

Historic Environment Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Historic Environment Scotland and the Auditor General for Scotland

November 2023

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Key messages

2022/23 annual report and financial statements

- 1 Audit opinions on the annual report and financial statements are unmodified.
- 2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There were no significant matters arising from that work.
- 3 Management made adjustments to the annual report and financial statements.

Financial management and sustainability

- 4 Historic Environment Scotland has appropriate arrangements to secure sound financial management.
- 5 Historic Environment Scotland operated within its revised fiscal resources, reporting a £2.0 million underspend.
- 6 Controls within the main financial systems are designed appropriately with only a small number of minor improvements identified and standards for the prevention and detection of fraud remain appropriate.
- 7 Historic Environment Scotland has approved a budget for 2023/24 which ensures sufficient resource is in place to deliver services.
- 8 Planning for the future remains challenging given the uncertainties over future funding settlements and cost pressures. HES are working to update their long term financial strategy.

Vision, leadership and governance

- 9 Historic Environment Scotland has a clear strategy in place which is supported by a Corporate Plan and Annual Operational Plans.
- 10 Historic Environment Scotland has appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

Use of Resources to improve outcomes

- 11** We are satisfied that Historic Environment Scotland has arrangements in place to secure Best Value.
- 12** A performance management framework is in place. Performance levels continued to be strong in 2022/23.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Historic Environment Scotland (HES). The scope of the audit was set out in our Annual Audit Plan presented to the February 2023 meeting of the Audit, Risk and Assurance Committee (ARAC). This Annual Audit Report comprises:

- significant matters arising from an audit of HES's annual report and financial statements
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of Historic Environment Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Claire Gardiner, have been appointed by the Auditor General as auditor of Historic Environment Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank Board members, Audit, Risk and Assurance Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Historic Environment Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and financial statements that are in accordance with the account's direction from the Scottish Ministers. Historic Environment Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Historic Environment Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £106,600 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to Historic Environment Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and financial statements

HES are required to prepare an annual reports and financial statements comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and financial statements are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit, Risk and Assurance Committee.

Management made adjustments to the annual report and financial statements.

Audit opinions on the annual report and financial statements are unmodified

11. The Board intend to approve the annual report and financial statements for Historic Environment Scotland and its group for the year ended 31 March 2023 on 23 November 2023. As reported in the proposed independent auditor's report, in my opinion as the appointed auditor:

- the financial statements of HES and its group give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended
- the financial statements of HES and its group have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- the financial statements of HES and its group have been prepared in accordance with the requirements of the Historic Environment Scotland Act 2014 and directions made thereunder by the Scottish Ministers, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers

- the audited part of the remuneration and staff report have been properly prepared in accordance with the Historic Environment Scotland Act 2014 and directions made thereunder by the Scottish Ministers
- the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Historic Environment Scotland Act 2014 and directions made thereunder by the Scottish Ministers
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Historic Environment Scotland Act 2014 and directions made thereunder by the Scottish Ministers.

Overall materiality was assessed as £2.3 million

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and financial statements and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	HES	Group
Overall materiality	£2.3 million	£2.4 million
Performance materiality	£1.6 million	£1.7 million
Reporting threshold	£115 thousand	£120 thousand

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality,

reflecting previously reported matters and our cumulative knowledge of Historic Environment Scotland.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. The significant findings identified during our audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and financial statements

Issue	Resolution
<p>1. Remuneration and staff report</p> <p>Out with the finance team's control, the initial version of the unaudited annual report and financial statements, at June 2023, did not contain a complete remuneration and staff report, related to complex disclosure, governance considerations and related incomplete supporting information. Updated remuneration and staff reports were subsequently provided to audit once the finance team had been provided with the necessary information.</p> <p>Given the complexity of some of the disclosure and governance considerations related to the remuneration and staff report, and the resultant required finance and audit procedures to respond to the complexities, this added time and resource into the audit process for both the finance and audit teams that was not planned for at the outset.</p>	<p>The finance and the audit teams worked together over the course the audit to ensure the completeness and accuracy of disclosures within the annual report and financial statements.</p>

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and financial statements

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (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>	<ul style="list-style-type: none"> Assess the design and implementation of the key controls over journal entry processing. Test journal entries through the year, at the year-end and post-closing entries, with a focus on significant risk areas. 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. Focussed testing of accounting accruals and prepayments. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Evaluate significant transactions outside the normal course of business. 	<p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p> <p>Audit procedures related to the HES's accounting records did not identify any errors or instances of transactions outside the normal course of business.</p> <p>Journal adjustments were tested, and no indication of management override of controls were found.</p> <p>We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</p>
<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</p>	<ul style="list-style-type: none"> Assess the design of the key controls related to commercial income. 	<p>The completion of the assurance procedures did not identify any misstatements related to the completeness</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of fraud in the recognition of income. We have assessed a risk relates specifically to the completeness of commercial and trading income streams, as they are comprised from a high volume of low value cash 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>	<ul style="list-style-type: none"> Undertake 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. 	<p>of commercial and trading income streams.</p>

21. In addition, we identified “an area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. The area of specific audit focus was:

- Recognition and accuracy of grant liabilities in the financial statements:** We completed sample testing of grant awards across the year, with focused testing on the recognition of grants at the year-end. Under the Charities SORP the award of a grant is recognised as a liability when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably and there are no conditions attached to its payment that limit recognition. Adjustments were identified by both audit and management in relation to the grants balance at paragraph 24.

22. Based on the findings of the audit procedures performed, there are no further matters which we need to bring to your attention.

Management made adjustments to the annual report and financial statements

23. The corrected impact on the statement of financial activity related to the misstatements was to increase expenditure by £0.14 million.

24. The adjustments were identified through a combination of audit procedures and management review of the financial statements subsequent to June 2023. The misstatements have been corrected in the financial statements and relate to the:

- accuracy of provisions (correction £0.2 million, net expenditure impact £nil)

- classification between accruals and contingent liabilities (correction £0.18 million, net expenditure impact -£0.18 million)
- classification between payables and provisions (correction £0.2 million, net expenditure impact £nil)
- classification within reserves (correction £0.59 million, net expenditure impact £nil)
- classification within expenditure between expenditure on raising funds and charitable activities (correction £0.19 million, net expenditure impact £nil)
- classification within creditors between payables and accruals (correction £0.2m, net expenditure impact £nil)
- completeness of grant liabilities (correction £0.36 million, net expenditure impact +£0.36m)
- completeness of pre-payments (correction £0.12 million, net expenditure impact -£0.12m)

25. We have reviewed the nature and cause of all adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

26. There were no unadjusted misstatements above our reporting threshold set out in [Exhibit 1](#).

The unaudited annual report and financial statements were received in line with the agreed audit timetable

27. The unaudited annual report and financial statements were received in line with our agreed audit timetable for 19 June 2023 as detailed in the Annual Audit Plan.

28. Covid-19 has had a considerable impact on the delivery of audits and we are working to deliver timely audits while maintaining quality. In order to preserve the quality of our work in year the HES audit was delayed against our planned timetable with the accounts being signed on 23 November 2023. This allowed the statutory deadline to be met.

29. The unaudited annual report and financial statements submitted for audit were of a good standard as were the supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

The Trustees' Annual Report complies with applicable guidance

30. The Trustees' Annual Report is a narrative statement from the Trustees which the charity regulations (Charities SORP 2019) require to be included

alongside the statement of accounts. Additionally, in line with the Accounts Direction, the Trustees' Annual Report should meet the requirements for a Performance Report in line with the HM Treasury Government Financial Reporting Manual (FReM).

31. The report should provide a fair, balanced, and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance, and financial position.

32. Our review of the Trustees' Annual Report found that it was of a good standard and covered all areas and disclosures required. We found it to be well presented and informative.

The Governance Statement provides an appropriate level of disclosure on the HES's governance arrangements during 2022/23

33. The FReM requires inclusion of a Governance Statement in an annual report and financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format.

34. The Board reported that the scheme of delegation was not followed in one instance during 2022/23. The Board consider this not to be a significant issue that requires inclusion in the governance statement. We are satisfied that appropriate action has been taken to address the finding, however, there may be opportunity to review the scheme of delegation to ensure there is clarity around key responsibilities.

35. We are satisfied the Governance Statement complies with SPFM guidance and presents a reasonable explanation and assessment of its governance arrangements for the year under review.

Progress was made on prior year recommendations

36. Historic Environment Scotland has made progress in implementing the audit recommendations identified by Deloitte's, the previous external auditor. The actions are complete as set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Historic Environment Scotland has appropriate arrangements to secure sound financial management.

Historic Environment Scotland operated within its revised fiscal resources, reporting a £2.0 million underspend.

Controls within the main financial systems are designed appropriately with only a small number of minor improvements identified and standards for the prevention and detection of fraud remain appropriate.

Historic Environment Scotland's income recovery exceeded initial plans

37. The main financial objective for Historic Environment Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. HES must also generate income and manage costs over the longer term to ensure its financial sustainability.

38. As a charitable Non-Departmental Public Body, HES is primarily funded by the Scottish Government (SG) by way of grant-in-aid. For 2022/23, the financial statements for HES show that it received £62.2 million from the Scottish Government. This comprised a resource grant of £55.7 million and capital grant of £6.5 million.

39. HES has reported an underspend against its overall budget for 2022/23. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	60.6	55.7	53.7	2.0
Capital	6.5	6.5	6.5	0
Total	67.1	62.2	60.2	2.0

Source: Historic Environment Scotland audited 2022/23 annual report and financial statements

40. HES's Resource budget was revised downwards by £4.9 million during 2022/23 in recognition of better than expected commercial income. Further improvements in commercial income in the final month of the financial year resulted in an underspend of £2.0 million against the final Resource DEL budget.

41. HES also recognised other income of £53.1 million in the Consolidated Statement of Financial Activity. This consists of commercial income from charitable activities such as admissions and memberships, income from donations, income from partnership funding, and retail and catering income. HES's trading subsidiary Historic Environment Scotland Enterprises Ltd (HESe) contributed £14.5 million to the group.

42. Total group income increased 18% from £97.4 million in 2021/22 to £115.2 million in 2022/23. Scottish Government grant in aid decreased 16% from £73.9 million in 2021/22 to £62.1 million in 2022/23. During 2022/23 total commercial income increased significantly as recovery from the pandemic continued.

43. Overall, HES's financial health improved over the course of 2022/23 related to better than expected commercial income recovery.

Financial management arrangements are appropriate

44. Senior management and members of the Finance Committee receive regular and accurate financial information on HES's performance against budgets. These reports allow members to scrutinise financial performance effectively throughout the year.

45. Based on our observations of the arrangements in place to monitor and report on the financial position throughout the year, reports are sufficiently detailed to allow corrective action to be undertaken. The HES Finance Committee meets regularly through the year to consider the financial position

for HES and HESe as a whole. The finance report details the year to date position alongside the forecast full year position.

46. We observed that prudent estimates of income had been used when developing forecasts throughout the year. In order to balance the budget expenditure needs to be balanced by commercial income and therefore this approach is deemed to be appropriate. We are satisfied that the actual outturn for the full year was not significantly different from the forecast outturn reported to the May Finance Committee (£2.0 million underspend against a forecast of £1.3 million).

47. We have concluded that Historic Environment Scotland has appropriate budget monitoring arrangements in place.

There is scope for enhancing a small number of internal controls

48. As part of our audit, we develop an understanding of HES's control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that HES has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

49. From our review of the design and implementation of systems of internal control relevant to our audit approach we identified some areas where there is scope for improvement to the control environment. The issues below were not deemed material in nature and did not impact the audit approach as documented in our 2022/23 Annual Audit Plan.

- Year-end review: finance advised, a year-end review is undertaken which includes a review of accruals and pre-payments. Finance has confirmed that evidence of the reviews undertaken are not documented.
- Systems access - setting up of new employees: new employees are entered by Human Resources, without a secondary approval. Management consider that there are compensating controls that should mitigate against the risk that access is provided erroneously. Checks include monthly input new start checks undertaken by Human Resources and SharePoint audit trails and employee files.
- Systems access: HES implemented quarterly reviews of system access from October 2023, however, these were not in place during 2022/23. We have considered the impact on our audit approach and tailored our testing of user access linked to the risk of management override of control. As noted in [Exhibit 3](#) we did not identify any issues from our testing of journals posted. We are satisfied the action taken by management in 2023/24 strengthens the control environment.
- Grant offer communication documentation: the date on which grant awards are communicated to grantees is the accounting recognition date. This documentation is not routinely held as part of the grant award documentation.

Recommendation 1

Related to the control findings noted above:

- we recommend that evidence of control reviews over accruals and prepayments are documented and retained.
 - consideration should be given to strengthening secondary approvals for access to systems.
 - grant award communications are retained as part of grant award documentation.
-

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

50. HES's Board is responsible for ensuring that appropriate standards of corporate governance and personal conduct are maintained in respect of trustees and staff. HES board members are trustees for the purposes of charity law.

51. HES's management is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The arrangements in place at HES include: a code of conduct; fraud policy; and financial regulations.

52. HES participates in the National Fraud Initiative (NFI) process. Related to the current NFI exercise, required data was submitted in line with expected timelines, and key match reports are being followed up. HES has also implemented the prior year audit recommendation to make use of the NFI self-appraisal checklist. The checklist was considered at the November 2022 Audit, Risk and Assurance Committee.

53. We have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities.

Cyber security arrangements are developing

54. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered HES's arrangements for managing and mitigating cyber security risks.

55. Internal Audit reported in August 2023 on the controls in place to manage key cyber security risks facing HES. Overall, they reported limited assurance but identified a number of areas of good practice, as well as making recommendations for the areas requiring improvement. All the audit recommendations were accepted, and a management action plan has been developed to address the issues raised.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Historic Environment Scotland has approved a budget for 2023/24 which ensures sufficient resource is in place to deliver services.

Planning for the future remains challenging given the uncertainties over future funding settlements and cost pressures. HES are working to update their long term financial strategy.

Audit work has addressed the financial sustainability risks identified in our Annual Audit Plan

56. [Exhibit 5](#) sets out the wider scope risks relating to financial sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
HES, similar to other public sector bodies, is facing challenges to its financial sustainability.	<ul style="list-style-type: none"> Review of financial plans and budgets. Report findings in our Annual Audit Report. 	We reviewed financial monitoring reports and financial plans throughout the audit year.
Although the forecast year-end position is more favourable than was originally budgeted, with commercial income higher than target, the organisation continues to face risks over its financial sustainability.		<p>We attended Audit, Risk and Assurance Committee meetings and reviewed papers from Finance Committee and Board meetings.</p> <p>We reported in paragraph 39. that HES reported an underspend in 2022/23,</p>

Audit risk	Audit Response	Conclusion
		<p>primarily due to better than expected commercial income.</p> <p>HES has good financial management arrangements in place and has a history of operating within its budget. We are satisfied from a review of the 2023/24 budget, consideration of the actual position in 2022/23, and the assumption of continued provision of services set out in the FReM and Practice Note 10, that it is appropriate to prepare the Financial Statements on a going concern basis.</p> <p>Management have made appropriate disclosures relating to going concern in the Annual Report and Financial Statements.</p>

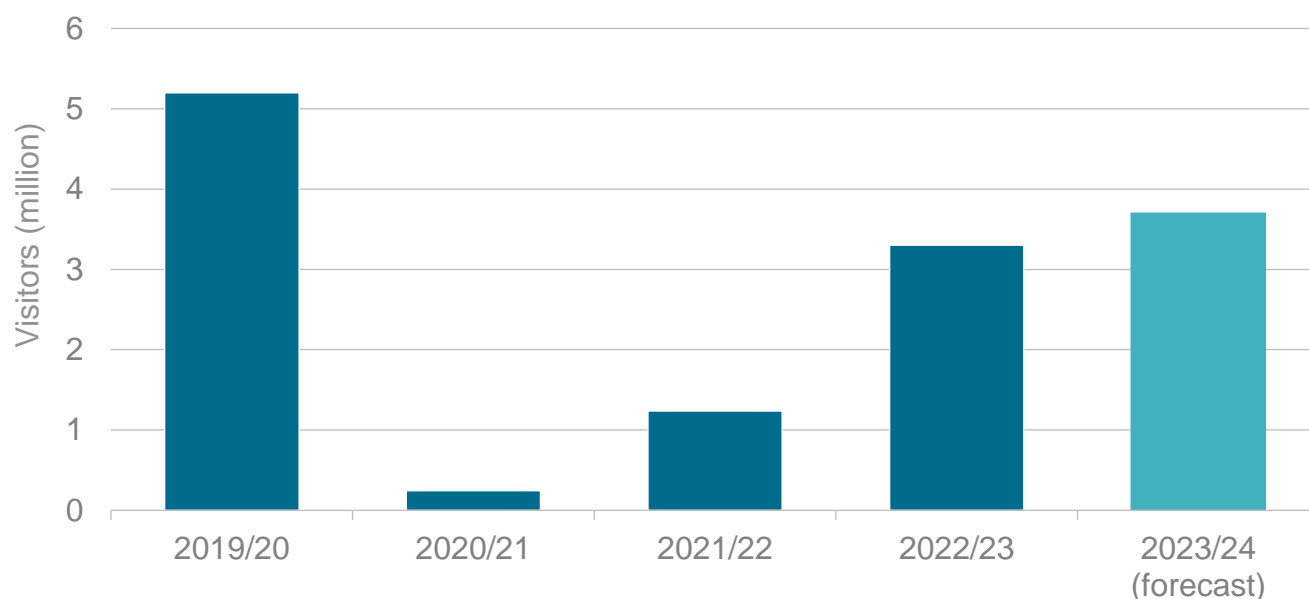
HES has appropriate financial plans in place to support delivery of objectives in 2023/24

57. The Board approved a budget for 2023/24 of £129.5 million, which is an increase of £23.1 million (21%) compared to the 2022/23 budget but only £10 million (8%) higher than the reported expenditure in 2022/23. This is based on the Scottish Government agreed Grant in Aid of £72.7 million and budgeted net commercial income of £49.8 million.

58. As part of HES's recovery from Covid-19, it has reported increasing commercial income year-on-year from 2021/22. The 2023/24 budget represents a forecast increase of £17.27 million (54%) against the 2022/23 budget, however, as noted in paragraph 40. HES report better than expected commercial income in 2022/23.

59. At the time of building the 2023/24 budget there was uncertainty regarding the extent of recovery in 2022/23. As part of the budgeting process HES set a stretch target of £60 million for gross commercial income (net includes the impact of cost of sales of £6.2 million). For budgeting purposes a contingency of £4 million was deducted from the stretch target in order to be prudent.

60. The growth in commercial income incorporated into the budget is based predominantly on the projected growth in visitor numbers. [Exhibit 6](#) shows that visitor numbers have been increasing since 2021/22. HES have projected a 1.5% increase in 2023/24 to 3.7 million. This appears reasonable based on the trend in [Exhibit 6](#) and is still below pre-Covid levels reported in 2019/20.

Exhibit 6**Visitor numbers over 5 years**

Source: HES annual report and financial statements and 2023/24 budget

61. The initial budget requirements indicated a budget shortfall of £11 million. A prioritisation exercise was then undertaken through focussing on aligning discretionary elements of the Corporate Plan and Annual Operating Plan (AOP). As the majority of HES's cost base is fixed or focused on core delivery, only the Investment Plan and a small proportion of the operating costs provide any real scope for prioritisation.

62. The budget was developed in conjunction with the AOP with Directorate budget submissions supporting delivery of the AOP. The submissions were built on the approved budgets for 2021/22 and 2022/23 which by necessity due to loss of income reflected a minimum requirement to deliver core activity. As such a largely zero-based approach has been taken.

63. The Board approved a budget for 2023/24 which includes an over commitment of £3.5 million. Over-committing against the budget was standard practice prior to Covid-19. This was to provide flexibility to bring forward spend if projects fall behind schedule or if income exceeds expectations.

64. The 2023/24 quarter 2 financial position shows continued recovery in group commercial income. The fully year forecast income is £68.1 million, with £46.1 million of it received at the end of quarter 2. This financial position equates to a £10.4 million favourable position against the 6 month budget, with commercial income being £8.4 million against budget. This supports HES's judgements around improving visitor numbers and the approach to overcommitting the budget to allow for projects to be brought forward.

65. The draft budget provides a good level of detail on the assumptions used. These appear reasonable and are based on the latest and best available

information to management. The Scottish Government pay policy and its impact on HES continues to be an area of uncertainty.

66. We recognise that HES is operating in a challenging financial environment, with high inflation, the cost-of-living crisis and national pay awards all representing challenges to its budget. We are satisfied HES has recognised this risk in its budget document and highlights the potential impact of the current economic situation on the recovery of income levels in its reporting to the Board.

HES are working to update their long term financial strategy to align to corporate objectives

67. Scottish Government budgetary allocations and ministerial policy decisions significantly influence HES's financial decisions. The detailed budgets are therefore set on an annual basis in line with the Scottish Government budget announcements.

68. HES published a long-term financial strategy in 2019 which projected the financial position covering the 10 year period to 2029/30. Due to the level of uncertainty surrounding Covid-19 and the Scottish Government Resource Spending Review HES had not refreshed the financial strategy in recent years.

69. In October 2023 a draft financial strategy to cover the period to 2027 was considered by the Executive Leadership Team and the Finance Committee. Final approval of the strategy by the Board is planned for March 2024 to align with the HES Business Model work that is currently ongoing with the Scottish Government.

70. The Scottish Government published its Medium Term Financial Strategy in May 2023 which sets out the overarching financial objectives.

71. The Scottish Government recognises that adopting a multi-year outlook is key to achieving financial sustainability and has committed to publish details on multi-year spending for both resource and capital alongside the 2024/25 budget.

72. HES recently published a revised strategy for the historic environment in Scotland. It is recommended that HES considers its strategic objectives and the outcome of the detailed multi-year review outlined by the Scottish Government, and when developing the revised long term financial strategy. This will allow foresight of financial challenges to HES achieving its objectives.

73. The approach to longer term financial planning was highlighted in the 2021/22 Annual Audit Report and we have followed this up in [Appendix 1](#). Related to HES's current financial strategy plans we will monitor progress as part of the 2023/24 audit.

The Project Management Office continues to develop its role in ensuring successful delivery of projects

74. HES operate a Project Management Office which is seen as a centre for expertise for project, programme and portfolio management and is responsible for oversight of projects across all HES teams.

75. HES has continued to develop the role of the Project Management Office in 2022/23 and has implemented new policies, launched a Centre of Expertise and developed a new reporting framework to ensure that various governance groups receive appropriate levels of detail tailored to their oversight role.

76. Project monitoring links to the Investment Plan programme, which accounts for £11.2 million of budgeted expenditure in 2023/24. The major investment projects identified and the current status is set out in [Exhibit 7](#) below.

Exhibit 7

Project	July 2023 Status
Archive house	Amber
Document Centre	Completed
Trove (Heritage Hub)	Green
High Level Masonry	Green
Properties in Care Asset Management System (PiCAMS)	Red

Key:

Green - on track to cost, quality and time. Variations are within tolerance.

Amber – Slippages / increases are beyond agreed tolerances, but recoverable with early remedial action.

Red - Major deviations on cost, quality and timescales that put the overall project at risk.

Source: HES Finance Committee papers

77. HES has identified the reasons for the red status of the PiCAMS project which mainly comprise developer resource availability and complex IT infrastructure dependencies. The PMO is working with the project to identify the options required to move the project from the Red rating.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Historic Environment Scotland has a clear strategy in place which is supported by a Corporate Plan and Annual Operational Plans.

Historic Environment Scotland has appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

HES issued a revised sector strategy in June 2023

78. HES worked with partners to produce a revised sector strategy, *Our Past, Our Future* published in June 2023. This is the new strategy for Scotland's historic environment sector. This strategy builds on the previous strategy *Our Place in Time* and sets out a clear vision for the five years to 2028.

79. The strategy outlines the sector's mission to "sustain and enhance the benefits of Scotland's historic environment for people and communities now and into the future". This mission is underpinned by six overarching principles and is linked to three strategic priorities:

- delivering transition to net zero
- empowering resilient and inclusive communities and places
- building a wellbeing economy.

80. The sector strategy is supported by a three year Corporate Plan *Heritage for All* and an Annual Operating Plan (AOP). The draft 2023/24 AOP was approved by the Board in February 2023 and submitted to the Scottish Government for approval prior to publication in April 2023. The AOP clearly links to the 2023/24 financial budget and progress on delivery is monitored through key performance indicators as outlined at paragraph 100.

Governance arrangements are appropriate

- 81.** HES's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.
- 82.** We have reviewed the Board, Finance Committee and Audit, Risk and Assurance Committee minutes and papers as part of our audit work. We are satisfied that papers are sufficiently detailed to allow for effective decision making and scrutiny of performance.
- 83.** We attend the Audit, Risk and Assurance Committee and we have concluded that members are engaged during meetings and provide effective scrutiny and challenge.
- 84.** As part of our review we consider openness and transparency and we are pleased to report that key corporate documents such as the strategy, corporate plan and AOP are easily accessible on the website.
- 85.** Minutes for the Board are published on the HES website. We understand that previous auditors have highlighted that transparency could be improved by publishing Board and Committee papers along with the minutes. We understand the HES has considered this and decided that the publication of minutes is sufficient. We would recommend that HES continue to keep this under review to align with best practice.

Climate change arrangements

- 86.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.
- 87.** We have considered how climate change and sustainability is factored into HES's strategic priorities, its action plan and targets for reducing emissions. We have also considered the monitoring and reporting arrangements in place.
- 88.** The climate emergency is included as part of HES's "delivering transition to net zero" strategic aim in *Our Past, Our Future*.
- 89.** The delivery of net zero is supported by HES's Climate Action Plan 2020-25 which is published on HES's website. This plan links achievement of meaningful and beneficial climate action to ensuring the attainment of the vision for Scotland's historic environment.
- 90.** HES has a Climate Action Plan Governance Board that meets twice a year to measure progress. In addition key performance indicators associated with the delivery of net zero strategic aims are reported to the Board through the quarterly Corporate Performance Reports.

- 91.** HES is transparent in reporting its responsibilities under the Climate Change Act (Scotland) 2009 and has an area on the website dedicated to Climate Change.
- 92.** The 2022/23 annual report and financial statements includes a good overview of the climate change activities undertaken by HES in the Sustainability Report. In 2022/23 it was reported that carbon emissions had consistently been below target since 2015/16.
- 93.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

We are satisfied that HES has arrangements in place to secure Best Value.

A performance management framework is in place. Performance levels continued to be strong in 2022/23.

There is evidence HES is complying with Best Value principles

94. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

95. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. We may also, in conjunction with HES, agree to undertake local work in this area. We did not undertake any specific work in 2022/23 but concluded that appropriate arrangements were in place for securing Best Value based on the outcome of our other audit work.

96. There is evidence of best value being demonstrated by HES across a range of areas including strategic planning, performance monitoring and delivery.

97. HES's AOP includes a deliverable to continue to transform the way HES works to ensure that operations deliver best value in line with the Public Bodies Reform agenda. Progress against this target is reported through the quarterly corporate performance reporting and the annual report and financial statements.

HES has appropriate arrangements for performance monitoring and reporting

98. HES's performance is monitored by the Board against key performance indicators which are set annually with due regard to the AOP. The responsibility

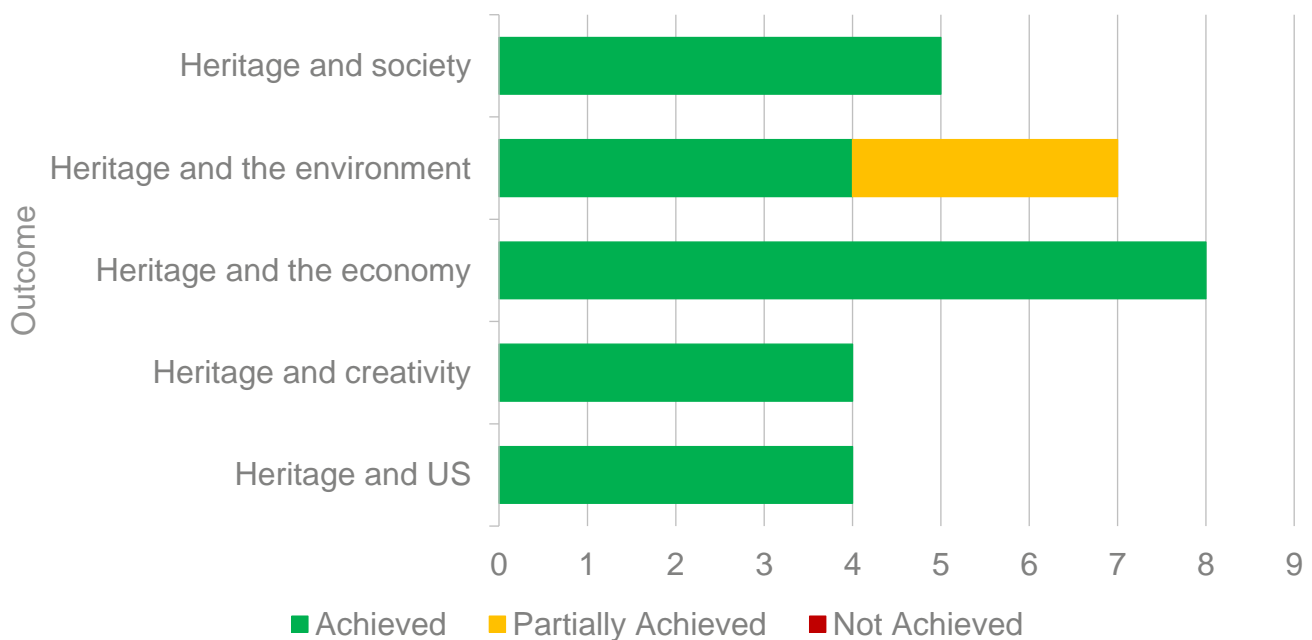
for the detailed review and scrutiny of the key performance indicators lies with the Board through quarterly reporting.

99. In 2022/23 HES made the decision to reduce the number of indicators from 46 in 2021/22 to 28 in 2022/23. The reduction in indicators was to allow focus to be on the activities which were believed to deliver the greatest impact on the outcomes outlined in *Heritage for all*.

100. Performance is publicly reported through the annual report and financial statements. [Exhibit 8](#) sets out performance against key performance indicators in 2022/23.

Exhibit 8

2022/23 performance against key performance indicators



Source: HES annual report and financial statements and Corporate Performance Reports

101. The 2022/23 results demonstrate that HES continue to demonstrate strong performance against its AOP. In areas where the targets were not fully met the progress to date was reported to the Board along with and follow up action which was required.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Internal controls</p> <p>We noted three minor improvements which could be made to the systems of internal control which are in place at HES relating to:</p> <ul style="list-style-type: none"> • Evidencing review of accruals and prepayments at the year end • Secondary approvals processed for system access could be strengthened • Retaining evidence of grant award communications. <p>Risk – there is a risk that internal controls do not operate effectively.</p>	<p>Related to the control findings noted above:</p> <ul style="list-style-type: none"> • we recommend that evidence of control reviews over accruals and prepayments are retained. • consideration should be given to strengthening secondary approvals for access to systems. • grant award communications are retained as part of grant award documentation. <p>Paragraph 49.</p>	<p>Evidence of review of manual accruals and prepayments will be retained.</p> <p>Responsible officer: Management Accountant Agreed date: April 2024</p> <p>Management have already considered. Due to compensating access and authorisation controls in place, management have concluded that the risk of inappropriate access is negligible, and no further action required.</p> <p>Responsible officer: Head of Finance Agreed date: n/a</p> <p>Grant award communications will be retained as part of grant award documentation.</p> <p>Responsible officer: Grants Operations Manager Agreed date: April 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
2. National Fraud Initiative	In line with the Audit Scotland report published on the 2018/19 exercise, we would encourage the ARAC and staff leading the NFI work review the NFI self-appraisal checklist for future exercises.	Complete Self-appraisal checklist considered at the November 2022 ARAC.
3. Classification of assets and liabilities	Deloitte noted an improvement in the financial statements compared to the prior year audit and note that management did implement a defined programme of review. Management should ensure that this review includes the classification of assets and liabilities within the appropriate notes in future years based on the latest information available.	2021/22 specific action complete Refer to action plan point 1 above.
4. Grants Process	We recommend that the grants process is reviewed in its entirety to reduce manual intervention, promote accuracy and improve efficiency.	Complete The HES grant team made developments over 2022/23 related to the grants' reconciliation process. Improvements will be explored to further reduce manual intervention as system functionality is developed.
5. Financial Management	Future savings plans, particularly in the medium to longer term, should be clearly linked to service reviews and workforce plans. (As initially planned as part of the 2019 Financial Strategy).	Complete Action superseded by business model and financial strategy work as referenced in paragraph 73. above.
6. Value for Money	HES should review its performance management	Complete

Issue/risk	Recommendation	Agreed management action/timing
	assessment process to consider how the impact of actions can be measured. Consideration should also be given to having an independent review of the self-assessment process, for example through a peer review.	Peer review concluded in 2022/23 and recommendations made. Success measures continue to be included in the AOP.

Historic Environment Scotland

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