

# Historic Environment Scotland

2024/25 Annual Audit Report



Prepared for Historic Environment Scotland and the Auditor General for Scotland  
December 2025

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# Key messages

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## Audit of the annual report and accounts

- 1 All audit opinions stated that the annual report and financial statements were free from material misstatement.
- 2 Audit adjustments required to correct the financial statements were processed by Historic Environment Scotland.
- 3 We were unable to deliver the audit within the agreed timeline due to the absence of the Accountable Officer.

## Financial management and sustainability

- 4 In 2024/25, Historic Environment Scotland operated within its fiscal resource. We have concluded that effective budget monitoring arrangements were in place during the year.
- 5 Overall, we found that controls within the main financial systems are designed appropriately. We identified some areas where there is scope for improvement and our findings in relation to electronic purchasing cards, expenses and hospitality suggests a culture where these policies are not consistently applied.
- 6 A revised business model has been agreed with the Scottish Government from 2025/26. This provides Historic Environment Scotland with greater financial flexibility.

## Vision, leadership and governance

- 7 There is ongoing change and instability in the leadership of Historic Environment Scotland and this presents a significant risk to the governance and operation of the organisation. The Board and Executive Leadership Team must work together, with the Scottish Government sponsor team, to strengthen relationships and provide effective leadership.
- 8 A key decision in 2024/25 relating to archive storage was not clearly supported by effective governance processes. The Board should collaborate

with the Executive Leadership Team to strengthen governance arrangements and ensure effective oversight and accountability.

## **Use of resources to improve outcomes and Best Value**

- 9** Historic Environment Scotland has appropriate arrangements in place to monitor and report performance against agreed deliverables.
- 10** A long term solution for the storage of archive and collection materials is being explored but Historic Environment Scotland continues to incur costs that relate to the original project that was cancelled. The spend to date has not delivered value for money and a lessons learned review should be prioritised before any further commitments are made.
- 11** The Accountable Officer needs to work with the Board and the Executive Leadership Team to ensure that arrangements are in place to secure Best Value.

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# Introduction

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## Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Historic Environment Scotland (HES) annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#) of:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

2. The Annual Audit Report is addressed to the Board of HES and the Auditor General for Scotland, and will be published on [Audit Scotland's website](#) in due course.

## Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure
- an opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement
- an opinion on the audited part of the Remuneration and Staff Report
- conclusions on HES's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes
- reporting on HES's arrangements for securing Best Value.

## Appointed auditor and independence

4. Lisa Duthie, Audit Director at Audit Scotland, has been appointed as external auditor of HES for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, Lisa Duthie and the audit team are independent of HES in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from HES, including the provision of non-audit services.

## Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of HES and the auditor, with a summary outlined below.

### Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on HES's arrangements in place for the wider scope areas and Best Value.

7. The Annual Audit Report includes an agreed action plan at [Appendix 1](#). The matters reported are those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve HES from its responsibilities outlined below.

### Historic Environment Scotland's responsibilities

8. HES has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- establishing arrangements to ensure the proper conduct of its affairs
- preparation of an annual report and accounts, comprising financial statements for HES and its group that gives a true and fair view and other specified information
- establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption
- implementing arrangements to ensure its financial position is soundly based
- making arrangements to secure Best Value

- establishing an internal audit function.

## National and performance audit reporting

**9.** The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to HES and its Board. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

## Acknowledgements

**10.** We would like to thank HES and its staff, particularly those involved in the preparation of the annual report and financial statements, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

# Audit of the annual report and accounts

## Main judgements

All audit opinions stated that the annual report and financial statements were free from material misstatement.

All audit adjustments required to correct the financial statements were processed by Historic Environment Scotland.

We were unable to deliver the audit within the agreed timeline due to the absence of the Accountable Officer.

## Audit opinions on the annual report and accounts are unmodified

**11.** HES and its group's annual report and financial statements were approved by the Board on 20 November 2025 and signed by the appointed auditor on 20 November 2025. The Independent Auditor's Report is included in the HES annual report and financial statements, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



## The audit timetable was revised due to the absence of the Accountable Officer

**12.** The unaudited annual report and accounts and a range of working papers were received on 16 June 2025 in accordance with the agreed audit timetable. HES staff engaged well with the audit team and supported audit requests. We were unable to deliver the audit within the agreed timeline due to the absence of the Chief Executive and Accountable Officer.

## We will review the audit fee from the level reported at planning

**13.** The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £115,220. In determining the fee it is assumed that HES has effective governance arrangements in place and the complete annual report and financial statements will be provided for audit in line with



the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, the audit fee may be increased.

**14.** Due to the extent of the wider scope issues identified during the year, we had to use additional resources to deliver the 2024/25 audit. As a result, we have advised the Interim Director of Finance and Corporate Services that we will review the audit fee at the conclusion of the audit.

## Materiality was reviewed on receipt of the unaudited annual report and financial statements

**15.** Materiality is applied by auditors in planning and performing an audit. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**16.** Materiality levels for the audit of HES and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and financial statements. Materiality levels were updated and these can be seen in [Exhibit 1](#).

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### Exhibit 1 2024/25 Materiality levels for HES and its group

Materiality	HES	Group
<b>Materiality</b> – set at 2% of gross expenditure	£2.6 million	£2.8 million
<b>Performance materiality</b> – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, this could indicate further audit procedures are required.	£1.8 million	£1.9 million
<b>Reporting threshold</b> – set at 5% of materiality.	£134,000	£142,000

Source: Audit Scotland

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## The audit has identified significant findings and key audit matters

**17.** ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for HES is the Audit, Risk and Assurance Committee.

**18.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and include:

- areas of higher or significant risk of material misstatement
- areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty
- significant events or transactions that occurred during the year.

**19.** The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

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### Exhibit 2 Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p><b>1. Governance Statement</b></p> <p>The governance statement presented for audit did not contain any narrative disclosure on a number of key issues, including the Chief Executive/Accountable Officer position, the internal audit opinion and data breaches.</p> <p>We recognise that the absence of a Chief Executive and Accountable Officer impacted the preparation of the governance statement.</p>	<p>The audited governance statement has been amended to reflect these key governance issues.</p>
<p><b>2. Board members' expenses</b></p> <p>The Charities Statement of Recommended Practice (SORP) paragraph s 9.9-9.12 sets out the required disclosures in relation to trustees' expenses.</p> <p>We identified that the note did not comply with the SORP as it did not:</p> <ul style="list-style-type: none"> <li>• include expenses reimbursed to trustees paid directly to third parties</li> </ul>	<p>The 2023/24 and 2024/25 Board members' expenses disclosure has been amended to comply with the SORP.</p> <p>This is a disclosure within the accounts and has no impact on the reported outturn.</p>

Significant findings and key audit matters	Outcome
<ul style="list-style-type: none"> <li>the number of trustees reimbursed for expenses or who had expenses paid by HES did not reflect expenses paid directly to third parties.</li> </ul> <p>From the work carried out we identified that this also applied to the 2023/24 disclosure.</p> <p><b>3. Valuation of Stirling Castle vaults</b></p> <p>The Valuation Office Agency (VOA) performs a revaluation of HES's land and buildings on a rolling basis over five years as per Government Financial Reporting Manual (FReM) requirements. As part of this, it provided a valuation of £3.2 million for operational vaults beneath Stirling Castle as at March 2025.</p> <p>The VOA valued the vaults using depreciated replacement cost methodology having established build costs from first principles in 2005. In subsequent five-yearly valuations, it indexed the build costs from the 2005 valuation and also adjusted the valuation based on site inspections and capital expenditure.</p> <p>The VOA is unable to provide a complete record of adjustments made since 2005, given the time elapsed. We are, therefore, unable to fully verify the March 2025 valuation back to the underlying supporting documentation from 2005.</p> <p>In addition, we note that the underlying build costs have not been revisited since 2005 beyond applying indexation. We have therefore performed further audit procedures to obtain assurance that the asset is not materially misstated.</p> <p><b>4. Unexplained reconciliation difference</b></p> <p>There is a £0.4 million unexplained reconciliation difference between the payroll report and the trial balance for staff costs. HES have been unable to provide a definitive explanation for this, but report that it may be due to a mapping issue.</p>	<p>We are satisfied that the valuation is not materially misstated.</p> <p>Based on our discussions with the VOA and review of movements in the valuation since 2005, the unevidenced adjustments are not material.</p> <p>We have taken assurance that the methodology used for the valuation has not led to a material misstatement by benchmarking against build costs per m<sup>2</sup> for other properties, performing sensitivity analysis, and assessing the reasonableness of the underlying 2005 calculation. None of these procedures indicated a material inaccuracy in the valuation.</p> <p>From review of other assets revalued in March 2025 and in prior years, we have not identified any issues around either documentation or methodology.</p> <p>We therefore recommend that the 2005 build costs are reviewed in detail in the next five-yearly revaluation of the asset. See recommendation 5 in <a href="#">Appendix 1</a>.</p> <p>From our work on staff costs, we have not identified any evidence of an error in either the trial balance or payroll report. The value of the variance is below our performance materiality threshold. We are therefore satisfied that the variance does not indicate a misstatement of staff costs.</p> <p>HES staff identified the mis-posting very late in the audit process and the relevant notes have been adjusted accordingly.</p>

Source: Audit Scotland

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### **Audit testing identified non-compliance with the HES electronic purchasing card policy and business travel policy**

**20.** HES's electronic purchasing card (e-PC) policy outlines that e-PCs are used to purchase and pay for business related, low value, non-recurring goods and services. There is a high volume of e-PCs in circulation across HES with approximately one in every four members of staff being in possession of a card. A total of £1.9 million was spent by this method of payment in 2024/25. The e-PC policy has not been updated since 2019 and it lacks clarity and authority to enforce compliance. Compliance checks are carried out on approximately eight per cent of e-PC transactions each month but the focus is on agreement to supporting documentation rather than policy compliance.

**21.** We carried out detailed testing of e-PC transactions in 2024/25 and identified issues of non-compliance which included: instances where staff did not obtain and retain quotes for items over £1,000 in line with the e-PC policy to demonstrate value for money; lack of evidence to support the approval of staff purchasing items above the transaction limit of £1,200, lack of challenge by procurement for any requests to approve an increase in transaction and card limit, items purchased via e-PC where there was an existing procurement framework in place, and invoices did not always include sufficient detail of the purchase.

**22.** Three transactions where there was no evidence to support the increase in transaction limit, and no evidence of three quotes being obtained in line with the e-PC policy, relate to accommodation and a replacement kitchen.

**23.** We were advised that the kitchen purchase was the result of a burst water pipe and the accommodation costs relate to accommodation for several staff members in remote areas close to historic sites where work was to be undertaken. HES's business travel policy does recognise that the Travel Management Service cannot always provide viable options for accommodation, for example, when booking bed & breakfast services in some rural locations. Where they are unable to fulfil requests bookings, e-PC is considered acceptable with prior line management approval.

**24.** We have concluded that the transactions described do not comply with HES's e-PC policy and it is difficult to confirm whether the expenditure incurred represents value for money.

**25.** We also found there was one cardholder with a monthly card limit of £10,000, which is substantially higher than the normal monthly limit of £5,000 and allows for £120,000 annual expenditure. This card limit increase is for central purchasing of IT equipment which is of higher value. There was no evidence that the increase in the expenditure limit had been approved or reviewed since it was implemented.

**26.** A total of £390,655 was reclaimed via expenses in 2024/25. We noted that the current business travel policy permits unreceipted subsistence claims, up to HMRC benchmark scale rates, which is £25 for a journey time of 15 hours or more. Claims for any other expenditure incurred for travel, accommodation and incidental expenses requires a receipt but the policy does not set any limits on expenditure and instead places responsibility on the authorising manager to ensure an effort has been made to find accommodation or meals at a reasonable cost.

**27.** Our detailed testing identified an instance where an employee claimed for 23/24 mileage in 24/25 and the single claim covered mileage for the full year at a value of £962.72. There is no restriction in the current policy that requires timely submission of expenses.

**28.** In line with the business travel policy, trips abroad require a foreign travel form to be completed and approval from a Director and the Chief Executive. We reviewed seven foreign travel business cases and found almost half had not been appropriately authorised or the actual expenditure incurred exceeded the amount authorised. However, all the foreign travel forms we reviewed did contain a business case to support the reasons and benefits of the foreign travel to HES. It is important that there is a clear process in place to monitor expenditure on foreign travel against the approved business case.

### **There is a lack of clarity over acceptable hospitality spend**

**29.** In November 2024, some Board members attended a dinner to mark the departure of one of its members. The invoice from the provider totalled £875, which was based on a dinner priced at £35 per head for 11 attendees. The difference was made up of alcohol, which accounted for more than half the total bill. HES was subsequently reimbursed for this.

**30.** In October 2024, the Board provided hospitality at a stakeholder event. We requested the invoice to support this expenditure and found this had been authorised without sufficient detail to confirm that the expenditure was in line with HES's official hospitality policy. We requested further information to support the "bar recharges" detailed on the invoice. Once received, we compared it to the hospitality policy and found that this did not comply. The policy states "providing wine at the organisation's expense is allowed when official hospitality is at a restaurant or reception". The bar recharges included spirits which the current hospitality policy does not detail as an alternative. Internal audit also identified £714 of hospitality expenditure relating to a bar bill at a castle concert through their detailed review of e-PC and expenses. HES advised that the costs were incurred to host trade partners as is normal practice in the hospitality and events sector.

**31.** We considered the impact of our findings in relation to e-PC, travel and hospitality expenditure on the audit opinion, including the regularity opinion and concluded there is no impact. *See also Financial Management section of this report.*

## Qualitative aspects of accounting practices

**32.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

### Accounting policies

**33.** The appropriateness of accounting policies adopted by HES was assessed as part of the audit. These were considered to be appropriate to HES's circumstances, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FRoM) and the Charities Statement of Recommended Practice (FRS102).

### Accounting estimates

**34.** Accounting estimates are used in HES's financial statements, including the valuation of land and buildings assets. Audit work considered the process in place, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable. Additional audit procedures were carried out as explained in [Exhibit 2, item 3](#).
- There was no evidence of management bias in making the accounting estimates.

### Disclosures in the financial statements

**35.** The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as operational property valuation.

## The consolidation of group entities has been subject to audit review

**36.** HES is part of a group and prepares group financial statements. The group is made up of one component, including HES, which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on the group's component for the purposes of the group audit, and this work was performed by a combination of the audit team and the component audit team.

**37.** Group audit instructions were issued to the component auditor, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in [Exhibit 3](#).



## Exhibit 3

### Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
Historic Environment Scotland	<b>Audit Scotland</b> Fully scoped audit of HES's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in <a href="#">Exhibit 2</a> .
Historic Environment Scotland Enterprises Limited (HESe)	<b>Wbg</b> Procedures due on the following: Fraud caused by management override of control Presumed risk of fraud over income recognition Stock Non pay expenditure.	The specific audit procedures required on HESe were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified with the audit procedures performed by the component auditor.

Source: Audit Scotland

**38.** ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved
- any limitations on the group audit
- any frauds or suspected frauds involving group or component management.

**39.** Our work did not find any such issues.

### There were misstatements identified during the audit process

**40.** Audit adjustments were required to the financial statements to correct misstatements that were identified during the audit. Total adjustments of £0.929 million were identified. Details of all audit adjustments greater than the reporting threshold of £142,000 are outlined in [Appendix 2](#) and described below:

- Duplicate prepayments identified by HES and brought to our attention at the start of the audit. These duplicate prepayments totalled £361,000.
- Grant deferred income of £381,000 released to expenditure, which should have been released to income.
- Untaken leave accrual calculated on the 2024/25 salaries and employer NI rates. These should have been calculated on the 2025/26 rates, increasing the untaken leave accrual by £240,000.

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

**42.** HES processed adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatements to report.

### **Our audit work responded to the significant risks of material misstatement identified in the Annual Audit Plan**

**43.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

#### **Exhibit 4**

#### **Significant findings and key audit matters**

<b>Risk of material misstatement</b>	<b>Planned audit response</b>	<b>Outcome of audit work</b>
<p><b>Fraud caused by management override of controls</b></p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting</li> </ul>	<p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• The design and implementation of controls over journal processing were appropriate.</li> <li>• No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.</li> <li>• No significant issues were identified from testing of journal entries.</li> </ul>



Risk of material misstatement	Planned audit response	Outcome of audit work
	<p>revenue and expenditure recognition around the year-end.</p> <ul style="list-style-type: none"> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>• Accruals and prepayments testing confirmed that income and expenditure was properly accounted for in the correct financial year.</li> <li>• The controls over related party transactions could be improved by the introduction of a register of interests for the Executive Leadership Team (<a href="#">Appendix 1</a>).</li> <li>• No evidence of management bias was identified in accounting estimates.</li> </ul> <p><b>Conclusion:</b> no evidence of fraud caused by management override of controls.</p>
<p><b>Presumed risk of fraud over income recognition</b></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 and accuracy of commercial and trading income streams, as they comprise a high volume of low value income streams across multiple locations.</p> <p>There is a risk that income may be misstated, resulting in a</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Assess the design and implementation of the key controls related to commercial income (including admissions and membership data controls).</li> <li>• Undertake substantive analytical procedures related to commercial income.</li> <li>• Undertake detailed testing of the year-end reconciling difference related to the control account reconciliations</li> </ul>	<p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• The design and implementation of controls over commercial income were appropriate.</li> <li>• No significant issues were identified from detailed testing of year end reconciling differences or substantive analytical procedures.</li> </ul> <p><b>Conclusion:</b> no evidence of any misstatements relating to the completeness of commercial and trading income streams.</p>

Risk of material misstatement	Planned audit response	Outcome of audit work
material misstatement in the financial statements.	(between the ticketing and other income and bank). <ul style="list-style-type: none"> <li>• Substantive analytical procedures for admissions and membership income.</li> </ul>	

Source: Audit Scotland

## Prior year recommendations are being progressed

**44.** HES has made some progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed and are outlined in [Appendix 1](#).

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# Financial management and sustainability

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## Conclusion

In 2024/25, Historic Environment Scotland operated within its fiscal resource. We have concluded that effective budget monitoring arrangements were in place during the year.

Overall, we concluded that controls within the main financial systems are designed appropriately. We identified some areas where there is scope for improvement and our findings in relation to electronic purchasing cards, expenses and hospitality suggests a culture where these policies are not consistently applied.

A revised business model has been agreed with Scottish Government from 2025/26. This provides Historic Environment Scotland with greater financial flexibility.

## Historic Environment Scotland operated within its revised 2024/25 budget allocation

**45.** As a charitable Non-Departmental Public Body, approximately half of HES's funding is provided by the Scottish Government through grant-in-aid. The initial 2024/25 grant-in-aid budget was set at £69.2 million, later revised to £69.3 million. This comprised of a resource grant of £61.3 million and capital grant of £8 million.

**46.** The performance against the Scottish Government resource limits for the year is shown in [Exhibit 5](#).

**Exhibit 5****Performance against resource limits in 2024/25**

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource DEL	61.2	61.3	61.3	-
Capital DEL	8.0	8.0	8.0	-
<b>Total: Cash</b>	<b>69.2</b>	<b>69.3</b>	<b>69.3</b>	<b>-</b>
Non-cash	5.0	5.0	2.7	(2.3)
<b>Sub-total: non-cash</b>	<b>5.0</b>	<b>5.0</b>	<b>2.7</b>	<b>(2.3)</b>
<b>Total</b>	<b>74.2</b>	<b>74.3</b>	<b>72.0</b>	<b>(2.3)</b>

Source: HES annual report and financial statements 2024/25

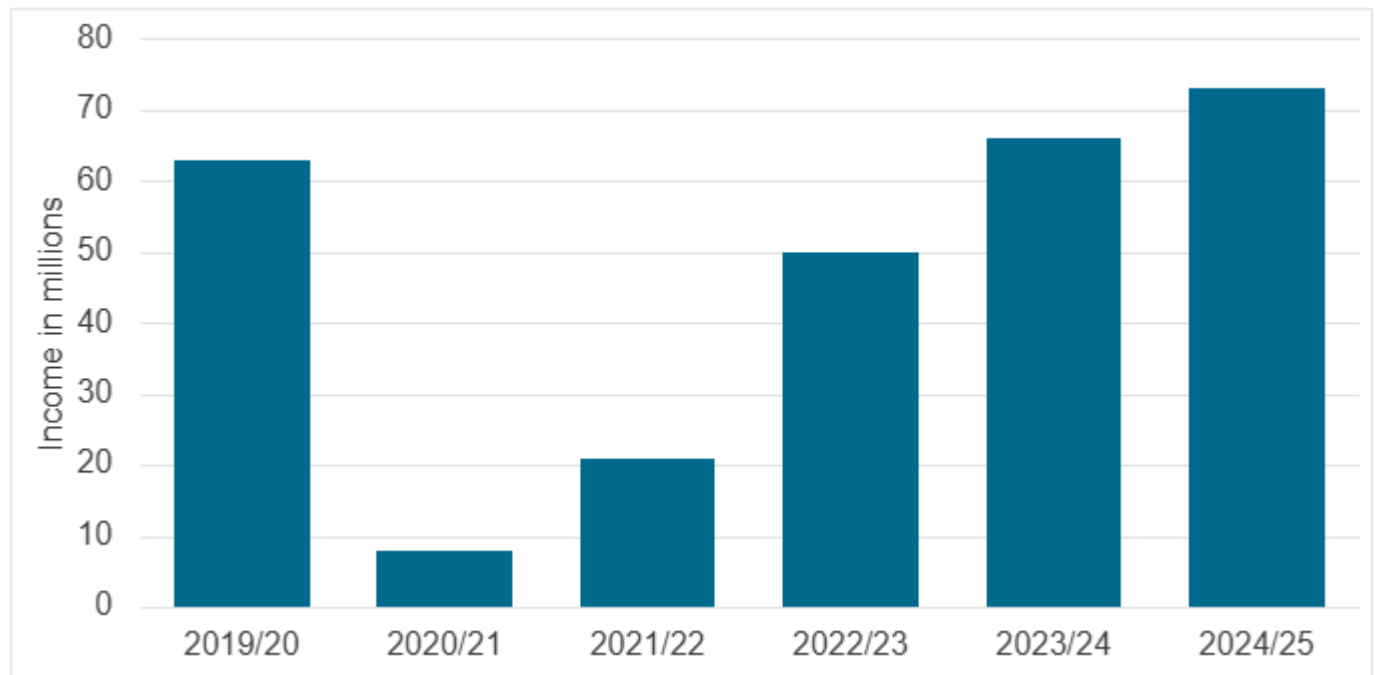
### **Historic Environment Scotland's consolidated income is a combination of grant-in-aid and commercial income**

**47.** HES's consolidated income is a combination of grant-in-aid funding from the Scottish Government and commercial income. Commercial income is generated from a number of charitable activities such as admissions and membership to managed sites such as Edinburgh Castle and Stirling Castle. Commercial income is also generated through core trading activity from Historic Environment Scotland Enterprises Ltd (HESe). HESe is a wholly owned subsidiary, which generates retail sales of Historic Environment Scotland merchandise, catering facilities, commercial sales of images, events and venue hire.

**48.** These income streams provided total income of £144.6 million for 2024/25 in the Consolidated Statement of Financial Activity, an increase of £7.7 million from 2023/24. This resulted in a surplus of £2.4 million (2023/24: surplus of £7.9 million) before any transfer between funds or gain on revaluation of fixed assets.

### **Commercial income and HESe trading income increased in year**

**49.** The level of commercial income reported by HES continued to improve in 2024/25. Total commercial income of £72.5 million has been reported, an increase of £6.5 million on 2023/24. This is a result of visitor numbers increasing from 4.5 million in 2023/24 to 4.7 million in 2024/25, which was in line with expectations. The recovery to pre-pandemic levels of commercial income (excluding adjustments for inflation) is shown in [Exhibit 6](#).

**Exhibit 6****Commercial income since 2019/20**

Source: HES annual report and financial statements 2024/25

**50.** HESe contributed £21.4 million in 2024/25 to the group's commercial income compared to £18.9 million in 2023/24. HESe is governed by a separate Board of Directors, which report to the HES Board.

### **Budget monitoring arrangements are appropriate**

**51.** 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.

**52.** 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 throughout the year to consider the financial position for HES and HESe, with the finance report detailing the year-to-date position alongside the forecast full year position.

**53.** 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.

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

## Internal controls relevant to our audit approach are designed appropriately

**55.** We reviewed the design and implementation of systems of internal control relevant to our audit approach, including those relating to IT. We did not identify any significant internal control weaknesses which could affect HES's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements. We identified some areas where there is scope for improvement to the control environment but these were not deemed material in nature and did not impact the audit approach as documented in our 2024/25 Annual Audit Plan. These areas of improvement are shown in [Exhibit 7](#).

### Exhibit 7

#### Key findings from review of controls

Audit finding	Audit action and recommendation
<p><b>Payroll reconciliation process</b></p> <p>We identified through our work in both 23/24 and 24/25 that not all steps in the payroll reconciliation process were being completed before the payroll BACS run is made.</p>	<p>We performed analytical procedures to identify any significant variances in payroll. Our testing did not identify any issues.</p> <p>HES should review the payroll reconciliation process and update its policy accordingly.</p>
<p><b>Payroll standing data checks</b></p> <p>During our work, HES confirmed they had completed checks to the 24/25 standing data but had not retained the evidence that these checks had been performed.</p>	<p>For a sample of employees, we re-performed the tax and national insurance rates processed by payroll to the 24/25 rates published on the HMRC website. Our testing did not identify any issues.</p> <p>This appears to have been an oversight by the payroll team. The payroll team shared the 25/26 standing data check evidence during the 24/25 audit. We have had assurances from payroll that evidence of the standing data checks will be retained in future years.</p>
<p><b>Fully depreciated assets</b></p> <p>We noted from our work in 2022/23 that the Fixed Asset register (FAR) contained assets that were fully depreciated but still in use by HES. Our work in 2023/24 and 2024/25 noted a similar position. The FAR details 1,293 assets at nil value (cost of £21.4m) which includes plant &amp; equipment, motor vehicles and computer equipment. HES confirmed that, historically, 100% of assets were physically verified. Since the pandemic this process has not been in place although HES has undertaken a sample of checks each year.</p>	<p>We are satisfied this would not result in a material misstatement in the financial statements.</p> <p>During 2024/25 HES carried out a five per cent check of high value items using a risk based approach. HES will commence work in this area earlier in 2025/26 and increase the percentage of checks undertaken in year.</p>

**The issues identified with the application of electronic purchasing cards, expense claims and hospitality expenditure suggests a culture where these policies are not consistently applied**

**56.** Internal Audit carried out a detailed review of e-PC usage and expenses covering 2023/24 and 2024/25 and this resulted in an overall limited assurance rating with nine recommendations. The findings from our detailed testing across e-PC, expenses and hospitality described at [paragraph 20.](#) are aligned with the conclusions reached by internal audit.

**57.** We are satisfied that the weaknesses our work has found in this area have been captured by internal audit's recommendations and will monitor progress through ongoing engagement with internal audit and attendance at the Audit, Risk and Assurance Committee.

**We have concluded that the overarching arrangements that Historic Environment Scotland has in place for the prevention and detection of fraud are appropriate but there are some specific weaknesses that need to be addressed**

**58.** The HES 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. HES management has the following arrangements in place which are appropriate for ensuring the prevention and detection of fraud and standards of conduct including: a staff code of conduct, counter fraud strategy, counter fraud policy, fraud response plan and financial regulations.

**59.** However, given the weaknesses identified in the use of e-PC and expenses, we are unable to conclude that robust arrangements are in place for the prevention and detection of fraud and other irregularities in this specific area. Our audit testing did not identify any instances of fraud or irregular expenditure.

**60.** A weakness in procurement practice was recently highlighted and this has prompted an internal audit review of procurement as part of the 2025/26 work programme. We considered the circumstances and associated transactions and concluded that there is no impact on our audit opinion, including the regularity of expenditure.

**61.** We also established that Historic Environment Scotland receives event tickets as part of a contractual agreement. This is unusual in the Scottish public sector and there is no policy in place to ensure the appropriate distribution of these tickets.

**A revised business model has been agreed with the Scottish Government from 2025/26**

**62.** Scottish Government budgetary allocations and ministerial policy decisions significantly influence HES's financial decisions. Discussions

between the Scottish Government and HES on amendments to the HES business model were concluded in October 2024, resulting in the approval of an updated Framework Document.

**63.** From 2025/26, the revised business model will give HES greater financial flexibility. Previously, HES had to discuss the financial impact and secure agreement before utilising up to 50 per cent of the difference between its full year forecast income and actual income, capped at £1 million. This has been replaced with the authority to utilise all additional income generated within the year with the maximum limit removed and no requirement to seek Scottish Government approval. This provides HES the opportunity to transfer unspent income to the Historic Scotland Foundation (HSF), which can be granted back to HES at a future date.

**A balanced budget was approved by the Board for 2025/26, however, the financial position reported at the end of September 2025 forecasts a deficit of £3.2 million**

**64.** The HES Board approved a balanced budget of £152.4 million for 2025/26 at a meeting in March 2025. This was the first budget since the approval of the Financial Strategy and the implementation of the revised business model.

**65.** Growth of both the commercial income and the investment programme are central to the budget. The budget represents the largest budget HES has ever had with a six per cent increase in income of £8.6 million from the previous year. The budget for the investment programme is £12 million, an increase of £2.5 million from 2024/25.

**66.** The budget presented to the Board also includes projections for 2026/27 and 2027/28. Each director is required to identify efficiencies within their own directorate and the Executive Leadership Team will agree a three-year programme of efficiencies with the minimum aim to meet the £1.2 million per annum target set by the Financial Strategy. The new business model allows HES to keep surplus income. Discussions with directors have taken place to establish potential actions to drive efficiencies across HES to capture options available, as well as the challenges and impact this would bring. The programme of efficiencies is still in development.

**67.** The year to date position reported at the end of September 2025 is a £2.3 million overspend, mostly due to income being £2.7 million lower than anticipated and salaries being £1m over budget, netted off by underspends in some other areas. The overall position for the full year indicates a £3.2 million deficit position for 2025/26. We have been advised that a plan of action to address the deficit position has been reviewed and endorsed by the Executive Leadership Team, with targets set at corporate and directorate level. Further work is being undertaken to review which project and activities will be deferred, alongside reducing staff costs pressures.



## Historic Environment Scotland has a medium-term financial strategy

**68.** In June 2025, the Scottish Government published a new [Public Service Reform Strategy](#) (PSRS), its seventh [Medium-Term Financial Strategy](#) (MTFS) and the first [Fiscal Sustainability Delivery Plan](#) (FSDP). These documents provide a framework for the future of Scottish public sector finance and public service reform.

**69.** The 2025 MTFS presents a stark picture with gaps in resource projected to grow from a balanced budget in 2025/26, to a gap of £2.6 billion in 2029/30. Similarly capital spending is forecast to exceed the available budget by £1.1 billion in 2026/27, rising to a gap of £2.1 billion in 2029/30. Significant further action is required, for both resource and capital, to deliver a sustainable future for the Scottish public sector.

**70.** A financial strategy was presented to the Board for approval in June 2024 and covers the period to 2030. The aim of the financial strategy is to set out the principles and practices which will ensure the long term financial sustainability and resilience of the organisation while enabling delivery of HES's core strategic objectives. It sets out:

- HES's current short to mid-term financial projections and the assumptions they are based on
- key opportunities, pressures and risks which could affect income and expenditure flows
- a strategy and action plan to address potential funding gaps, increase HES's flexibility to respond to them and limit exposure to wider industry and economic trends which are out of its immediate control.

**71.** The actions outlined in the strategy are sufficient to deliver a sound financial position from 2026/27 onwards with an appropriate level of contingency built in. The financial strategy details a shortfall of £6.5 million for Archive House in 2025/26 but this was based on the project going ahead as originally planned. This has since been revised to £1 million to reflect the decision to cancel the original project. There is a high capital requirement for the replacement for Archive House and options to fund the shortfall are currently being considered.

**72.** HES's financial strategy includes budget projections to 2030, making a number of assumptions regarding rates of inflation and Scottish Government funding. As funding allocations from the Scottish Government are provided annually, the projections provided are a £2m per annum decrease in grant-in-aid from 2026/27 in line with the new business model.

**73.** Annual financial projections have been calculated on several bases, the overall projections show a range of scenarios through to 2029/30. Under the best-case projection, 2029/30 predicts a £9 million surplus, and

the worst-case scenario a £10 million deficit. The projections indicate how the financial position may track over the next five years. The best-case scenario projection excludes the Archive House project, pay and grading costs and inflation, whereas the worst-case scenario includes all of these costs. HES has also considered a mid-range scenario predicting a small surplus in 2029/30. This scenario includes Archive House and pay and grading costs but does not take into account inflation.

**74.** Despite the challenging financial environment HES is operating in, senior management and the Board consider the medium to long term as part of strategic and operational decision making. We are satisfied that there is appropriate medium-term planning arrangements in place.

# Vision, leadership and governance

## Conclusion

There is ongoing change and instability in the leadership of Historic Environment Scotland and this presents a significant risk to the governance and operation of the organisation. The Board and Executive Leadership Team must work together, with the Scottish Government sponsor team, to strengthen relationships and provide effective leadership.

A key decision in 2024/25 relating to archive storage was not clearly supported by effective governance processes. The Board should collaborate with the Executive Leadership Team to strengthen governance arrangements and ensure effective oversight and accountability.

**There is ongoing change and instability in the leadership of Historic Environment Scotland and the organisation has been operating without a Chief Executive or Accountable Officer for an extended period**

**75.** There were changes in the Executive Leadership Team in 2023/24 with the Chief Executive and the Director of Finance and Corporate Services leaving the organisation. The posts were filled with interim appointments which provided continuity for the organisation at the time.

**76.** A permanent Chief Executive, who is also the designated Accountable Officer to the Scottish Government, was appointed from 16 September 2024 but was absent from work between 2 May 2025 and 20 October 2025. This left a significant gap in the leadership and accountability of the organisation. In line with the Scottish Public Finance Manual (SPFM), if it becomes clear that the Accountable Officer will not be able to discharge their duties for a period of four or more weeks then the Principal Accountable Officer should be notified.

**77.** The Scottish Government Governance and Accountability Branch was notified of the absence in accordance with the SPFM and HES wrote to Scottish Government in mid-June about the appointment of an acting Chief Executive/Accountable Officer. We are aware that HES has had ongoing discussion with the Scottish Government about an appointment

during the time the Chief Executive was absent but no substitute appointment was made. From July 2025, a representative from the Scottish Government sponsor team has been in attendance at meetings of the Board.

**78.** A new risk has been incorporated into the HES corporate risk register in relation to governance and strategic leadership. This was reported to the Audit, Risk and Assurance Committee and the Board in August 2025. The risk describes the constraints on strategic decision-making and engagement as a result of the absence of the Chief Executive which may impact operational delivery, colleague wellbeing and the reputation of the organisation. Directive mitigating controls are in place and include Board oversight, engagement with Scottish Government and the Corporate Plan 2025-28. Corrective mitigating controls are reflected in the interim arrangements outlined at [paragraph 80](#).

### **The interim arrangements have put additional pressure on the Executive Leadership Team and do not provide a clear line of accountability**

**79.** The Executive Leadership Team (ELT) is made up of seven directors from across HES. It is responsible for the day-to-day services as well as leading on maximising income, maintaining the estate and creating an efficient service delivery model.

**80.** In the absence of the Chief Executive, the Executive Leadership Team agreed with the Chair of the Board that the designated Duty Director would deputise for the Chief Executive role. The Duty Director is determined by a rota that includes members of the Executive Leadership Team. Financial control was delegated to the Interim Director of Finance and Corporate Services. This arrangement has placed demands on the individual directors in addition to their core responsibilities. Verbal updates from some members of the Executive Leadership Team at the Audit, Risk and Assurance Committee meeting in August 2025 highlighted that the contingency arrangements are unsustainable.

**81.** The Chief Executive returned to work on 20 October 2025 in a limited capacity to enable the annual report and accounts to be laid before Parliament in line with the statutory deadline of 31 December 2025. Arrangements are being made to appoint a temporary Chief Operating Officer for a period of six months to provide additional leadership capacity.

### **A new chair has been appointed to the Board of Historic Environment Scotland**

**82.** The process to appoint a new chair to the Board of Historic Environment Scotland started in June 2025. The current chair resigned in September 2025, before the end of the four-year term of appointment, which was due in January 2026. This left a further gap in the leadership of the organisation which was filled promptly as the new chair was appointed

from 22 September 2025. Two other Board members resigned in September 2025.

### Recommendation 1

The Board and Executive Leadership Team need to work together, with the Scottish Government sponsor team, to strengthen relationships and establish stable and effective leadership.

### **The decision to halt a significant project for archive storage was not clearly supported**

**83.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources.

**84.** The decision was taken in June 2024 to cancel the Archive House project due to a number of challenges. From review of the published minutes from this meeting and discussion with relevant staff, the Board was not provided with a paper at the meeting to scrutinise the proposal. This was despite a report being available but not shared with the Board. The decision taken was also not clearly recorded.

**85.** We would expect a decision regarding a major investment project to be supported by a detailed report for scrutiny by the Board.

### **The Board requires good quality information and time to scrutinise key decisions**

**86.** The Board must hold management to account through challenge and scrutiny of their work to ensure that it meets the organisation's objectives. To do this, the Board needs management to provide sufficient and timely information.

**87.** In July 2025, Board members were provided with papers relating to a new legal arrangement via correspondence and without prior notice. A briefing paper was subsequently included in the August 2025 Board papers which confirmed that the majority of the Board had agreed to approve the legal arrangement by correspondence. It was acknowledged, and noted in the minutes, that more time should have been allowed for the Board to consider such an important, very long-term agreement.

### **A personal data breach involving Board members is being investigated further by the Scottish Government**

**88.** During 2024/25, a personal data breach occurred and the internal review by HES concluded that it did not require to be reported to the

Information Commissioner's Office (ICO). The Scottish Government sponsor team was informed of the circumstances and was not satisfied with the conclusion reached. This matter is ongoing.

**89.** There have been eight other instances of personal data breaches which HES has reported to the ICO. These took place between April and November 2025.

### **The Board should undertake a formal self-assessment and develop an action plan to address any areas for improvement**

**90.** The Scottish Government's "Guidance on the appraisal of NDPB Board members and chairs" provides advice on monitoring the performance of the Board. The purpose of the appraisal process is to contribute to the continuous improvement of the public body's decision making, effectiveness and performance.

**91.** The Board completed a review of the former Chair's performance via an anonymised review and the former Chair advised that he held informal 1-2-1 meetings with Board members to gather their views on the effectiveness of the Board during the year. Findings of the evaluation were not progressed due to competing priorities. The Board maintains a skills matrix for members and this was last updated in March 2024.

**92.** It is good practice for Boards to regularly review performance with support and advice from an external peer, where appropriate. From our review we found the Board had undertaken some work in this area but had not completed a formal self-assessment of its performance in the past 12 months.

#### **Recommendation 2**

The Board should work in collaboration with the Executive Leadership Team to strengthen the overall governance of the Board and ensure effective oversight and accountability. This should include a formal self-assessment and the implementation of an action plan to address any weaknesses identified.

### **A register of interests should be put in place for the Executive Leadership Team**

**93.** A register of interests is maintained and published for Board members, which supports transparency in decision making. However, there is currently no formal register of interests in place for the Executive Leadership Team.

**94.** Members of the Executive Leadership Team completed a related parties disclosure which was used to compile the related parties note in the annual report and financial statements. However, we noted two

instances where expenditure with a related party for a member of the Executive Leadership Team had been omitted from the related parties note. The disclosure has now been updated to reflect this.

**95.** A formal register of interests should be introduced for the Executive Leadership Team, aligned with the approach taken for Board members. This should be reviewed and updated annually, with any changes reflected as they arise.

### Recommendation 3

A register of interests should be introduced for the Executive Leadership Team. This should be reviewed and updated annually, with any changes reflected as they arise.

### **Our attendance at meetings of the Audit, Risk and Assurance Committee confirmed appropriate scrutiny and challenge was exercised throughout the year**

**96.** A new Chair of the Audit, Risk and Assurance Committee was appointed during 2024/25. In our role as external audit we attended meetings of the Audit, Risk and Assurance Committee and concluded that the committee is operating effectively. We observed appropriate scrutiny and challenge from members on relevant issues and are pleased to report that the Audit, Risk and Assurance Committee undertook a self-assessment during 2024/25. The independent member resigned in May 2025 and work to appoint a replacement is underway.

### **Internal audit issued a limited assurance opinion for 2024/25**

**97.** Internal audit presented its annual report and opinion for 2024/25 to the Audit Risk and Assurance Committee in May 2025 and issued a limited assurance opinion for 2024-25. Limited assurance is given when there are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives.

**98.** The key considerations which determined the limited assurance opinion are aligned with our conclusions in this report and include:

- significant change in leadership within HES during the year
- implementation of management actions resulting from recommendations considered to be disappointing
- outstanding recommendations relating to the limited assurance review of Archive House in 2023/24 with one of the concerns that the cost of the project would become unaffordable crystallising in June 2024

- HES does not have an effective business continuity management framework in place but a business continuity plan was approved by the Board in January 2025.



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# Use of resources to improve outcomes and Best Value

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## Conclusion

Historic Environment Scotland has appropriate arrangements in place to monitor and report performance against agreed deliverables.

A long term solution for the storage of archive and collection materials is being explored but HES continues to incur costs that relate to the original project that was cancelled. The spend to date has not delivered value for money and a lessons learned review should be prioritised before any further commitments are made to the archive storage solution.

The Accountable Officer needs to work with the Board and the Executive Leadership Team to ensure that arrangements are in place to secure Best Value.

## The Board approved a new Corporate Plan covering 2025-28

**99.** HES published the Corporate Plan 2025-28 *Heritage for All* in March 2025, which was approved by the Board in February 2025. The Corporate Plan sets out HES's ambition over the next three years and its five priorities:

- Scotland's Heritage
- Skills and Learning
- People and Places
- Climate Action
- Our Organisation

**100.** These priorities were identified through engagement, consultation and horizon scanning and success is measured through ten Key Performance Indicators (KPIs). The priorities also support the national and sector priorities including the delivery of the National Performance Framework and *Our Past, Our Future: the strategy for Scotland's historic environment*. The revised five year strategy, *Our Past, Our Future* was

published in 2023 and calls for collective, cross sectoral action throughout Scotland to achieve its mission, priorities and outcomes.

### **A three-year Operating Plan 2025-28 has been developed**

**101.** The HES Framework Document sets out the requirement to produce a plan for each financial year which includes key targets, milestones and resources that support delivery of the Corporate Plan. HES published its Operating Plan 2025-28 in April 2025, following approval by the Board in March 2025.

**102.** There are 31 Operating Plan 2025-28 actions which are aligned to the 2025-28 Corporate Plan priorities and outcomes. Success criteria for each action are defined and published in the Operating Plan, along with annual targets towards Corporate Plan KPI's.

**103.** Progress towards delivery of Operating Plan actions is reported to the Board through quarterly corporate performance reporting and Corporate Plan KPI progress is reported every six months. Results for each year are published in the annual report and financial statements.

### **There are appropriate arrangements in place to monitor performance against the deliverables in the Annual Operating Plan 2024/25**

**104.** HES's performance is monitored by the Board against success criteria which are set annually against the Annual Operating Plan deliverables, aligned to Corporate Plan outcomes and KPIs. The responsibility for the detailed review and scrutiny of performance against Annual Operating Plan and Corporate Plan sits with the Board and is supported by quarterly reporting.

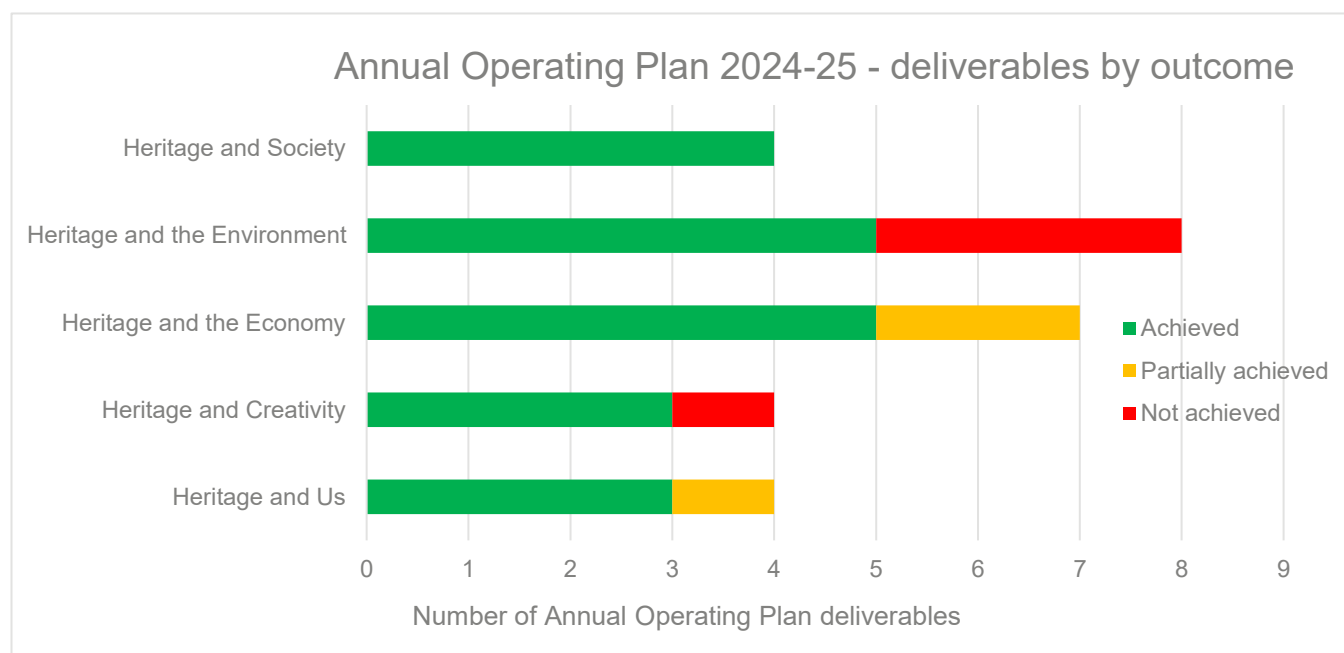
**105.** 2024/25 is the final year of the Corporate Plan 2022-25 "*Heritage for All*". HES reported achievement of over 85 per cent of the 27 Annual Operating Plan deliverables in 2024/25 as either fully or partially achieved. During 2023/24, HES either fully or partially achieved 93 per cent of its 27 deliverables, with 100 per cent of 28 deliverables fully achieved in 2022/23. There has been a reduction in the deliverables fully or partially achieved during 2024/25 in comparison to prior years. However, the deliverables that were not achieved were identified at the end of quarter three and agreed by Executive Leadership Team as unlikely to be achievable. The decision to stop the Archive House project meant this deliverable could no longer proceed as originally planned, and the success criteria were replaced with a focus on an interim solution for archive accommodation. [Exhibit 8](#) sets out performance against deliverables.

**106.** The four deliverables that were not achieved in 2024/25 relate to delivery of a long term strategy for the properties in HES's care (PICs), a high level masterplan for Edinburgh Castle, delivery of the Climate Action Plan and progress implementing the International Strategy 2019-29 Partnering Globally. HES's Operating Plan 2025-28 includes an action for

each of these, except for international activity which is being reviewed in 2025/26.

## Exhibit 8

### Annual Operating Plan 2024/25 – deliverables by outcome



Source: HES annual report and financial statements 2024/25

### Internal audit reported positively on Historic Environment Scotland's use of performance metrics

**107.** Internal Audit undertook a review of Performance Metrics, reporting to the Audit, Risk and Assurance Committee in August 2024. Overall, the report was positive and provided a 'satisfactory' assurance rating with some good practice highlighted.

### An interim solution has been secured whilst a longer term solution for the storage of archive and collection materials is being considered but HES continues to incur costs in relation to the previous solution

**108.** As detailed in our 2024/25 Annual Audit Plan we identified a wider scope audit risk relating to Archive House following the decision in June 2024 to cancel the project. In 2023/24, HES wrote off £2 million of expenditure incurred, including £0.7 million capitalised in 2022/23. We have reviewed the progress made during the year to secure both a temporary and a long-term solution.

**109.** In November 2024, the Board was presented with a number of interim solutions and asked to endorse the exploration of a lease

extension at John Sinclair House (JSH). The JSH lease was due to end in October 2026 and has now been extended to October 2028 (with an option to extend for a further year to October 2029) at a cost of £536,151 per annum, an increase from the previous year's cost of £423,500. This secures a short-term solution and provides some time for longer term options to be explored. A range of minor works are being undertaken at JSH to enable safe storage of archive material.

**110.** Although the Archive House project has been cancelled, a 15 year lease of the property was entered into in November 2019 with an initial annual cost of £115,000. This increased to £133,500 in 2024/25 and a lease break is not available until November 2029. The property currently has limited use, providing storage for some archives materials. In addition to the cost of the lease, a further £901,812 of expenditure relating to the Archive House project was incurred in 2024/25. This relates to the close down of the project, including a termination fee of £38,648. The Executive Leadership Team needs to identify ways to maximise the use of Archive House so that value can be obtained from the property over the remainder of the lease.

**111.** At the August 2025 meeting of the Board, members were asked to endorse a direction of travel for delivering a solution for both archives and collections storage and provision of public access. HES cannot fund this project from its own budget and the paper indicated that support from the Scottish Government and other funders will be required. An outline business case is in development.

### **A lessons learned review should be prioritised before any further commitments are made to the archive storage solution**

**112.** Internal audit reported an overall limited assurance opinion for 2024/25. There were a range of factors that resulted in that opinion, and this included the slow implementation of the actions agreed in response to the limited assurance review of Archive House reported in April 2023.

**113.** A lessons learned exercise was proposed by the Audit, Risk and Assurance Committee in August 2024 but this has not yet been acted upon. Our review of the Board minutes identified that the Board did not formally suggest a lessons learned exercise until February 2025, eight months after the decision to halt the project. The Audit, Risk and Assurance Committee expect internal audit to conduct this review as part of the 2025/26 work programme.

#### **Recommendation 4**

The planned lessons learned review of the Archive House project should be carried out before any further decisions are taken on a long term solution.

## Duty of Best Value

**114.** The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

**115.** Consideration of the arrangements Historic Environment Scotland has in place to secure Best Value has been carried out alongside the wider scope audit.

## Conclusions on duty of Best Value

**116.** As detailed in this report, we have identified weaknesses in the leadership, governance and use of resources within HES. We have concluded that the organisation is not able to demonstrate that arrangements are in place to deliver Best Value across all of its activities. The Accountable Officer needs to work with the Board and the Executive Leadership Team to address the issues identified and ensure that arrangements are in place to secure Best Value. This should include an annual self-assessment of Best Value arrangements.

# Appendix 1 – Action plan 2024/25

## 2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p><b>1. Leadership challenges</b></p> <p>There were changes to the Chief Executive during 2024/25, followed by a prolonged period of operating without a Chief Executive or Accountable Officer from May 2025.</p> <p>The Chair of the Board resigned in September 2025, leaving a further gap in the leadership of HES.</p> <p><b>Risk</b> – There is a risk that the absence of effective leadership impacts negatively on the performance of HES.</p>	<p>The Board and Executive Leadership Team need to work together, with the Scottish Government sponsor team, to strengthen relationships and establish stable and effective leadership.</p>	<p><b>Accepted</b></p> <p>The recruitment of an Interim Chief Operating Officer.</p> <p>The recruitment of two new Board members.</p> <p>The outstanding matter with the CEO to be resolved as soon as possible.</p> <p><b>Board and Executive Leadership Team</b></p> <p><b>November 2025</b></p>
<p><b>2. Board effectiveness</b></p> <p>Public bodies must demonstrate clear and effective governance and make key decisions in an open and transparent way. Our audit identified a key decision in 2024/25 relating to archive storage that was not clearly supported.</p> <p><b>Risk</b> – Significant decisions are made without sufficient scrutiny and challenge from the Board.</p>	<p>The Board should work in collaboration with the Executive Leadership Team to strengthen the overall governance of the Board and ensure effective oversight and accountability. This should include a formal self-assessment and the implementation of an action plan to address any weaknesses identified.</p>	<p><b>Accepted</b></p> <p>Training to be delivered to the Board and ELT on the roles and responsibilities of the Board, Committees, and Directors.</p> <p>Internal Audit to review of Board effectiveness.</p> <p><b>Board, Executive Leadership Team and Head of Internal Audit and Business Improvement</b></p> <p><b>March 2026</b></p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p><b>3. Register of interests</b></p> <p>A register of interests is maintained and published for Board members, which supports transparency in decision making. However, there is currently no formal register of interests in place for the Executive Leadership Team.</p> <p><b>Risk</b> – There is a risk that undisclosed interests could influence decisions and a lack of transparency without the information being made publicly available.</p>	<p>A register of interests should be introduced for the Executive Leadership Team. This should be reviewed and updated annually, with any changes reflected as they arise.</p>	<p><b>Accepted</b></p> <p>A register of interests is being developed for the Executive Leadership Team.</p> <p><b>Corporate Governance Manager</b></p> <p><b>March 2026</b></p>
<p><b>4. Archive House project – lessons learned</b></p> <p>HES commenced the Archive House project in 2021, which planned to rationalise the storage of archive materials from multiple sites into a specialist archive storage facility with adjoining space for essential archive services. In June 2024, a decision was taken to cancel the project.</p> <p>An interim solution has been secured whilst a longer term solution for the storage of archive and collection materials is being considered but HES continues to incur costs that relate to the original project. The spend to date has not delivered value for money.</p> <p><b>Risk</b> – Timescales for delivery of a solution and funding become increasingly challenging. HES's project governance does not operate as expected and this leads to</p>	<p>The planned lessons learned review of the Archive House project should be carried out before any further decisions are taken on a long-term solution.</p>	<p><b>Accepted</b></p> <p>HES Internal Audit and Business Improvement will undertake a lessons learned exercise on the Archive House Project and subsequent activity to January 2025. The outputs of this will be considered by the Executive Leadership Team, Audit, Risk and Assurance Committee and HES Board to support future activity.</p> <p><b>Director of Cultural Assets</b></p> <p><b>December 2025</b></p>



Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
further financial loss and reputational damage.		
<b>5. Revaluation of Stirling Castle vaults</b> The valuation of Stirling Castle vaults as of 31 March 2025 relies on underlying build cost calculations from 2005. Not all adjustments since 2005 are evidenced and build costs have not been revisited in the intervening period.  <b>Risk</b> – There is a risk that future revaluations are not materially accurate, or that their accuracy cannot be sufficiently evidenced.	In the next five-yearly revaluation of Stirling Castle vaults, HES should engage with the VOA to ensure that it undertakes a detailed review of the build costs originally established in 2005.	<b>Accepted</b> Recommendation noted and will be taken on board at next valuation.  <b>Head of Finance</b> <b>October 2025</b>

## Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<b>b/f 1. Archive House</b> HES started their Archive House project in 2021 which planned to rationalise the storage of archive materials from multiple sites into a specialist archive storage facility with adjoining space for essential archive services.  In June 2024, the HES Board took the decision to effectively cancel the project, due to a number of challenges.  HES undertook an impairment review which resulted in a write off of £2.0 million through the SoFA in 2023/24.  <b>Risk</b> – There is a risk that HES project governance is not operating as expected	HES need to act quickly to implement revised plans to ensure that appropriate measures are in place to safeguard the long-term storage for HES's archive materials before the lease on John Sinclair House expires.  <b>Accepted</b> Work is ongoing to identify a temporary solution which will allow HES to relocate the archive materials currently held in John Sinclair House ahead of the expiry of the lease.  In addition a longer-term solution will be taken forward in partnership with other public bodies and the Scottish Government.	<b>Superseded by recommendation 4</b>



Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>and this leads to financial loss and reputational damage.</p>	<p><b>Responsible Officer:</b> Chief Executive Officer</p> <p><b>Agreed date:</b> Temporary solution identified by December 2024.</p>	
<p><b>b/f 2 Intercompany journals</b></p> <p>During our audit work, HES confirmed they do not keep any records of intercompany recode low value journals as it is not considered necessary. This is also the case for journals reallocating low value amounts between cost centres.</p> <p><b>Risk</b> – The lack of evidence to support journals posted creates an increased risk of fraud or error.</p>	<p>We would recommend that backup is retained for all journals, but in particular for intercompany journals as these impact the charity's primary financial statements. Backup could take the form of a note from the budget meetings documenting discussions about what reallocations are needed.</p> <p><b>Partially accepted</b></p> <p>Standard practice is that backup is retained for all journals except low value reallocations and all journals are subject to secondary approval. Documented procedures to be updated to reflect backup required for all journals above £10,000.</p> <p><b>Responsible officer:</b> Management Accountant</p> <p><b>Agreed date:</b> December 2024</p>	<p><b>Implemented</b></p> <p>The Finance Department Operating Procedures were updated to request journal documentation is attached to Oracle Fusion for all journals greater than £10,000 and where considered helpful for lower value journals.</p> <p>This recommendation has been implemented however, it would be best practice to retain backup to support all journals processed.</p>
<p><b>b/f 3 Best Value self-assessment</b></p> <p>Ministerial guidance for 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.</p>	<p>Arrangements for securing Best Value could be further strengthened by incorporating an annual self-assessment in HES's governance procedures as a point of good practice.</p> <p><b>Partially accepted</b></p> <p>HES's arrangements for securing Best Value have</p>	<p><b>In progress</b></p> <p>HES is committed to incorporating an annual self-assessment.</p> <p>The circumstances in which HES has found itself with the absence of the Chief Executive has not presented</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>HES's arrangements for securing Best Value have been assessed as part of the 2023/24 audit and judged to be appropriate.</p> <p>An annual self-assessment will further strengthen these arrangements and be a point of good practice.</p>	<p>been judged to be appropriate.</p> <p>HES will consider implementing an annual Best Value self-assessment.</p> <p><b>Responsible officer:</b> Director of Finance and Corporate Services</p> <p><b>Agreed date:</b> March 2025</p>	<p>the opportunity to progress this during 2024/25.</p> <p>HES agreed to carry this forward to implement at an appropriate point in future.</p> <p>The target date for implementation is June 2026.</p>

# Appendix 2 – Misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted misstatements		Dr	Cr	Dr	Cr
		£000	£000	£000	£000
1. Overstatement of prepayments					
	Prepayments				(361)
	Expenditure	361			
2. Error in Grant deferred income released to expenditure rather than income					
	Income		(328)		
	Expenditure	328			
3. Untaken annual leave liability					
	Creditors				(240)
	Expenditure	240			
Net impact on financial statements		929	(328)	0	(601)

# Appendix 3 – National reports

Report name	Date published
<a href="#">Local government budgets 2024/25</a>	15 May 2024
<a href="#">Scotland's colleges 2024</a>	19 September 2024
<a href="#">Integration Joint Boards: Finance and performance 2024</a>	25 July 2024
<a href="#">The National Fraud Initiative in Scotland 2024</a>	15 August 2024
<a href="#">Transformation in councils</a>	1 October 2024
<a href="#">Alcohol and drug services</a>	31 October 2024
<a href="#">Fiscal sustainability and reform in Scotland</a>	21 November 2024
<a href="#">Public service reform in Scotland: how do we turn rhetoric into reality?</a>	26 November 2024
<a href="#">NHS in Scotland 2024: Finance and performance</a>	3 December 2024
<a href="#">Auditing climate change</a>	7 January 2025
<a href="#">Local government in Scotland: Financial bulletin 2023/24</a>	28 January 2025
<a href="#">Transparency, transformation and the sustainability of council services</a>	28 January 2025
<a href="#">Sustainable transport</a>	30 January 2025
<a href="#">A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study</a>	20 February 2025
<a href="#">Additional support for learning</a>	27 February 2025
<a href="#">Integration Joint Boards: Finance bulletin 2023/24</a>	6 March 2025
<a href="#">Integration Joint Boards finances continue to be precarious</a>	6 March 2025
<a href="#">General practise: Progress since the 2018 General Medical Services contract</a>	27 March 2025
<a href="#">Council Tax rises in Scotland</a>	28 March 2025

# Historic Environment Scotland

## 2024/25 Annual Audit Report



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