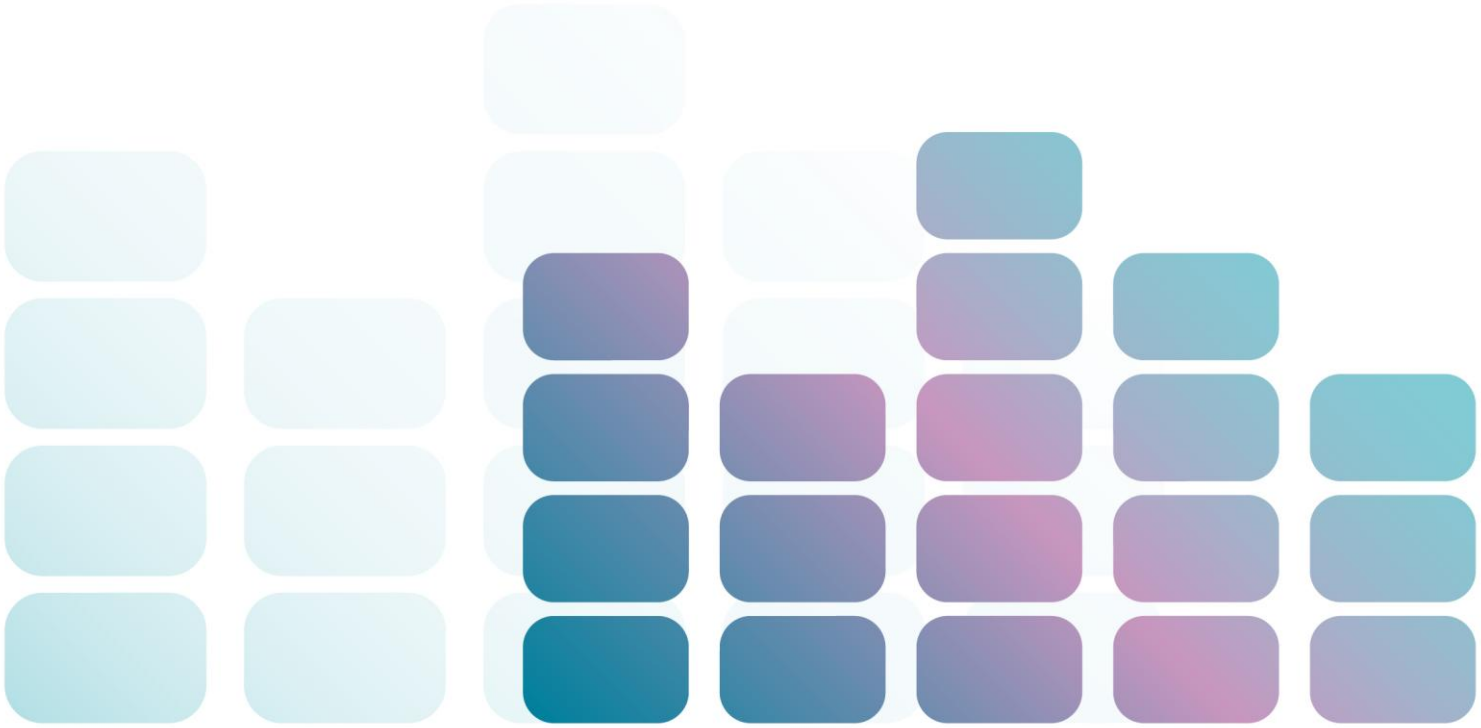
Historic Environment Scotland

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for Historic Environment Scotland and the Auditor General for Scotland
October 2026

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Summary of audit opinions and conclusions

Audit of the annual report and financial statements

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

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

Financial management and sustainability

3 In 2025/26, Historic Environment Scotland operated within its fiscal resource. We concluded that effective budget monitoring arrangements were in place during the year.

4 Overall, we found that controls within the main financial systems are designed appropriately. Action is in progress to strengthen the controls over electronic purchasing cards, expenses and hospitality but it will take time to demonstrate that the improvements have been embedded.

5 A Financial Strategy is in place that covers the three-year period from 2025/26 to 2027/28. The strategy will be revised next year and this provides an opportunity to strengthen the alignment between financial planning and corporate priorities.

Vision, leadership and governance

6 Historic Environment Scotland has continued to experience change and instability in leadership. This increases the risk that the organisational improvements identified by recent independent internal and external reviews will not be delivered at the pace required.

7 Historic Environment Scotland has responded well to the publication of the Organisational and Cultural Review and this provides a significant opportunity to address the leadership and governance challenges, and strengthen its overall control environment.

Use of resources to improve outcomes and best value

8 Historic Environment Scotland has appropriate arrangements in place to monitor and report performance against strategic objectives. Overall, performance in 2025-26 was mixed and Historic Environment Scotland has recognised where action or revised performance measures are required.

9 The absence of a long term solution for the storage of archive materials continues to present a significant risk to Historic Environment Scotland.

10 Historic Environment Scotland should perform an annual self-assessment to demonstrate that robust arrangements are in place to secure Best Value.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of Historic Environment Scotland (HES) annual report and financial statements and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to Historic Environment Scotland and the Auditor General for Scotland, and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Lisa Duthie, Audit Director at Audit Scotland, has been appointed as external auditor of Historic Environment Scotland 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 Historic Environment Scotland 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 Historic Environment Scotland, including no provision of non-audit services.

Acknowledgements

4. We would like to thank Historic Environment Scotland 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 audit appointment.

Audit scope, responsibilities, and fee

Scope of the audit

5. 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 Historic Environment Scotland'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 Historic Environment Scotland's arrangements for securing Best Value.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of Historic Environment Scotland and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. 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 financial statements, and concluding on Historic Environment Scotland's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only 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 Historic Environment Scotland from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

Historic Environment Scotland's responsibilities

10. Historic Environment Scotland 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 Historic Environment Scotland 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.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £120,220. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National and performance audit reporting

12. 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 Historic Environment Scotland and the Audit, Risk and Assurance Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 2.

Audit of the annual report and financial statements

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.

Audit opinions on the annual report and financial statements

13. Historic Environment Scotland and its group's annual report and financial statements were approved by the Board 8 October 2026 and signed by the appointed auditor on 8 October 2026. The Independent Auditor's Report is included in Historic Environment Scotland's annual report and financial statements, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

14. The unaudited annual report and financial statements and all working papers were received on 15 June 2026 in accordance with the agreed audit timetable.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and financial statements.

16. Broadly, 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 financial statements. 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.

17. Materiality levels for the audit of Historic Environment Scotland 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.

Exhibit 1

2025/26 Materiality levels for Historic Environment Scotland and its group

Materiality	Historic Environment Scotland	Group
Materiality – set at 2% of gross expenditure	£2.9 million	£3.1 million
Performance materiality – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£2 million	£2.1 million
Reporting threshold – set at 5% of materiality.	£145,000	£155,000

Source: Audit Scotland

Significant findings and key audit matters

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

19. 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 require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- 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.

21. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Indexation of Land, Buildings and Dwellings During our review of the annual fixed asset indexation process, we identified that the indexation rate applied to the gross cost of land, buildings and dwellings not subject to revaluation in 25/26 was increased by a further 2 per cent to offset the effect of accumulated depreciation. In accordance with IAS 16 as adopted by the HM Treasury Financial Reporting Manual (FReM), either the accumulated depreciation should have been eliminated, or indexation should have been applied using the proportionate method to the gross carrying amount and accumulated depreciation.	Management recalculated the indexation factor and correctly applied the elimination method. This resulted in a £0.4m decrease in the gross cost/valuation and the elimination of £2.4m accumulated depreciation. The gross error totals £2.8m and has been adjusted in the financial statements.

Source: Audit Scotland

Lease payments adjusted error

22. During our testing of lease payments and the liability for future lease payments, we identified a misstatement relating to rent increases and non-recoverable VAT not being applied. This led to 2025/26 lease liability for future payments being understated by £1.3m. Historic Environment Scotland corrected the misstatement, increasing the disclosure of future lease payments by £1.3m within note 27 of the financial statements.

Qualitative aspects of accounting practices

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

Accounting policies

24. The appropriateness of accounting policies adopted by Historic Environment Scotland was assessed as part of the audit. These were

considered to be appropriate to the circumstances of Historic Environment Scotland, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM) and the Charities Statement of Recommended Practice (SORP).

Accounting estimates

25. Accounting estimates are used in a number of areas in Historic Environment Scotland's financial statements, including the valuation of land and buildings assets. Audit work considered the process management has in place around making accounting estimates, 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 except for the indexation adjusted error in Exhibit 2
- there was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

26. 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.

Group audit

27. Historic Environment Scotland is part of a group and prepares group financial statements. The group is made up of one component, including Historic Environment Scotland which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on the group's components for the purposes of the audit, and this work was performed by a combination of the audit team and the component's audit team. Audit instructions were issued to the component auditors, to outline the expectations and requirements in performing the audit work. The audit work performed is summarised in Exhibit 3 (page 12).

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	**Audit Scotland** Fully scoped audit of Historic Environment Scotland's annual report and financial statements.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2.
Historic Environment Scotland Enterprises Limited (HESe)	**Wbg** 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 Historic Environment Scotland Enterprises Limited were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified.

Source: Audit Scotland

28. 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, and
- any frauds or suspected frauds involving group or component management.

29. Our work did not find any such issues.

Significant matters discussed with management

30. All significant matters identified during the audit and discussed with Historic Environment Scotland's management have been reported in the Annual Audit Report.

Audit adjustments

31. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit and are detailed in Exhibit 2 and paragraph 22. Details of all audit adjustments greater than the reporting threshold of £145,000, that impact the main financial statements, are detailed in Exhibit 4.

Exhibit 4
Audit adjustments

Details	Financial statements lines impacted	Statement of Financial Activity		Balance Sheet	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. As outlined in Exhibit 2, an adjustment was required due to the updated indexation rate.					
	Tangible Assets			2,030	
	Revaluation Reserve				(2,030)
Net impact on financial statements				2,030	(2,030)

32. Management of Historic Environment Scotland processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatements to report.

Significant risks of material misstatement identified in the Annual Audit Plan

33. 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 5, (page 144).

Exhibit 5

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Evaluate significant transactions outside the normal course of business.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** no evidence of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud in revenue recognition In accordance with International Standard on Auditing (UK) 240, there is a presumed risk of fraud in the recognition of income. 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 generated across multiple locations. There is a risk that income may be misstated, resulting in a material misstatement in the financial statements.	The audit team will: • Evaluate and assess the design and implementation of key controls related to commercial income (including admissions and membership data controls). • Perform substantive analytical procedures related to commercial income. • Undertake detailed testing of the year-end reconciling difference related to control account reconciliations (between ticketing and other income and bank). • Undertake substantive analytical procedures specifically focussed on admissions and membership income.	Audit work performed found: • The design and implementation of controls over commercial income were appropriate. • No significant issues were identified from detailed testing of year end reconciling differences or substantive analytical procedures. **Conclusion**: no evidence of any misstatements relating to the completeness and accuracy of commercial and trading income streams.

Source: Audit Scotland

Prior year recommendations

34. Historic Environment Scotland has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with Historic Environment Scotland and are outlined in Appendix 1.

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

35. As reported in the Annual Audit Plan, the wider scope audit areas are:

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

36. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements Historic Environment Scotland has in place for each of these is reported in this chapter.

Duty of Best Value

37. 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.

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

Section 22 report on the 2024/25 audit of Historic Environment Scotland

39. The Auditor General for Scotland issued a Section 22 report on the 24/25 audit of Historic Environment Scotland. The matters raised in this report are reflected in the wider scope and Best Value risk assessment and have been considered as part of the 2025/26 audit.

Significant wider scope and Best Value risks

40. Audit work has been performed in response to the significant wider scope and Best Value risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 6.

Exhibit 6
Significant wider scope and Best Value risks

Significant risk	Planned audit response	Outcome of audit work
Leadership and governance Our 2024/25 Annual Audit Report and the Auditor General's Section 22 report highlighted ongoing change and instability in the leadership of Historic Environment Scotland, presenting a risk to governance and operational effectiveness.	We will monitor developments in this area, including Historic Environment Scotland's response to the independent organisational and culture review due to be concluded in May 2026.	Historic Environment Scotland experienced continued instability in leadership during 2025/26 at both Board and Executive level. An interim Chair has been appointed, and recruitment of six non-executive Board members is underway. An implementation plan to address the *Organisational and Cultural Review* was approved by the Board in August 2026. This provides an opportunity to address governance, leadership and cultural challenges. However, the finalisation of the Review of Board Effectiveness has been delayed following changes in Board leadership. We will continue to monitor progress against the *Organisational and Cultural Review* action plan and the completion of the Review of Board Effectiveness.

Significant risk	Planned audit response	Outcome of audit work
Financial Management Our 2024/25 Annual Audit Report and the Auditor General's Section 22 report described weaknesses in the use of Electronic Purchasing Cards (EPCs), expenses and hospitality expenditure.	We will assess the actions taken to strengthen these controls, focussing on Historic Environment Scotland's response to the associated internal audit reviews.	Historic Environment Scotland has made progress in addressing governance weaknesses identified in relation to the use of Electronic Purchase Cards. Revised policies were approved and were introduced from July 2026. Work is ongoing to strengthen the wider control framework, including revisions to the Hospitality and Ticketing Policies, and the Code of Conduct. We will continue to monitor Historic Environment Scotland's progress in implementing the remaining improvements, including publication of the updated Code of Conduct.
Archive House Our 2024/25 Annual Audit report and the Auditor General's Section 22 report highlighted that Historic Environment Scotland continues to incur costs that relate to the cancelled Archive House project.	Internal Audit has completed a lessons learned review of the project and we will monitor how Historic Environment Scotland responds to the findings of the review, including progress towards a new long term archive storage solution.	The Internal Audit lessons learned review of the Archive House project, published in February 2026, concluded that the project was affected by weaknesses in governance, oversight and decision making, which contributed to its cancellation in June 2024. The review made nine recommendations. Historic Environment Scotland is developing a long-term archive accommodation solution. The absence of a long term solution for archive storage continues to present a significant risk.

Source: Audit Scotland

Financial management and sustainability

Conclusion

In 2025/26, Historic Environment Scotland operated within its fiscal resource. We concluded that effective budget monitoring arrangements were in place during the year.

Overall, we found that controls within the main financial systems are designed appropriately. Action is in progress to strengthen the controls over electronic purchasing cards, expenses and hospitality but it will take time to demonstrate that the improvements have been embedded

A Financial Strategy is in place that covers the three-year period from 2025/26 to 2027/28. The strategy will be revised next year and this provides an opportunity to strengthen the alignment between financial planning and corporate priorities.

41. The audit work performed on the arrangements Historic Environment Scotland has in place to secure sound financial management and financial sustainability found them to be broadly effective and appropriate. However, further work is required to fully action and embed a number of procurement and expenditure control improvements. The following paragraphs detail the findings from our work.

Historic Environment Scotland operated within its 2025/26 budget

42. As a charitable Non-Departmental Public Body, approximately half of Historic Environment Scotland's funding is provided by the Scottish Government through grant-in-aid. The initial 2025/26 grant-in-aid cash budget was set at £69.2 million, later revised to £69.3 million. This comprised of a resource grant of £59.3 million and capital grant of £10 million.

43. The performance against the Scottish Government resource limits for the year is shown in Exhibit 7.

Exhibit 7
Performance against resource limits in 2025/26

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource DEL	59.2	59.3	59.3	-
Capital DEL	10.0	10.0	10.0	-
Sub-total: Cash	69.2	69.3	69.3	-
Non-cash	5.0	5.0	3.0	(2.0)
Annually managed expenditure	-	0.3	-	(0.3)
Sub-total: non-cash	5.0	5.3	3.0	(2.3)
Total	74.2	74.6	72.3	(2.3)

Source: Audit Scotland

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

44. Historic Environment Scotland'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 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 commission, commercial sales of images, events and venue hire.

45. These income streams provided total income of £151.6 million for 2025/26 in the Consolidated Statement of Financial Activity, an increase of £7 million from 2024/25.

46. The level of commercial income reported by Historic Environment Scotland continued to improve in 2025/26. Total commercial income of £79.1 million has been reported, an increase of £6.6 million from 2024/25. This is a result of an increase in visitor numbers.

47. The net financial position before any transfer between funds or gain on revaluation of fixed assets was a deficit of £4.5 million (2024/25: surplus of £2.4 million). The movement was largely due to an increase of £6.7 million in grant expenditure committed during the year.

The revised business model has increased Historic Environment Scotland's financial flexibility to retain commercial income

48. As reported in 2024/25, discussions between the Scottish Government and Historic Environment Scotland on amendments to the Historic Environment Scotland business model were concluded in October 2024, resulting in the approval of an updated Framework Document.

49. The revised business model was effective in the 2025/26 financial year, giving Historic Environment Scotland greater financial flexibility. Previously, Historic Environment Scotland 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 Historic Environment Scotland the opportunity to transfer unspent income to the Historic Scotland Foundation (HSF), which can be granted back to Historic Environment Scotland at a future date. No donation was made in 2025/26.

50. In 2026/27, Historic Environment Scotland has set a target to achieve a £4 million (4.9 per cent) increase in commercial income.

Budget monitoring arrangements remain appropriate

51. The Board approved the 2025/26 budget in March 2025. The budget was developed through a structured process involving directorate level submissions aligned to Corporate Plan outcomes and informed by a zero-based budgeting approach. We reviewed the budget setting process and the key assumptions underpinning the budget and found these to be reasonable and consistent with our understanding of Historic Environment Scotland and wider public sector arrangements.

52. Quarterly financial statements are presented to the Finance Committee first and then to the Board, including performance against budget, year to date results and updated year end forecasts. The reports include detailed monitoring of key income streams, particularly commercial income, which is critical to Historic Environment Scotland's financial position and spending capacity. Clear explanations are provided for significant budget variances, supported by detailed financial information across funding, pay, operational expenditure and capital investment.

53. The information is presented clearly and at an appropriate level of detail, enabling those charged with governance to effectively scrutinise financial performance. We concluded that the budget and financial monitoring arrangements remain appropriate.

Internal controls relevant to our audit approach are designed appropriately

54. We reviewed the design and implementation of systems of internal control relevant to our audit approach, including those relating to Information Technology (IT). We did not identify any significant internal control weaknesses which could affect Historic Environment Scotland's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements. We identified one area where there is scope for improvement to the payroll control environment (Exhibit 8), but this did not have an impact the audit approach.

Exhibit 8
Key findings from review of controls

Audit finding	Audit action and finding
Payroll Exception Reporting We identified through our work that the net pay variance check was discontinued in May 2025 and has not been reinstated. Historic Environment Scotland perform various checks on their monthly payroll, however a variance check for individuals monthly net pay should also be undertaken.	We performed analytical procedures to identify any significant variances in payroll. Our testing did not identify any issues. A proportionate monthly check on net pay variances should be undertaken by payroll. Management has committed to review broader exception reporting.

Historic Environment Scotland migrated its membership database from Raiser's Edge to Dynamics

55. In February 2026, the membership database used by Historic Environment Scotland was migrated from Raiser's Edge to Microsoft Dynamics. We reviewed the migration process, including the testing of Raiser's Edge and Dynamics data after the system went live, and did not identify any issues.

Historic Environment Scotland must ensure consistent application of the revised electronic procurement card and staff expense policies

56. In 2024/25, we reported weaknesses in compliance with HES's electronic purchasing card (e-PC) and business travel policies. We also highlighted the high volume of e-PCs in circulation across HES, with approximately one in every four members of staff being in possession of a card.

57. Both the e-PC and expenses policies have been reviewed during the year, and implemented from July 2026. An initial review of card holdings has been completed, resulting in the removal of around 100 cards. A second phase review is planned and will involve a more detailed assessment by the procurement team of card ownership, usage, and

business need. Further planned actions include a review of increased card limits and salary advances policy and enhanced monitoring and compliance checks to support implementation of the revised policies.

58. Based on our review of the Business Travel and Expenses Policy and the e-PC Policy, the policies provide a reasonable framework of controls, responsibilities and approval requirements. Historic Environment Scotland must now ensure consistent application of the revised policies to demonstrate that value for money is being achieved across all areas of expenditure.

Action has been taken to strengthen procurement controls within Historic Environment Scotland

59. In 2024/25, we reported a weakness in procurement, which related to the inappropriate use of single source justification (SSJ). This prompted an internal audit review of procurement practice. The internal audit review was reported to the Audit, Risk and Assurance Committee in February 2026. The review received a limited assurance opinion, reflecting a weakness in the design and operation of key controls. While internal audit noted that improvements had been made since September 2025, as a result of the e-PC and Expenses Internal Audit findings, it concluded that controls were not applied consistently.

60. Historic Environment Scotland has accepted the recommendations from the review and plans to implement revised guidance, strengthen compliance requirements, introduce clearer sanctions for non-compliance, and a formal SSJ conflict of interest process.

61. Successful delivery of these actions should strengthen procurement governance, improve transparency and accountability, and reduce the risk of inappropriate use of single-source procurement arrangements.

Historic Environment Scotland is developing a revised Code of Conduct, Gifts and Hospitality Policy and a new Corporate Hospitality Policy.

62. Our 2024/25 Annual Audit report highlighted that there is a lack of clarity over acceptable hospitality spend. Internal audit reviewed ticket allocation and gifts and hospitality arrangements, and identified opportunities to strengthen governance and transparency. This was reported to the Audit, Risk and Assurance Committee in June 2026. In response, Historic Environment Scotland is developing updated policies and processes, including centralising ticket allocation through the Chief Executive's Office and a formal process to support the transparent distribution of tickets.

63. A revised Code of Conduct, Gifts and Hospitality Policy and a new Corporate Hospitality Policy are in development. It is essential that these policies are agreed and implemented promptly to ensure that previously identified weaknesses are not repeated.

We have concluded that the overarching arrangements that Historic Environment Scotland has in place for the prevention and detection of fraud are appropriate

64. We have concluded that Historic Environment Scotland had sound arrangements in place to prevent and detect fraud throughout the year. We did not identify any issues from our review of the Counter Fraud Policy and Fraud Response Plan, and Financial Regulations or through discussions with management, internal audit and those charged with governance.

65. The National Fraud Initiative (NFI) is a UK-wide counter-fraud exercise aimed at preventing and detecting fraud across the public sector. Historic Environment Scotland actively participated in this biennial exercise. The 2024/25 exercise, covering the period from September 2024 to December 2025, was concluded during the 2025/26 financial year. No new frauds were identified through this exercise.

Historic Environment Scotland's current Financial Strategy covers the three-year period from 2025/26 to 2027/28. Improvements could be made to it by highlighting how projections are driving organisational priorities.

66. Historic Environment Scotland's Financial Strategy, published in June 2024, covers the three year period from 2025/26 to 2027/28. This was followed by a budget paper presented to the Board in March 2026, which outlined the 2026/27 budget and updated financial projections for a further two years through to 2028/29.

67. Since publication of the Financial Strategy, some assumptions underpinning the financial projections have changed. This includes a rise in the projected staff cost increase from 2% to 3.5%, and an inflationary update of 3% from 2% for commercial operating expenditure. Delivery of the projected financial position is dependent on key strategic targets, including continued growth in commercial income and a reduction in both staff costs and corporate support costs.

68. Historic Environment Scotland should refresh its Financial Strategy to ensure that future financial planning is based on up to date assumptions, reflects the latest financial outlook and remains aligned to organisational priorities. Management has advised that a review of the Financial Strategy is planned during 2026/27.

A balanced budget was approved by the Board for 2026/27

69. In March 2026, the Board approved a balanced budget of £155.19 million for 2026/27. This reflects an increase in total resource funding of £4.3 million (2.8 per cent) compared with the previous year, and a £4 million (4.9 per cent) increase in commercial income. The budget is underpinned by the broad assumptions set out in the Financial Strategy, including continued growth in commercial income and delivery of planned efficiencies across the organisation. Directors are expected to

identify efficiencies within their areas, contributing to Historic Environment Scotland's longer-term efficiency plans and supporting delivery of the Financial Strategy.

70. The Financial Strategy (2025/26 to 2027/28) assumed annual growth in gross commercial income of 5 per cent. The 2026/27 budget projects annual growth of 6.4 per cent compared with the forecast outturn. This reflects planned ticket price increases and a focus on income generation.

71. Staff costs are budgeted at £85.5 million, an increase of £5.2 million from the previous year's budget and £2 million above the expected 2025/26 outturn. This represents 55 per cent of total resource expenditure, slightly above the Financial Strategy target of 54 per cent.

72. Delivery of the staff costs budget will require close monitoring. Planned controls include scrutiny of all new and backfill posts through the Executive Leadership Team limits on additional fixed-term appointments and extensions, advisable holding periods before vacant posts can be filled, director level approval for overtime and additional hours, and redeployment of existing staff to meet new demands where possible.

73. The latest full year forecast reported position for 2026/27, as reported to to the Finance Committee in August 2026, indicated a deficit of £1.8 million. Historic Environment Scotland should continue to reduce the overall deficit to deliver within budget.

Vision, Leadership and Governance

Conclusion

Historic Environment Scotland has continued to experience change and instability in leadership. This increases the risk that the organisational improvements identified by recent independent internal and external reviews will not be delivered at the pace required.

Historic Environment Scotland responded well to the publication of the Organisational and Cultural Review and this provides a significant opportunity to address the leadership and governance challenges, and strengthen its overall control environment.

74. The audit work performed on the arrangements Historic Environment Scotland has in place in relation to Vision, Leadership and Governance identified areas where further improvement is required. The following paragraphs detail the findings from our work.

A Chief Operating Officer was appointed on a temporary basis and strengthened leadership capacity during a sustained period of instability

75. In 2024/25, we reported on the ongoing change and instability in the leadership of Historic Environment Scotland and the significant risk this presents to the governance and operation of the organisation. The Chief Executive Officer, and designated Accountable Officer, was absent from work from 2 May 2025 and returned to work on 20 October 2025. This was initially in a limited capacity to enable the 2024/25 annual report and accounts to be laid before Parliament in line with the statutory deadline of 31 December 2025.

76. A temporary Chief Operating Officer was appointed in December 2025 and has provided additional leadership support and guidance to the Executive Leadership Team for the remainder of 2025/26.

77. The Chief Executive Officer has now left Historic Environment Scotland and the Chief Operating Officer has been appointed as the Interim Chief Executive Officer with effect from 31 August 2026. The Scottish Government has formally appointed the Interim Chief Executive as the Accountable Officer.

Changes at board level have created additional uncertainty in the leadership of the organisation

78. Board members are appointed by Scottish Ministers following an open process, and these appointments are regulated by the Commissioner for Ethical Standards in Public Life in Scotland. Current Board members are appointed for a term of between one and four years. Board members may be reappointed but the total period of appointment of any individual will be no more than eight years.

79. Sir Mark Jones stepped down as the chair of the Board in July 2026. On 13 July 2026, the Scottish Government appointed Ronnie Hinds as Interim Chair.

80. The Scottish Government is in the process of recruiting six new non-executive board members to broaden the skills mix of the Board. This will bring in five new board members and a permanent chair.

The board has accepted the recommendations from the Organisational and Cultural Review and a transformation programme has been established to lead the change

81. The Historic Environment Scotland *Organisational and Cultural Review,* led by David Martin, was published in June 2026 following consideration by the Board in May 2026. The review identified 30 recommendations across the seven Best Value thematic areas. The Board accepted all findings and recommendations.

82. The review highlighted the need for the Board to set clearer expectations of the Executive Leadership Team (ELT), review organisational performance targets, and address a lack of clarity and alignment across directorates. It concluded that the Board and Chief Executive Officer should prioritise consideration of whether the current organisational structure remains fit for purpose and is best placed to support delivery of organisational priorities and outcomes. The review also included a proposed target operating model illustrating a potential future organisational structure. The need to redefine leadership roles and make effective use of the Board Effectiveness Review findings to strengthen Board and committee performance was also highlighted.

83. It also drew on the significant cultural and organisational challenges highlighted in the independent Equality Audit undertaken by Diversity Scotland.

84. We observed Board discussion of the review's findings and recommendations. The session was conducted in a structured and professional manner, with a clear focus on organisational improvement and governance. Board members demonstrated appropriate engagement and challenge and expressed a commitment to progressing the review's recommendations.

85. An implementation plan was presented to the Board in August 2026, and this sets out how a Transformation Programme will be established to ensure effective implementation the required improvements. The Transformation Programme comprises five phases and is expected to transition to business as usual operations by December 2029. The plan proposes the establishment of a Programme Board, comprising Executive Leadership Team members, the Chair and Non-Executive Directors, through which programme delivery, risks and progress will be monitored and reported.

86. The successful delivery of the Transformation Programme will be key to improving governance and decision-making, and ensuring the organisation is set up in the best possible way to achieve its goals. We will continue to monitor delivery of the agreed actions and consider progress as part of our 2026/27 audit.

Historic Environment Scotland has taken steps to address weaknesses identified through internal and external reviews but further work is required to ensure that outstanding improvements are implemented at pace

87. Historic Environment Scotland has demonstrated a willingness to address weaknesses identified through internal and external reviews, with several important governance and control improvements either implemented or in progress.

88. Positive steps include some action to strengthen leadership capacity, tightening of expenditure controls, review of procurement practice, the Archive House lessons learned review, and the organisation's initial response to the organisational and cultural review.

89. However, to date the pace of change has been mixed. Several significant reviews and policy changes remain outstanding or have been delayed, including the finalisation of Board Effectiveness Review and revised governance policies, such as revised Code of Conduct, Gifts and Hospitality Policy and a new Corporate Hospitality Policy. The leadership instability during the year, including the absence of the Chief Executive Officer and changes in the Chair of the Board, is likely to have contributed to delays in some areas.

90. While there is clear evidence of commitment to improvement, the timely implementation of agreed actions will be critical to demonstrating that weaknesses identified are being fully addressed.

The significant data breaches reported to the Information Commissioner's Office during 25/26 have been closed

91. In 2025/26, Historic Environment Scotland reported eight personal data breaches to the Information Commissioner's Office (ICO) and these have now been closed. As at the date of this report, one breach and one near miss have been reported to the ICO during 2026/27, with one report now closed.

The outcome of the Board Effectiveness Review has been delayed

92. In 2024/25, we recommended that the Board undertakes a formal self-assessment and implements actions to address any weaknesses identified. Internal audit carried out a review of Board effectiveness, which was due for completion in May 2026. However, progress was delayed following the resignation of the Chair of the Board and the subsequent appointment of an Interim Chair. At the August Audit Assurance and Risk Committee meeting, it was confirmed that the review is now with Board members for consideration and is expected to be completed imminently.

Training has been provided to the Board and Executive Leadership Team, with a focus on governance, diversity and inclusion

93. As part of its response to our 2024/25 governance recommendation, Historic Environment Scotland committed to provide training for the Board and Executive Leadership Team. Historic Environment Scotland has since delivered a Board deep dive session on grants and governance training, including member responsibilities, trustee duties and conflicts of interest. Additional governance training will be provided following the appointment of the six new Board members.

Further work is required to introduce a structured induction and training programme. This will be addressed through internal audit's Board Effectiveness Review.

94. Diversity and Inclusion training sessions have been delivered to the Executive Leadership Team during the year.

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

95. In our role as external audit we attended meetings of the Audit, Risk and Assurance Committee and concluded that the committee is operating effectively. A new independent co-opted member has been appointed and attended his first meeting in May 2026. We observed appropriate scrutiny and challenge from members on relevant issues and note that the Audit, Risk and Assurance Committee undertook a self-assessment.

A register of interests has been put in place for the Executive Leadership Team

96. The 2024/25 Annual Audit Report recommended that Historic Environment Scotland should introduce a register of interests for the Executive Leadership Team. A register was put in place during 2025/26, demonstrating action to strengthen governance arrangements and address the previous recommendation.

97. To enhance its commitment to transparency and accountability, Historic Environment Scotland should consider publishing the Executive Leadership Team register in line with the approach adopted for Board members. The register should continue to be reviewed and updated regularly, with changes recorded as they arise.

Internal Audit issued a limited assurance opinion for 2025/26

98. Internal audit presented its annual report and opinion for 2025/26 to the Audit Risk and Assurance Committee in June 2026 and issued a limited assurance opinion for 2025/26. 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.

99. The key considerations which determined the limited assurance opinion include:

- changes to the leadership of the Board and changes within the Executive Leadership Team within 2025/26
- implementation of management actions resulting from recommendations requires significant improvement

- to improve efficiency, the implementation of an enterprise-wide risk management system is required
- Historic Environment Scotland does not have an effective business continuity management framework in place, a business continuity plan was approved by the Board in January 2025, but progress has been slow.

Use of Resources to Improve Outcomes, and Best Value

Conclusion

Historic Environment Scotland has appropriate arrangements in place to monitor and report performance against strategic objectives. Overall, performance in 2025-26 was mixed and Historic Environment Scotland has recognised where action or revised performance measures are required.

The absence of a long term solution for the storage of archive materials continues to present a significant risk to Historic Environment Scotland.

Historic Environment Scotland should perform an annual self-assessment to demonstrate that robust arrangements are in place to secure Best Value.

100. The audit work performed on the arrangements Historic Environment Scotland has in place to support the effective use of resources found that appropriate arrangements are in place to plan, monitor and report on performance against strategic objectives. However, mixed performance against a number of key measures, ongoing risks relating to archive accommodation, and the need to embed improvements arising from recent reviews means further improvements are required. The following paragraphs detail the findings from our work.

Historic Environment Scotland has appropriate arrangements in place for monitoring and reporting performance against strategic objectives.

101. Historic Environment Scotland published the Corporate Plan 2025-28 Heritage for All in March 2025. The Corporate Plan sets out Historic Environment Scotland's ambition over the next three years. 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. Historic Environment Scotland published its Operating Plan 2025-28 in April 2025.

102. There are 31 Operating Plan actions aligned to the priorities and outcomes set out in the 2025-28 Corporate Plan. Progress against these

actions is reported to the Board through quarterly corporate performance reports, while progress against the Corporate Plan KPIs is reported every six months. Results are published annually within the Annual Report and Financial Statements. 2025/26 represents the first year of delivery and reporting against the three-year Corporate Plan and Operating Plan framework, providing the initial assessment of progress towards the outcomes to be achieved by March 2028.

While performance in 2025-26 was mixed, Historic Environment Scotland has recognised areas where further action or revised performance measures are required

103. Historic Environment Scotland has established a clear framework for monitoring delivery of its 2025-28 Corporate Plan through a set of key performance indicators linked to its ten strategic outcomes. Progress against these Key Performance Indicators (KPIs) is monitored through annual milestone targets set out in the Operating Plan. Performance information is provided by lead Directorates and reviewed by the Executive Leadership Team before being reported to the Board.

104. As at 31 March 2026, Historic Environment Scotland reported that six of its eleven KPI milestone targets on track to be achieved, three were not on track and two were reported as not applicable as the metric is under review. Where performance is not on track, further actions or revisions to performance measures have been identified. The Operating Plan includes annual milestone targets for each year of the 2025-28 Corporate Plan period.

105. Overall, Historic Environment Scotland has appropriate arrangements in place to monitor and report performance against its strategic objectives.

The absence of a long term solution for the storage of archive materials continues to present a significant risk to Historic Environment Scotland

106. In June 2024, the Executive Leadership Team decided to cancel the Archive House project due to escalating costs and increasing timelines. Since then, Historic Environment Scotland has continued to use John Sinclair House as its primary archive facility under a short term lease arrangement. The current lease has been extended for one year to 2029 to provide more time to explore a long term solution.

The outstanding actions identified from Internal Audit's lessons learned review of the Archive House project should be implemented to ensure good governance of future projects

107. As reported in our 2024/25 Annual Audit Report, there were weaknesses in the documentation of the decision making process to cancel Archive House. Internal audit subsequently undertook a lessons

learned review of the project. The report was presented to the Audit, Risk and Assurance Committee in February 2026.

108. The review examined the circumstances that led to the Board's decision in June 2024 to halt the project. It concluded that the project was affected by weaknesses in project governance, oversight and decision making from an early stage. Nine recommendations were made, all of which were accepted by management and will be built into future projects.

Duty of Best Value

109. 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.

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

111. We previously recommended that Historic Environment Scotland should introduce an annual self-assessment against the Best Value themes to support continuous improvement and provide assurance on organisational performance and governance arrangements. In 2025/26, the independent Organisational and Cultural Review provided an assessment of the arrangements that Historic Environment Scotland has in place against each of the Best Value themes. Going forward, we would expect an annual self-assessment of Best Value to be carried out and scrutinised by the Board. Therefore, this recommendation remains open.

Appendix 1

Action plan 2025/26

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Leadership challenges 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. The Chair of the Board resigned in September 2025, leaving a further gap in the leadership of HES. **Risk** – There is a risk that the absence of effective leadership impacts negatively on the performance of HES.	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. **Accepted** The recruitment of an Interim Chief Operating Officer. The recruitment of two new Board members. The outstanding matter with the CEO to be resolved as soon as possible. **Responsible Officer:** Board and Executive Leadership Team **Agreed Date:** November 2025	**In progress** Work is ongoing to provide stability at executive and Board level including recruitment of new Board members, with the expectation that any required changes/additions will be made by the end of 2026/27. **Responsible Officer:** Interim Board Chair, Interim Chief Executive Officer **Agreed Date:** March 2027

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
2. Board effectiveness 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. **Risk** – Significant decisions are made without sufficient scrutiny and challenge from the Board.	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. **Accepted** Training to be delivered to the Board and ELT on the roles and responsibilities of the Board, Committees, and Directors. Internal Audit to review of Board effectiveness. **Responsible Officer:** Board, Executive Leadership Team and Head of Internal Audit and Business Improvement **Agreed date:** March 2026	**In progress** The Review of Board Effectiveness remains in draft and has not yet been finalised. While originally due in March 2026, the expected completion date was subsequently revised to May 2026. Discussions with Historic Environment Scotland indicate that the resignation of the Board Chair, combined with the appointment of an interim Board, has resulted in delays in determining accountability and ownership for progressing and approving the review. Consequently, the review remains outstanding beyond the revised timeline Review to be finalised and recommendations implemented. **Responsible Officer:** Board Chair **Agreed date:** March 2027

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
3. Register of interests 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. Risk – There is a risk that undisclosed interests could influence decisions and a lack of transparency without the information being made publicly available.	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. **Accepted** A register of interests is being developed for the Executive Leadership Team. **Responsible Officer:** Corporate Governance Manager **Agreed date:** March 2026	**Implemented** A register of interests was developed for the Executive Leadership Team. This recommendation has been implemented but it would be best practice to make this publicly available to provide greater transparency.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
4. Archive House project – lessons learned 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. An interim solution has been secured whilst a longer term solution for the storage of archive 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. **Risk** – Timescales for delivery of a solution and funding become increasingly challenging. HES's project governance does not operate as expected and this leads to further financial loss and reputational damage.	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. **Accepted** 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. **Responsible Officer:** Director of Cultural Assets **Agreed date:** December 2025	**Implemented** The Internal Audit on Archive House lessons learned review has been completed. Management have accepted the action plan and are to be implemented for all future major projects. Historic Environment Scotland continues to rely on John Sinclair House as its primary archive facility under a short-term lease arrangement. HES is now developing a long-term accommodation solution, with a compliant options appraisal required by October 2026 to support future accommodation planning and ongoing archive accreditation requirements.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
5. Revaluation of Stirling Castle vaults 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. Risk – 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. **Accepted** Recommendation noted and will be taken on board at next valuation. **Responsible Officer:** Head of Finance **Agreed date:** October 2025	**Implemented** Historic Environment Scotland engaged with the Valuation Office Agency who confirmed that when the asset is next revalued, if no suitable BCIS comparators exist this will be based on a Quantity Surveyors build up approach.
6. Best Value self-assessment 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. HES's arrangements for securing Best Value have been assessed as part of the 2023/24 audit and judged to be appropriate. An annual self-assessment will further strengthen these arrangements and be a point of good practice.	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. **Partially accepted** HES's arrangements for securing Best Value have been judged to be appropriate. HES will consider implementing an annual Best Value self-assessment. **Responsible Officer:** Director of Finance and Corporate Services **Agreed date:** March 2025	**In progress** For 2025/26, the Best Value criteria have been assessed via the independent Culture and Organisational review. However, as this does not constitute an annual self-assessment process, we expect HES to implement a formal self-assessment against the Best Value themes on an ongoing basis. HES will be taking forward the recommendations from the Culture and Organisational Review in 2026/27. Consideration will be given in 2027/28 to implementing an annual self-assessment process. **Responsible Officer:** Interim Chief Executive Officer **Agreed date:** 2027/28

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

Historic Environment Scotland

2025/26 Annual Audit Report

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