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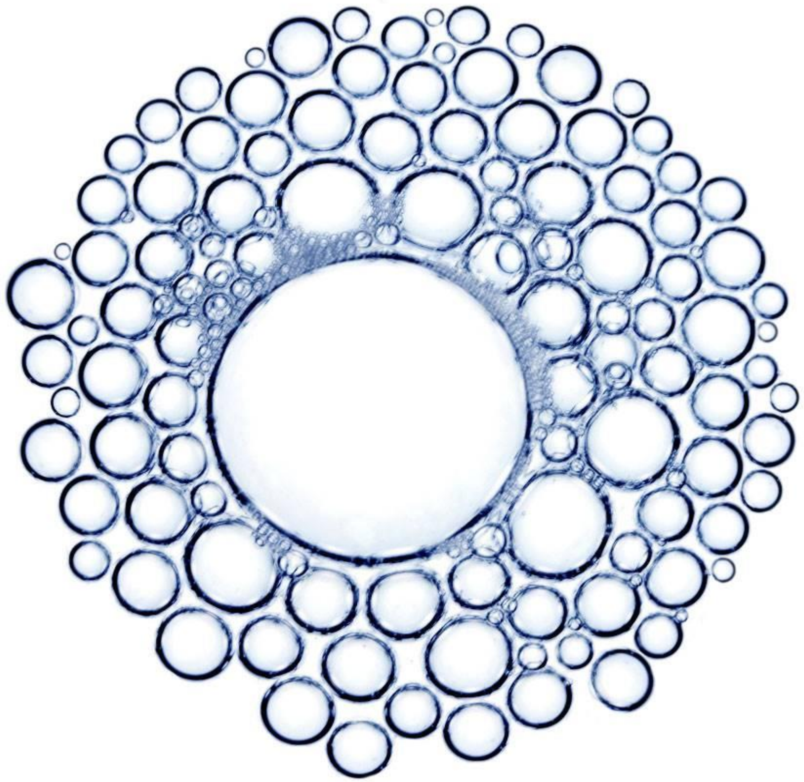
HISTORIC ENVIRONMENT SCOTLAND



Historic Environment Scotland

Report to the Audit Risk and Assurance Committee (ARAC), Board and the Auditor General for Scotland on the 2018/19 audit

Issued 6 August 2019 for the meeting on 15 August 2019

Contents

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit, Risk and Assurance Committee (ARAC) and Board of Historic Environment Scotland (HES) for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Board in February 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers' duty to secure best value.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion for both HES and its subsidiary Historic Environment Scotland Enterprises Ltd (HESe).

The performance report and accountability report, forming part of the annual report, comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of HES.

The Charities SORP does not require a separate remuneration and staff report, however, HES has chosen to publish one in accordance with the requirements of the Government Financial Reporting Manual (FReM) to aid transparency. The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. HES met its financial targets for 2018/19 with a balanced budget.

There have been no uncorrected misstatements in excess of our reporting threshold of £111k or disclosure deficiencies which have been identified up to the date of this report.

Status of the financial statements audit

The audit is complete.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on each dimension is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – HES has achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20 and HES has a Financial Strategy that addresses the medium to longer term.

We are satisfied that the Financial Strategy sets out different options for achieving efficiency and medium to longer term financial sustainability. This includes emerging trends such as the potential reductions to Grant in Aid and risks associated with EU withdrawal. While it is positive to note that the Financial Strategy has been agreed, it is imperative that actions are progressed and the impact of these monitored to ensure that the expected benefits are realised.

We also acknowledge that the CMIS project is a significant part of the transformation work as a key enabler to a number of areas. We are satisfied that there is evidence of efforts being made to work towards outcome based budgeting which will provide greater linkages between the budget and national outcomes. This should be aided by the new CMIS system, which we will continue to monitor the implementation of during our 2019/20 audit work.

Financial management – effective budget monitoring arrangements are in place which is transparently reported to the Board and Senior Management Team (SMT) frequently throughout the year.

Governance and transparency – HES's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership, the relationship between board members and officers is good, and there is evidence of effective challenge from committee meetings.

The Board is open and transparent in its decision making with all key strategy documents and key Board minutes available through the Board's website. Improvements to transparency can still be made by sharing ARAC minutes on the HES website; this has been included in the action plan on page 38.

Value for money – HES has continued to make substantial progress in its third year of the 2016-2019 Corporate Plan, and has either achieved or partially achieved 99% of the Key Performance Indicators (KPIs) set out in the Year 3 Annual Operating Plan.

Our detailed findings and conclusions are included on pages 17 to 34 of this report.

Next steps

An agreed Action Plan is included in the Appendix on pages 38-40 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to HES by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help HES promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular we have included an action plan on pages 38-40 and we have also issued a separate Technical Update paper which includes relevant sector updates.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, HES continues to face significant financial pressures with a risk of reduced funding from Scottish Government in future years. However, this is partly offset with the positive results from self-generated income.

Timeline 2018/19

November 2018
Meetings with management and other staff to update understanding of the processes and controls.

13 February 2019
Presented planning paper to the ARAC

31 March 2019
Year end

May - June 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

25 June 2019
Audit close meeting

15 August 2019
Board meeting – Accounts sign off

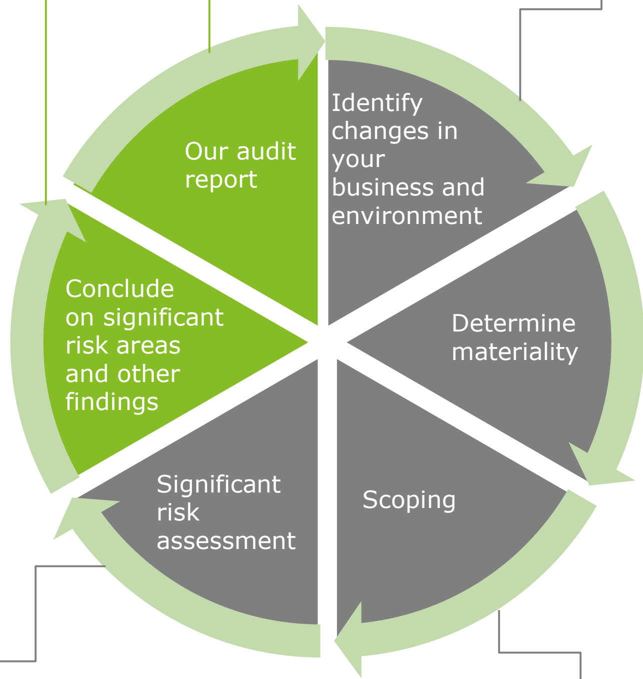
Materiality

Group materiality of £2,239k (HES only £1,903k) and group performance materiality of £1,679k (HES only £1,427k) has been based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £111k (HES only £95k).

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.



Quality and Independence

We confirm we are independent of HES. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of the audit

We have audited the group financial statements for the year ended 31 March 2019 of Historic Environment Scotland.

We have also audited the separate financial statements of the subsidiary HESe.

SCRAN now meets the criteria of being a dormant entity as there were no transactions in the current and previous years so no statutory audit is required. We therefore agreed with management to resign from the audit and for SCRAN accounts to be unaudited for the year.

Financial statements audit

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness of commercial income [1]	✓	✓	D+I	Satisfactory	●	Satisfactory	9
Management override of controls [2]	✓	✓	D+I	Satisfactory	●	Satisfactory	10
Restricted funds [3]	✓	✗	D+I	Satisfactory	●	Satisfactory	12

- [1] This risk covers both HES and HESe
- [2] This risk covers both HES and HESe
- [3] This risk covers HES only

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Completeness of commercial income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for HES are government grant in aid and commercial income. Grant in aid is directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to completeness of commercial income, being income from admissions and retail income (from the trading subsidiary, HESe) from properties in care. As regular reconciliations are performed between the bank accounts and the amounts recognised via the Galaxy till receipting system, the risk is focused on how any reconciling items are investigated and addressed. This was our key area of audit focus.

Key judgements and our challenge of them

As commercial income comprises low value, high volume cash transactions across multiple locations there is an inherent risk of fraud in respect of these balances.

Deloitte response

We have performed the following:

- obtained an understanding of the design and implementation of the key controls in place in relation to recording of commercial income;
- performed detailed testing of the year-end reconciling difference as identified in the monthly control account reconciliation for account code 9111, being the difference between the amounts uploaded from the Galaxy cash receipting system, and the amounts uploaded from the bank statements, to gain assurance over completeness of amounts recognised as income in the financial statements;
- tested the visitor numbers by agreeing a sample back to till receipts to confirm completeness; and
- performed analytical procedures over commercial income reported for the year, based on visitor numbers and price changes, to confirm accuracy (performed at normal risk level as the significant risk is focused on completeness).

Total income 2018/19 £100.1m

- Government grant in aid £38.6m
- Admissions and retail income (significant risk) £55.7m[1]
- Heritage Lottery Fund (HLF) and partnership funding £0.8m
- Membership income £4.5m
- Other income £0.5m

[1] This is the sum total of retail £15.4m (Note 4), admissions £38.6m, audio tours £1.0m, imaging sales £0.2m, third party services £0.2m, visitor events £0.2m, and other £0.1m (Note 3)

Deloitte view

We have concluded that commercial income has been recognised in accordance with the Charities SORP and FRS102.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override HES's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- HES and HESe's results throughout the year were projecting an over spend against budget. This was closely monitored and whilst projecting over spends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. See summary on the following page. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements focusing on the areas of greatest judgement and value, including:

- Grant accruals and commitments
- Restricted funds
- Property valuations

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. The details of these estimates are discussed in more detail on the next few pages.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgments in the financial statements are around the recognition of grant accruals and commitments in line with the Charities SORP (see further details on page 13) and correct classification of restricted funds income and expenditure (see further details on page 12). These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

As part of our work on this risk, and in addition to grant accruals and commitments and restricted funds, we have reviewed and challenged the following additional key management estimate and judgement.

Name of estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The value of PPE is based on valuations provided by a professional valuer. A full revaluation of PPE occurs on a rolling basis over 5 years, with indexation adjustments made in intervening years.	Revaluations are carried out by professional valuers, District Valuer, every year on a five year rolling cycle. In 2018/19, we have performed a review of a sample of revaluations which we have agreed to the valuer's reports with no issues identified. Furthermore, Deloitte Real Estate (DRE) has reviewed the methodologies and assumptions used by the valuer in previous years and has concluded that estimates and assumptions used in the valuations are in line with expectation. We have confirmed that the valuer continues to use the same methodologies and are therefore satisfied that the estimates are reasonable.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant risks (continued)

Risk 3 – Restricted funds

Risk identified

Practice Note 11 *The Audit of Charities in the United Kingdom (revised)* issued by the Auditing Practices Board states that restricted funds should be a presumed significant risk for all charities. As a result, we are required to examine the movement in the restricted funds from the Charity to ensure that the restricted funds have been accounted for correctly.

Key judgements and our challenge of them

HES must ensure that income is recorded correctly between restricted and unrestricted funds and expenditure is incurred in accordance with relevant charities legislation, the objects of the Charity and the specific fund balances.

Deloitte response

In considering the risk of restricted funds being accounted for incorrectly as unrestricted funds, we have performed the following audit procedures that directly address this risk:

- obtained an understanding of the design and implementation of the key controls in place in relation to recording of restricted income, including following up on whether a formal control has been put in place to ensure that funds are correctly categorised as restricted or unrestricted, in line with the prior year recommendation;
- as part of our income testing, we have considered if any restrictions apply;
- we carried out tests of detail on restricted fund expenditure, and tied this back to the supporting documentation for the restricted income used to fund the expenditure to assess whether the restrictions of the income have been met; and
- we have also assessed the presentation and classification of transfers between restricted and unrestricted funds.

	Restricted Funds £'000
Balance at 1 April 2018	3,489
Income	831
Expenditure	(1,448)
Transfers	189
Balance at 31 March 2019[1]	**3,061**

[1] £2,701k of this closing balance relates to Heritage Lottery Funding for the Engine Shed which will be released in line with depreciation.

Deloitte view

We have concluded that the categorisation and application of restricted funds is in accordance with the Charities SORP.

We have concluded that a control around the recording and reviewing of restricted funds income and expenditure has been implemented and therefore that the recommendation raised in the previous year has been addressed.

Area of audit focus

Grant considerations – accounting treatment under Charities SORP

Risk identified

Under the Charities SORP (FRS102) the award of a grant is recognised as a liability when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably, and there are no conditions attached to its payment that limit its recognition.

Accounting for grants was classed as a significant risk in previous years audits. In our 2017/18 audit, no errors were identified and we noted an improvement in the year-end controls. However, given the change in finance staff during 2018/19, the year-end processes were reviewed and updated.

We concluded that similar controls and processes were put in place as those that were in place in 2017/18, and we identified no issues from our planning work and walk throughs of these controls. Therefore we have downgraded the risk from a significant risk.

Key judgements and our challenge of them

Under the Charities SORP (FRS102) the award of a grant is recognised as a liability when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably, and there are no conditions attached to its payment that limit its recognition.

	Due within 1 year £'000	Due in more than 1 year £'000
Accruals for grants payable	23,207	10,630
Grants retentions	1,494	256
Total	**24,701**	**10,886**
Total liabilities	**35,587**	

Deloitte response

We have performed the following:

- obtained an understanding of the design and implementation of the key controls in place in relation to accounting for grant accruals and commitments at the year-end to conclude on whether adequate controls in place in order to downgrade the risk from significant; and
- tested a sample of grant accruals, commitments and retentions at the year-end to assess whether they have been accounted for in accordance with the Charities SORP.

Deloitte view

We have concluded that that the grant liabilities have been accounted for in accordance with the Charities SORP and no errors have been identified.

We are pleased to note that further improvements have been made in the year to the controls around the accounting for grants.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Based on our work completed to date we expect to issue an unmodified opinion on the financial statements.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.

Your annual report

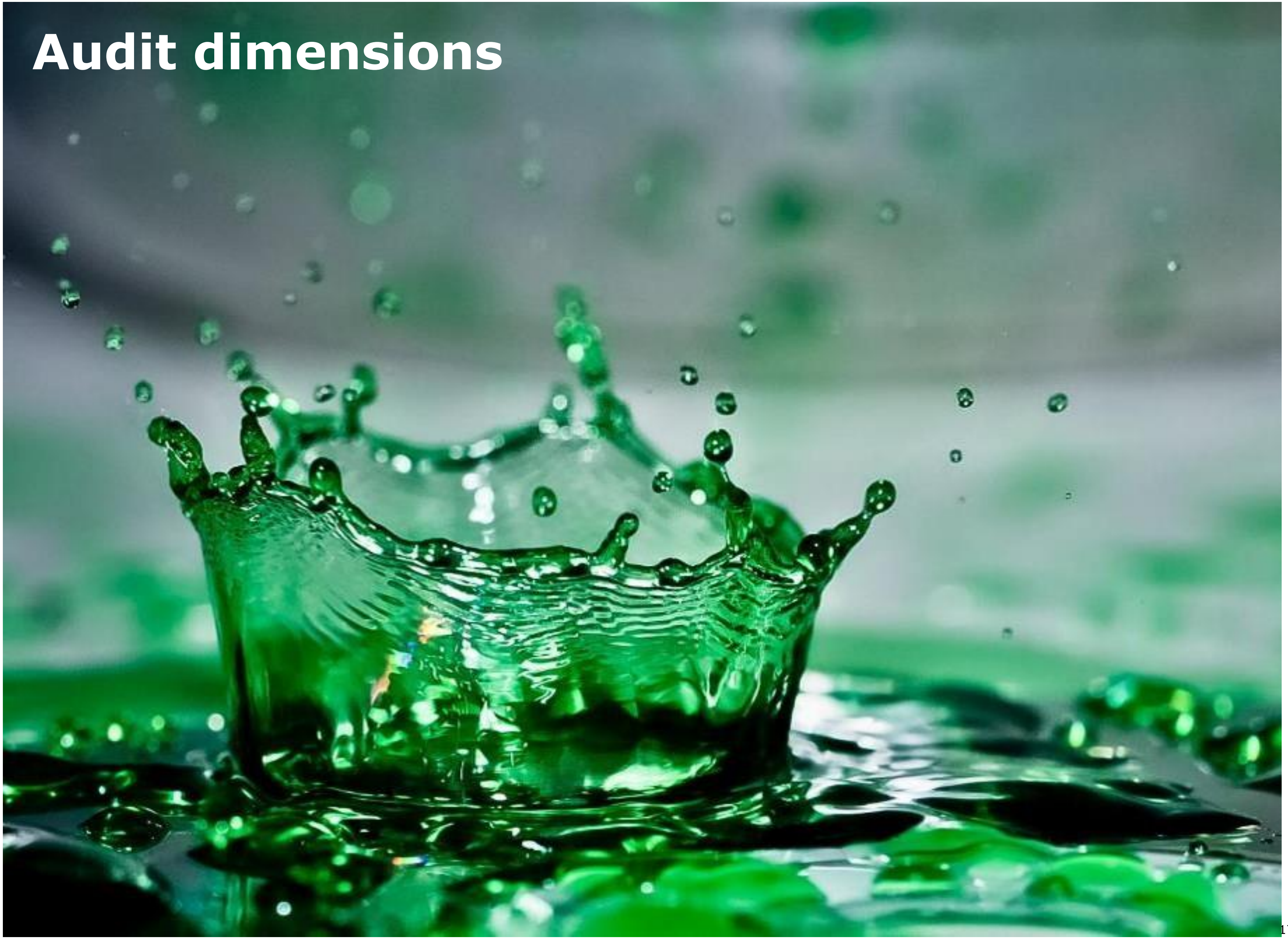
We welcome this opportunity to set out for the Audit, Risk and Assurance Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Annual Report	Charitable Non-Departmental Public Bodies (NDPBs) are not required to comply with the FReM requirements in relation to a Performance Report and Accountability Report. Instead, the Charities SORP sets out the requirements for a Trustees' Annual Report. HES has, however, chosen to follow the format set out within the FReM, whilst still ensuring the full requirements of the Charities SORP are met as part of its Annual Report.	We have assessed whether the Annual Report has been prepared in accordance with the Charities SORP. We are satisfied that the Charities SORP requirements have all been met, albeit following the format and heading structure of the FReM. We have also read the Annual Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
Governance Statement	The FReM requires a governance statement to be published with the financial statements and guidance on content is provided in the Scottish Public Finance Manual (SPFM).	We have assessed whether the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.
Remuneration and Staff Report	Charitable NDPBs are not required to comply with the requirements of chapter 5 of the FReM, therefore the remuneration disclosures in the notes, as required by the Charities SORP is all that is required. These disclosures replace the need for a separate remuneration report. HES has, however, chosen to publish a separate Remuneration and Staff report in accordance with the requirements of the FReM to aid transparency.	We have audited the auditable parts of the Remuneration and Staff report with no issues noted. We have confirmed that it has been prepared in accordance with the FReM.

Your annual report (continued)

	Requirement	Deloitte response
Going Concern	Management has made appropriate disclosure relating to Going Concern matters. This includes specifically setting out why they have reported a deficit on unrestricted funds, which is due to the disparity between grant income receivable and grant accruals and commitments. The financial statements have been prepared on a going concern basis.	As noted on pages 20 and 25, we have concluded that HES has achieved short term financial sustainability, with a balanced budget set for 2019/20. The closing Balance Sheet reports a negative unrestricted reserve of £11.229m, an increase of £6.183m in comparison with the prior year. This has arisen due to the need for HES to commit to grants on a longer term basis, which under the Charities SORP are recognised when that commitment is made. This is out of line with the government grant funding, which is received on an annual basis and accounted for on the basis of need. The increase in the negative unrestricted reserve in the year is due to the new three year grant funding agreements. We are satisfied from a review of the 2019/20 budget and the medium to long term financial strategy that the immediate cashflow requirements of HES can be met from SG funding and any self-generated income. It is therefore appropriate to prepare the accounts on a going concern basis.

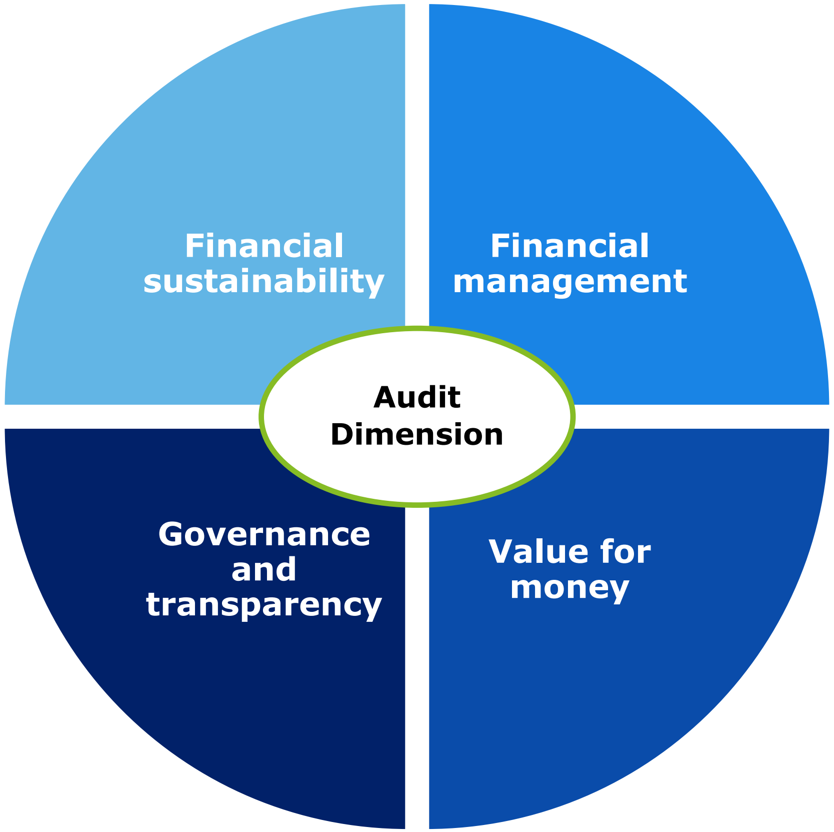
Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



Best Value (BV)
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

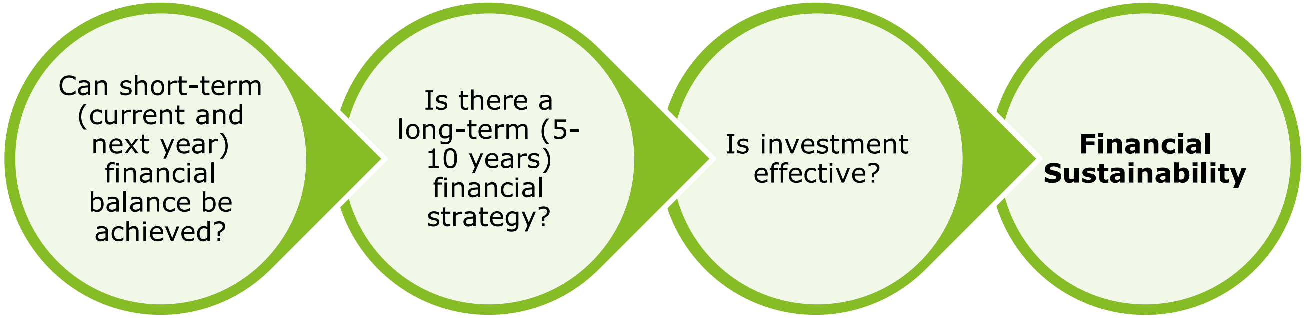
We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)
As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal
SR 2 – Changing landscape for public financial management
SR 3 – Dependency on key suppliers
SR 4 – Openness and transparency

Financial sustainability
Overview

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks
Within our audit plan we identified the following risk:

- that plans for efficiency and financial sustainability don't address emerging trends such as the potential reductions to Grant in Aid and the risks associated with potential EU withdrawal, as well as the Scottish Government's five-year plan, and that the plans are therefore not sufficiently robust to allow the benefits to be realised.

The following pages summarise our findings and conclusions to address the above risk.

Audit dimensions (continued)

Financial sustainability (continued)

2019/20 budget

The Board approved a budget for 2019/20 of £99.5m, which is an increase of £1.3m (1.3%) on 2018/19. This is based on the Scottish Government (SG) agreed Grant in Aid (GiA) of £39.8m and budgeted commercial income of £65.0m, which represents an increase in commercial income of £3.0m (4.8%) from 2018/19.

Salary costs are budgeted to be £48.1m, an increase of £3.7m (8.3%) on 2018/19.

To enable to bring forward spend if projects fall behind schedule or if income exceeds expectation, the Board has approved an over-commitment of £3.0m, which brings total planned expenditure to £102.5m.

HES concluded that it has set a prudent commercial income projection. In setting its budget HES has, however, recognised that a number of risks exist, one of which is that commercial income has a degree of risk and assumes current market conditions, which may be subject to change as a result of Brexit, exchange rate changes, and interest rate changes.

Following the approval of the draft budget in February, a further risk was identified where the Civil Service Pension Scheme has recently increased the employer contribution rate, which will have a potential maximum impact on gross expenditure for 2019/20 of £2.5m. The Scottish Government have agreed to fund £1.832m which leaves a remaining gap of £0.6m to be met by HES.

Medium to long term financial planning

A medium to long term Financial Strategy covering the period to 2030 was endorsed by the Board in November 2018. This incorporates a baseline, worst, and best case cumulative net outturn scenario for the 12 year period to 2029/30; the most likely scenario is a cumulative total £126m funding gap over the 12 year period to 2029/30. This is a live document and will be formally reviewed annually to ensure that the projections and assumptions are still up to date.

The Financial Strategy projects a decrease in the Resource Department Expenditure Limit (DEL) each year. Correspondingly, costs are expected to increase, with staff costs expected to increase in line with pay review and additional posts and operational costs are expected to increase by 2% p.a. in line with CPI inflation factors. As a result, medium to long term financial sustainability depends on HES being able to continue to generate increases in commercial income to offset reductions in GiA or make cost efficiency savings. This is reinforced by the increase in commercial income included in the 2019/20 budget from £62.0m in 2018/19 to the budgeted £65.0m.

The most likely net deficit income and expenditure scenario includes an increase in the share of commercial income growing to 75.0% of total revenue.

Audit dimensions (continued)

Financial sustainability (continued)

Medium to long term financial planning (continued)

The Financial Strategy makes reference to the general state of Scotland's economy, which includes consideration of the uncertainties and volatilities associated with pending EU withdrawal, longer-term pressures on the public budget and currency, all of which are out of HES's control. These factors have been built into the forecasts for best, most likely and worst case scenarios and are consistent with those discussed in the SG Medium Term Financial Strategy (MTFS) which incorporates a range of variability around SG's forecast budgets of up to +/- 6% owing to the fact that there is greater volatility in the amount of funding forecast for SG from the block grant and Scottish devolved tax income, and the impact of uncertainty surrounding the UK's pending exit from the EU.

Longer Term options being considered by HES to address the funding gap include:

- reviewing alternative business models to allow smoothing of income cycles such that surpluses can be carried over;
- reviewing the Framework Document to ensure clear alignment between the GiA and the cost of services delivered by HES to ensure that HES is not inadvertently subsidising SG mandated services through commercial income sources thus reducing the level of investment available to maintain the Properties in Care;
- identifying other sources of income, such as charging for services, opportunities for partnerships, fundraising/sponsorships, and external grants to support capital requirements;
- review of staffing resources to support delivery of the Corporate Plan and to reflect efficiencies arising from technological/process improvements such as CMIS; and
- incorporating an outcomes based approach to budgeting to link costs to the Directorate Plan and Corporate Plan.

While it is positive to note that a robust Financial Strategy has been agreed, this only sets the basis for considering how best to achieve long term financial sustainability. Achieving sustainability will require detailed action plans to be put in place and the impact of these closely monitored by HES. We are aware of work progressing as part of the CMIS project (discussed further on the following page) which is a positive step.

The Strategy also highlights that given the period of significant economic uncertainty, as well as increasing reliance via commercial income growth for in-year budgeting, HES needs to understand the triggers for and implications of different operating models. It is currently exploring this to understand these operating models and options should the need for flexibility arise. This review will explore the consequences of losing charitable status (or elements thereof), particularly given the concerns raised in the Barclays rates review that relief to public charities distorts the allocation of public funds.

Audit dimensions (continued)

Financial sustainability (continued)

CMIS Scope

- Human Resources
- Expenses
- Payroll
- Corporate Performance Management
- Corporate Project Management
- Corporate Planning
- Financial (including procurement)
- Chart of Accounts

Corporate Management Information System (CMIS) Project

In May 2018, the Board approved the full business case for the CMIS project. This was subsequently approved by the Scottish Government in June 2018 who undertook an independent health check of the CMIS project and the project plan. Further to this, there was a procurement phase resulting in the procurement of Oracle Fusion Enterprise Resource Planning (ERP) for the following modules: full financials and procurement; human capital management (HCM); and Payroll.

CMIS Phase 1 is due to go live in April 2020 and Phase 2 is due to be completed in 2021. The CMIS project team are currently half way through the design stage, which is being completed through two Conference Room Pilots (CRPs). A CRP is where a prototype of the system is configured as a first iteration following which business users are able to try out the system so that they can provide feedback on what elements of the system work and what does not work. The first CRP has been completed with the second one due to take place in September 2019.

The overall budget approved by the Board and SG is £4.2m, which the project team are currently on track to achieve. The budget is for the full 5 years implementation of the system and covers total costs, including the license for Oracle, implementation partner costs, and HES internal resource costs for the project team. The project team is made up of eight full time staff.

Given that the system is only due to go live in April 2020, HES has negotiated an extension of the Northgate contract for provision of payroll services to November 2020, thereby ensuring that they have some contingency.

CMIS Project
Aim – to support and enable strategic and operational decisions to be taken based on current and consistent information.

Objectives:

- Dynamic exchange and collation of information between core corporate functions.
- Focused on business improvement within these core functions.
- Consider opportunities to improve service provision.

Project governance:

- Project board
- Core project team
- Project plan
- Progress reporting
- Change control
- Risk and issues management
- Stakeholder engagement principles

Audit dimensions (continued)

Financial sustainability (continued)

Deloitte View – Financial sustainability

As discussed on page 25 HES has achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20 and HES has a Financial Strategy that addresses the medium to longer term.

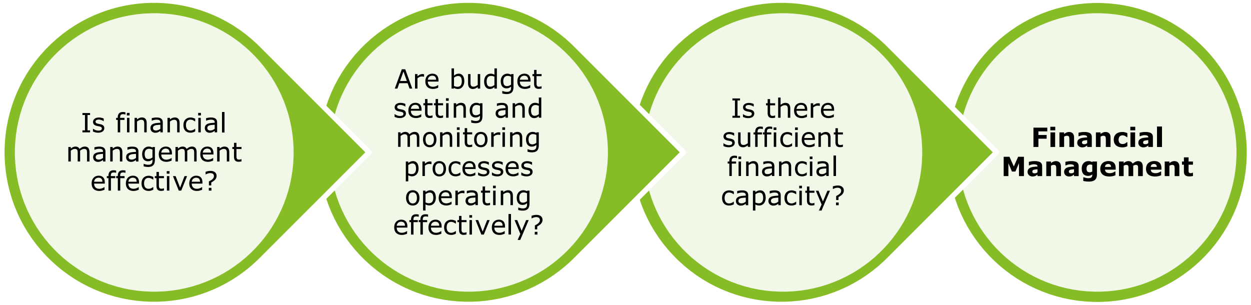
We are satisfied that the Financial Strategy sets out different options for achieving efficiency and medium to longer term financial sustainability. This includes emerging trends such as the potential reductions to Grant in Aid and risks associated with EU withdrawal. While it is positive to note that the Financial Strategy has been agreed, it is imperative that actions are progressed and the impact of these monitored to ensure that the expected benefits are realised.

We also acknowledge that the CMIS project is a significant part of the transformation work as a key enabler to a number of areas. We are satisfied that there is evidence of efforts being made to work towards outcome based budgeting which will provide greater linkages between the budget and national outcomes. This should be aided by the new CMIS system, which we will continue to monitor the implementation of during our 2019/20 audit work.

Financial management

Overview

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



Audit risks

Given our conclusions from the 2017/18 audit that HES has strong financial monitoring arrangements in place, and noted improvements to the capacity and continuity of the finance team, we only identified one risk in our audit plan, as follows:

- The underlying financial performance of HES is not transparently reported.

The following pages summarise our findings and conclusions to address the above risk.

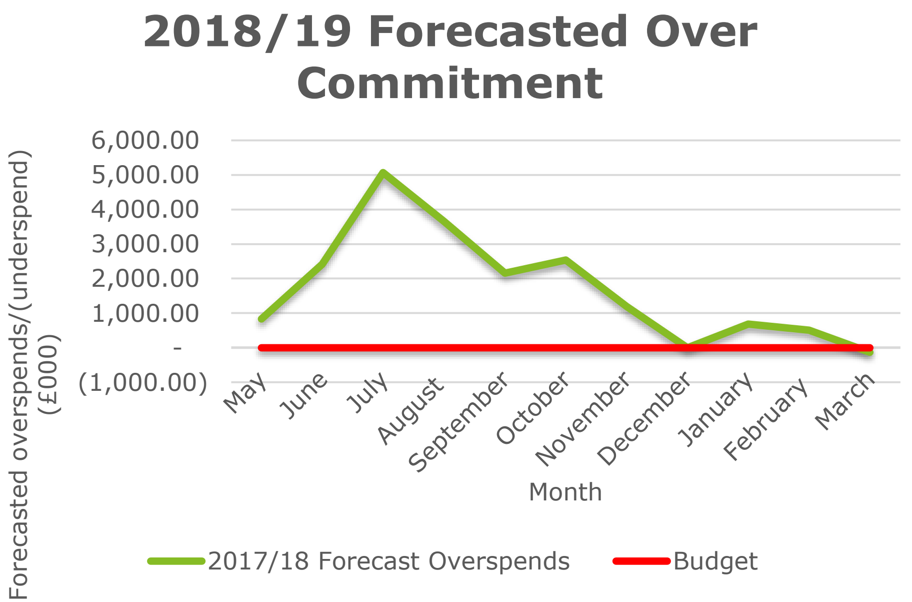
Audit dimensions (continued)

Financial management (continued)

2018/19 Financial performance

HES achieved a year-end balanced budget for 2018/19. This has been consistently reported to members throughout the year as illustrated below. The below positions report on the managed overcommitment throughout the year, with the final outturn within budget.

While the movement in the reported forecast overcommitments throughout the year show a significant movement, this is carefully managed throughout the year and flexed to accommodate the available budget. The main spike in July 2018 of £5.1m is in relation to overcommitments of £2.4m against the Investment Plan, which at year end is reporting under budget due to slippages in the Investment Plan, and due to forecast salary pressures of £2.4m, which is in line with the final outturn (£2.2m).



Savings

The final outturn included an adverse variance of £2.2m on the budgeted salary costs of £44.5m. The main reason for this is that the 2018/19 approved budget incorporated a challenging vacancy target which fell short of the target of £3.9m by £1.7m.

The vacancy target relates to an approach taken to reduce staff costs in the year by setting a mandatory 3 month vacancy target following a post being vacated. While this is a blunt instrument, the reason for making this policy is due to the fact that HES is subject to SG pay policy which includes a no compulsory redundancy policy and yearly pay increases which makes identifying staff cost savings difficult. Instead, resourcing policies encourage staff to identify means other than permanent staff to fill the resource gap created by vacancies, for example fixed term contracts and looking at whether HES can meet vacancy needs internally from other areas of the organisation.

Investment Plan

The investment plan outturn for the year as at 31 March 2019 is £10.4m against a budget of £12.6m. This underspend of £2.2m is the main reason for HES achieving the underspend in the year as it has offset the salary cost overspends as discussed above.

The underspend is largely due to slippages in capital projects, including Edinburgh Castle toilet upgrades, CMIS and NCAP relocation. This will simply result in higher costs in future years.

As noted on page 20, the 2019/20 budget has provided for these as it incorporates an over-commitment of £3.0m into the Investment Plan to account for slippages.

Audit dimensions (continued)

Financial management (continued)

Financial reporting

HES has effective financial planning and management arrangements in place. Senior management and Board members regularly review progress. The Senior Management Team (SMT) and Board review financial performance on a monthly and quarterly basis respectively.

From our review of in-year budget monitoring reports to SMT and the Board, we are satisfied that the underlying financial performance is transparently presented, including disclosure of reasons for variances.

Finance team capacity

There are suitably qualified and experienced staff leading the finance team. This is led by the Director of Finance, with two distinct teams below her: a Finance team headed by the Head of Finance; and a Financial Business Support team headed by the Head of Financial Business Support.

Internal Audit

We have completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings with no significant issues noted.

The internal audit function continued to be provided by an in-house team, with support from BDO. It aims to provide assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. The audit plan was agreed by the ARAC at the start of the year, and regular progress reports have been provided to the ARAC throughout the year.

During the year we have reviewed all internal audits presented to the ARAC and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Standards of conduct for prevention and detection of fraud and error

We have reviewed HES's arrangements for the prevention and detection of fraud and irregularities. Overall we found HES's arrangements to be operating effectively.

Audit dimensions (continued)

Financial management (continued)

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor HES's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019, which concluded that HES was fully engaged in the exercise.

HES are well progressed with investigating the matches but still need to review findings and investigate errors identified.

A summary of the matches reported in the NFI system is provided in the table to the right which notes that no frauds have been identified from the matches processed to date.

Six errors have been identified from the matches processed to date.

	Total
Total matches flagged	978
Total recommended matches to be investigated	13
Total processed	868
Frauds	0
Errors	6
Savings	0

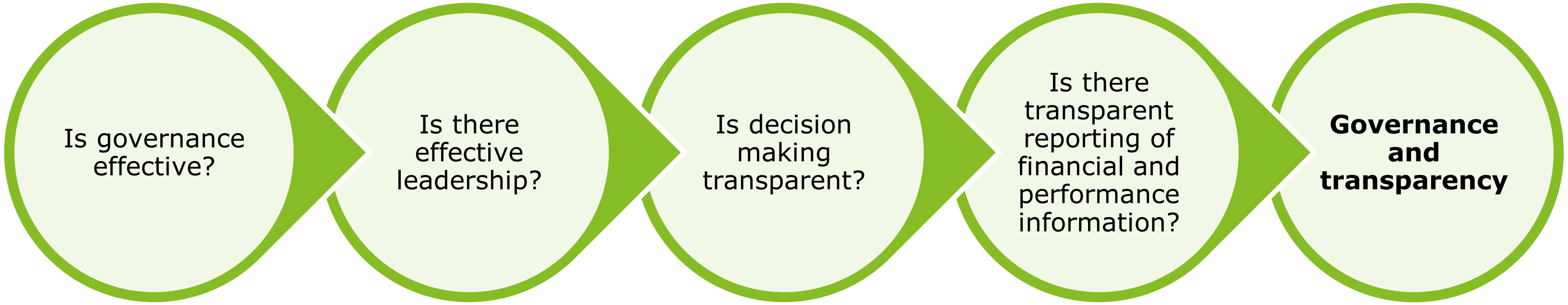
Deloitte view – Financial management

We have reviewed HES's arrangements for financial reporting and conclude that the underlying financial performance of HES is transparently reported.

In accordance with Audit Scotland planning guidance, we are required to monitor HES's participation and progress in the National Fraud Initiative (NFI) during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland on 30 June 2019, which concluded that HES was fully engaged in the exercise.

Governance and transparency
Overview

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



Audit risks
Given our conclusions from the previous year audit that HES has good governance arrangements in place, and consistent with our 2018/19 planning paper update from the February 2019 ARAC, we identified just one risk:

- The approach taken by HES towards openness and transparency is not keeping pace with public expectation and good practice.

The following pages summarise our findings and conclusions to address the above risk.

Governance and transparency (continued)

Openness and transparency

Openness and transparency

Taking an ***open approach*** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfy the good governance test.

Openness and transparency are individually important, and working well together helps to demonstrate that public organisations are acting in the public interest.

We have considered HES's approach to openness and transparency, how good HES's information is; and its commitment to improving openness and transparency and concluded that:

- there is effective leadership with effective scrutiny and challenge by leadership, although per the 2018 Staff Survey, improvements can be made to improve staff's perception of HES's openness and transparency;
- all reports are clearly defined with preparer, objectives and conclusions. This is demonstrated from a review of Board and ARAC meeting minutes which document the key decisions and actions taken and by whom;
- there is evidence of a culture of continual improvement in trying to improve openness and transparency in terms of engaging with HES' stakeholders (e.g. public consultation on Corporate Plan and other strategy documents, and staff surveys discussed further on the next page); and
- key strategy documents are available to the public via the website, such as the Corporate Plan and Annual Operating Plan. This can be improved further by making ARAC minutes available on the HES website. A recommendation has been included in the action plan on page 38.

Audit dimensions (continued)

Governance and transparency (continued)

Governance and scrutiny arrangements

We reviewed HES's governance and accountability arrangements which included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance and programme management.
- Confirming that decision makers have the information they need to scrutinise, challenge and make best value and transparent decisions.
- Assessing that it is clear what decisions have been made, who make them and the rationale supporting the decisions.

We have concluded that overall HES's arrangements are appropriate and adequate in supporting effective governance and accountability.

Leadership

HES has strong leadership and has a clear vision for what it wants to achieve for the future as demonstrated in various strategy documents, such as the Finance Strategy, Annual Operating Plan, and three year Corporate Plan. The Board and staff support the vision, as demonstrated by Board approval of various key documents, and from the 2018 Staff Survey.

There is scope for improvement as identified by some of the averages scores in the Staff Survey. In particular the following two areas scored as slightly negative (average score of 3-4.9) and moderate (average score of 5-6.9):

- there is a sense of openness and transparency across HES: **4.8**; and
- other departments collaborate well with us to get things done: **5.2**

We are pleased to note that action plans are in place to address the findings from the Staff Survey. In particular at a corporate level work has been undertaken to look at the existing priorities set for 2019-20 against the survey results, and at a local level the survey results have provided important insights into what HES have collated as common themes which will shape and test the existing people strategy work and engagement work.

Deloitte view

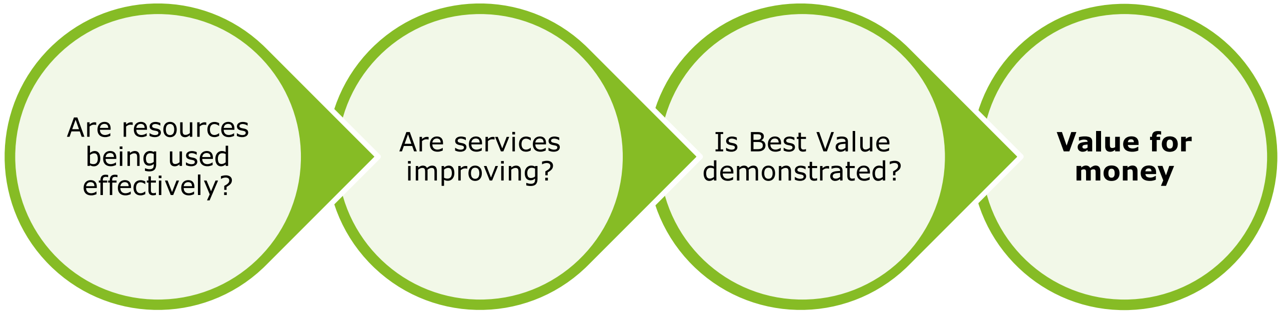
HES's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. HES has strong executive leadership, the relationship between board members and officers is good, and there is evidence of effective challenge from committee meetings. The Board is open and transparent in its decision making with all key strategy documents and Board minutes available on HES's website. This can be improved further by making ARAC minutes available on the HES website.

In line with the risk identified on page 28, we can conclude that HES is keeping pace with public expectation and good practice.

Value for money

Overview

Value for money is concerned with using resources effectively and continually improving services.



Audit risks

Within our audit plan we identified the following risk:

- HES does not clearly report on its contribution towards both HES priorities and national outcomes.

The following page summarises our findings and conclusions to address the above risk.

Value for money (continued)

Performance management

Best value (BV)

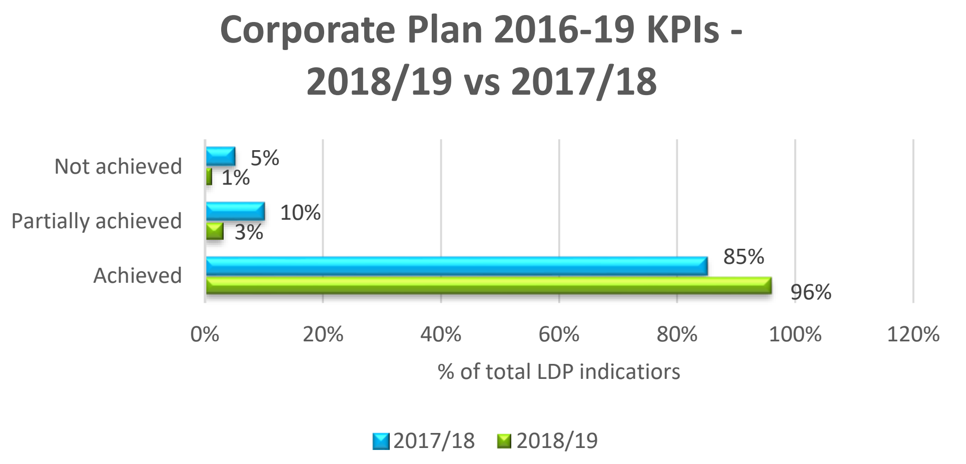
The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.

We have considered the arrangements in place in this regard as part of our planning and reporting on the audit dimensions.

Performance management

HES performance for 2018-19 is measured against targets laid out in the 2016-2019 Corporate Plan and the 2018-2019 Annual Operating Plan. These measure internal key performance indicators, as well as the wider HES contribution to the national performance framework, and identify direct and indirect contributions to national performance outcomes.

HES has reported successful delivery of 96% of Year 3 (2018/19) KPIs compared to 95% in 2017/18.



Performance Data

Overall, in 2018/19 performance has been very positive with 96% delivery of Year 3 KPIs. This includes:

- **KPI E2.10 Perform –** Improved corporate reputation measured by the TRI*M index 2018. The TRI*M stakeholders index has increased by 6 points and the public index has increased by 2 points compared to 2016. The TRI*M index measured stakeholders' opinions of HES based on a set of 5 questions measuring overall reputation, favourability, trust, success and quality; and
- **KPI D2.2 Value -** Provided 20,000 travel subsidies (school). The Heritage Travel Subsidy was provided to 22,599 participants from 587 schools as at 31 December 2018.

There has only been 1 KPI that was not achieved in 2018/19 relating to the following:

- **KPI E2.8 Perform –** Maintained Average Working Days Lost of no more than 7.5 – this scored 12.10. This is the second year running where this KPI has not been achieved. HR continue to work closely with managers and business areas to support the management of sick absence across HES.

Deloitte view

There is a clear framework in place to ensure that HES performance is monitored and reported in line with KPIs set out in the 3-year Corporate Plan and Annual Operating Plan which address both HES priorities and wider national outcomes. In the third year of applying the 2016-2019 Corporate Plan HES is continuing to show positive results with achievement of 96% of the KPIs.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work HES has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	HES has appropriately assessed and planned for the potential impact of EU withdrawal. In particular Internal Audit carried out a review of HES's preparedness for Brexit. We can conclude as follows on the following three areas: • **People and skills** – HES has assessed that there is no impact on the short-term owing to the EU Settlement Scheme and the fact that the rights of EU citizens are not to change until 1 January 2021, but in the longer term there may be implications. EU exit is likely to have more of an impact on seasonal workers given that a lot of these are EU nationals. We note that there has been a conscious effort by HES to communicate with staff and to offer advice on EU withdrawal. • **Finance** – HES does not have a significant reliance on EU funding and therefore the implications are expected to be minimal. • **Rules and regulations** – as part of the Brexit Preparedness review by internal audit, there has been coordinated comprehensive sector-wide analysis of all EU legislation that has implications for HES. The most likely laws to affect HES will be those affecting the freedom of movement of people which could potentially result in a decrease in visitor numbers to the UK. The internal audit review highlighted that the most immediate risk was an increase of costs of goods and materials. From discussions with Retail staff, we can confirm that action has been taken to mitigate this risk, for example by stockpiling goods from key suppliers. In line with best practice, HES has sent out a communications plan to their audience, i.e. EU and International customers, HES staff, and stakeholder partners. Brexit is included on the Corporate Risk Register and in the recently endorsed long term Financial Strategy and is therefore part of HES's planning for the future in terms of being factored into underlying assumptions on commercial income.

Other specific risks (continued)

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 19-23) we have considered how HES has reviewed the potential implications of the Scottish Government's Medium Term Financial Strategy for its own finances, including long term planning.	See conclusion on page 21. No issues noted.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	We have performed an analysis of expenditure in 2017/18 and 2018/19 to assess whether there were any individual suppliers that made up a high proportion of overall expenditure (more than 10%). We conclude that there were no suppliers of this magnitude. No areas of risk identified from our audit work
Openness and transparency	We have considered HES's approach to openness and transparency as part of our audit work on governance and transparency (see pages 28-30).	See conclusion on page 30. No issues noted.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the ARAC and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the ARAC and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow

6 August 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies (continued)

Corrected misstatements

		Debit/ (credit) statement of financial activity £k	Debit/ (credit) in net assets £k	Debit/ (credit) unrestricted funds £k	Debit/ (credit) restricted funds £k
Current period misstatement identified in current year					
Revaluation reserve overstatement	*[1]*			4,481	
Revaluation reserve overstatement	*[1]*			(4,481)	
Total				**0**	

[1] This relates to an overstatement of the revaluation reserve relating to under-depreciation of the attributable assets over past years, which has been transferred to unrestricted reserves. This has a net nil impact on the reserves, balance sheet and statement of financial activity. This error was identified by management.

No other corrected current or prior period misstatements have been identified from our audit work performed to date.

Uncorrected misstatements - No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure misstatements - Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have identified one material disclosure deficiency in the course of our audit work, which is detailed below.

Current period disclosure misstatement – identified post-ARAC meeting	
Disclosure note	Details
Note 15 Tangible Assets	Historical cost disclosure error - the buildings historic cost figure is understated by £2,686k relating to the depreciation charge for the last 3 years. This error has no impact on the net book value in the Balance Sheet.
Note 27 Financial Commitments	Grant commitments due in more than one year but less than five years is overstated by £2,434k relating to a manual input error with regards to the Excel spreadsheet used to compile the disclosure note. This error has no impact on the value of grant accruals in the Balance Sheet.

Action plan

2018/19 action plan

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and Transparency	HES should consider including ARAC minutes on the HES external facing website to aide in transparency.	ARAC considered this recommendation and decided not to publish ARAC minutes as key ARAC discussions are already captured in the HES Board papers which are published on the HES website.	ARAC Chair	N/A	Low

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and are pleased to note that 7 of the total 9 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work and provide an update in our audit report next year.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
IT - information leakage	HES should implement controls to address the risk of information leakage including: • Ensuring formal data leakage risk assessment is performed; • Implementing controls over portable media, e.g. USB drives and laptops; and • Implementing specific Data Loss Prevention tools.	IG is currently working with IT to plan how we improve our IG through IT controls. Specifically looking at how we can align the approach to data loss prevention from an IT and IG perspective to provide training, awareness raising and technical controls to reduce the risk. Although a formal risk assessment around data leakage has not been performed, HES has an ISO 27001 gap analysis which highlights specific failings which HES are aware of. This was performed during 2017-18 and will be updated once an Information Security Manager has been appointed. Controls over USB devices is one of the first areas to be reviewed during 2018-19.	Head of Information Governance	Mar-19	Medium	*Partially implemented:* **Updated management response:** • Ensuring formal data leakage risk assessment is performed - no formal risk assessment has been performed on data leakage to date. However, the risk of data leakage is included in the risk register which is proactively maintained by the Information Security team and therefore this is a managed risk and the recommendation has been addressed. • Implementing controls over portable media, e.g. USB drives and laptops - a recommendation had been made to the Chief Technology Officer (CTO) to move to Bitlocker encryption for USB devices at minimum or implement Sophos USB encryption if budget allows - this will be revisited in the next financial year (2020/21) • Implementing specific Data Loss Prevention tools - HES have implemented the next generation fire walls that perform data packet scanning both into and out of the network. This improves data loss prevention capabilities. Furthermore, Information Governance are exploring options to implement tools to assist in the classification of sensitive information in an effort to reduce the risk of data loss as part of the EDRMS & Intranet project. **Updated target date:** March 2021

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Fixed Asset Register	To ensure the accuracy and completeness of fixed asset records, we recommend that a full data cleansing exercise is carried out on Britannia ahead of transitioning to the new integrated ERP system, CMIS, and that the importance of staff communicating any changes in fixed assets to the Finance team in the annual return is re-emphasised.	Agreed	Head of Finance	Mar-19	Medium	*Partially implemented:* Satisfied that this recommendation is well underway as part of preparing the data for migration to the new system ahead of the planned go live date of April 2020. **Updated management response:** In addition to the annual fixed asset verification exercise, we undertook further work in 2018/19 to verify fixed asset register records for land, buildings and vehicles to other sources. Further work on other asset groups will be undertaken in 2019/20 in advance of the migration to the new system. **Updated target date:** March 2020

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified completeness of commercial income, management override of controls, and restricted funds as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the ARAC on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £90,130 as broken down below:

	£
Audit Remuneration	59,310
Contribution to Audit Scotland	3,550
Pooled Costs	14,270
Total expected fee	**77,130**
HESe (Net of VAT)	13,000
Total Fee	**90,130**

No non-audit fees have been charged by Deloitte in the period.

Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.