

Crown Estate Scotland

Annual Audit Plan



Prepared for Crown Estate Scotland

March 2024

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Introduction

Summary of planned audit work

1. I, Louisa Yule, have been appointed by the Auditor General for Scotland as external auditor of Crown Estate Scotland (CES) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment.

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, 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.
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Crown Estate Scotland

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

Auditor responsibilities

4. My responsibilities as appointed auditor 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.

5. 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 Crown Estate Scotland. In doing this, we aim to support improvement and accountability.

Crown Estate Scotland responsibilities

6. Crown Estate Scotland is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. Crown Estate Scotland 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.

Communication of fraud or suspected fraud

8. In line with ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Adding Value

9. We aim to add value to Crown Estate Scotland through our external audit work by being constructive and forward looking in providing independent conclusions. Our audit work will identify areas of improvement and we will recommend and encourage good practice. In doing so, we will help Crown Estate Scotland promote improved standards of governance, better management and decision making, and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating Crown Estate Scotland's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements 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.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Crown Estate Scotland are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Crown Estate Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Crown Estate Scotland operations. For the year ended 31 March 2024, we have set our materiality at 2% of net assets based on the audited financial statements for 2022/23.	£13.8 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£9.7 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£350 thousand
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Source: Audit Scotland

Lower specific materiality levels for the 2023/24 audit

15. 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.

16. 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

2023/24 Lower materiality levels for Crown Estate Scotland Revenue Account

Materiality	Amount
Planning materiality – We have set this at 2% of profit distributable to the Scottish Government Consolidated Fund based on the audited financial statements for 2022/23.	£2.0 million
Performance materiality – 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.	£1.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£104 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

17. Our risk assessment draws on our cumulative knowledge of Crown Estate Scotland, 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 the audit and risk committee, and a review of supporting information.

18. 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.

19. 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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 3

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of investment property</p>	<ul style="list-style-type: none"> • Assurance on the valuation will be the external valuers reports as we 	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>Under the Financial Reporting Manual (FReM), investment property is required to be held at fair value and must be revalued at each balance sheet date.</p> <p>At 31 March 2023, total investment property of £653 million was held. CES engage valuation experts to determine an appropriate valuation for these assets. Given the value of investment assets and the level of complexity and judgement in the estimation valuation, we have recognised a significant risk in relation to the valuation of investment property.</p>	<p>have the full portfolio externally valued annually using RICS accredited valuers.</p>	<ul style="list-style-type: none"> • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review revaluations made during the year and confirm these have been input to the asset register correctly. • Engage our own valuations expert to assess the final valuer's report and the assumptions used that underpin the final valuations.
<p>3. Presumed risks of fraud over revenue recognition</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,</p>	<ul style="list-style-type: none"> • CES accounting policies 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 	<ul style="list-style-type: none"> • Evaluate the accounting policy for revenue recognition for appropriateness and compliance with HM Treasury's Government Financial Reporting Manual. • Substantive testing of income transactions throughout the year to verify the existence and accuracy of the transactions to confirm they are recognised in the correct financial year. • Focussed testing of accrued and deferred income at the year end.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>royalties and investments.</p> <p>The current directions, 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 projected year outturn and this could result in a material misstatement in the financial statements.</p>	<p>accrued there must be sufficient back up to confirm that the amount accrued is due.</p> <ul style="list-style-type: none"> • A rigorous process around journals needing to be approved by a second person, and financial results are reported to the Board quarterly with significant variances to budget/forecast explained. 	

Source: Audit Scotland

20. 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.

21. We have rebutted this risk as from our analysis of expenditure, we have noted that 37% of revenue expenditure is staff costs. The controls to monitor and review staff costs are well established and the total staff costs are predictable. The remaining expenditure is across management fees and expenses, repairs and maintenance and other direct expenditure. We consider

there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

25. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

26. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Crown Estate Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Crown Estate Scotland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of prior year areas of focus such as climate change.

Duty of Best Value

28. [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 Crown Estate Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

30. We will provide:

- an Independent Auditor's Report to Crown Estate Scotland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- Crown Estate Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

31. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date of 31 October, due regard is paid to the statutory deadline for laying the accounts of 31 December 2024.

32. We will be unable to achieve the target date of 31 October as outlined above. This is due to prioritising the delivery of high-quality audits over meeting target dates as required by the Auditor General for Scotland, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. We are working towards completion of the audit in line with the November Audit and Risk Committee. We will work towards delivering the audit and audit outputs by target dates over the period of the audit appointment.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2023	12/02/2023
Independent Auditor's Report	31/10/2023	12/11/2023
Annual Audit Report	31/10/2023	12/11/2023

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

34. 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.

35. 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
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	31 July 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	23 October 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	29 October 2024
Agreement of audited and unsigned annual report and accounts	29 October 2024
Issue of Annual Audit Report to those charged with governance.	5 November 2024
Signed Independent Auditor's Report	13 November 2024

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of Crown Estate Scotland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed audit fee for 2023/24 is £53,830.

37. In setting the fee for 2023/24, we have assumed that Crown Estate Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and 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.

Other matters

Internal audit

38. It is the responsibility of Crown Estate Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

39. Whilst we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

40. I am independent of Crown Estate Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

42. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Crown Estate Scotland.

Audit Quality

43. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

44. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

45. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

46. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

47. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Crown Estate Scotland

Annual Audit Plan 2023/24

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

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