

# Historic Environment Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Historic Environment Scotland and the Auditor General for Scotland

October 2024

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# Contents

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Key messages	3
Introduction	5
1. Audit of 2023/24 annual report and financial statements	7
2. Financial management	14
3. Financial sustainability	20
4. Vision, leadership and governance	22
5. Use of resources to improve outcomes	25
Appendix 1. Action plan 2023/24	28

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# Key messages

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## 2023/24 annual report and financial statements

- 1 Audit opinions on the annual report and financial statements are unmodified.
- 2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There were no significant matters arising from that work.
- 3 Management made adjustments of £4.3 million to the annual report and financial statements, primarily relating to known events that were to be concluded subsequent to the production of the unaudited accounts that were presented to audit.

## Financial management and sustainability

- 4 Historic Environment Scotland operated within its revised fiscal resources, reporting a £0.5 million underspend.
- 5 Historic Environment Scotland has appropriate arrangements to secure sound financial management.
- 6 Controls within the main financial systems are designed appropriately and standards for the prevention and detection of fraud remain appropriate. We identified some areas where there is scope for improvement to the control environment.
- 7 Historic Environment Scotland has effective and appropriate arrangements in place to deliver services for the short term and they are working with the Scottish Government to create a financial model which gives them greater flexibility over the medium term.

## Vision, leadership, and governance

- 8 Historic Environment Scotland has appropriate governance arrangements for delivery of its plans and to support scrutiny of decisions made by the Board.

## Use of resources to improve outcomes

- 9 We are satisfied that Historic Environment Scotland has arrangements in place to secure Best Value. There is scope to enhance arrangements through completion of an annual self-assessment.

- 10 A performance management framework is in place and HES has reported good performance against targets in 2023/24.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 audit of Historic Environment Scotland (HES). The scope of the audit was set out in an Annual Audit Plan presented to the February 2024 meeting of the Audit, Risk and Assurance Committee. This Annual Audit Report comprises:

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

**2.** This report is addressed to the Board of HES and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** Claire Gardiner has been appointed by the Auditor General for Scotland as auditor of HES for the period from 2022/23 until 2026/27.

**4.** We would like to thank Board members, the Audit Risk and Assurance Committee members and staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

## Responsibilities and reporting

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

**6.** The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [\*Code of Audit\*](#)

[Practice](#), supplementary guidance and International Standards on Auditing in the UK (ISAs).

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

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

## Auditor Independence

**9.** We can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £113,030 as set out in my 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Adding value through audit

**10.** The annual audit adds value to HES by:

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

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# 1. Audit of 2023/24 annual report and financial statements

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

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## Main judgements

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

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work.

Management made adjustments of £4.3 million to the annual report and financial statements.

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

**11.** The Board approved the annual report and financial statements for HES and its group for the year ended 31 March 2024 on 4 October 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements of HES and its group give a true and fair view of the state of the body's affairs as at 31 March 2024 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended
- the financial statements of HES and its group have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- the financial statements of HES and its group have been prepared in accordance with the requirements of the Historic Environment Scotland Act 2014 and directions made thereunder by the Scottish Ministers, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006

- the audited part of the Remuneration and Staff Report was prepared in accordance applicable legislation and the Government Financial Reporting Manual
- The Trustees Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Overall materiality was assessed as £2.3 million

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

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

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### Exhibit 1 Materiality values

Materiality level	HES	Group
Overall materiality	£2.3 million	£2.5 million
Performance materiality	£1.6 million	£1.8 million
Reporting threshold	£117,000	£125,000

*Source: Audit Scotland*

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

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting previously reported matters and our cumulative knowledge of HES.

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



## Significant findings and key audit matters

**17.** Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices.

**18.** The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance. The significant findings including key audit matters are summarised in [Exhibit 2](#).

### Exhibit 2

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

Issue	Resolution
<p><b>Archive House project impairment</b></p> <p>HES started their Archive House project in 2021 which planned to rationalise the storage of archive materials from multiple sites into a specialist archive storage facility with adjoining space for essential archive services.</p> <p>In June 2024, the HES Board took the decision to effectively cancel the project due to a number of challenges including:</p> <ul style="list-style-type: none"> <li>costs have escalated from the original budget of £9 million to £24 million</li> <li>completion times which would not allow a decant from John Sinclair House before the lease on that property expires</li> <li>concerns that the proposed building specifications are not fit for purpose, particularly as they do not adequately address the issue of the wider collection.</li> </ul> <p>Subsequent to the decision, HES undertook an impairment review of the project costs which were included in 'Assets under Construction' within the draft financial statements. It was concluded that the majority of costs associated with Archive House should be written off through the 2023/24 'Statement of Financial Activity' (SoFA).</p> <p>The total amount written off through the SoFA in 2023/24 was £2.0 million, which includes £0.7 million capitalised in 2022/23.</p>	<p>We have reviewed the information provided regarding the project and have considered the adjustments made by HES in their 2023/24 annual report and financial statements.</p> <p>We concluded that, for 2023/24, Historic Environment Scotland's approach to adjusting the financial statements for the impairment is appropriate, including appropriate narrative disclosures.</p> <p><b>Recommendation 1</b></p> <p>HES need to act quickly to implement revised plans to ensure that appropriate measures are in place to safeguard the long-term storage for HES's archive materials before the lease on John Sinclair House expires.</p> <p>See <a href="#">Appendix 1</a>.</p>

Issue	Resolution
As part of the impairment review, HES has taken the decision to retain an amount of £0.1 million within 'Assets Under Construction' as they believe these costs will add value to the new project and should be capitalised.	

Source: Audit Scotland

## Audit work responded to the risks of material misstatement we identified in the annual report and accounts

**19.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified significant risks of material misstatement in the annual report and financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journal entries at the year-end, and post-closing entries, with a focus on significant risk areas.</li> <li>Consider the need to test journal entries and other adjustments throughout the year.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess the adequacy of controls in place for identifying and disclosing related party relationships and</li> </ul>	<p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p> <p>Audit procedures related to the HES's accounting records did not identify any errors or instances of transactions outside the normal course of business.</p> <p>Journal adjustments were tested, and no indication of management override of controls were found.</p> <p>Accruals and prepayments testing confirmed that income and expenditure was properly accounted for</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>transactions in the financial statements.</p> <ul style="list-style-type: none"> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>	<p>in the correct financial year.</p>
<p><b>2. Presumed risk of fraud over income recognition</b></p> <p>As set out in International Standard on Auditing (UK) 240, there is a presumed risk of fraud in the recognition of income.</p> <p>We have assessed that the risk relates specifically to the completeness of commercial and trading income streams, as they are comprised from a high volume of low value transactions across multiple locations.</p> <p>There is a risk that income may be misstated, resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of the key controls related to commercial income (including admissions and membership data controls).</li> <li>• Undertake substantive analytical procedures related to commercial income.</li> <li>• Undertake detailed testing of the year-end reconciling difference related to the control account reconciliations (between the ticketing and other income systems and bank) to gain assurance over the completeness of income in the financial statements.</li> <li>• Substantive analytical procedures for admissions and membership income.</li> </ul>	<p>The completion of the assurance procedures did not identify any misstatements related to the completeness of commercial and trading income streams.</p>
<p><b>3. Recognition of grant liabilities and expenditure</b></p> <p>We have assessed that there is a risk around completeness and cut-</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of key controls related to grant processes.</li> <li>• Substantive testing of grant liabilities and expenditure.</li> </ul>	<p>The completion of the assurance procedures did not identify any misstatements related to grant liabilities and expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
off for grant liabilities and expenditure. This is based on the manual nature of the recognition process, the magnitude of the balances, and completeness errors identified in the prior year audit.	<ul style="list-style-type: none"> <li>Substantive testing of grants recognised around the year-end to confirm they are accounted for in the correct financial year.</li> </ul>	

Source: Audit Scotland

## Management made adjustments to the annual report and financial statements

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

**21.** Adjustments to the financial statements totalled £4.3 million. The corrected impact on the consolidated and charity statement of financial activity, related to the misstatements, was to increase expenditure by £4.0 million. The main adjustments made related to known events that were to be concluded subsequent to the presentation of the unaudited accounts to audit. The corrected misstatements above our clearly trivial threshold of £117,000 were:

- Archive House, impairment totalling £2.0 million including £0.7 million capitalised in the 2022/23 accounts
- VAT adjustments identified by HES totalling £2.0 million, represented by £0.5 million which relates to a known VAT reporting issue and represents a normal part of HES annual review process. The remaining £1.5 million represents a change in approach to VAT treatment as HES recovers from the pandemic.
- Prepayments of £0.1 million, although these reduce the overall increase in expenditure from the impairment and VAT adjustments.

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

**23.** There were no misstatements above the reporting threshold which have not been adjusted by management.

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

**24.** The unaudited annual report and financial statements were received in line with the agreed audit timetable on 17 June 2024. The unaudited annual report and financial statements submitted for audit were of a good standard as were the supporting working papers. Finance staff provided good support to the audit team.

## **The Trustees' Annual Report complies with applicable guidance**

**25.** The Trustees' Annual Report is a narrative statement from the Trustees which the charity regulations (Charities SORP 2019) require to be included alongside the statement of accounts. Additionally, in line with the accounts direction, the Trustees' Annual Report should meet the requirements for a Performance Report in line with the 2023/24 HM Treasury Government Financial Reporting Manual (FReM).

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

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

## **The Governance Statement provides an appropriate level of disclosure on the HES's governance arrangements during 2023/24**

**28.** The FReM 2023/24 requires inclusion of a Governance Statement in an annual report and financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format.

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

## **Progress was made on prior year recommendations**

**30.** Historic Environment Scotland has made progress in implementing the agreed prior year audit recommendations. An update on progress has been include in [Appendix 1](#).

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## 2. Financial management

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

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### Conclusion

Historic Environment Scotland operated within its revised fiscal resources, reporting a £0.5 million underspend.

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

Controls within the main financial systems are designed appropriately and standards for the prevention and detection of fraud remain appropriate. We identified some areas where there is scope for improvement to the control environment.

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

**32.** Combined, these income streams provided an income of £137.0 million for 2023/24 in the Consolidated Statement of Financial Position (SoFA), an increase of £21.8 million over 2022/23. This resulted in a surplus before transfer between funds or gains in the revaluation of fixed assets of £7.9 million (2022/23: deficit of £4.5 million).

### HES operated within its revised Scottish Government budget limits in 2023/24

**33.** The main financial objective for Historic Environment Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. As a charitable Non-Departmental Public Body, approximately half of HES funding is provided by the Scottish Government (SG) by way of grant-in-aid. For 2023/24, the financial statements for HES show that it received £68.3 million from the Scottish Government. This comprised a resource grant of £59.8

million and capital grant of £8.5 million. The body has reported an outturn of £67.8 million against its overall grant-in-aid budget for 2023/24 with an underspend of £0.5 million. The financial performance against fiscal resources is shown in [Exhibit 4](#).

#### Exhibit 4 Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	59.7	59.8	59.3	(0.5)
Capital	9.0	8.5	8.5	-
Total	68.7	68.3	67.8	(0.5)

Source: HES annual report and financial statements 2023/24

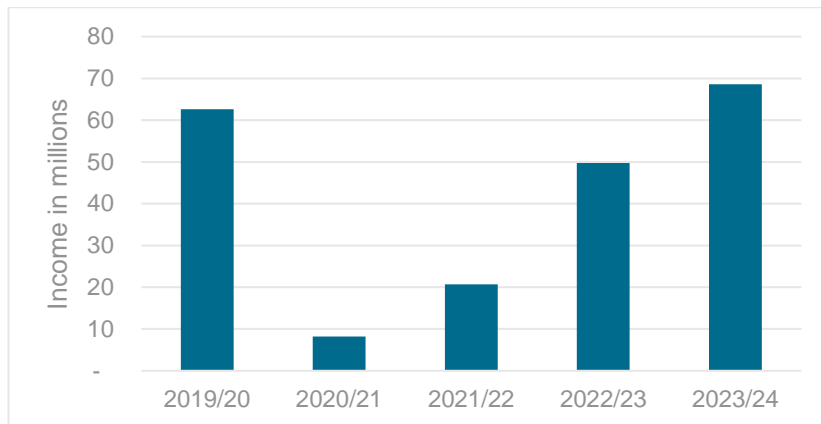
### HES commercial income continued to recover from the pandemic

**34.** HES's levels of commercial income continued to improve in 2023/24. HES's recognised total commercial income for 2023/24 of £66.0 million, an increase of £16.3 million over the prior year. This is attributed to the continued recovery from the pandemic with visitor numbers increasing from 3.3 million in 2022/23 to 4.5 million in 2023/24.

**35.** HES's trading subsidiary Historic Environment Scotland Enterprises Ltd (HESe) contributed £18.9 million in 2023/24 to the group's commercial income compared to £15.5 million in 2022/23. HESe carries out non-core trading activity, including retail sales of Historic Environment Scotland merchandise and catering facilities and the commercial sale of images. HESe is governed by a separate Board of Directors, which reports to the HES Board. [Exhibit 5](#) below provides an indication of the trend towards pre pandemic levels of commercial income, excluding any adjustment for inflation.

## Exhibit 5

### Commercial income since 2019/20



Source: HES annual report and financial statements 2023/24

## Financial management arrangements are appropriate

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

**37.** Based on our observations of the arrangements in place to monitor and report on the financial position throughout the year, reports are sufficiently detailed to allow corrective action to be undertaken. The HES Finance Committee meets regularly through the year to consider the financial position for HES and HESe as a whole. The finance report details the year-to-date position alongside the forecast full year position.

**38.** We observed that prudent estimates of income had been used when developing forecasts throughout the year. In order to balance the budget expenditure needs to be balanced by commercial income and therefore this approach is deemed to be appropriate.

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

## Historic Environment Scotland has appropriate financial control arrangements in place

**40.** From a review of the design and implementation of key controls within HES's systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect HES's ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.



**41.** From our review of the design and implementation of systems of internal control relevant to our audit approach we identified some areas where there is scope for improvement to the control environment. The issues in [exhibit 6](#) below were not deemed material in nature and did not impact the audit approach as documented in our 2023/24 Annual Audit Plan.

## Exhibit 6

### Key findings from review of controls

Audit finding	Audit action and recommendation
<p><b>Payroll reconciliation process</b></p> <p>It was identified through our work that not all steps in the payroll reconciliation process were being completed before the payroll BACS run is made.</p>	<p>We performed analytical procedures to identify any significant variances in the payroll. Our testing did not identify any issues.</p> <p>HES may want to consider reviewing what is necessary in terms of the payroll reconciliation process and update their policy accordingly.</p>
<p><b>Review of prepayments</b></p> <p>We noted three prepayments in 2023/24 of £144,000 that had not been identified by HES. Individually, these amounts were below our clearly trivial reporting threshold of £117,000.</p>	<p>We are satisfied that the errors were isolated incidents and not indicative of a control failure.</p>
<p><b>Intercompany journals</b></p> <p>During our audit work, HES confirmed they do not keep any records of intercompany recode journals as it is not considered necessary. This is also the case for journals reallocating amounts between cost centres.</p>	<p>We were able to obtain supporting evidence for the selected intercompany journals.</p> <p><b>Recommendation 2</b></p> <p>We would recommend that backup is retained for all journals, but in particular for intercompany journals as these impact the charity's primary financial statements. Backup could take the form of a note from the budget meetings documenting discussions about what reallocations are needed.</p>
<p><b>Fully depreciated assets</b></p> <p>We noted from our work in 2022/23 that the Fixed Asset Register (FAR) contained assets that were fully depreciated but still in use by the organisation. From our work in 2023/24 we noted the same position. The asset register shows there are 1,258 assets at nil value (cost of £19.7 million), which includes plant &amp; equipment, motor vehicles and</p>	<p>We are satisfied this would not result in a material misstatement in the financial statements.</p> <p>HES intend to return to 100% physical checks in 2024/25. We will monitor the action taken by HES in 2024/25 in terms of physical checks on assets and consider whether HES's depreciation policies need re-</p>

Audit finding	Audit action and recommendation
<p>computer equipment. HES confirmed that historically a 100% annual physical check of assets was undertaken. Since the pandemic this process has not been in place although HES has undertaken limited checks each year.</p>	<p>assessed in light of the results of the physical checks.</p>
<p><b>Historic Scotland Foundation (HSF)</b></p> <p>For the purposes of the 2023/24 audit, we have obtained high level figures for HSF. These indicate that HSF are not likely to be material to the group in 2023/24. HES have started making donations to HSF which could increase the net assets of HSF over future years and change the nature of the relationship. HES have also started providing additional administrative services to HSF in 2024/25.</p>	<p>We will continue to monitor the level of assets held by HSF in 2024/25 and the nature of the relationship between HES and HSF.</p>

Source: Audit Scotland

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

**42.** In the public sector there are specific fraud risks, such as those relating to grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**43.** HES's Board is responsible for ensuring that appropriate standards of corporate governance and personal conduct are maintained in respect of trustees and staff. HES board members are trustees for the purposes of charity law. HES's management is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The arrangements in place at HES include: a code of conduct; fraud policy; and financial regulations.

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

## Cyber security

**45.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an

organisation. As in 2022/23, we have considered HES's arrangements for managing and mitigating cyber security risks.

**46.** We are aware that there was a cyber incident at HES in June 2024 and that their cyber incidence response plan (CIRP) was activated with the affected system being isolated. From the work undertaken there is no evidence of stolen or edited data in the system accessed. The CIRP worked as intended and the impact has been minimal.

**47.** HES confirmed that they have achieved cyber essential plus accreditation in August 2024.

**48.** It is important to note that cyber-attacks are designed to circumvent existing controls and recent attacks on public bodies have occurred despite a robust control environment.

**49.** We are satisfied HES are not complacent around cyber security risks and they are appropriately recognised on the risk register. Following the review in year there is a recognition that cyber essentials plus is a baseline for cyber defences and there is a need to be vigilant and demonstrate continuous improvement.

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# 3. Financial sustainability

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

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## Conclusion

Historic Environment Scotland has effective and appropriate arrangements in place to continue to deliver services in the short term and they are working with the Scottish Government to create a financial model which gives them greater flexibility over the medium term.

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## HES has appropriate financial plans in place to support delivery of objectives in 2024/25

**50.** The Board approved a balanced budget of £143.5 million for 2024/25 at a meeting in March 2024. This represents an increase of £17.5 million over the 2023/24 approved budget. The approved investment plan initially included Archive House but the budget has been reallocated as a result of cancellation of the Archive House project. The investment plan budget remains unchanged as the resources have been reallocated to other projects. The budget also has assumptions that the outcome from the pay and grading review will be implemented from 1 October 2024.

**51.** The Scottish Government grant in aid settlement is £74.2 million for 2024/25 which is £1.5 million higher than the 2023/24 grant in aid settlement. The Delegated Expenditure Limit (DEL) has increased by £0.9 which represents an increase of £1.5 million in the Resource DEL and a reduction of £0.5 million in the Capital DEL. The non-cash settlement increased by £0.5 million. The net commercial income target for 2024/25 is set at £65.4 million (net of costs of goods sold) which is higher than the net commercial income in the 2023/24 audited accounts of £60.8 million.

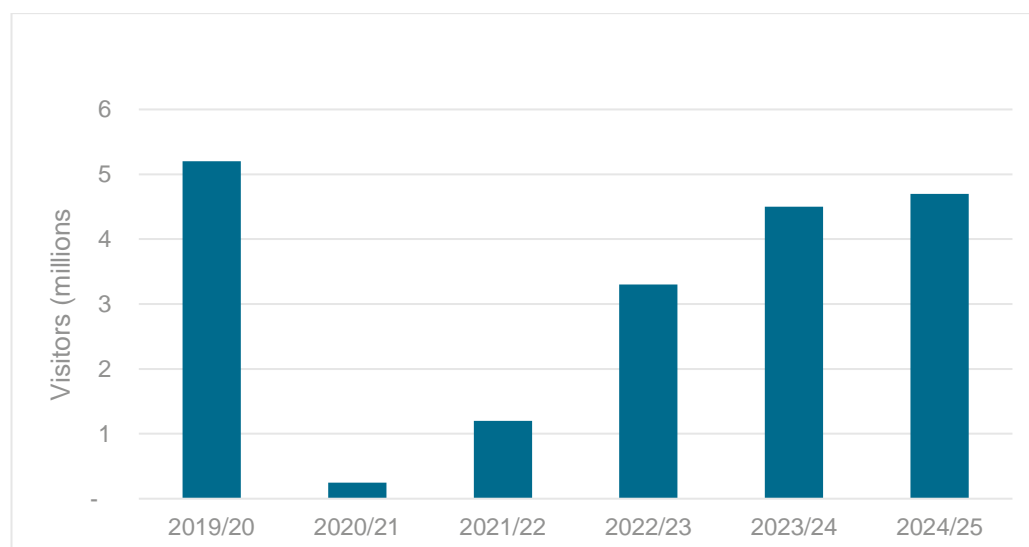
**52.** The income budget includes a £2m stretch target which is focused on admissions and retail. This reflects HES's historic performance of exceeding budget projections but also reflects the potential change in their financial operating model which would provide greater motivation to maximise the commercial income.

**53.** The growth in income is based predominantly on the growth in visitor numbers with an increase from 4.5 million to 4.7 million being projected. It should be noted that pre-Covid visitor numbers in 2019/20 were 5.2 million.

[Exhibit 7](#) provides a summary of the movements in visitors numbers over five years and the projection for 2024/25 which shows the recovery of visitor numbers towards pre pandemic levels. The increase in visitor numbers correlates with the stepped increase in commercial income since 2022/23 in [Exhibit 5](#). We have concluded the projections in commercial income and visitor appear reasonable.

## Exhibit 7

### Visitor numbers since 2019/20



Source: HES annual report and financial statements 2023/24

## HES has been reviewing their financial operating model

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

**55.** As part of the Scottish Government recognition that adopting a multi-year outlook is key to achieving financial sustainability, HES have been considering a new financial operating model regarding their commercial income and their grant in aid from the Scottish Government. A working group has developed a business case which has been discussed at Board level and in discussions with the Scottish Government. We will monitor developments and potential implications of a new financial operating model in 2024/25 and will look to the development of longer-term financial plans by HES once the new financial model is agreed.

# 4. Vision, leadership and governance

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

## Conclusion

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

## Audit work has addressed the wider scope risks identified in the Annual Audit Plan

56. [Exhibit 8](#) sets out the wider scope risks relating to Vision, Leadership and Governance identified in my 2023/24 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 8

#### Risks identified from my responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
<p><b>Vision, leadership, and governance</b></p> <p>Historic Environment Scotland are in the midst of a number of changes in key senior staff. The Director of Finance and Corporate Services left in November 2023, the Chief Executive has resigned effective March 2024, and the term of the Audit, Risk and Assurance</p>	<ul style="list-style-type: none"> <li>We will monitor progress in recruiting for key roles.</li> <li>We will meet with key incoming and outgoing staff as appropriate.</li> <li>Governance arrangements will be assessed through attendance at Audit, Risk and Assurance Committee (ARAC) meetings and review of key documents, including Board, Finance</li> </ul>	<p>We reviewed key committee and board papers and attended the Audit, Risk and Assurance Committee meetings.</p> <p>We discussed interim and long-term arrangements with staff during the audit cycle.</p>

Audit risk	Audit Response	Conclusion
<p>Committee Chair will end in October 2024.</p> <p>Changes of leadership can impact the effectiveness of governance arrangements.</p>	<p>Committee, and ARAC minutes.</p>	

Source: Audit Scotland

## Governance arrangements are appropriate

**57.** HES's governance arrangements have been set out in the Governance Statement in the annual report and financial statements. We have reviewed these arrangements and concluded that they are appropriate and effective.

**58.** We have reviewed the Board, Finance Committee and Audit, Risk and Assurance Committee minutes and papers as part of our audit work. We are satisfied that papers are sufficiently detailed to allow for effective decision making and scrutiny of performance. We attend the Audit, Risk and Assurance Committee and we have concluded that members are engaged during meetings and provide effective scrutiny and challenge.

**59.** As part of our review we consider openness and transparency and we are pleased to report that key corporate documents such as the strategy, corporate plan and Annual Operating Plan (AOP) are easily accessible on the website. Minutes for the Board are published on the HES website which is in line with baseline requirements. We note that Board and Committee papers along with the committee minutes are not included on the HES website.

## Effective leadership is critical to delivering HES's key priorities within budget

**60.** The HES Chief Executive and leadership team are responsible for the day-to-day services as well as leading on maximising income, maintaining the estate and creating an efficient service delivery model. This places significant demands on the senior leadership team.

**61.** HES have had some changes in their executive leadership team in 2023/24 with the Chief Executive and the Director of Finance and Corporate Services leaving the organisation. The posts were filled with interim appointments which provided continuity for the organisation.

**62.** A new Chief Executive took up post in September 2024 and it will be important that the executive team can work together to demonstrate proactive and effective leadership. We will continue to consider the actions taken by the Board and executive leadership team to deliver strategic objectives within their budget.

## Climate change arrangements

**63.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**64.** HES is transparent in reporting its responsibilities under the Climate Change Act (Scotland) 2009 and has an area on the website dedicated to Climate Change.

**65.** The 2023/24 annual report and financial statements includes a good overview of the climate change activities undertaken by HES in the Sustainability Report. HES have also noted in their annual report that they have adjusted their carbon reduction strategy to align with the Scottish Governments' net zero target of 2045.

**66.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.



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# 5. Use of resources to improve outcomes

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

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## Conclusions

Historic Environment Scotland has an appropriate best value framework in place.

Historic Environment Scotland has an effective performance management framework in place

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## HES has an appropriate Best Value framework in place

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

**68.** We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. There is evidence of best value being demonstrated by HES across a range of areas including strategic planning, performance monitoring and delivery.

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

**70.** Although arrangements were overall considered to be appropriate, they could be further strengthened by incorporating the completion of an annual Best Value self-assessment, the results of which would be presented to the Board.

## Recommendation

Arrangements for securing Best Value could be further strengthened by incorporating an annual self-assessment in the organisation's governance procedures as a point of good practice.

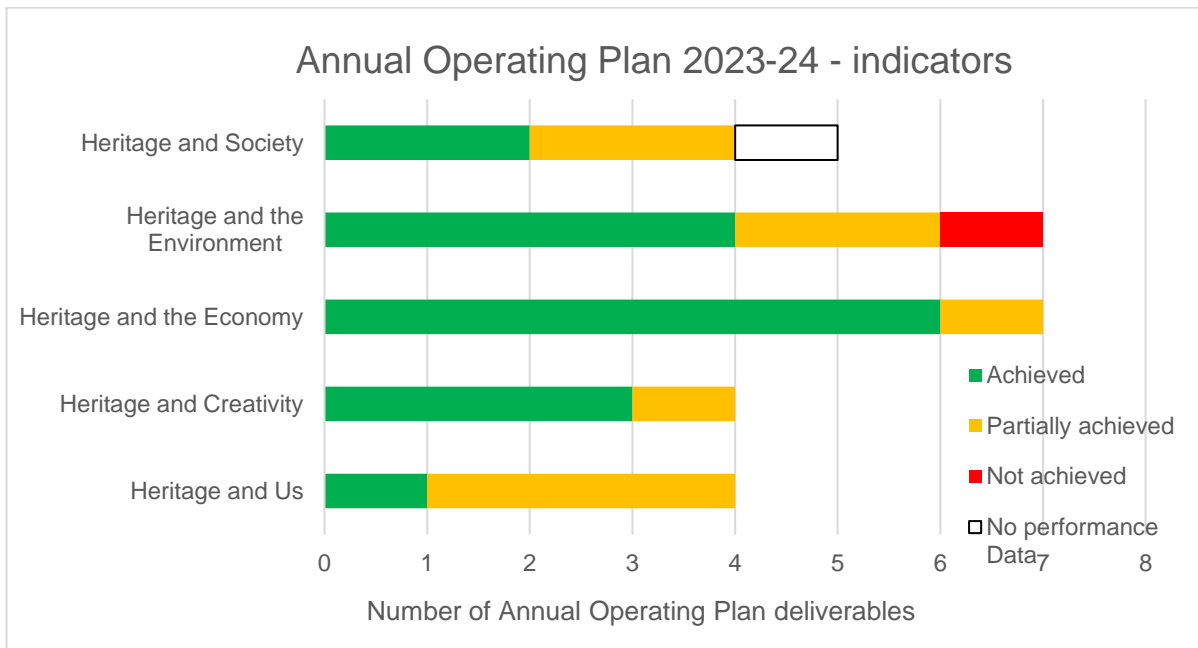
## HES has appropriate arrangements for performance monitoring and reporting

**71.** HES's performance is monitored by the Board against key performance indicators which are set annually with due regard to the AOP. The responsibility for the detailed review and scrutiny of the key performance indicators lies with the Board through quarterly reporting.

**72.** 2023/24 is the second year of the refreshed Corporate Plan 'Heritage for All'. HES noted that they achieved over 50% of their deliverables in 2023/24 and 93% of their AOP deliverables were either achieved or partially achieved.

**73.** HES performance is publicly reported through the annual report and financial statements. [Exhibit 9](#) sets out performance against key performance indicators in 2023/24.

## Exhibit 9 Annual Operation Plan indicators



Source: HES annual report and financial statements 2023/24

**74.** HES reduced the number of performance indicators to 28 in 2022/23 and to 27 in 2023/24. For 2023/24 there is one indicator where HES was unable to calculate performance due to improvements in data quality in the final quarter rendering performance unable to be calculated on a like for like basis with the target. Of the remaining 26 indicators, sixteen were achieved with nine partially achieved and one not achieved. The annual report confirms the reasons and actions required for those performance indicators that were partially or not achieved in 2023/24. HES has a clear performance framework in place and indicators are monitored and reported.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Archive House</b></p> <p>HES started their Archive House project in 2021 which planned to rationalise the storage of archive materials from multiple sites into a specialist archive storage facility with adjoining space for essential archive services.</p> <p>In June 2024, the HES Board took the decision to effectively cancel the project, due to a number of challenges.</p> <p>HES undertook an impairment review which resulted in a write off of £2.0 million through the SoFA in 2023/24.</p> <p><b>Risk</b> – There is a risk that HES project governance is not operating as expected and this leads to financial loss and reputational damage.</p>	<p>HES need to act quickly to implement revised plans to ensure that appropriate measures are in place to safeguard the long-term storage for HES’s archive materials before the lease on John Sinclair House expires.</p> <p>See <a href="#">Exhibit 2</a>.</p>	<p><b>Accepted</b></p> <p>Work is ongoing to identify a temporary solution which will allow HES to relocate the archive materials currently held in John Sinclair House ahead of the expiry of the lease.</p> <p>In addition a longer-term solution will be taken forward in partnership with other public bodies and the Scottish Government.</p> <p><b>Responsible Officer:</b> Chief Executive Officer</p> <p><b>Agreed date:</b> Temporary solution identified by December 2024.</p>
<p><b>2. Intercompany journals</b></p> <p>During our audit work, HES confirmed they do not keep any records of intercompany recode low value journals as it is not considered</p>	<p>We would recommend that backup is retained for all journals, but in particular for intercompany journals as these impact the charity’s primary financial statements. Backup could take the form of</p>	<p><b>Partially accepted</b></p> <p>Standard practice is that backup is retained for all journals except low value reallocations and all journals are subject to secondary</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>necessary. This is also the case for journals reallocating low value amounts between cost centres.</p> <p><b>Risk</b> – The lack of evidence to support journals posted creates an increased risk of fraud or error.</p>	<p>a note from the budget meetings documenting discussions about what reallocations are needed.</p> <p>See <a href="#">Exhibit 6</a>.</p>	<p>approval. Documented procedures to be updated to reflect backup required for all journals above £10,000.</p> <p><b>Responsible officer:</b> Management Accountant</p> <p><b>Agreed date:</b> December 2024</p>
<p><b>3. Best Value Self-assessment</b></p> <p>Ministerial guidance for Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value.</p> <p>HES's arrangements for securing Best Value have been assessed as part of the 2023/24 audit and judged to be appropriate.</p> <p>An annual self-assessment will further strengthen these arrangements and be a point of good practice.</p>	<p>Arrangements for securing Best Value could be further strengthened by incorporating an annual self-assessment in HES's governance procedures as a point of good practice.</p> <p>See <a href="#">paragraph 70</a>.</p>	<p><b>Partially accepted</b></p> <p>HES's arrangements for securing Best Value have been judged to be appropriate.</p> <p>HES will consider implementing an annual Best Value self-assessment.</p> <p><b>Responsible officer:</b> Director of Finance and Corporate Services</p> <p><b>Agreed date:</b> March 2025</p>

## Follow-up of prior year recommendations

Issue / risk	Recommendation and Agreed Action	Progress
<p><b>b/f 1. Internal controls</b></p> <p>We noted three minor improvements which could be made to the systems of internal control which are in place at HES relating to:</p> <ul style="list-style-type: none"> <li>• Evidencing review of accruals and prepayments at the year end</li> <li>• Secondary approvals processed for system access could be strengthened</li> <li>• Retaining evidence of grant award communications.</li> </ul> <p><b>Risk –</b> there is a risk that internal controls do not operate effectively</p>	<ul style="list-style-type: none"> <li>• We recommend that evidence of control reviews over accruals and prepayments would be retained. <b>Management Action:</b> Evidence of review of manual accruals and prepayments will be retained.</li> <li>• consideration should be given to strengthening secondary approvals for access to systems <b>Management Action:</b> Management have already considered. Due to compensating access and authorisation controls in place, management have concluded that the risk of inappropriate access is negligible, and no further action required.</li> <li>• grant award communications are retained as part of grant award documentation. <b>Management Action:</b> Grant award communications will be retained as part of grant award documentation.</li> </ul> <p>See <a href="#">paragraph 30</a>.</p>	<ul style="list-style-type: none"> <li>• Evidence of review of manual accruals and prepayments was retained. <b>Complete</b></li> <li>• Due to compensating access and authorisation controls in place, management concluded last year that the risk of inappropriate access was negligible, and no further action was required. <b>No action required.</b></li> <li>• Grant award communications retained as part of grant award documentation. <b>Complete.</b></li> </ul>

# Historic Environment Scotland

## Annual Audit Report 2023/24

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