

Historic Environment Scotland

Annual Audit Plan



Prepared for Historic Environment Scotland

February 2024

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Introduction

Summary of planned audit work

1. I, Claire Gardiner, have been appointed by the Auditor General for Scotland as external auditor for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment.
2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:
 - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
 - an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
 - consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
 - provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Historic Environment Scotland

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and Historic Environment Scotland. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Historic Environment Scotland. In doing this, we aim to support improvement and accountability.

Historic Environment Scotland's responsibilities

6. Historic Environment Scotland is responsible for maintaining adequate accounting records, internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. Historic Environment Scotland has 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 deliver their objectives.

Adding Value

8. My team and I aim to add value by:

- tailoring audit work to the circumstances of Historic Environment Scotland and the audit risks identified;
- being constructive and forward looking; providing independent conclusions;
- attending meetings of the Audit, Risk and Assurance Committee; and
- by recommending and encouraging good practice.

9. In so doing, we will help Historic Environment Scotland promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating Historic Environment Scotland's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Historic Environment Scotland and its group are set out in the table below.

Exhibit 1

2023/24 Materiality levels for Historic Environment Scotland and its group

Materiality	Historic Environment Scotland	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the	£2.27 million	£2.39 million

Materiality	Historic Environment Scotland	Group
nature of Historic Environment Scotland's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.		
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£1.59 million	£1.68 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£113 thousand	£120 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Historic Environment Scotland, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2**2023/24 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journal entries at the year-end, and post-closing entries, with a focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Presumed risk of fraud over income recognition</p> <p>As set out in International Standard on Auditing (UK) 240, there is a presumed risk of fraud in the recognition of income.</p> <p>We have assessed that the risk relates specifically to the completeness of commercial and trading income streams, as they</p>	<p>Reconciliations between income records and bank.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of the key controls related to commercial income (including admissions and membership data controls). • Undertake substantive analytical procedures related to commercial income. • Undertake detailed testing of the year-end reconciling difference related to the control account reconciliations (between the ticketing and other income systems and bank) to gain assurance over the completeness of income in the financial statements. • Substantive analytical procedures for admissions and membership income.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>are comprised from a high volume of low value transactions across multiple locations.</p> <p>There is a risk that income may be misstated, resulting in a material misstatement in the financial statements.</p>		
<p>3. Recognition of grant liabilities and expenditure</p> <p>We have assessed that there is a risk around completeness and cut-off for grant liabilities and expenditure.</p> <p>This is based on the manual nature of the recognition process, the magnitude of the balances, and completeness errors identified in the prior year audit.</p>	<p>Monthly reconciliation between grant records and accounting system.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of key controls related to grant processes. • Substantive testing of grant liabilities and expenditure. • Substantive testing of grants recognised around the year-end to confirm they are accounted for in the correct financial year.

Source: Audit Scotland

18. In consideration of International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, we have assessed that this risk is relevant to Historic Environment Scotland's commercial and trading income streams (see risk 2 above). We have concluded, however, that we can rebut the risk related to income from grant in aid and other grant income, as this can be verified to third-party confirmations.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for expenditure streams, outwith grants payable, as they can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Other areas of audit focus

20. As part of our assessment of audit risks, we have not identified any other areas where we consider there are risks of material misstatement to the financial statements. We will keep this under review as our audit progresses.

Regularity

21. Auditors are required by the [Public Finance and Accountability \(Scotland\) Act 2000](#) to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

22. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

23. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

24. Historic Environment Scotland has a group which comprises one component subsidiary entity, with a further subsidiary entity wound up during the 2023/24 financial year. Through our audit risk assessment procedures, we have identified that additional audit work is required at Historic Environment Scotland Enterprises Limited (HESe). Our planned audit approach for this component is informed by our assessment of risk at HESe and our consideration of the size and nature of assets, liabilities, and transaction streams.

25. The audit of the financial information of HESe is performed by other auditors. We plan to place reliance on the work of the component auditors and review their relevant working papers where required. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

26. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

27. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We also consider how Historic Environment Scotland ensure they can meet present needs without compromising their ability to deliver services in the future. We will consider the extent to which Historic Environment Scotland has shown regard to delivering services over the medium and long term through effective financial planning.
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Historic Environment Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Historic Environment Scotland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

28. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Vision, leadership, and governance</p> <p>Historic Environment Scotland are in the midst of a number of changes in key senior staff. The Director of Finance and Corporate Services left in November 2023, the Chief Executive has resigned effective March 2024, and the term of the Audit, Risk and Assurance Committee Chair will end in October 2024.</p> <p>Changes of leadership can impact the effectiveness of governance arrangements.</p>	<ul style="list-style-type: none"> Continuity of staff within the core finance team. Public appointment process in place with Scottish Government for Board appointments. 	<ul style="list-style-type: none"> We will monitor progress in recruiting for key roles. We will meet with key incoming and outgoing staff as appropriate. Governance arrangements will be assessed through attendance at Audit, Risk and Assurance Committee (ARAC) meetings and review of key documents, including Board, Finance Committee, and ARAC minutes.

Source: Audit Scotland

29. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change. We will not require any climate change returns from Historic Environment Scotland for the 2023/24 audit, but will follow up on any issues identified in the prior year.

30. We note that there is a wider risk to financial sustainability impacting bodies across the public sector, including Historic Environment Scotland. We will consider this risk as part of our normal programme of audit work.

Duty of Best Value

31. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure

Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Historic Environment Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

33. We will provide:

- an Independent Auditor's Report to Historic Environment Scotland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts;
- Historic Environment Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

34. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date of 31 October, due regard is paid to meeting the statutory deadline for laying the accounts of 31 December 2024.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit, Risk and Assurance Committee date
Annual Audit Plan	31 March 2024	21 February 2024
Independent Auditor's Report	31 October 2024	6 September 2024
Annual Audit Report	31 October 2024	6 September 2024

Source: Audit Scotland



35. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

36. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

37. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	17 June 2024
Latest date for final clearance meeting with the Director of Finance and Corporate Services	2 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	21 August 2024
Agreement of audited and unsigned annual report and accounts	21 August 2024
Issue of Annual Audit Report to those charged with governance.	In advance of 6 September 2024
Signed Independent Auditor's Report	3–4 October 2024

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of Historic Environment Scotland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £113,030 (2022/23: £106,600).

39. In setting the fee for 2023/24, we have assumed that Historic Environment Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

40. It is the responsibility of Historic Environment Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

41. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

42. I am independent of Historic Environment Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

43. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

44. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Historic Environment Scotland.

Audit Quality

45. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

46. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

47. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

48. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

49. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Historic Environment Scotland

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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