

# Royal Botanic Gardens Edinburgh

Annual Audit Plan 2016/17



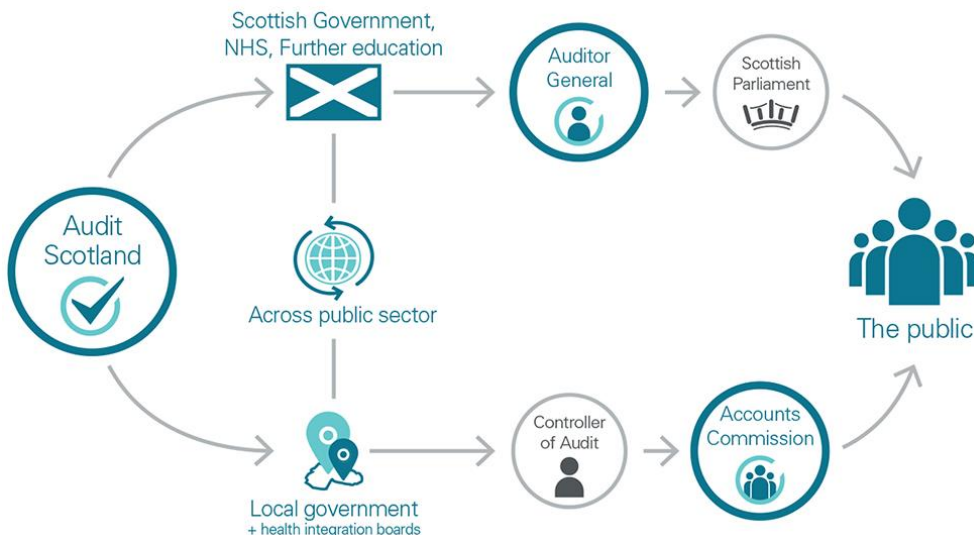
 AUDIT SCOTLAND

Royal Botanic Gardens Edinburgh  
February 2017

# 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Royal Botanic Gardens Edinburgh (RBGE). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of Management Override of Controls</b> 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 the risk of management override of controls in order to change the position disclosed in the financial statements.	<ul style="list-style-type: none"><li>Owing to the nature of this risk, assurances from management are not applicable</li></ul>	<ul style="list-style-type: none"><li>Detailed testing of journal entries.</li><li>Review significant management estimates and evaluate the impact of any variability in assumptions.</li><li>Focused testing of accruals and prepayments.</li><li>Evaluation of significant transactions that are outside the normal course of business.</li></ul>
<b>2 Risk of Fraud Over Income</b> RBGE receives a significant amount of income, (£2.9m) 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.	<ul style="list-style-type: none"><li>Regular budget monitoring reports are provided to the Board.</li></ul>	<ul style="list-style-type: none"><li>Analytical procedures on income streams.</li><li>Detailed testing of income transactions focusing on the areas of greatest risk.</li></ul>
<b>3 Revenue and Capital Recognition</b> In 2015/16, RBGE had capitalised costs in relation to its cloud-based software as part of the new payroll system and this was subsequently adjusted following the audit process. There is a risk that non-current assets and net expenditure are materially misstated in the 2016/17 financial statements.	<ul style="list-style-type: none"><li>Areas of uncertainty about classification will be discussed with Audit Scotland before the draft accounts stage.</li></ul>	<ul style="list-style-type: none"><li>Detailed testing of capitalised costs focusing on the areas of greatest risk.</li></ul>

Audit Risk	Management assurance	Planned audit work
<p><b>4 Group Accounts</b></p> <p>During 2015/16 there were discussions about the potential accounting implications of transferring a material amount of reserves to a related party. RBGE should review its group boundary on an annual basis to ensure that related parties over which RBGE exercises significant control or influence are included in the group accounts.</p>	<ul style="list-style-type: none"> <li>The assessment will be formally recorded.</li> </ul>	<ul style="list-style-type: none"> <li>Review of group boundary assessment carried out by RBGE prior to financial statements audit.</li> </ul>
<p><b>5 Payroll System</b></p> <p>During 2016/17, RBGE implemented a new payroll system. There have been no issues with the pay output following the implementation, however there have been on-going issues with data output and reports. There is a risk that the data provided from the new payroll system cannot be relied upon for the 2016/17 financial statements.</p>	<ul style="list-style-type: none"> <li>Detailed data checking occurs before payroll information is uploaded into the accounts each month</li> </ul>	<ul style="list-style-type: none"> <li>Early substantive testing on payroll costs.</li> <li>Analytical procedures on the payroll costs throughout the year.</li> </ul>
<p><b>Wider dimension risks</b></p>		
<p><b>6 Backlog of Maintenance</b></p> <p>RBGE is carrying out a 5 year condition survey of its Estate to assess the extent of the maintenance backlog. RBGE continues to face budget pressures and there is a risk that they do not have the resources to complete the required maintenance work. This could impact on the operations, income, and success of RBGE.</p>	<ul style="list-style-type: none"> <li>This area is under continuous review</li> </ul>	<ul style="list-style-type: none"> <li>Review of Board papers to assess whether any further action has been taken.</li> <li>Review of budget and allocation monitoring letters to identify whether any additional funding has been provided to address the backlog of maintenance.</li> </ul>
<p><b>7 Audit Committee Membership</b></p> <p>Public sector entities are required to have at least two independent non-executive directors. RBGE currently meet this requirement, however the Chair of the Audit Committee is stepping down in February 2017. This may result in only two non-executive directors on the Audit Committee which increases the risk that the Audit Committee will not be quorate and will be unable to carry out its duties.</p>	<ul style="list-style-type: none"> <li>Meetings are generally arranged to ensure that at least two non-execs are able to attend. The Board will be appointing a third non-exec after the Chair has stepped down.</li> </ul>	<ul style="list-style-type: none"> <li>Attendance at Audit Committee meetings.</li> </ul>

## Reporting arrangements

3. Audit reporting is the visible output from the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

5. We will provide an independent auditor's report to RBGE and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	27 January 2017	23 February 2017
Interim Report to Management	14 April 2017	14 June 2017
Annual Audit Report including ISA 260 requirements	25 August 2017	21 September 2017
Signed Independent Auditor's Report	21 September 2017	21 September 2017

### Audit fee

6. In 2016 we completed a review of our approach to funding our work and the fee setting arrangements to improve transparency. The key principles for the review were that:

- audit fees should be set with the objective of recovering the full cost of audit work in each sector, and
- the cost of the audit should not depend on the identify or location of the auditor.

7. 2016/17 is the first year of these new arrangements. Overall central government fees will increase by 3.3% with larger increases impacting on the smaller bodies to better reflect the actual cost of carrying out these audits. The proposed audit fee for the 2016/17 audit of RBGE is £16,140, an increase of £190 (1.2%) from the 2015/16 audit fee. This audit fee reflects the risk exposure of RBGE and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 30 June 2017.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit Committee and Accountable Officer

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of RBGE and the associated risks which could impact on the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how RBGE will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of the body's affairs as at 31 March 2017 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended
- whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the requirements of the National Heritage (Scotland) Act 1985, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006
- the regularity of expenditure and income.

## Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for RBGE are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality

Materiality level	Amount
<b>Planning materiality</b> - 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 expenditure for the year ended 31 March 2017 based on the budget for 2016/17.	£118,000
<b>Performance materiality</b> - 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	£59,000

Materiality level	Amount
professional judgement we have calculated performance materiality at 50% of planning materiality.	
<b>Reporting threshold</b> - We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality rounded to a memorable numeric.	£2,000



**16.** It should be noted that we continue to exercise our professional judgement and in certain areas of the financial statements such as the performance report, remuneration report and annual governance statement. Any issues identified will be reported to the Audit Committee.

### Timetable

**17.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 4

### Financial statements timetable

 <b>Key stage</b>	 <b>Date</b>
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Finance	3 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	25 August 2017
Independent auditor's report signed	21 September 2017

### Internal audit

**18.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Henderson Loggie.

### Adequacy of Internal Audit

**19.** Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**20.** In respect of our corporate governance audit work we plan to rely on the findings of internal audit in Creditors and Expenses.

### Audit dimensions

**21.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).



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## Exhibit 5

### Audit dimensions



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### Financial sustainability

**22.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether RBGE can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**23.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the arrangements in place to ensure systems of internal control are operating effectively
- whether RBGE can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established including National Fraud Initiative data matches.

### Governance and transparency

**24.** 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. These include:

- whether RBGE can demonstrate that the governance arrangements in place are appropriate and operating effectively

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether RBGE can provide evidence that it is demonstrating value for money in the use of its resources.

### Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

## Exhibit 6

### Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability			Financial Planning
Financial management		Financial Governance and Resource Management	
Governance and transparency	Role of Boards follow up		
Value for money			<i>To discuss with management</i>

### Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for RBGE is Carole Grant, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Carole Grant, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of RBGE.

### Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code

of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**31.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Royal Botanic Gardens Edinburgh

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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