

Royal Botanic Garden Edinburgh

Report on the 2006-07 Audit

29 June 2007

Contents

Section	Page
Executive Summary	3
Financial Statements	5
Governance	7
Performance	9
Appendix A – Action Plan	10

Executive Summary

Introduction

We have audited the financial statements of the Royal Botanic Garden Edinburgh (the Garden) for 2006-07 and examined aspects of the Garden's performance and governance arrangements. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on both the financial statements of the Garden for 2006-07 and on the regularity of transactions undertaken during the financial year.

During the year the Garden spent £11.751 million, after adjustments, on its operating activities. Staff costs account for 58% of expenditure with operating costs (29%) and depreciation (12%) accounting for the remainder. Revenue expenditure was funded from £7.688 million of grant in aid from the Scottish Environment and Rural Affairs Department (SEERAD), voluntary income and income from other activities contributed £2.600 million and £1.188 million was released from deferred grants. Capital expenditure of £3.071 million was incurred during the year for upgrading IT systems, other equipment purchases, and the design development of the Gateway building at Inverleith.

The consolidated accounts record a deficit of £7,579,000 caused mainly by a change in the accounting treatment of grant in aid in compliance with the Government Financial Reporting Manual. Without this change the Garden would have recorded a surplus of £109,000.

The Garden's draft financial statements were presented for audit on 16 May 2007, in accordance with the agreed timetable. The draft accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

Governance

We found that the Garden's governance arrangements operated well and within a generally sound control environment. The Garden complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of the Garden.

We identified some areas where further work is required to improve the control environment, including:

- improving the segregation of duties between income and banking and for debt management; and
- designating authority limits for each officer empowered to authorise expenditure.

Our review of the Garden's internal audit function confirmed that it complies with Government Internal Audit Standards and a risk based approach is adopted in planning audit work. As a result, we have been able to place reliance on the work of internal audit.

The Garden has set up a subsidiary trading company known as The Botanic Trading Company (BTC) to manage some of its commercial activities. When the company was set up, the Garden provided loan financing of £100,000. The BTC pay interest on the loan at 4.5% annually, but there is no requirement for the loan capital to be repaid.

The documentation supporting the Garden's initial decision to provide loan financing to the Botanic Trading Company may not adequately demonstrate full compliance with relevant guidance from the Office of the Scottish Charity Regulator or HM Revenue and Customs.

Performance

The Garden is committed to achieving best value in its operations and has a best value approach that approximates to the guidance issued by the Scottish Executive. The Garden does not, however, have a formal process in place for measuring and monitoring efficiency but does keep these matters under regular review.

In particular, the Garden is a member of the 'National Collections Institutes Forum' where senior staff from a number of NDPBs and Agencies (known as 'the Collections') work together to share services and maximise efficiency.

The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the senior management to decide the extent of the internal control system appropriate for the management of the Garden.

Acknowledgements

We would like to take this opportunity to thank the officers who have been involved in this review for their assistance and co-operation.

This report is part of a continuing dialogue between the Garden and RSM Robson Rhodes and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Garden's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

RSM Robson Rhodes LLP

29 June 2007

Financial Statements

Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Garden as at 31 March 2007 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

We have given an unqualified opinion on the financial statements of the Garden for the 2006-07 financial statements. We are able to conclude that the financial statements of the Garden give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Standard of accounts and supporting papers

The Garden's draft financial statements were presented for audit on 16 May 2007, in accordance with the agreed timetable. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

Financial Performance

During the year the Garden spent £11.751 million, after adjustments, on its operating activities. Staff costs account for 58% of expenditure with operating costs (29%) and depreciation (12%) accounting for the remainder. Revenue expenditure was funded from £7.688 million of grant in aid from the Scottish Environment and Rural Affairs Department (SEERAD), voluntary income and income from other activities contributed £2.600 million and £1.188 million was released from deferred grants. Capital expenditure of £3.071 million was incurred during the year for upgrading IT systems, other equipment purchases, and the design development of the Gateway building at Inverleith.

The consolidated accounts record a deficit of £7,579,000 caused mainly by a change in the accounting treatment of grant in aid in compliance with the Government Financial Reporting Manual. Without this change the Garden would have recorded a surplus of £109,000.

Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated by the Garden for reviewing the effectiveness of the system of internal control and the identification and management of risk.

We are satisfied that the Statement complies with Scottish Executive guidance, that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Garden on 27 June 2007 and copied to members of the Garden's audit committee. Our audit has identified the following unadjusted errors which were reported:

- stock sheets, prepared following the year end stock take, contained a significant number of calculation errors. These errors led to the understatement of stock balances by £6,100;
- intangible assets, relating to software licences, with a net book value of £27,770 are not separately disclosed on the face of the balance sheet;
- specific grants provided for the capital purchases are released to the Consolidated Income and Expenditure Account over a period equal to the asset life. The Garden's Consolidated Income and Expenditure Account records a release from deferred grant of £1.188 million as a an offset against depreciation following advice received from the Scottish Executive. It is our view that the release from deferred grant is more properly presented as income.

Action Plan Points 1 - 3

Governance

Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2006-07 audit, we assessed the adequacy of the Garden's governance arrangements against good practice standards for the public sector. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of the Garden's overall financial position.

Key outcomes from our 2006-07 audit

We found that the Garden's governance arrangements operated well and within a generally sound control environment. The Garden complies with the good practice guidance in relation to governance as outlined in the Scottish Public Finance Manual in so far as it is relevant to the role of the Garden.

We identified some areas where further work is required to improve the control environment, including:

- improving the segregation of duties between income and banking and for debt management; and
- designating authority limits for each officer empowered to authorise expenditure.

Our review of the Garden's internal audit function confirmed that it complies with Government Internal Audit Standards and a risk based approach is adopted in planning audit work. As a result, we have been able to place reliance on the work of internal audit.

The Garden has set up a subsidiary trading company known as The Botanic Trading Company (BTC) to manage some of its commercial activities. When the company was set up, the Garden provided loan financing of £100,000. The BTC pay interest on the loan at 4.5% annually, but there is no requirement for the loan capital to be repaid.

Action plan Point 4

Performance

The documentation supporting the Garden's initial decision to provide loan financing to the Botanic Trading Company may not adequately demonstrate full compliance with relevant regulations from the Office of the Scottish Charity Regulator or HM Revenue and Customs.

Action plan Point 5

Performance

Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The Garden's Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Best value and efficient government

We carried out an overview of the Garden's arrangements for ensuring it delivers best value and efficiency in its operations.

The Garden is committed to achieving best value in its operations and has a best value approach that approximates to the guidance issued by the Scottish Executive. The Garden does not, however, have a formal process in place for measuring and monitoring efficiency but does keep these matters under regular review.

In particular, the Garden is a member of the 'National Collections Institutes Forum' where senior staff from a number of NDPBs and Agencies (known as 'the Collections') work together to share services and maximise efficiency. Key achievements from this initiative have included:

- letting a shared service contract for internal audit;
- joining up occupational health schemes across the organisations;
- purchasing a shared Job Evaluation and Grading System;
- jointly developing facilities management systems;
- sharing knowledge about business continuity and risk management processes;
- developing shared arrangements for the recruitment process; and
- working jointly to upgrade finance systems and extend e-procurement systems.

Action Plan Point 6

RSM Robson Rhodes LLP

29 June 2007

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Financial Statements					
1	Stock sheets, prepared following the year end stock take, contained a significant number of calculation errors. These errors led to the understatement of stock balances by £6,100.	Low	A senior member of the finance team should check stock sheets for accuracy before finalising the year end stock balance used for the financial statements. The year end process for recording stock taking, including responsibility for the preparation of stock sheets should be reviewed.	Agreed	Immediate
2	Intangible assets, relating to software licences, with a net book value of £27,770 are not separately disclosed on the face of the balance sheet.	Low	The value of intangible assets should be reviewed annually for disclosure purposes. The fixed asset register and ledger codes should be amended to enable intangible asset purchases to be separately identified and recorded.	Agreed	31 October 2007
3	It is our view that the release from deferred grant to the Consolidated Income and Expenditure Account should more properly be presented as income.	Low	The Garden should review the presentation of amortisation of deferred grants for the 2007-08 financial statements.	Agreed	31 October 2007

No	Finding	Risk	Recommendation	Management Response	Implementation date
Governance					
4	The Garden has made a loan of £100,000 to its trading subsidiary (The Botanic Trading Company). The BTC pay interest on the loan at 4.5% annually, but there is no requirement for the loan capital to be repaid.	Medium	The Garden should ensure arrangements are in place for BTC to repay the loan capital over an appropriate timescale. The Garden should also review the level of interest appropriate to the loan facility; or The Garden should consider converting the loan to equity. This option will require the approval of the Scottish Executive.	This will be discussed at the Audit Committee Meeting on 25 June 2007 and an appropriate way forward agreed	31 March 2008
5	The documentation supporting the Garden's initial decision to provide loan financing to the Botanic Trading Company may not adequately demonstrate full compliance with relevant regulations from the Office of the Scottish Charity Regulator or HM Revenue and Customs.	Medium	The Garden should document its loan arrangement with the Botanic Trading Company to more formally demonstrate compliance with relevant Charities Commission and Inland Revenue regulations. The Garden should review its financial relationships with the BTC should the Office of the Scottish Charity Regulator issue additional guidance in relation to such arrangements.	Agreed	31 October 2007
Performance					
6	The Garden does not have a formal process in place for measuring and monitoring efficiency.	Medium	The Garden should develop more formal arrangements for monitoring, measuring and reporting efficiency savings.	Agreed. We will consider suitable measures to be incorporated within the performance management system currently under development.	31 March 2008