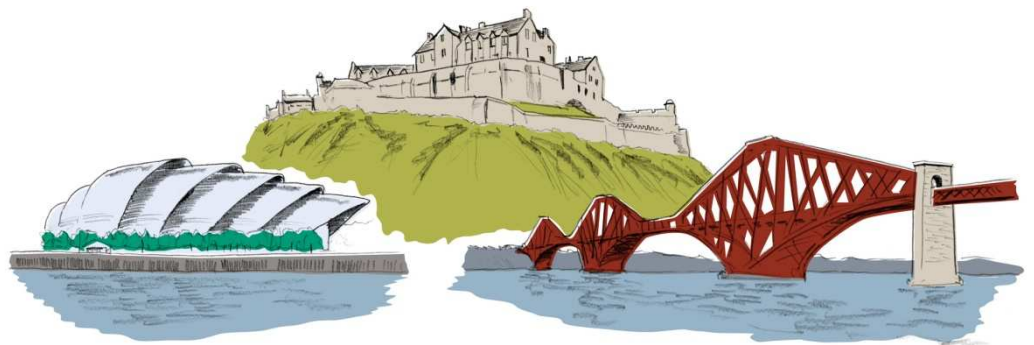


Royal Botanic Garden Edinburgh

2010-11 Audit

Annual Report to the Board of Trustees and the Auditor General for Scotland

6 September 2011



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1 Executive Summary

Purpose of the report

- 1.1 We have audited the financial statements of the Royal Botanic Garden Edinburgh (RBGE) for 2010-11, and examined aspects of RBGE's performance and governance arrangements. This report sets out our key findings.
- 1.2 This report meets the mandatory requirements of the Code of Audit Practice and International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail in the small print at Appendix C.

Audit conclusions

Financial results

- 1.3 For the year ended 31 March 2011, RBGE reports an overall surplus for the year, after adjusting for grant-in-aid and notional costs, of £624,000. Unrestricted reserve balances increased by £506,000 to £617,000 as at 31 March 2011, in excess of the Trustee's target of £500,000.
- 1.4 The Botanic Trading Company continued to perform well, reporting profits before tax of £340,136 and contributing £339,020 in gift aid to RBGE.
- 1.5 A new trading subsidiary the Centre for Middle Eastern Plants (CMEP) was formed in March 2010, and its first full period results recorded a loss of £102,894, reflecting the start up costs in the first year of operations and lower than forecast revenues. The Board of Trustees approved a loan of £120,000 during 2010-11 to support the company. We have recommended that the Board continue to monitor the performance of CMEP to ensure it remains financially viable.
- 1.6 Looking forward, the Corporate Plan to 2016 highlights that RBGE is financially stable based on current projections of income and expenditure. However, the future funding provision for RBGE remains uncertain in the current economic environment and we recommend that the Board reviews the assumptions that underpin current financial projections regularly.

Financial Statements

- 1.7 We intend to provide an unqualified opinion on the 2010-11 financial statements of RBGE, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Board of Trustees on 6th October 2011.
- 1.8 We were presented with draft financial statements and accompanying working papers in line with the revised timetable. As in previous years, the working papers were of a good standard.

- 1.9 There are two audit adjustment relating to the write off of CMEP balances from 2009-10 financial year and a prior year adjustment to remove the notional cost of capital. In addition, there was two minor unadjusted differences that management did not process on the basis of materiality.

Governance

We found that RBGE's governance arrangements continue to operate well and within a generally sound control environment. We confirm that RBGE complies with 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.

Performance

- 1.10 During 2010-11, RBGE completed Audit Scotland's financial management toolkit as part of its review of financial procedures. The checklist confirmed that management consider RBGE to have a strong financial management and budgetary control function, albeit there are some temporary resource pressures on the finance department that impact on overall capacity.
- 1.11 An action plan has been produced to respond to the recommendations of the Strategic Review Group[that took place during 2009-10.
- 1.12 For the year to 31 March 2011, RBGE achieved cash releasing efficiency savings of £706,139 versus a target of £670,000. The bulk of the savings achieved resulted from gapping posts (£188,720) and co-funded science projects (£421,972).

Next Steps

- 1.13 Matters arising from the financial statements audit have been discussed with the Director of Corporate Services. We have made a number of recommendations, which are set out in the action plan at Appendix B.

Use of this report

- 1.14 This report has been prepared solely for use by RBGE to discharge our responsibilities under the Code of Audit Practice, and should not be used for any other purpose. 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.
- 1.15 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.

Acknowledgements

- 1.16 This is the final year of our appointment as auditors to RBGE. We would like to record our appreciation for the assistance and co-operation provided to us during the period of our appointment by the audit committee and RBGE staff.

Grant Thornton UK LLP

6 September 2011

2 Financial results

Income and expenditure

- 2.1 Table 1 highlights the financial results for RBGE for the year ending 31 March 2011, showing the surplus for the financial year adjusted for grant-in-aid funding. The overall surplus for the year, after adjusting for grant-in-aid and notional costs was £624,000 (2010: £130,000).

Table 1: Financial Results for 2010-11 (£'000)

	2011	2010
Income	3,833	2,974
Expenditure	(12,068)	(11,662)
Operating deficit	(8,235)	(8,868)
Adjustments for notional costs etc	(125)	(14)
Impairment charge relating to short term investments in KSF	13	181
Deficit for the year	(8,360)	(8,701)
Grant-in-aid	8,984	8,831
	624	130

Source: Royal Botanic Garden Edinburgh 2010-11 financial statements

- 2.2 There has been a substantial increase in income of £0.9 million (31%). This reflects the improved performance of the trading subsidiary, the Botanic Trading Company (BTC) where income has increased by £294,000 (36%), increased gift aid payments to RBGE from BTC of £163,000 (92%), and higher grant payments from third parties of £167,000 (17%). In addition, £109,000 was received in donations from the Botanic Foundation.
- 2.3 Expenditure has increased by £388,000 (3.2%). This reflects higher depreciation charges of £359,000, following completion of the Gateway and a full year's depreciation on that asset. In addition, other operating costs have increased by £361,000 (9%) of which £350,000 is in relation to general services. The increase in this part of the organisation reflects higher operating costs from a full year of the Gateway, and costs incurred for research projects.
- 2.4 An additional £13,000 was received in the year in relation to the sale of investments held in Kaupthing Singer and Friedlander, the UK banking subsidiary of the Icelandic bank, Kaupthing, which entered administration in 2008. RBGE sold the remaining deposits held with the Bank to a third party during the year.
- 2.5 A voluntary severance scheme was established during the year, with one individual granted severance. The total cost of the scheme was £49,000.

Reserves

- 2.6 Table 2 below shows the level of reserves held by RBGE at 31 March 2011, split into restricted funds, unrestricted funds and endowments.

Table 2: Group Reserves at 31 March 2011 and 2010 (£'000)

Reserve	2011	2010
General Fund	112	(315)
Trustees	505	326
Total unrestricted	617	11
Revaluation Reserve	11,228	10,179
Deferred Capital Grants	28,768	29,356
Projects	668	394
Total restricted	40,664	39,929
Endowments	934	872
Total reserves	42,215	40,812

Source: Royal Botanic Garden Edinburgh 2010-11 financial statements

- 2.7 The general fund has now returned to a surplus position, following a significant increase in income in the year. This should provide RBGE with a more stable financial position going forward.
- 2.8 Charities are required to establish a target level of reserves, and the Board of Trustees have set a target for RBGE of achieving unrestricted reserves of at least £500,000 to support the organisation and provide flexibility in supporting fluctuations in funding. In previous years, this target has not been achieved, however due to the surplus reported in the year; the level of unrestricted reserves is now £617,000. The reserve is being built up to support the RBGE during the challenging economic times in the public sector.
- 2.9 Endowments have increased by £62,000 which reflects appreciation of equity investments, and an excess of income over expenditure in the year.

The Botanics Trading Company Limited

- 2.10 The Botanics Trading Company Limited (BTC) is a wholly owned subsidiary, with 100% of the shareholding held by the Trustees of RBGE. The main business of BTC is to carry out trading activities for the RBGE, and any available profits after tax are paid to RBGE as gift aid.
- 2.11 For the year ending 31 March 2011, BTC reported an operating profit before tax of £340,136 (2010: £177,258), and the accumulated deficit on the profit and loss account was £16,260 (2010: deficit of £17,376). BTC pays its taxable profits in the year to RBGE using the gift aid mechanism, and this minimises the tax liabilities of the company's profits. Table 3 shows the results of BTC split across retail and catering operations in comparison with the prior year outturn.

Table 3: BTC results (£'000)

	2011	2010
Retail shops	80	43
Commercial	260	134
Profit before tax	340	177

Source: BTC management accounts

2.12 The financial position of BTC has continued to improve, and the 2010-11 results reflect the first full year of operations at the John Hope Gateway. Gift aid of £339,020 (2010: £175,861) is due to RBGE from BTC, reflecting the continuing importance of the company's financial performance to RBGE.

2.13 The results of our audit of BTC have been reported to Board in a separate 'Key Issues Memorandum' document. Our audit of BTC did not identify any significant matters that impacted on the Group financial position

The Centre for Middle Eastern Plants Limited

2.14 The Centre for Middle Eastern Plants Limited (CMEP) was established during 2010-11, having previously operated within RBGE. The company provides consultancy services on botanical issues to clients in the Middle East.

2.15 The Company was founded with £120,000 of loan finance from RBGE (provided through the Board Reserve). The total funds approved by the Board of Trustees for CMEP was therefore £190,000: a grant of £70,000 in 2009-10 (as a division of RBGE) and a loan of £120,000 in 2010-11 (as a separate company).

2.16 For the period ending 31 March 2011, CMEP reported an operating loss of £102,894. Table 3 below shows the results of CMEP for the period to 31 March 2011.

Table 4: CMEP results (£'000)

	2011
Income	48
Expenditure	151
Loss for the period	(103)

Source: CMEP management accounts

2.17 The loss for the period to 31 March 2011 reflects the costs of establishing the company in its first year of independent operation. We have requested a letter of support from the Board of Trustees to confirm that they will continue to provide financial support to CMEP for the next year in order to conclude that it remains appropriate for the accounts to be prepared under the going concern principle.

Financing of CMEP

2.18 The CMEP division within RBGE was established with £70,000 of funding from the Board of Trustees' fund in 2009-10. At 31 March 2010, this balance had been overspent by £12,000. We recommended that RBGE write off this balance, as the new company was not able to take on this liability.

- 2.19 During the year, CMEP expended £151,000 on its activities on income of £48,000. Financing of the company's activities was supported by RBGE, until a loan of £120,000 was agreed at 30 March 2011. The loan has been granted on commercial terms as required by charity legislation.

Financial stability of CMEP

- 2.20 The first full year of operations of CMEP as an independent company show a significant loss, and this calls into question the financial viability of the company going forward. Losses of this scale are clearly not sustainable. Our review of the company also highlighted that it currently has many ongoing projects that are not expected to provide a financial return, increasing the risk that losses may continue in future years. In addition, the first year losses greatly exceed those in the original business plan which forecast a £1,400 profit for 2010-11.
- 2.21 CMEP presented a revised business plan to the Board of Trustees in June 2011. The business plan notes that management of CMEP plan to focus more on profitable projects rather than purely scientific projects that do not provide a profit. Part of this focus will be to better manage risk by working more closely with partner organisations, such as architecture firms and designers, in developing future projects.
- 2.22 The business plan includes a 5 year financial projection for the company, and the forecasts are for CMEP to return a profit going forward from 2011-12 and reduce its financial dependency on RBGE.
- 2.23 The Board of Trustees must continue to monitor the financial performance of CMEP against the business plan, and explanations for any budget variances should be provided on a regular basis.

Action plan point 1

Looking forward

- 2.24 In our 2009-10 report, we highlighted that the financial position of RBGE appeared unsustainable based on financial projections in the Corporate Plan to 2015. However, the financial settlement for RBGE announced that the grant-in-aid for 2011-12 would remain at prior year levels. In addition, income generation has improved following the opening of the Gateway and improved financial performance by BTC. In addition, expenditure levels have benefited from savings in staff costs resulting from gapped posts and some voluntary redundancies.
- 2.25 The Corporate Plan for the five year period to 2015-16 highlights that RBGE expects to remain financially stable based on current projections, and report a balanced budget each year. This depends on a number of key assumptions including:
- the reduction in grant-in-aid from 2012-13 and each year thereafter will be 2.3%
 - salary increases will be limited to 1% in 2011-12 and 1.5% in each year thereafter
 - efficiencies in the organisation can be achieved to ensure 0% growth in non-staff expenditure
 - continuing financial contributions from the subsidiary companies.
- 2.26 The Board of Trustees should continue to monitor the financial performance of RBGE and ensure financial projections are updated once Scottish Government decisions on future funding become clear.

Action plan point 2

3 Financial statements

Introduction

- 3.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on RBGE's overall financial position.
- 3.2 We audit the financial statements and give an opinion on whether:
- they give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, on the state of affairs of RBGE as at 31 March 2011 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 (FReM) and directions made thereunder by the Scottish Ministers
 - 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.
- 3.3 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
 - assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Key risks

- 3.4 Our Audit Approach Memorandum for 2010-11 set out the key risks we identified relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider these risks and reported our findings in our Interim Audit Report. As part of our final accounts audit, we reviewed some remaining risk areas and have set out in below, the outcome of work completed.

Key risk	Work completed
<p>Cost of capital The 2010/11 Government Financial Reporting Manual (FReM) no longer requires bodies to account for the cost of capital within their accounts from 2010-11.</p> <p>In accordance with International Accounting Standard 8, <i>Accounting policies, changes in accounting estimates and error</i>, this should be treated as a change in accounting policy and a prior year adjustment will be required.</p>	<p>We reviewed the draft accounts and noted that the cost of capital had not been removed from the prior year accounts as required.</p> <p>We recommended that an adjustment was processed to remove the cost of capital charge from 2010 and RBGE processed the required adjustment as detailed in paragraph 3.11.</p>

Key risk	Work completed
<p>The Gateway The John Hope Gateway was completed in the summer of 2009 and is now open to the public. The project involved the construction of a new building at the Edinburgh Garden to host the biodiversity exhibitions, and to increase commercial facilities with a new shop and café.</p> <p>The Gateway project was officially opened in 2009-10 and visitor numbers for the year since the opening were significantly higher than the previous year, providing a significant contribution to the commerciality of the Edinburgh garden.</p> <p>The contractor for the building entered administration shortly before completion, and this has led to some delays in some aspects of the building.</p>	<p>There are still some completion issues outstanding in relation to the Gateway project. Management consulted with their solicitors and a contingent liability has been disclosed in line with FRS 12, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p>

- 3.5 The Audit Committee has confirmed that it is not aware of any additional material risk areas facing RBGE, including significant fraud risks that we are required to consider for the purposes of our audit

Audit conclusions

- 3.6 We intend to provide an unqualified opinion on the financial statements, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Audit Committee and the Board.
- 3.7 We carried out our audit in accordance with the final audit approach memorandum presented to the Audit Committee in November 2009. Our audit is substantially complete, subject to the following finalisation procedures:
- review of the final version of the financial statements (including the annual report and the foreword)
 - obtaining and reviewing the signed letter of representation
 - updating our post balance sheet events review, to the date of signing the accounts
 - obtaining and reviewing the letter from the solicitors on legal claims.

Matters arising from the financial statements audit

- 3.8 We were presented with draft accounts on 6th June 2011, in line with the revised timetable. The working papers provided continue to be of good quality.
- 3.9 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix A.

Centre for Middle Eastern Plants

There were a number of audit adjustments arising from the audit of CMEP, which had an impact on the group accounts:

- write off the £11,000 brought forward balance relating to CMEP operations in 2009-10 as part of RBGE
- recognition of long term contracts income and expenditure in line with SSAP 9, *Stocks and Long Term Contracts*
- reclassify work in progress on long term contracts as debtor and creditor balances wrongly classified as shareholder's equity
- reclassification of intra-group debtors and creditors balances
- recognise authorised and issued share capital in shareholder's equity.

More details are provided in our Key Issues Memorandum issued to CMEP directors.

Cashflow statement

We noted that the cashflow statement did not correctly allocate movements in working capital between the different headings in the cashflow statement, with all movements allocated to operating activities. We recommended that movements in working capital relating to capital expenditure and financial investment were allocated to the correct heading in the cashflow statement in the accounts and management agreed to and made these adjustments..

Provision for doubtful debts

We noted a debtor balance for £9,268 which had been outstanding for over one year at the balance sheet date. We considered that RBGE should provide for this debt due to the age and uncertainty of payment for such an old debtor balance.

We recommend that RBGE review and consider impairment for all aged debtor balances at the balance sheet date.

Action plan point 3

Adjusted misstatements

- 3.10 There are two adjusted misstatements that impacted on RBGE's financial statements as shown in Table 6 below.

Table 6: List of adjusted misstatements

Adjustments affecting reported results	I&E/SOFA		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Write off the intercompany balance due from CMEP relating to 2009-10 financial year	11			11
Cost of capital- prior year adjustment in line with FRS 3 to remove the notional cost of capital charge	1,321	1,321	1,321	1,321

- 3.11 As the adjustments related to an intercompany balance and the notional cost of capital, there was no impact on the group's financial position from the adjustments.

Unadjusted misstatements

- 3.12 Our audit work identified misstatements of £20,000 that have not been processed by management on the basis of materiality.

Table 7: List of unadjusted misstatements

Adjustments affecting reported results	I&E/SOFA		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Accruals To recognise an under accrual of energy bills	Other operating expenditure 11			Creditors 11
Bad debt provision To provide for an aged debt over 1 year old	Other operating expenditure 9			Creditors 9
TOTAL	20			20

- 3.13 The overall effect of the unadjusted misstatements would be to decrease the surplus for the year by £20,000 and decrease the net worth by £20,000.
- 3.14 The Audit Committee should satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.

Evaluation of key controls

- 3.15 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of RBGE's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements. We reported our findings to management in our interim management report, which was presented to the February 2010 audit committee.
- 3.16 Internal audit services during 2010-11 were provided by Henderson Loggie. The Internal Auditors have concluded that RBGE operates adequate and effective internal control systems and proper arrangements in place to promote and secure value for money.

Statement on Internal Control (SIC)

- 3.17 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 have examined RBGE's arrangements and processes for compiling the SIC. In addition, we read the SIC and considered whether the statement is in accordance with our knowledge of RBGE.
- 3.18 We have reviewed the draft SIC and are satisfied that it complies with guidance contained in the Scottish Public Finance Manual, that the processes put in place by the Accountable Officer to obtain assurances on systems of internal control are adequate, and that the

contents of the Statement are consistent with the information obtained from our normal audit work.

Annual report

- 3.19 We considered RBGE's arrangements for compilation and submission of the annual report and received a complete draft annual report in sufficient time to undertake the required audit procedures prior to reporting to the Audit Committee.
- 3.20 We reviewed the draft annual report and are satisfied that the content of the annual report, including the remuneration report, is in accordance with the Government Financial Reporting Manual, the Charities SORP and our knowledge of RBGE.

4 Governance

Introduction

- 4.1 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.
- 4.2 As part of our 2010-11, we assessed the adequacy of RBGE's governance arrangements against good practice standards for the public sector. Overall, 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.
- 4.3 RBGE's audit committee met four times during the financial year, and continues to operate in line with the guidance set out in the Scottish Government's audit committee handbook. The Chair of the Audit Committee provided an annual report on its work to the Board of Trustees in line with the requirements of the handbook.
- 4.4 During the year, RBGE has taken steps to enhance its governance arrangements, and has developed a performance management system that captures time and costs objectives to strengthen performance management and delivery of corporate objectives. RBGE employs an adapted version of the Balanced Scorecard which is organised into five perspectives (Scottish Government National Outcomes, Impacts, Activities, Resources and Governance) and translates the mission and strategy into achievable objectives and measures.
- 4.5 Our Audit Approach Memorandum for 2010-11 set out the key risks relating to the governance aspects of our audit. Exhibit two below highlights the work completed against each risk area.

Key risk	Work completed
<p>Centre for Middle Eastern Plants</p> <p>A new subsidiary, the Centre for Middle Eastern Plants Limited, was established by RBGE in April 2010. The first set of audited accounts will be required as at 31 March 2011.</p> <p>In our 2009-10 audit, we noted a number of issues relating to the establishment of CMEP.</p> <ul style="list-style-type: none"> the Board approved start up funding of £70,000 for CMEP, however the company may require more funding from the Board in future. we made a number of recommendations for improving the system of controls over projects managed by CMEP. 	<p>We completed a review of the financial position of CMEP, see section 2.14 for more details.</p> <p>In addition, we completed a follow up review of the system of controls over CMEP projects. We found that controls were still not in place or operating effectively for projects in the year, however we noted that controls are being implemented for new projects going forward. We have recommended that management improve the system of controls over CMEP projects and an action plan has been agreed in the Key Issues Memorandum issued to CMEP directors.</p>

Key risk	Work completed
<p>Public Service Reform (Scotland) Act The Public Services Reform (Scotland) Act 2010 received Royal Assent on 28 April 2010. Part 3 of the Act will require RBGE to publish a statement of expenditure which has been incurred during the financial year in relation to: public relations, consultancy. In addition, disclosures of persons earning over £150,000 will be required</p> <p>Draft guidance has been published by the Scottish Government on how public bodies should respond to Part 3 of the Act.</p>	<p>We confirmed that RBGE have published the relevant information as required by the Act on their website in line with the guidance issued by the Scottish Government.</p>

5 Performance

Introduction

- 5.1 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.
- 5.2 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.

Best value

- 5.3 During the year RBGE carried out a best value review of its financial management and budgetary control arrangements using the financial management toolkit developed by Audit Scotland.
- 5.4 The toolkit has 31 questions on 11 key areas of financial management, and an assessment is given for each question against basic, better and advanced criteria. The toolkit was completed following discussions with the Director of Corporate Services and the Head of Finance and the review reflected management's view on the effectiveness of the financial management and budgetary control arrangements in place at RBGE.
- 5.5 The overall conclusion from the checklist is that management consider RBGE to have a strong financial management and budgetary control function. The only basic level of compliance identified related to whether the "finance function is adequately resourced with appropriate skills". Although management consider the structure of the finance department to be adequate to the needs of the organisation, there have been vacancies during the year due to sickness absence and maternity leave. This has impacted on the department's ability to complete all its functions. In response, management have focused on ensuring the most critical tasks are completed and, as a result, there is a backlog of less essential finance tasks.
- 5.6 We recommended that management should consider how best to ensure cover is provided in periods where there are significant staff absences. Action should also be taken to ensure the backlog of finance activities is cleared.

Strategic Review Group

- 5.7 During 2009-10, an independent Strategic Review Group carried out a strategic review of the RBGE, with the following aims:
 - to review the progress being made with the research and conservation activities, and quality and impact of the education programme and visitor services of the RBGE
 - to make recommendations to the Scottish Government concerning RBGE strategies, current activities and future plans as set out in the Corporate Plan and the document 'Strategic Research for SEERAD 2005-2010'

5.8 The report of the Strategic Review Group was issued to RBGE on 8 March 2010. Overall the report concluded that "RBGE operates effectively and provides value for money in all its areas of operations". The report highlighted two key areas for RBGE to consider:

- there is a need for capital expenditure, particularly for housing the living collection.
- there are staff development issue that require to be addressed

5.9 An action plan was prepared by RBGE, and the Director of Science met with RERAD during the year to discuss the progress made against the action plan. An update was provided to the Board of Trustees at their meeting in June 2011. The update noted the following areas where action was required to meet the recommendations of the visiting group:

- review funding arrangements for the Masters course run in conjunction with the University of Edinburgh
- there is a lack of funding available for research glass infrastructure
- investment is required in archiving software
- investment is required in the external website

5.10 Management are to provide the Board of Trustees with further updates on the action plan in 2011-12.

Efficient government

5.11 The Scottish Government has set RBGE an efficiency saving target of £1.428 million over the 3 years to 2010-11. These efficiency targets have been achieved from: securing co-funding from other research funders for projects; improving working practices for maintenance and utilities; and deploying staff more effectively. RBGE has met the annual targets for efficiencies in the prior two years.

5.12 For the year to 31 March 2011, RBGE achieved cash releasing efficiency savings of £706,139 versus a target of £670,000. Table 7 highlights the performance of RBGE's efficiency programme in the final year of the programme versus the annual target by each category.

Table 7: Efficiency targets for 2010-11

	Target 2010-11 £	Outturn 2010-11 £
Co-funded science projects	400,000	421,972
Shared Services with NMS (BCP)	6,000	9,000
ICT Contract Negotiations	14,000	13,357
Maintenance - Improved Management Regime	20,000	20,000
Restricted fundraising	0	2,829
Unrestricted fundraising	50,000	50,261
Manpower re-organisation	180,000	188,720
Total	670,000	706,139

Source: Royal Botanic Garden Edinburgh

- 5.13 Overall RBGE continues to meet its annual efficiency targets, and has achieved its three year target as set by the Scottish Government. The main area of success in the efficiency savings come from co-funded science projects and manpower savings from gapped posts.

Audit Scotland National Reports

- 5.14 Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.
- 5.15 As part of our audit, we have considered RBGE's response to relevant national reports issued during the year.

Report	Response
Role of Boards	<p>Management have provided copies of the report to the Board of Trustees and recommended that the self-assessment questionnaire be completed.</p> <p>We would recommend that an action plan is produced once the results of the self-assessment are completed.</p>
Energy efficiency	<p>The report was received and considered by the Carbon committee. A number of actions are being taken by RBGE in response to the report, including schemes to reduce gas and electricity usage throughout the organisation.</p>
Public Sector Procurement	<p>RBGE continues to work to improve its purchasing and procurement functions, although there are no major procurement exercises currently active in the organisation.</p> <p>RBGE was assessed using the PCA Lite tool during 2010-11. There was an improvement in the overall performance score, and RBGE remains in the "Conformance" category.</p>

Action plan point 4

A Action Plan

Rec. No.	Finding	Risk	Recommendation	Management response	Implementation date and responsibility
1	<p>CMEP</p> <p>CMEP reported a loss for its first period accounts of £1092,894, mainly as a result of start up costs as the business establishes itself in the market. RBGE financed the company throughout the year, and provided a loan of £120,000 in March 2011 to support the company's finances.</p> <p>Losses on this scale are not sustainable, although the revised business plan submitted to the Board of Trustees sets out how the company plans to move to profit in the near future.</p> <p>RBGE must continue to ensure financial support provided to CMEP is affordable, and meets the regularity requirements of support to the trading subsidiaries of charities.</p>	High	<p>The Board should continue to monitor the financial and operational performance of CMEP.</p> <p>The Board of Trustees should approve and additional financing to the subsidiary in a timely manner.</p> <p>Existing financial support should be reviewed to ensure it complies with relevant charities regulations.</p>	<p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>Quarterly Review by Board of Trustees</p> <p>Submission to RBGE by CMEP Directors in advance of requirement</p> <p>Head of Finance Immediate</p>
2	<p>Financial position</p> <p>The Corporate Plan for the five year period to 2015-16 includes a five year financial forecast for the organisation, which indicates a stable financial position. This is based on a number of key assumptions on funding and inflation, and strong financial performances by the subsidiary companies.</p>	High	<p>The Board should continue to closely monitor the financial position of RBGE, and financial projections should be updated once future government spending plans are announced by the Scottish Government.</p>	<p>Agreed</p>	<p>Monthly review by RBGE Directors and Quarterly by Board of Trustees</p>

Rec. No.	Finding	Risk	Recommendation	Management response	Implementation date and responsibility
3	<p>Bad debt provision</p> <p>We noted there was no bad debt provision for an aged debtor balance over one year.</p>	Low	We would recommend that an impairment assessment on all aged debts is carried out at the balance sheet date.	Agreed	All debts over 60 days are reviewed and highlighted to Senior Management.
	<p>Board effectiveness review</p> <p>The Board of Trustees has received Audit Scotland's national report on the Role of Boards.</p> <p>We would recommend that the Board of Trustees complete the checklist within Audit Scotland's national report.</p>	Low	An action plan should be prepared based on the outcomes of the checklist.	Noted	The Board will be reminded of this recommendation.

B Progress on implementation of prior year recommendations

Rec. No.	Finding	Recommendation	Management response and Implementation date	Summary of progress at September 2011
1	<p>Financial position</p> <p>The Corporate Plan for the five year period to 2014/15 highlights an increasing deficit which is unsustainable.</p> <p>In addition, RBGE will be required to update their projections following confirmation of Scottish Government funding intentions, with current projections of up to 25% cuts in government spending.</p> <p>Risk: High</p>	<p>RBGE should begin scenario planning on potential cuts in government spending.</p> <p>The Board of Trustees may have to consider the viability of certain parts of the organisation.</p>	<p>Agreed.</p> <p>Scenario planning will take place at the Annual Planning Conference in preparation for the Board Strategy Day in October</p> <p>Regius Keeper</p> <p>October 2010</p>	<p>Implemented</p> <p>The Corporate Plan for the period 2011 to 2016 incorporated revised financial projections and scenarios.</p>
2	<p>The Centre for Middle Eastern Plants (CMEP)</p> <p>The Board approved start up funding of £70,000 for CMEP. However the company may require more funding from the Board in future.</p> <p>RBGE must ensure financial support provided to CMEP is affordable, and meets the regularity requirements of support to the trading subsidiaries of charities.</p> <p>Risk: Medium</p>	<p>The Board should continue to monitor the financial and operational performance of CMEP.</p> <p>Financial support should be reviewed to ensure it complies with relevant charities regulations.</p>	<p>Agreed</p> <p>The situation continues to be monitored on a monthly basis.</p> <p>The Board of Trustees and Senior Management Group</p> <p>Head of Finance</p> <p>October 2010</p>	<p>Additional funding of £120,000 was provided to CMEP in March 2011. See revised action plan point at Appendix A (action plan point 2).</p>

Rec. No.	Finding	Recommendation	Management response and Implementation date	Summary of progress at September 2011
3	<p>John Hope Gateway Centre</p> <p>The Centre is now operational, although there are some completion issues that require to be resolved.</p> <p>The main contractor has entered administration and this is delaying some aspects of completion.</p> <p>A contingent liability has been recognised in the accounts for the possibility of future liabilities for the construction phase of the project.</p> <p>Risk: Medium</p>	<p>The Board should continue to monitor the completion of the Gateway project, and consider future liabilities arising from the completion process.</p>	<p>Agreed</p> <p>Board of Trustees</p>	<p>In progress</p> <p>There are a few minor completion issues to be resolved. A contingent liability has been recognised for the possibility of future liabilities from the completion process, although the financial cost is not material to RBGE's financial position.</p>
4	<p>Strategic Review</p> <p>The visitors group has reported back on the results of the Strategic Review undertaken during 2009-10.</p> <p>The report highlights a number of action plan points for RBGE to consider.</p> <p>Risk: Medium</p>	<p>An action plan should be produced to answer the recommendations of the strategic review.</p> <p>Progress against the action plan should be reported regularly to the Board.</p>	<p>Agreed</p> <p>Director of Sciences</p> <p>March 2011</p>	<p>Implemented</p> <p>A progress report was provided to the Board of Trustees in June 2011. An action plan was produced and will be subject to ongoing monitoring.</p>

Rec. No.	Finding	Recommendation	Management response and Implementation date	Summary of progress at September 2011
5	<p>Audit Scotland national reports</p> <p>RBGE does not have a formal process for receiving and reviewing Audit Scotland national reports.</p> <p>Risk: Low</p>	<p>Management should ensure all relevant national reports produced by Audit Scotland are received and reviewed in a timely manner.</p> <p>Reports should be considered by relevant management committees and if appropriate, an action plan to implement performance improvement recommendation should be produced.</p>	<p>Agreed</p> <p>Head of Finance</p> <p>August 2010</p>	<p>Implemented</p> <p>Relevant Audit Scotland reports are presented to the audit committee, or other committee where relevant. The Head of Finance co-ordinates responses to the reports that require action.</p>

C The small print

Purpose of memorandum

This Report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee and the Royal Botanic Garden Edinburgh (RBGE).

The purpose of this memorandum is to highlight the key issues affecting the results of RBGE and the preparation of the organisation's financial statements for the year ending 31 March 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

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.

Responsibilities of the Board, Accountable Officer and auditors

The Board and Accountable Officer are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Board and Accountable Officer confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

RBGE's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board and Accountable Officer that it has done so.

The Board and Accountable Officer are required to review the organisation's internal financial controls. In addition, they are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Board and Accountable Officer should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Board and Accountable Officer.

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 Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Grant Thornton UK LLP*	16,000
Audit Scotland fixed charge*	1,200
Botanics Trading Company	3,000
Centre for Middle Eastern Plants (CMEP)	1,500
Additional fee charged in the year for CMEP	1,750
Total	23,450

* RBGE audit fees are inclusive of VAT



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