



Grant Thornton

Royal Botanic Garden Edinburgh

Report on the 2007-08 Audit

13 June 2008

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1 Introduction

1.1 Purpose of the Report

We have audited the financial statements of the Royal Botanic Garden Edinburgh (RBGE) for 2007-08, and examined aspects of RBGE's performance and governance arrangements. This report sets out our key findings.

The report is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260.

1.2 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 RBGE as at 31 March 2008 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 (FRM) 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 Government guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

1.3 Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practice Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

1.4 Acknowledgements

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

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

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

2 Executive Summary

2.1 Financial results

RBGE reported a deficit for the financial year of £8.397 million (2007: £7.579 million). After adjusting for grant-in-aid received from the Scottish Government, the deficit for the financial year was £78,000 (2007: surplus of £109,000). The deficit on the General Fund increased from £2,000 to £120,000, largely as a result of the loss (£95,000) recorded on the assets demolished to make way for the Gateway Project.

Capital expenditure for the year was £5.077 million, of which £1.429 million related to the construction of the Dawyck Visitor Centre and £2.861 million for the Gateway Project.

RBGE's wholly owned subsidiary, the Botanic Trading Company Limited (BTC), reported an operating loss of £21,856 and the accumulated deficit on its profit and loss account was £35,573. BTC has had a difficult trading year due largely to disruption caused by works on the Gateway Project. Management have put arrangements in place to address the trading deficit and are confident that BTC will return to profit in 2008-09.

2.2 Financial Position

RBGE held unrestricted reserves of £553,000 at the financial year end (£665,000 in 06-07) and restricted reserves of £28.138 million (£25.009 in 2006-07). We noted that RBGE had no formal reserves policy in place during the financial year.

2.3 Governance

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

As part of the 2007-08 audit, we reviewed the operation and effectiveness of key controls over financial systems, progress in implementing the agreed recommendations arising from our 2006-07 audit and arrangements in place for managing personal data, including compliance with the Data Protection Act 1998. Our audit identified only minor control weaknesses in the areas reviewed and we consider RBGE's internal control arrangements to be satisfactory.

RBGE has made good progress in implementing recommendations made in our report on the 2006-07 audit and 4 out of the 6 recommendations are now implemented. RBGE has taken further advice and one of the outstanding recommendations is now no longer relevant. RBGE has yet to complete its arrangements for measuring and reporting on

efficiency savings, but anticipate that these arrangements will be completed in the near future.

RBGE has commenced work on the Gateway Project, which will result in capital investment exceeding £11 million in the 2008-09 financial year. The governance arrangements associated with the Project were subject to a review by both Audit Scotland (as part of their overview of the management of major capital contracts in the public sector) and internal audit during the year and the findings from these reviews will be reported separately.

We note that the financial standing of the main contractor for the Project has required RBGE to make arrangements to contract separately and directly with a supplier of wood panels with a value of £475,599. The payment is expected to be made in the 2008-09 financial year.

The decision to proceed to contract separately with a third party supplier has introduced additional risks to the Project which were not reported to the RBGE Board or Audit Committee in advance of the decision being made. RBGE should update its governance and risk management arrangements in relation to the Gateway Project to ensure any additional risks associated with the financial position of the main contractor are fully identified and managed. In addition, RBGE should improve arrangements for reporting material changes to the Project to the Board and Audit Committee.

2.4 Performance

RBGE is committed to achieving best value in its operations and has a best value approach that approximates to the guidance issued by the Scottish Government. During 2007-08, RBGE updated its best value plan, and completed the best value checklist issued by the Scottish Government.

RBGE has been set efficiency targets by the Scottish Government over the next 3 years. The targets require RBGE to deliver efficiencies of £1.428 million by increasing the level of co-funding for research projects, improving working practices in maintenance and utilities; and deploying staff more effectively. This target is challenging and will require that RBGE has effective performance management arrangements in place for capturing, monitoring and reporting efficiency.

Grant Thornton UK LLP
17 June 2008

3 Financial Results

3.1 Income and Expenditure

Table 1 highlights the financial results for RBGE for the year ending 31 March 2008, showing the deficit for the financial year adjusted for grant-in-aid funding. The overall deficit for the year, after adjusting for grant-in-aid and notional costs was £78,000 (surplus of £109,000 in 2006-07).

Table 1: Financial Results for 2007-08 (£'000)

| | 2008 | 2007 |
|------------------------------------|--------------------|-------------------|
| Income | 2,680 | 2,600 |
| Expenditure | 11,313 | 10,563 |
| Operating deficit | <u>(8,633)</u> | <u>(7,963)</u> |
| Adjustments for notional costs etc | 236 | 384 |
| Deficit for the year | <u>(8,397)</u> | <u>(7,579)</u> |
| Grant-in-aid | 8,319 | 7,688 |
| | <u>(78)</u> | <u>109</u> |

The main sources of income during the year were voluntary income of £0.955 million; income from charitable activities of £1.220 million and income from trading activities of £0.496 million. There was a significant increase in income from charitable activities, driven by higher income derived from education contracts, and from research grants and projects. However the increase was offset by poor performance in trading activity at the Edinburgh Garden's shop, and by lower than expected catering income.

Expenditure comprised staff costs of £7.284 million; depreciation of £1.558 million, and other operating costs of £3.748 million. This was offset by the release of deferred capital grants of £1.277 million.

3.2 Financial Position

RBGE held unrestricted reserves of £553,000 at the financial year end (£665,000 in 06-07) and restricted reserves of £28.138 million (£25.009 million in 2006-07). Table 2 below shows the level of reserves held by RBGE at 31 March 2008, split into Restricted and Unrestricted funds:

Table 2: Reserves at 31 March 2008 and 2007 (£'000)

| | 2008 | 2007 |
|-----------------------|---------------------|---------------------|
| <i>Unrestricted</i> | | |
| General Fund | (120) | (2) |
| Trustees | 637 | 653 |
| | <hr/> 517 | <hr/> 651 |
| <i>Restricted</i> | | |
| Ferguson Bequest | 8,764 | 9,059 |
| Revaluation Reserve | 17,591 | 13,608 |
| Donated Asset Reserve | 755 | 755 |
| Projects | 243 | 99 |
| | <hr/> 28,140 | <hr/> 24,348 |
| | <hr/> 28,657 | <hr/> 24,999 |

The deficit on the General Fund increased from £2,000 to £120,000, largely as a result of the loss (£95,000) recorded on the assets demolished to make way for the Gateway Project.

RBGE did not have a formal reserves policy during the financial year. For the future, a reserves policy should be agreed by the Board which should set out:

- the purposes of each reserve fund;
- the target level of reserves to be held; and
- financial plans to achieve and maintain target reserve levels.

Action plan point 1

3.3 Capital

During 2007-08, total capital expenditure was £5.077 million (2007: £3.071 million). Of this amount, £1.429 million related to land and building additions, associated with the new Dawyck visitor centre; and £2.861 million for buildings under construction relating to the Edinburgh Gateway project.

RBGE plans to incur further capital expenditure exceeding £11 million in the next financial year on the Gateway Project.

3.4 The Botanic Trading Company Limited

The Botanic Trading Company Limited (BTC) is a wholly owned subsidiary, with 100% of the shareholding held by the Trustees of the Royal Botanic Garden Edinburgh. The main business of BTC is to carry out trading activities for RBGE, and any available profits after tax are paid to RBGE as gift aid.

For the year ending 31 March 2008, BTC reported an operating loss of £21,856 (2007: £901), and the accumulated deficit on the profit and loss account was £35,573 (2007: £13,717) at the year end. The trading position of BTC deteriorated significantly compared

to prior years due to the temporary closure and relocation of the Edinburgh shop during the construction phase of the Gateway project.

RBGE is providing assurance of continuing financial support for BTC until at least until June 2009 and has put arrangements in place to address the trading position of BTC. This includes the transfer of the existing commercial activities for catering and events from RBGE to the BTC in 2008/9. RBGE expect that the trading operations of BTC will move back into profit in 2008-09 and anticipate a significant growth in trading activity following completion of the Gateway Project.

4 Financial Statements

4.1 Audit Opinion

We have given an unqualified opinion on the financial statements of RBGE for the 2007-08 financial statements. We are able to conclude that the financial statements of RBGE give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 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.

4.2 Audit Quality

The draft financial statements were presented for audit on 16 May 2008. 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.

4.3 Statement on Internal Control

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

We are satisfied that the Statement complies with Scottish Government 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.

4.4 Misstatements identified by the audit

There are no adjusted or unadjusted audit misstatements to report.

We identified a small number of minor disclosure amendments to improve the presentation of the accounts. The Accountable Officer has updated the draft accounts to incorporate the majority of these changes and will undertake a review of the presentation of reserves and notes to the Cashflow Statement for the 2008-09 accounts.

5 Governance

5.1 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 2007-08 audit, we assessed the adequacy of RBGE's governance arrangements against good practice standards for the public sector. We examined:

- key financial controls covering income, expenditure, cash and bank, fixed assets, and the general ledger; and
- compliance with the Data Protection Act 1998.

5.2 Findings

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

We identified a number of areas where further work is required to improve the operation of key controls, and compliance with Data Protection Principles and management has agreed to take action to address these matters.

5.3 The Gateway project

The Gateway is a project to provide an entrance building at the West Gate of the Edinburgh Garden. It will encompass a reception, interpretive area, shop, café/restaurant, teaching classroom, administration facilities and welfare facilities. Funding is provided by the Scottish Government and Heritage Lottery Fund.

The Gateway Project will result in capital investment exceeding £11 million in the 2008-09 financial year. The governance arrangements associated with the Project were subject to a review by both Audit Scotland (as part of their overview of the management of major capital contracts in the public sector) and internal audit during the year and the findings from these reviews will be reported separately.

We note that the financial standing of the main contractor for the Project has required RBGE to make arrangements to contract separately and directly with a supplier of wood panels with a value of £475,599. The payment is expected to be made in the 2008-09 financial year.

The decision to proceed to contract separately with a third party supplier has introduced additional risks to the Project which were not reported to the RBGE Board or Audit Committee in advance of the decision being made. RBGE should update its governance and risk management arrangements in relation to the Gateway Project to ensure any additional risks associated with the financial position of the main contractor are fully identified and managed. In addition, RBGE should improve arrangements for reporting material changes to the Project to the Board and Audit Committee.

Action plan point 2

5.4 Internal Audit

Baker Tilly UK Audit LLP provided internal audit services to RBGE during 2007-08. The Internal Auditors have concluded that RBGE had an adequate framework of control over the systems they examined during the year.

5.5 Follow up of prior year recommendations

RBGE has made good progress in implementing recommendations made in our report on the 2006-07 audit and 4 out of the 6 recommendations are now implemented. RBGE has taken further advice and one of the recommendations is now no longer considered relevant. RBGE has yet to finalise its arrangements for measuring and reporting on efficiency savings, but anticipate that these arrangements will be completed in the near future.

A summary of RBGE's progress in implementing prior year recommendations is contained at Appendix B.

6 Performance

6.1 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 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.

6.2 Best value

During 2007-08, RBGE updated its approach to best value by completing the Scottish Government's best value checklist. The checklist confirms that the arrangements for best value at RBGE are well developed for the majority of the best value principles.

6.3 Efficient government

The Scottish Government has set RBGE an efficiency saving target of £1.428 million over the next 3 years as outline in Table 3 below:

Table 3: Efficiency targets for three year period to 2010-11

| | £ million |
|---------|--------------|
| 2008-09 | 0.238 |
| 2009-10 | 0.476 |
| 2010-11 | 0.714 |
| Total | <u>1.428</u> |

These efficiency targets will be achieved from:

- securing co-funding from other research funders for projects;
- improving working practices for maintenance and utilities; and
- deploying staff more effectively.

RBGE will require to have a plan in place to achieve the efficiencies set by the Scottish Government. Procedures will be required to both measure and report the efficiency savings generated from RBGE's plan.

Action plan point 3

Appendix A: Action Plan

| No | Finding | Risk | Recommendation | Management Response | Implementation Date |
|----------------------------|--|--------|--|---------------------|----------------------------|
| Reserves | | | | | |
| 1 | RBGE does not have a formal reserves policy which states the purpose of each reserve, a target level of reserves to be held, and a financial plan to achieve or maintain the target level of reserves. | Medium | RBGE should formalise a reserves policy. | Agreed | October 2009 |
| The Gateway Project | | | | | |
| 2 | The decision to proceed to contract separately with a third party supplier has introduced additional risks to the Gateway Project which were not reported to the RBGE Board or Audit Committee in advance of the decision being made | High | RBGE should update its governance and risk management arrangements in relation to the Gateway Project to ensure any additional risks associated with the financial position of the main contractor are fully identified and managed. RBGE should improve arrangements for reporting material changes to the Project to the Board and Audit Committee. | Noted Agreed | Immediate Immediate |
| Performance | | | | | |
| 3 | RBGE has been set an efficiency savings target of £0.714 million over the 3 years to 2010-11. | Medium | RBGE should ensure it has appropriate systems in place to measure, monitor and report against the efficiency target. | Agreed | 31 March 2009 |

Appendix B: Follow up review

| No | Finding | Risk | Recommendation | Management Response and Implementation Date | Position at March 2008 |
|-----------------------------|---|------|--|---|------------------------|
| 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 | <p>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.</p> <p>The year end process for recording stock taking, including responsibility for the preparation of stock sheets should be reviewed.</p> | <p>Agree</p> <p>Immediate</p> | Implemented |
| 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 | <p>The value of intangible assets should be reviewed annually for disclosure purposes.</p> <p>The fixed asset register and ledger codes should be amended to enable intangible asset purchases to be separately identified and recorded.</p> | <p>Agreed</p> <p>31 October 2007</p> | Implemented |

| No | Finding | Risk | Recommendation | Management Response and Implementation Date | Position at March 2008 |
|-------------------|---|--------|--|--|--|
| 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 | Not Implemented Following advice from the Scottish Government, RBGE have decided to continue with their current practice of presenting the amortisation of deferred grants as a credit to expenditure. |
| 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 | Implemented BTC are now repaying the loan over 25 years at £4,000 per annum. There is no plans to convert the loan to equity. |

| No | Finding | Risk | Recommendation | Management Response and Implementation Date | Position at 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 | <p>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.</p> <p>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.</p> | <p>Agreed 31 October 2007</p> | <p>Implemented</p> <p>The loan agreement has now been documented and approved by the Board.</p> |
| 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. | <p>Agreed. We will consider suitable measures to be incorporated within the performance management system currently under development.</p> <p>31 March 2008</p> | <p>In Progress</p> |



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