

# Crown Estate Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Crown Estate Scotland

March 2023

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# Contents

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Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	12
Other matters	15
Appendix 1. Your audit team	17

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Crown Estate Scotland (CES). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, Accountability Report, the Governance Statement and the Remuneration and Staff Report.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements

## Audit Appointment

2. We are pleased to be appointed as the external auditor of CES for the period 2022/23 to 2027/28 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. A number of the International Standards on Auditing (ISAs) applicable to the 2022/23 audit have been revised in order to strengthen auditors' assessment and identification of risks. In particular, the revised ISA (UK) 315 (*Identifying and Assessing the Risks of Material Misstatement*) places greater demands on auditors to understand an entity's IT processes and controls relevant to the financial statements.

4. In response to the revised ISAs, we have enhanced our risk assessment process and developed a more focused audit response to identified risks. While this may result in the first year of the audit to additional inquiries and information requests, especially with regard to your use of IT, it will allow us to tailor our audit approach on the areas of greatest risk.

5. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

6. We aim to add value to CES through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help CES promote improved standards of governance, better management and decision making, and more effective use of resources. Additionally, we attend meetings of the Audit Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Audited Body

7. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Crown Estate Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

8. Our responsibilities as independent auditors are established by the [Public Finance and Accountability \(Scotland\) Act 2000](#) and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

9. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at CES. In doing this, we aim to support improvement and accountability.

### Crown Estate Scotland responsibilities

10. CES is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. CES has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

# Financial statements audit planning

## Introduction

**12.** The annual report and accounts are an essential part of demonstrating CES' stewardship of resources and its performance in the use of those resources.

**13.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**14.** Materiality is an expression of the relative significance of a matter in the context of the annual accounts. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any misstatements to the accounts. We are required to plan our audit to determine with reasonable confidence whether the annual report and accounts are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. On this basis, we have applied a separate lower materiality level to the revenue account.

## Materiality levels for the 2022/23 audit

**15.** The materiality values for CES are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Crown Estate Scotland

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of net assets for the year ended 31 March 2022 based on the audited financial statements for 2021/22.	£12.1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£8.5 million

<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.25 million
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Source: Audit Scotland

## Lower specific materiality levels for the 2022/23 audit

**16.** In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

**17.** We recognise that transactions within the Revenue Account such as revenue (including rents and royalties), costs (including staff costs, management fees and costs, repairs and maintenance and other direct expenditure) and the net revenue account profit distributable to the Scottish Government Consolidated Fund are likely to be of key interest to the users of the financial statements and we set specific materiality levels as shown in [Exhibit 2](#).

## Exhibit 2

### 2022/23 Lower materiality levels for Crown Estate Scotland Revenue Account

Materiality	Amount
<b>Planning materiality</b> – We have set this at 2% of profit distributable to the Scottish Government Consolidated Fund based on the audited financial statements for 2021/22.	£0.3 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£0.22 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.016 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**18.** Our risk assessment draws on our cumulative knowledge of CES, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**19.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will

advise management and where relevant, report them to those charged with governance.

**20.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 3

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</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 journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business.</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><b>2. Estimation in the valuation of investment property.</b></p> <p>Under the Financial Reporting Manual (FRoM), investment property is required to be held at fair value and must be revalued at each balance sheet date. At 31 March 2022, total investment property of £568.1m was held. CES engage valuation experts to</p>	<ul style="list-style-type: none"> <li>• Assurance on the valuation will be the external valuers' reports as we have the full portfolio externally valued annually using RICS accredited valuers.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the information including instructions issued by CES to the valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Review revaluations made during the year and confirm these have been input to the asset register correctly.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>determine an appropriate valuation for these assets. Given the value of investment assets and the level of complexity and judgement in the estimation valuations, we have recognised a significant risk in relation to the valuation of investment property.</p>		<ul style="list-style-type: none"> <li>Engage our own valuations expert to assess the final valuer's report and the assumptions used that underpin the final valuations.</li> </ul>
<p><b>3. Presumed risk of fraud over revenue recognition</b></p> <p>As stated in International Standard on Auditing (UK) 240 there is a presumed risk of fraud over the recognition of revenue.</p> <p>CES generate revenue through a range of activities including rent, royalties, and investments.</p> <p>This is the final year of the current direction, which sets out an agreed percentage of prior year gross revenue that is transferred to the capital account and the remaining surplus is an annual revenue contribution to the Scottish Government, with the final payment made after the year end outturn position is finalised.</p> <p>There is a risk that revenue could be misstated in attempting to achieve budgeted year end outturn and this could result in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Assurance on the revenue recognition is we have accounting policies that are followed, and processes around when invoices can be raised for leases (i.e. they need to be signed and delivered before an invoice is raised), or where income is being accrued there must be sufficient back up to confirm that the amount accrued is due. We have a rigorous process around all journals needing to be approved by a second person, and financial results are</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate the accounting policy for revenue recognition for appropriateness and compliance with HM Treasury's Government Financial Reporting Manual.</li> <li>Substantive testing of income transactions throughout the year to verify the existence and accuracy of the transactions and to confirm they are recognised in the correct financial year.</li> <li>Focussed testing of accrued and deferred income at the year end.</li> </ul>



Significant risk of material misstatement	Sources of assurance	Planned audit response
	reported up to Board Quarterly with significant variances to budget / forecast explained.	
<p><b>4. Accounting treatment for Option Agreements</b></p> <p>CES have option agreements in place across a number of areas which give the holder rights to specific areas of land or the seabed. In April 2022, 17 new option agreements with developers were signed under the ScotWind project reserving rights to specific areas of the seabed. This resulted in CES receiving £700 million in ScotWind option fees that will be passed to the Scottish Government for public spending. A further three options started in November 2022 bringing the total to £755 million.</p> <p>There is a risk that the accounts could be materially misstated if income is not recognised in line with the appropriate accounting standards.</p>	<ul style="list-style-type: none"> <li>Assurance on Scotwind accounting treatment is the Kings counsel advice we have had, and the engagement with SG finance team, and also Audit Scotland around the accounting treatment.</li> </ul>	<ul style="list-style-type: none"> <li>Review the framework agreement and governing legislation to understand the environment CES operate within and the arrangements for making payments to Scottish Government.</li> <li>Review the assessment undertaken by management for recognising option agreement income under accounting standards.</li> <li>Review accounting entries and disclosures within the annual accounts including those for estimates and key judgements.</li> </ul>

Source: Audit Scotland

**21.** In line with [Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom](#), as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may, in some cases, be greater than the risk relating to revenue recognition.

**22.** We have rebutted this risk as our analysis of expenditure incurred in the prior year, highlighted that 30% of revenue expenditure is staff costs. The remaining expenditure is across management fees and expenses, repairs and maintenance and other direct expenditure and we consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

**23.** We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

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# Wider Scope and Best Value

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## Introduction

24. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

25. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by CES. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how CES demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risks

26. We have not identified any wider scope audit risks from our audit planning work. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider CES' approach to tackling climate change and responding to cyber security threats.

## Duty of Best Value

27. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within CES.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**28.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

**29.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**30.** We will provide an independent auditor's report to CES, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide CES and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**31.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

## Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28/02/2023	15/02/2023
Independent Auditor's Report	31/10/2023	15/08/2023
Annual Audit Report	31/10/2023	15/08/2023

Source: Audit Scotland



## Timetable

**32.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**33.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timeliness. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**34.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	TBC
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	12 June 2023
Latest date for final clearance meeting with the Director of Finance and Business Services	TBC
Issue of Letter of Representation and proposed Independent Auditor's Report	4 August 2023
Agreement of audited and unsigned annual report and accounts	31 August 2023
Issue of Annual Audit Report to those charged with governance.	31 August 2023
Signed Independent Auditor's Report	31 August 2023

Source: Audit Scotland

## Audit fee

**35.** In determining the audit fee, we have taken account of the risk exposure of Crown Estate Scotland and the planned management assurances in place. The agreed audit fee for 2022/23 is £50,780.

**36.** In setting the fee for 2022/23, we have assumed CES has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year

and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** It is the responsibility of CES to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**38.** Whilst we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**39.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**40.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**41.** The appointed auditor for CES is Louisa Yule, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of CES.

## Audit Quality

**42.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

**43.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC1). This set out an audit practice's responsibilities for its system of quality control for audits.

**44.** Two new audit quality standards apply from 2022/23; Internal Standard on Quality Management (ISQM) 1 and 2 and will replace ISQC1. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**45.** Audit Scotland are committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the

application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**46.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.



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# Appendix 1. Your audit team

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**47.** The audit team involved in the audit of CES have significant experience in public sector audit.

Louisa Yule CPFA  
Senior Audit Manager  
lyule@audit-scotland.gov.uk

Louisa is the appointed auditor for the audit of CES and will sign the independent auditor's report on CES' annual report and accounts. Louisa has 18 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Carol Foster FCA  
Senior Auditor  
cfoster@audit-scotland.gov.uk

Carol has considerable experience in planning and delivering audits. Carol will manage the on-site team and work alongside the Senior Audit Manager to deliver the audit.

**48.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Crown Estate Scotland

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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