



Crown Estate Scotland (Interim Management)

External Audit Plan for the financial year ending 31 March 2020

Crown Estate Scotland (Interim Management) Audit & Risk Committee

Final External Audit Plan – 25 March 2020

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Our audit at a glance



Planning materiality is set at 2% of net assets being **£8.5 million**. This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements. Our benchmark of net assets has changed from the prior year (Revenue expenditure) as based on our developing knowledge and understanding of CES(IM) we consider assets to be the key focus for the user of accounts. We adopt a lower materiality threshold for specific classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality as a whole could reasonably be expected to influence the economic decisions of users of the accounts.



We set a specific materiality of **£290,000**, being approximately 1.5% of gross revenue based on 2019/20 budget. This materiality will be applied to the Revenue Account. We will apply a lower materiality threshold on review of the Remuneration and Staff report to ensure that remuneration has been disclosed within appropriate bandings (being **£2,500**). We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.



Performance materiality is set at **75%** of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding.



Significant audit risks are: management override of controls; risk of fraud in revenue recognition as set out in International Standards on Auditing (ISAs UK); and, the valuation of investment property.

An audit
underpinned by
quality



The Crown Estate Scotland (Interim Management) (CES(IM)) has been developing a new Corporate Plan (2020-23). With the Crown Estate Scotland Act 2019 coming into force, the Corporate Plan will play a key role in shaping how the organisation will manage the CES(IM) assets in a way which not only delivers financial return but has wider economic and environmental benefits for the Scotland as well as enabling other bodies to take on management responsibilities of the assets.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Through our audit planning we have identified wider scope risks reflecting CES(IM)'s **financial sustainability, governance and transparency** and **value for money** arrangements. In particular, we will consider the progress made by CES(IM) in developing a clearly defined Investment Strategy that supports CES(IM) deliver against its financial targets while supporting the delivery of Corporate priorities. In addition we will consider CES(IM)'s arrangements to ensure compliance with the Scottish Public Finance Manual and **procurement arrangements**.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code'). Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

External Audit plan

The External Audit Plan summarises our responsibilities in accordance with ISAs and the Code:

- Respective responsibilities;
- Our audit process and timeline
- Materiality
- Our risk based audit approach to the audit of the financial statement
- Our wider scope responsibilities including those in relation to the four wider audit dimensions prescribed in the code: Financial management; financial sustainability; governance and transparency; and, value for money.

Continuous improvement and adding value

Our aim is to add value to CES(IM) through our external audit work. This will be delivered through delivering a high-quality audit. Specifically for CES(IM) we will also undertake the following arrangements:

Continuous learning and development: We have discussed with Management opportunities to develop our audit approach to ensure we deliver an efficient and effective audit approach. This will include meetings with senior members of the finance team to discuss the financial statements and the supporting information we will require during our audit.

Robust and effective audit methodology: Our ISA compliant audit methodology is tailored to focus audit resource on significant risk areas and key estimates and judgements. **Constructive challenge and feedback:** We aim to provide constructive challenge by identifying areas of improvement and by recommending and encouraging good practice.

Audit appointment

The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.

The Auditor General has appointed Grant Thornton UK LLP as external auditor of CES(IM) for the four year period 2017/18 to 2020/21.

Our team

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The audit will be supported by a team of qualified and part qualified accountants from our public sector audit team. Where required we will use other audit experts, including Public Sector technical accounting team to support our audit.

Respective responsibilities

As set out in the Code of Audit Practice there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	CES(IM) Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control and maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure Value for Money
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an ISA compliant opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope in accordance with Audit Scotland's Code of Audit Practice and applicable guidance
- Contributing to Audit Scotland Performance Reports
- Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients
- Notify Audit Scotland of any cases of money laundering or fraud
- Contribute to Audit Scotland technical guidance

How do we do this in practice

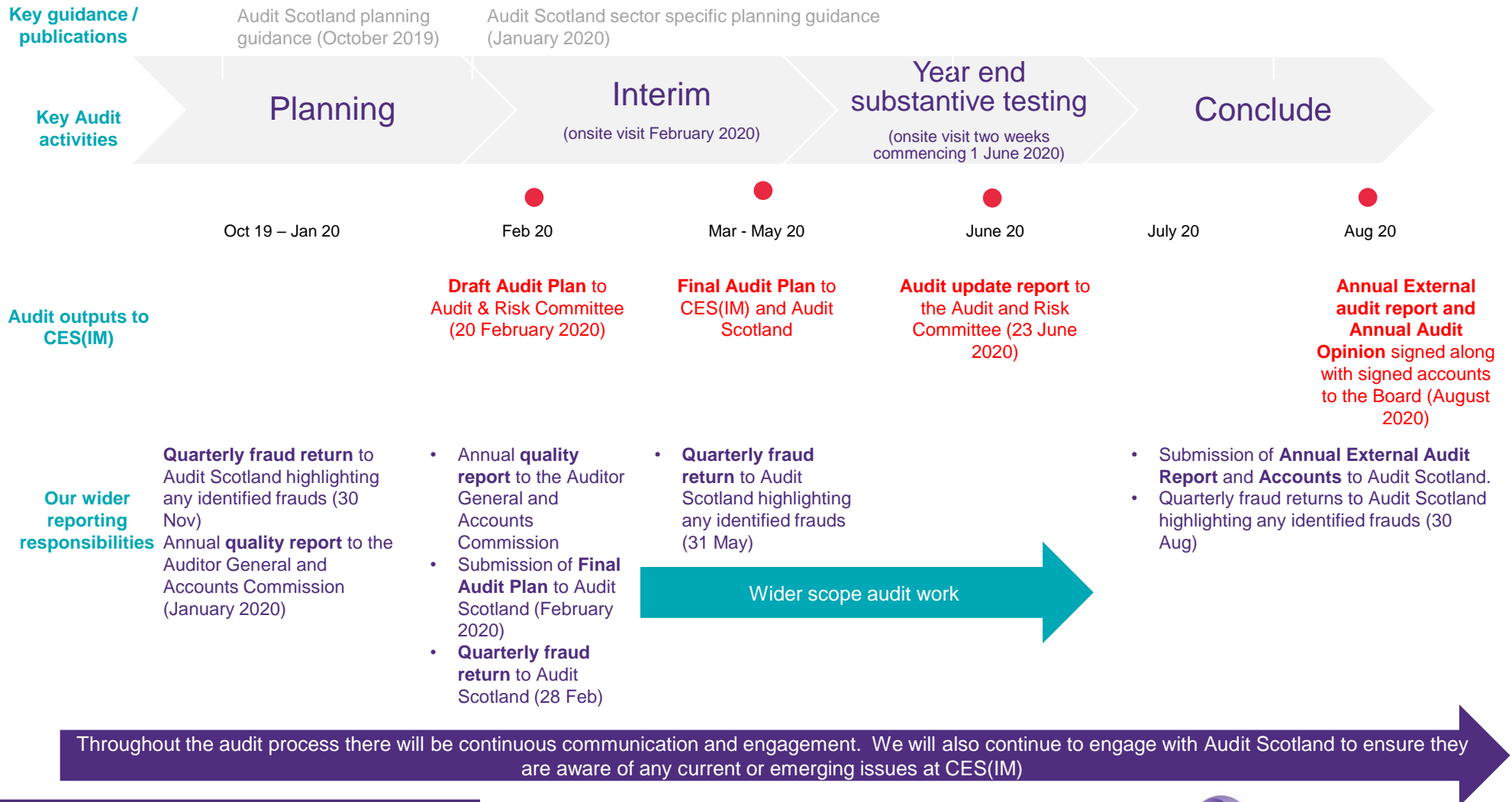


- By reviewing and providing judgements and conclusions on CES(IM) arrangements including those across the wider scope of audit dimensions.
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of CES(IM)
- Ongoing dialogue and engagement with Audit Scotland during the year
- Providing quarterly fraud updates to Audit Scotland and information on any money laundering
- Providing relevant data to Audit Scotland relating to CES(IM) to contribute to shared risk assessment and national performance reports
- Support Audit Scotland through engaging in technical guidance publications

Audit process and timeline

Our planned audit timeline is detailed below. In accordance with the Code of Audit Practice and audit Scotland Planning Guidance, we are required to undertake and report on a range of areas. The diagram below summarises our planned audit timetable for 2019/20, and output both to CES(IM) and Audit Scotland.

We will issue audit deliverables list (Prepared by client (PBC)) to CES(IM) in advance of our year end audit work. Our audit timetable and audit fee is agreed on the basis of a complete set of draft accounts and supporting working papers in line with the agreed PBC list being available for our year end audit visit. The unaudited accounts are submitted to the Sponsor department by 30 June 2020.



Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view in accordance with section 2(5) of the Crown Estate Act 1961 (as amended) and directions made thereunder by Scottish Ministers
- have been properly prepared in accordance with relevant legislation and standards
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- regularity of expenditure and income
- the wider information contained in the financial statements e.g. Accountability Report; Directors Report and Governance Statement is consistent with our audit knowledge and the financial statements

Basis for materiality

We determine financial statement materiality based on a proportion of net assets. This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements. Our benchmark of net assets has changed from the prior year (net operating expenses) as we consider net assets to be the key focus for the user of accounts given net assets represents the land and property managed by the CES(IM), owned by the Monarch in the right of the Crown. We have determined CES(IM) materiality to be **£8.5 million**, which equates to approximately **2%** of your net assets, based on 2018/19 financial statements. The prior year approach had a lower overall materiality and therefore did not impact on the quality of our audit

Performance materiality

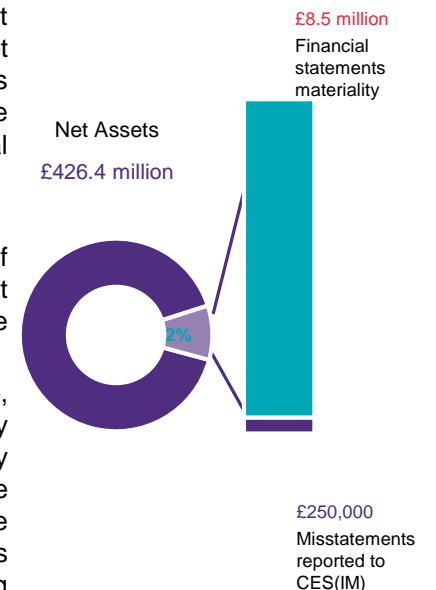
Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience we have retained this for 2019/20 at **75%**, being **£6.3 million**. Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

Our materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We adopt a lower materiality threshold for specific classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality as a whole could reasonably be expected to influence the economic decisions of users of the accounts. CES(IM) contribute to the Scottish Government based on returns generated through the revenue accounts and therefore we apply a lower materiality on the revenue account. We set a specific materiality of **£290,000**, being approximately 1.5% of gross revenue based on 2019/20 budget. This materiality will be applied to the Revenue Account transactions and balances. We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements. We will apply a lower materiality threshold on review of the Remuneration and Staff report to ensure that remuneration has been disclosure within appropriate bandings (being **£2,500**).

We will update our materiality based on the unaudited 2019/20 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to CES(IM) any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£250,000**, being the maximum trivial threshold prescribed by Audit Scotland. For misstatements through the Revenue Account we will apply a lower reporting threshold of **£14,500**.



A risk based audit methodology

A core part of audit planning is understanding CES(IM) and the wider public sector. This is our fourth year as the external auditors of the organisation appointed under the Audit Scotland framework. Through our audit planning procedures we consider a range of factors to assess the risk of material misstatement to the financial statements. Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Our risk assessment includes the following;

Consideration of critical accounting estimates including valuation of investment property.

Assessment of inherent risk factors including changes in the organisation's activities and environment.

Understanding of entity level controls and the control environment, including IT controls.

Financial and operational performance during the year, including pressures in demonstrating value for money in investments in terms of medium to longer term investments

Identified Significant audit risks

- Risk of fraud in Revenue recognition
- Management override of controls
- Valuation of investment property

We continue to assess the risk of material misstatement and our response to these risks throughout our audit. Within our Annual Audit Report we will report to you the conclusions from our audit procedures over these risks, including any further risks identified or changes to our planned audit response.

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Risk of fraud in revenue recognition - Revenue Account	Income from Contracts (at the year end) (Occurrence, Completeness) Receivables (Existence, Completeness)	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. CES(IM) generates revenue through a range of activities using the investments held. This is through rent and royalties as well as materials produce (forestry). CES(IM) are a net contributor to the Scottish Government. As part of the annual budget setting process agree an annual revenue contribution to the Scottish Government. For 2019/20, CES(IM) has forecast a contribution to the public purse of £8 million. There is therefore an incentive for fraudulent recognition of revenue to deliver outturn targets. Financial targets are based on the financial year end (contributions to Scottish Government) and consequently there is greatest focus on outturn position. We therefore consider the risk to be most prevalent in revenue transactions and balances recognised around the year end as these would be the transactions most susceptible to incorrect recognition through fraud.</p> <p>CES also generates revenue through capital receipts from the sale of assets. However, these are recognised through the Capital Fund for the purposes of capital reinvestment and therefore not directly impacting on the revenue outturn position. We therefore do not attach the significant risk to these transactions.</p>
Audit Response		
<ul style="list-style-type: none"> • Walkthroughs of the controls and procedures over rent and royalties and materials produce. • Perform substantive testing (at an elevated risk level) over income recognised in the final two months of the year and post year end transactions where there is an increased risk of fraudulent recognition of revenue. We will ensure that these are correctly accounted for in the financial statements. • Evaluation of the existence of receivables balances held at 31 March 2020 through agreeing balances held to invoices and/or other supporting records. • Perform income cut-off procedures and substantive testing over pre and post year end balances, rent and royalties and material produce revenue streams. • A focus on recoverability of balances through agreeing a sample of debtor balances (at an elevated risk level) and agreeing to post year end cash receipt. 		

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Management override of controls	Journals Accounting Estimates	As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override CES(IM)'s controls for specific transactions. We consider those key judgements that are most susceptible to significant audit risk of management override are those over income and expenditure recognition transactions around the year end. These are areas where management has the potential to influence the financial statement through estimate and judgement.

Audit Response

Accounting estimates:

In assessing the risk of management override, consider those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where management bias could result in a material misstatement. In response to the significant audit risk we will:

- consider the design of controls in place over key accounting estimates and judgements
- Review accounting estimates for management bias / indication of fraud that could result in material misstatement. This will include review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

Journals testing:

We will use our data analytics tool *Idea* to support our evaluation of journal transactions during the year. In response to the significant risk we will:

- Assess the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- Will risk assess the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We will test these journals to ensure they are appropriate and that suitably recorded in the financial ledger and the financial statements;
- We will review controls in place to mitigate the risk of management override of controls including restricted access to posting / authorising manual journals to only appropriate users as well as segregation of duties.
- Review journals in place between Revenue Fund and Capital Fund accounts to ensure no risk of fraudulent recognition of capital account transactions through the revenue account.
- We will perform targeted testing of transactions at the financial year end, including those to support the accounts preparation process, reviewing those journals are large or otherwise appear unusual to understand the rationale for the transaction.

Significant financial statement risks

Risk area	Areas of focus	Description of risk
Valuation of investment property	Investment Property (valuation)	<p>As at 31 March 2019, CES(IM) held £385.8 million of investment property. This includes a range of assets including commercial and residential properties, land leased for energy production, forestry and seabed. In accordance with International Financial Reporting Standard 40: <i>Investment Property</i> (IFRS 40), the assets are held at fair value in the financial statements. CES(IM) engage with valuation specialists to determine an appropriate valuation for these. Investment properties are valued based on a number of key assumptions including an estimate of future rental income. There is a risk that the valuation either under or overstates the asset values reflected in the accounts.</p>

Audit Response

Management expert

- We will consider the independence and objectivity of the appointed valuer and consider their competence and experience as a suitable management experts.
- We confirm the completeness of underlying information provided by CES(IM) or used by the valuer in arriving at the valuation of investment property.
- We will review the valuation report provided by the valuer and reconcile to the underlying accounting entries made by CES(IM).

Valuation

- We will consider the suitability of the valuation methodology to ensure consistent with IFRS 40.
- We will use our own auditor valuation expert to review the reasonableness of the methodology applied by CES(IM) in arriving at the valuation of investment property.
- We will review the approach adopted to support the valuation including the completeness and accuracy of underlying data used to support the valuations.
- We will review the appropriateness of the assumptions adopted by the valuer, including where relevant, reference to rental agreements in place and assumptions around forecast rental revenue.
- We will review managements assessment of impairment risk

Other audit areas

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, alongside our assessment based on substantive testing and audit procedures.

Working with Internal Audit

The Auditing Standards Board's version of ISA (UK) 610 “Using the work of internal auditors” prohibits use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements and therefore we do not intend to place any reliance on the work performed by Internal Audit during the year.

During 2019, CES(IM) ended the contract with Scott-Moncrieff to provide internal audit services. Following a tender process RSM UK Limited have been appointed as internal auditors. However, we understand that assurance activity under this appointment will not commence until 2020/21. As part of our planned audit work over wider scope risks (See *Wider scope audit* section) will consider the impact that this has had on CES(IM)'s governance and transparency arrangements during 2019/20, in particular compliance with the Scottish Public Finance Manual.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls including controls to mitigate Management override of controls.
- Perform walkthrough procedures on key controls around identified risk areas including operating income, payroll expenditure, other expenditure, journal entries, IAS 19 pension accounting and review over work-in-progress.

International Financial Reporting Standards 16: Leases (IFRS 16)

IFRS 16 was effective for accounting periods beginning on or after 1 January 2019 and is due to be adopted for bodies reporting under the FReM for financial years beginning on or after 1 January 2020 . The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces the previous standard IAS 17. IFRS 16 introduces a single lessee accounting model aimed at providing a fairer representation of a lessee's assets and liabilities and disclosures around these. Under IFRS 16, the lessees' recognises assets and liabilities with a term of more than 12 months, unless the underlying asset is of low value. In practice, this is likely to result in lease or lease type arrangements associated assets and liabilities being recognised in the financial statements of the lessee, where these may have previously been treated as operating leases where there was no asset or liability recognised and only an annual lease charge through expenditure.

During 2019/20 we will review the progress made by CES(IM) in evaluating the potential implications on adoption of the new accounting standard. This will be reflected in the 2020/21 financial statements. We will consider the disclosures in the 2019/20 financial statements in relation to the anticipated impact of the new standard.

Coronavirus

The full extent and impact of the outbreak of novel coronavirus (COVID-19) remains uncertain. As a firm we are actively monitoring the outbreak and taking proactive steps to protect the health and wellbeing of our clients, employees and communities. We are following the latest guidance from Public Health England and Scotland and have taken precautionary measures including restricting non-essential travel and steps to limit potential exposure.

We have reached out to our audit clients, CES(IM), to understand arrangements in place to enable us to deliver the audit in the event that travel restrictions remain in place over the planned period of the audit. Currently, we are assume that the audit will need to be delivered remotely. We have established arrangements, including remote working of our staff and testing approaches, taking into account regulatory guidance, in order to deliver our audit work. We will continue to liaise with health authorities, Audit Scotland and our clients about the situation.

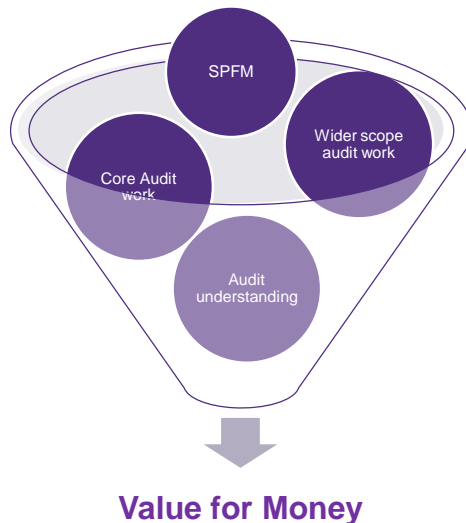
For CES(IM), the impact of the Coronavirus on the primary financial statements remains uncertain. External markets are likely to see a reduction in the market value of investments. There may also be further impacts on recoverability of income, particularly amounts due around the year end, reflecting wider economic downturn. We will continue to monitor the impact of the coronavirus and of government measures to manage the outbreak. Where required we will continue to reassess our audit plan accordingly.

Wider scope audit

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements. The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Value for Money, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Value for Money.



Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Scottish Public finance Manual (SPFM) nine characteristics of Value for Money
- Our core audit work and audit knowledge
- Audit Scotland planning guidance

We consider each of these areas through our audit planning process. We summarise our planning consideration over the wider scope areas below, including where we have identified a significant wider scope risk, our planned audit response. We have also identified areas that we will continue to consider throughout our audit to allow us to conclude on the wider scope areas in our Annual Audit Report.

Wider scope audit dimensions

Financial sustainability

CES(IM)'s financial performance is dependent on the level of return on capital investments. CES(IM) are in the process of reviewing its vision, corporate priorities and objectives to be aligned to the principles of the Scottish Crown Estate Act 2019. A draft investment strategy has been developed to support the Corporate Plan 2020-23 due for consultation during 2019 and approval in Spring 2020.

CES(IM) recognise the need to balance financial return with sustainable investments as well as investing in assets that provide wider benefits to the people of Scotland.

CES(IM) are in the process of developing a new Corporate Plan and underlying investment strategy. The investment strategy and underlying delivering will be essential in securing the medium to longer term financial sustainability of the organisation.

Audit
response

Our wider scope procedures

We have not identified any significant wider scope risks in relation to financial sustainability. We will review the financial plans in place, including the scenarios set out, and how these align resources to the delivery of CES(IM)'s corporate priorities. We will assess the progress made by CES(IM) in developing its investment strategy and underlying operating plans that continue to support the delivery of these priorities. We will continue to develop our understanding of CES(IM)'s financial planning arrangements including the development of the strategic investment plan and how this supports the delivery of the Corporate plan .

Wider scope audit dimensions

Financial management

CES(IM) is a public corporation that self-funds its operations through generating revenue through its portfolio of investments. Both revenue and capital are generated through the use of the CES assets. CES(IM) has a diverse portfolio of investments. As at 31 March 2019, CES(IM) held assets of £385 million across a diverse portfolio of investment properties. Each financial year CES(IM) agree a financial contribution target with the Scottish Government. For 2018/19, CES(IM) generated a profit (comprehensive revenue account) of £11.4 million and capital account profit of £82.2 million. This performance allowed CES(IM) to contribute £11.4 million to the Scottish Government consolidated fund, exceeding its target by £4.1 million. For 2019/20, CES(IM) expects to contribute £8 million to the consolidated fund, in line with its agreed financial contribution target.

Significant risk identified: *CES(IM) has a relatively small finance team, given the size and breadth of investment activity. Recognising this, during 2019/20 CES(IM) appointed a Financial Controller, a new position within the organisation, to enhance the financial management capacity and capability. However, the Director of Finance left the organisation in December 2019. While CES(IM) are in the process of recruiting for the position, this has left the body without a Director of Finance for two months during the current financial year. As CES(IM) is establishing its new Corporate Plan and underlying strategic Investment Strategy, it is important that there is effective financial leadership and governance in place to support the development of the plan as well as wider financial management arrangements.*

Audit
response

Response to significant wider scope risk: We will consider the arrangements established by CES(IM) in supporting the financial management and governance arrangements, including the interim arrangements established in the absence of a Finance Director. We will consider the extent to which interim arrangements established during the year ensure appropriate financial management as well as continuing to provide strategic financial support to inform the development of the corporate plan and investment strategy.

Our wider scope procedures: We will continue to review CES(IM)'s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as monitoring of income generated to ensure this was in line with budgets.

Wider scope audit dimensions

Governance and transparency

Governance arrangements continue to embed within CES(IM). In May 2019 the Board was increased to nine members, including the Chair with two new members being appointed. During the year the Scottish Crown Estate Act 2019 has been implemented in phases.

CES(IM) is required to comply with the Framework Document for Crown Estate Scotland (Interim Management) issued in September 2017. The CES(IM) board met seven times during the year reviewing CES(IM)'s operational and financial performance compared to plan, business strategy and risk management as well as high level review and scrutiny of health and safety issues. The Board continue to explore opportunities to enhance governance arrangements.

CES(IM) uses a number of external management agents to provide key transactional services on behalf of CES(IM) including rent accounting, purchase to pay, bank and cash and debt management. CES(IM) recognise that there is dependency on the work performed by the agents in supporting service delivery and have developed oversight and governance arrangements to ensure that services are monitored and scrutinised.

Significant wider scope risk identified: As a relatively new organisation, CES(IM) has been establishing governance arrangements. However, while CES(IM) manage over £400 million of assets, there is a relatively small management team to support this. While new governance arrangements continue to develop and embed, there are a number of areas that continue to require focus. In particular: the transparency around scrutiny and governance arrangements (public meetings); scrutiny arrangements; and the absence of an independent internal audit function during 2019/20. As a consequence there is a risk that CES(IM) does not have arrangements to comply with the Scottish Public Finance Manual (SPFM) or support effective and transparent governance.

Audit response

Response to significant wider scope risk: We will review the arrangements in place at CES(IM) to support compliance with the SPFM. In particular, we will consider the extent to which CES(IM) focus on compliance with good practice with SPFM and plans in place to address any identified gaps.

In relation to the absence of an Internal Audit function during the year, we will assess the arrangements put in place during the year to provide assurance to the Audit and Risk Committee (and Board) around the systems of internal control.

Other wider scope procedures: To support our wider scope audit, we will continue to consider through discussions with management and review of minutes the adequacy and effectiveness of overarching governance arrangements.

We will consider through discussions with management, review of minutes and papers, CES(IM)'s overarching governance arrangements and how CES(IM) ensure that they are transparent and open to stakeholders including members of the public.

Wider scope audit dimensions

Value for money

With the development of the new Corporate Plan and underlying investment strategy it will be important that CES(IM) establishes a performance management framework that enables scrutiny of financial and non-financial performance.

Significant risk identified: *The Scottish Crown Estate Act (2019) introduces a number of requirements for CES(IM). In particular, there is a greater focus on delivering value beyond financial return and enabling other bodies to take on management responsibilities of the assets of the Crown. CES(IM) is undertaking a consultation on a new Corporate Plan to reflect the legislative and strategic priorities of the organisation. It is essential that CES(IM)'s performance management framework is developed to enable performance to be assessed against the Corporate Plan, including financial and non-financial benefits.*

Audit
response

Response to significant wider scope risk: We will assess the extent to which CES(IM) has developed clear and concise performance measures to provide an objective assessment of performance against the organisation's corporate priorities. We will consider the extent to which the performance framework is aligned to the corporate priorities.

Other wider scope procedures:

We will consider the extent to which CES(IM) can demonstrate that they deliver value for money through the delivery of services, using resources efficiently and effectively to deliver outcomes. We will consider the extent to which CES(IM) have developed a framework to provide assurances over performance.

Audit deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work during our 2019/20 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance (2018/19 Guidance on Planning the Audit)

Requirement	How we will report our findings
<p>Annual accounts Perform an audit of the annual accounts and express specified audit opinion on them.</p>	<ul style="list-style-type: none"> • External audit plan • External auditor's opinion on the financial statements • Annual external audit report (to those charged with governance and the Auditor General for Scotland) findings from our audit work of the financial statements
<p>Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions</p>	<ul style="list-style-type: none"> • Annual external audit report (audit findings report)
<p>Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports</p>	<ul style="list-style-type: none"> • Communicating throughout our audit emerging issues throughout the year
<p>Correspondence queries Carry out preliminary enquiries into any correspondence relevant to CES(IM) that is referred to Audit Scotland.</p>	<ul style="list-style-type: none"> • Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
<p>Money laundering and fraud Provide information on cases of money laundering or fraud</p>	<ul style="list-style-type: none"> • Reporting cases to the National Crime Agency of an instances of money laundering at the Board and reporting any identified frauds to Audit Scotland
<p>Technical guidance Contribute to Technical Guidance Notes</p>	<ul style="list-style-type: none"> • Providing responses to Audit Scotland consultations on draft Technical Guidance notes for Auditors.

Audit deliverables

Requirement	How we will report our findings
<p>Audit Scotland area of focus - Procurement</p> <p>In accordance with Audit Scotland’s planning guidance, during 2019/20 we will have particular audit focus around the risk of fraud and corruption in CES(IM)’s procurement arrangements. We will evaluate the arrangements at the audited body to mitigate that risk, auditors may wish to consider whether:</p> <ul style="list-style-type: none"> • Procurement risk is recognised and managed with key owner; • controls around the procurement process, including segregation of duties, are adequate, followed and enforced • Appropriate policies and procedures in place around procurement including gifts and hospitality • Capacity and capability to undertake procurement activity • internal audit coverage of procurement systems is adequate and proportionate to the risks faced by the body (recognising no Internal Audit function in 2019/20) • there are arrangements to encourage and protect whistle-blowers. 	<ul style="list-style-type: none"> • Our audit work will consider the arrangements for the prevention and detection of fraud and corruption. Specifically, we will consider the extent to which CES(IM) follows the principles of CIPFA’s Code of Practice on Fraud. Our conclusions will be reported in our 2019/20 Annual External Audit Report.

Appendices

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Appendix 1: Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	29,515
Pooled Costs	6,240
Contribution to Audit Scotland costs	1,490
Contribution to Performance Audit and Best Value	-
2019/20 Fee	37,245

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Audit Scotland sets an expected fee for each audit carried out under appointment which assumes that the body has well-functioning controls, an effective internal audit service, and an average risk profile.

Audit Scotland reviews the expected fee each year and adjusts it if necessary based on auditors' experience, new requirements, or significant changes to audited bodies. The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. For 2019/20 we have agreed an audit fee of £37,245 being a 10% (£2,675) uplift in auditor remuneration baseline fee. This reflects the additional costs in delivering the audit including using our own audit expert to support the valuation of investment properties and additional wider scope risks. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and CES(IM)'s activities will not change significantly from planned
- CES(IM) will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as valuations of investment properties are supported by an independent specialist

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Appendix 2: Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at CES(IM).

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for CES(IM) this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at CES(IM) we will report to the Auditor General as required by Audit Scotland.

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.

It is CES(IM) responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with CES(IM) to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing CES(IM) arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Appendix 3: Communication with those charged with governance

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to CES(IM) Management and the Audit and Risk Committee.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of CES(IM)'s accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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