50. RBGE's Corporate plan 2015 – 2020 covers a five-year period and includes a high level financial plan covering that period based on fixed grant in aid funding and the assumed level of other income that will be available. RBGE also produces an annual business plan which outlines the work being undertaken in the year and how it will achieve its delivery commitments each year.

51. We recognise that RBGE receives a significant proportion of funding from the Scottish Government (SG) budget allocation through Grant-in-aid and this is determined on an annual basis by the SG. This should not preclude RBGE from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

52. We acknowledge that high level scenario planning is carried out which highlights the impact of varying future funding using flat cash, 2% reduction and 5% reduction. The scenario planning assumed that the 2% funding reduction was the most appropriate basis to follow and identified potential savings options to address this scenario. However, this covered one year only and there are no other medium term financial plans in place to set out the steps that require to be taken to address the impact of future funding and cost pressures over the medium term. RBGE intend to develop more detailed financial modelling in tandem with their development of the 2020-25 corporate plan. Preparatory work on this is expected to commence soon.



Recommendation 5 ([refer appendix 1, action plan](#))

EU withdrawal

53. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.

- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

Part 4

Governance and transparency



Main judgements

RBGE has good governance arrangements in place that support scrutiny of decisions made by the board.

There is scope for improvement with respect to making committee minutes and papers readily available on the website.

Governance arrangements

54. The role of the Board is to provide leadership, direction, support and guidance to ensure that RBGE delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers¹.

55. The Framework Document sets out the broad framework within which RBGE will operate and defines key roles and responsibilities which underpin the relationship between RBGE and the Scottish Government. It also outlines the responsibilities of the Board, Chair, Board Members, Regius Keeper and Accountable Officer. There are also details regarding the role and responsibilities of internal audit and the Audit Committee. The Board is supported in its governance role by the Audit Committee. The Framework Document was last updated in 2014 and is due for a review.

56. From our attendance at Audit Committees, we note that committee papers are prepared in advance of each meeting, and sufficient time is made available at each meeting to allow appropriate discussion of each item on the agenda. Committee members are well-prepared and provide effective scrutiny to RBGE officers and auditors.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Transparency

57. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

58. RBGE's website is the principal means by which information is made available to the public. RBGE committee and Board meetings are not open to the public. Detailed Board minutes are published on the website, but Board and committee papers and committee meeting minutes are not available publicly.

¹ Framework Document between the Scottish Government and RBGE

59. With increasing public expectations for more openness in the conduct of public business, RBGE should consider whether there is scope to enhance transparency and keep this area under review.



Recommendation 6 ([refer appendix 1, action plan](#))

Risk management

60. RBGE has a high level risk register in place which is presented and discussed at each Board meeting. In addition, the corporate risk register is reviewed at the Audit Committee and Board at least once a year. This review is designed to ensure that the risks identified, and the associated mitigating actions, are appropriate and relevant.

61. We concluded that the risk management arrangements are effective and include appropriate reporting to the Board.

Internal audit

62. RBGE's internal audit function is carried out by Henderson Loggie. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

63. Overall, we concluded that the internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

64. In respect of our wider dimension audit responsibilities we placed reliance on internal audit's review of RBGE's asset management arrangements. Internal Audit reported their findings from this work to the Audit Committee in February 2018. No significant issues were reported; however, internal audit highlighted the need to ensure there are contingency arrangements in place to safeguard the living collections. This, and the steps being taken by management to address this, is reported in the governance statement.

Governance Statement

65. Under the terms of HM Treasury's Financial Reporting Manual (the FReM), RBGE must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

66. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by RBGE includes the completion of a controls checklist and assurance statement by each director for their business area. These signed statements and checklists provide the Regius Keeper with additional assurance over the adequacy and effectiveness of the systems of internal control which operate in each of the officer's departments.

67. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

National Fraud Initiative

68. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

69. The current data matching exercise is now complete. Match investigation work began in January 2017 and continued throughout the year. In our 2016/17 Annual Audit report we reported that RBGE is committed to the NFI exercise and has been pro-active in investigating data matches. No cases of fraud or error have been found in the latest exercise

70. NFI activity is summarised in [Exhibit 5](#). We submitted a follow up questionnaire to Audit Scotland in February 2018. This provided an update to the previous questionnaire and summarised our views on RBGE's arrangements for complying with the NFI exercise. We concluded that RBGE is pro-active in investigating matches. RBGE completed all except one of the 32 recommended matches together with an additional random sample.

Exhibit 5 NFI activity



196

Matches



32

Recommended
for investigation

161

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

71. No fraud or errors were identified and periodic reports regarding the NFI approach and progress are reported to the Audit Committee. The results provide good assurance for the Board and the Senior Management Team on RBGE's internal control systems. Despite this, RBGE consider that the NFI exercise requires a resource input that is not reflective of the limited assurance they feel they receive from this exercise.

Standards of conduct for prevention and detection of fraud and error

72. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

73. Based on our review of the evidence we concluded that RBGE has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Cyber security

74. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

75. RBGEs existing data security systems receive regular software updates and RBGE have installed an anti-ransomware security software system. However, RBGE failed the pre-assessment for Cyber Essentials and has contracted IT specialists Network ROI Ltd to assist with the overall objective of enhancing cyber security. A report was produced following the pre-assessment which provides details of the areas that require to be addressed and an action plan is in place to monitor this.

76. RBGE is aiming to carry out a formal Cyber Essentials assessment by the end of October 2018, but requires to decide how to resolve some of the pre-assessment recommendations such as whether to disallow remote access to non RBGE computers, and how to address systems that aren't compatible with cyber security standards.

77. Progress regarding Cyber Security requirements is also monitored through the risk register therefore we are satisfied that RBGE are taking steps to strengthen its cyber resilience arrangements.

General Data Protection Regulation

78. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

79. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. RBGEs GDPR arrangements around record management are still being developed and work still requires to be done to demonstrate full compliance. Failure to comply with new GDPR data handling arrangements could result in RBGE incurring significant fines.

Part 5

Value for money



Main judgements

RBGE has a well-developed performance management framework in place.

Improvements are planned to help better demonstrate the direction of travel and to identify benchmark bodies to compare performance to.

Performance management

80. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with RBGE, agree to undertake local work in this area.

81. The performance of RBGE is monitored by the Board against a number of performance actions which support the delivery of the Scottish Government's national performance framework. These actions and, where possible targets and their trajectories, are set out in the RBGE's Corporate Plan 2015-2020 and are supported by the annual Business Plan. The Board is kept well informed of performance across all areas of activity.

82. RBGE is keen to develop its performance reports to incorporate refined targets which focus more on key indicators (aligned to the Corporate Plan 2015-20), direction of travel, and comparisons with relevant other bodies.

83. We concluded that RBGE has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered. The proposed improvements will enhance this.

Value for money is concerned with using resources effectively and continually improving services.

National performance audit reports

84. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which may be of interest to RBGE. These are outlined in [Appendix 4](#).

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital revaluation reserve</p> <p>There is no analysis or summary breakdown of the capital revaluation reserve of £24.040 million</p> <p>Risk</p> <p>RBGE are unable to accurately account for any downward revaluations if they cannot demonstrate that there is sufficient revaluation reserve to fully cover any subsequent downward revaluations.</p>	<p>RBGE should quantify the breakdown of the capital revaluation reserve and the fixed assets that it refers to.</p> <p>Exhibit 3</p>	<p>A breakdown of the capital revaluation reserve has now been provided per asset and this agrees back to the financial statements.</p> <p>Responsible Officer: Finance Manager</p> <p>Target Date: Implemented</p>
2	<p>Bank reconciliations</p> <p>Payments processed after the year end were accounted for as if they had been processed and paid before the year end.</p> <p>Risk</p> <p>The bank balance reported in the accounts could be wrongly stated.</p>	<p>Only payments processed up to 31 March should be included in the year end bank reconciliation.</p> <p>Exhibit 3</p>	<p>Going forward only payments processed to 31 March will be included in the bank reconciliation. This has been discussed with the finance officer and the way the bank reconciliations are prepared will be changed.</p> <p>Responsible Officer: Finance Manager</p> <p>Target Date: Implemented in 2018/19</p>
3	<p>Income and expenditure processed in the wrong accounting year</p> <p>Our audit testing identified income and expenditure recorded in the wrong financial year and two accruals that were processed twice. All of these (with the exception of one item for £0.005 million) related to cut off between 2016/17 and 2017/18 and do not therefore impact the</p>	<p>Going forward, RBGE should ensure that procedures are in place to ensure that income and expenditure is accounted for in the correct accounting year.</p> <p>Exhibit 3</p>	<p>New measures have been put in place around cut off and this worked well for the 2017/18 year end. This will continue in forthcoming years to ensure income and expenditure are correctly accounted in the appropriate year.</p> <p>Responsible Officer: Finance Manager</p> <p>Target Date: Implemented</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>closing balance sheet figures. We reported this in our interim report and there were controls in place at the year end to prevent any significant year end cut off errors.</p> <p>Risk</p> <p>Income and expenditure could be processed in the wrong accounting year.</p>		
4	<p>Provision for bad debts</p> <p>There is no provision for bad debts in the accounts despite £0.053 million of debts being over three months old.</p> <p>Risk</p> <p>All debts over three months old may not be fully recoverable.</p>	<p>A policy for providing for bad debts should be determined and applied consistently each year.</p>	<p>A bad debt provision will be set up in financial year 2018/19 and this will be reviewed by the finance manager / finance officer on a monthly basis in conjunction with the monthly aged debt report that is produced.</p> <p>Responsible Officer: Finance Manager</p> <p>Target Date: 31/10/2018</p>
5	<p>Medium to long term financial planning</p> <p>Although RBGE carries out scenario planning, this is not linked to a more detailed medium to long term financial plan that sets out the steps that require to be taken to meet the most likely scenario over this term, linked to corporate priorities.</p> <p>Risk</p> <p>RBGE may not be able to respond to the financial challenges over the medium to long term.</p>	<p>A medium to long term plan should be prepared based on the sensitivity analysis and scenario planning currently in place.</p> <p>Paragraph 52</p>	<p>RBGE is reviewing the scenario planning work carried out as part of a review of the planning and budgeting arrangements with the intention of improving the longer-term focus.</p> <p>Responsible Officer: Head of Finance</p> <p>Target Date: 31/10/2018</p>
6	<p>Transparency</p> <p>RBGE committee meetings and Board meetings are not open to the public. Detailed Board minutes are published on the website but Board and committee papers and committee meeting minutes are not available publicly.</p> <p>Risk</p>	<p>With increasing public expectations for more openness in the conduct of public business, RBGE should consider whether there is scope to enhance transparency and keep this area under review.</p> <p>Paragraph 59</p>	<p>The Regius Keeper and RBGE Board will keep under regular review whether there is scope to enhance transparency.</p> <p>Responsible Officer: Head of Finance</p> <p>Target Date: 31/12/2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
RBGE is not viewed as being open and transparent.			
Follow up of prior year recommendations			
b/f 1	<p>Fixed Assets</p> <p>Several issues were identified with the accounting for fixed assets in the unaudited accounts. A number of changes were required as a result of the audit process</p> <p>Risk – RBGE does not hold accurate records of its assets</p>	RBGE should review its asset records and ensure they are accurate and fit for purpose.	<p>Updated response: The asset register was reviewed during 2017/18 while updating the asset register for the revaluation programme.</p> <p>Revised action: refer to 1 above.</p> <p>Responsible officer: Head of Finance</p>
b/f 2	<p>Medium to long term financial planning</p> <p>Although RBGE includes a high level 5-year financial plan within the Corporate Plan, this is not based on a range of scenarios and does not support medium to long term planning.</p> <p>Risk – RBGE is not able to respond to financial challenges over the medium to long term.</p>	Although RBGE receives a significant proportion of funding from grant in aid and this is set on a year-on-year basis by the Scottish Government this should not preclude RBGE from preparing medium to long term financial plans based on sensitivity analysis and scenario planning.	<p>Last year's response: RBGE undertakes an appropriate level of sensitivity analysis and scenario planning, particularly in relation to potential changes in Government funding.</p> <p>Revised action: refer to 5 above</p>
b/f 3	<p>Transparency</p> <p>RBGE committee and Board meetings are not open to the public. Detailed Board minutes are published on the website but Board and committee papers and committee meeting minutes are not available publicly.</p> <p>Risk – RBGE is not viewed as being open and transparent.</p>	With increasing public expectations for more openness in the conduct of public business, RBGE should consider whether there is scope to enhance transparency and keep this area under review.	<p>Last year's response: The Regius Keeper and RBGE Board will keep under regular review whether there is scope to enhance transparency.</p> <p>Revised action: refer to 6 above</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>Results - Our audit testing of journals, management estimates and accruals/ prepayments did not uncover any indication of management override. There were no significant transactions outside the normal course of business.</p> <p>Conclusion – No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>RBGE receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Results – Analytical procedures were carried out over all income streams and satisfactory reasons were provided for all variances. We carried out detailed testing of all income streams and there was satisfactory back up evidence for all cases tested.</p> <p>Conclusion – We encountered no evidence of fraud over income.</p>
<p>3 Accounting for fixed assets</p> <p>Our 2016/17 audit identified aspects of the accounting for fixed assets, such as depreciation and indexation, where improvements were required to ensure the correct accounting treatment is applied. There is a risk that RBGE does not hold accurate records of its assets and that they are misstated in the financial statements.</p>	<p>Early discussion with officers over the revaluation process.</p> <p>Audit testing of depreciation and indexation adjustments.</p> <p>Assess the accuracy of accounting entries relating to additions, depreciation, revaluations and impairments.</p> <p>Audit testing of a sample fixed assets revalued in year.</p>	<p>Results – Audit testing of additions, depreciation and indexation demonstrated that these were properly processed.</p> <p>Our audit testing demonstrated that the revaluations in 2017/18 were properly processed in the asset register.</p> <p>The asset register does not incorporate or demonstrate the breakdown of the cumulative revaluation reserve balance between the fixed assets that the revaluation reserve relates to. This means that RBGE cannot demonstrate whether any downward valuations in 2017/18</p>

Audit Risk	Assurance procedure	Results and conclusions
		<p>are covered by a sufficient historical revaluation surplus in the revaluation reserve.</p> <p>Audit testing identified that all revaluation movements have been either credited or debited to the revaluation reserve with no impairment charge.</p> <p>Conclusion - Adequate accounting records have not been maintained for the revaluation reserve balance.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of fixed assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer.</p> <p>Audit testing of a sample fixed assets revalued in year</p>	<p>Results - The valuation approach was in accordance with ICS standards.</p> <p>The City of Edinburgh Council Valuer's were professionally qualified and had specialist knowledge of the public sector.</p> <p>There was no evidence to suggest that the objectivity of the surveyors, in their performance of the valuations, was compromised.</p> <p>Conclusion – Valuations were suitable for determining the carrying value in the financial statements.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>5 Financial sustainability – 2018/19</p> <p>RBGE continue to face budget pressures and requires, in 2018/19, to increase self-generated income and reduce costs in order to break even. This follows a similar increase in self-generated income and cost reductions that were required in 2017/18 to break even. While RBGE is forecasting to break even in 2017/18, any additional income or recurring efficiency savings not achieved will increase savings requirements for future years and will present a risk to future financial sustainability.</p>	<p>Review of arrangements to identify, monitor and report efficiencies.</p> <p>Review of correspondence with Scottish Government regarding future funding.</p> <p>Review financial monitoring papers presented to committee.</p>	<p>Results – RBGE has satisfactory monitoring and control arrangements that facilitate effective scrutiny of finances by Trustees and senior staff.</p> <p>RBGE and BTC Ltd are actively seeking to diversify its income stream through increased commercial activity e.g. events such as Christmas at the Botanic, consultancy and educational courses.</p> <p>Conclusion – RBGE has sufficient funding in place to meet its 2018/19 objectives. The existing sensitivity analysis and scenario planning for the medium term should be developed to create more insightful medium term financial plans.</p>
<p>6 Longer term financial planning and backlog maintenance</p> <p>RBGE includes a high level 5-year financial plan within the</p>	<p>Reliance on the work of internal audit on asset management.</p> <p>Review the level of sensitivity analysis and scenario planning</p>	<p>Results – There is an increase of £1.6 million to RBGE's capital grant for 2018/19, which includes £0.600 million is to help address the backlog maintenance.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Corporate Plan. This is based on flat grant in aid income but does not consider a range of scenarios or support medium to long term planning, and does not address the significant backlog maintenance costs that have been identified through the condition survey.</p> <p>There is a risk that RBGE is not able to respond to financial challenges over the medium to longer term, including the required maintenance of their assets.</p>	<p>regarding potential changes in government funding, and whether the Board have assessed the impact on future financial planning.</p> <p>Review of Board papers to assess what action has been taken.</p> <p>Review of budget and allocation monitoring letters to identify whether any additional funding has been provided to address the backlog of maintenance.</p>	<p>The remaining £1 million increase is to progress the North East Corner to the next stage. Management estimates that this project, once completed, will alleviate 'much' of the maintenance backlog.</p> <p>Actions taken to maintain assets and to delivery of the North East Corner are regularly monitored in the risk register.</p> <p>Scenario planning is carried out; however, this is not linked to longer term financial planning.</p> <p>Conclusion – RBGE continues to treat backlog maintenance and asset condition as a priority area. The existing sensitivity analysis and scenario planning should be developed to create more insightful medium term financial plans.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £3,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	SOFA		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Depreciation- Land & Buildings	11			
	Prior year adjustment		11		
2	Expenditure	5			
	Creditors				5
	Net impact	16	11		5












Notes:

1. A credit entry of £11k was processed to reverse a prior year depreciation overcharge; therefore, building depreciation charged to the SOFA is understated in 2017/17 but was overstated by the same amount in 2016/17.

2. Expenditure and creditor figure is understated by £5k due to a cut off error at 31 March 2018. This relates to an invoice that should have been accrued in the 2017/18 accounts as the expense relates to 2017/18 services delivered.

Appendix 4

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

[Managing the implementation of the Scotland Acts](#) – March 2018

Royal Botanic Garden Edinburgh

2017/18 Annual Audit Report

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