



Grant Thornton

# Crown Estate Scotland

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**External Audit Plan for the financial year ending 31 March 2018**

Audit and Risk Committee 8 February 2018 and finalised 29 March 2018

**Joanne Brown**  
Engagement Leader

**John Boyd**  
External Audit Senior  
Manager



# Our audit at a glance



We fulfil our responsibilities per International Auditing Standards (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Materiality is set at 1% of gross income based on 2017/18 forecast information (£150,000). This is representative of the first year of operations for the entity.



We have identified the following significant risks: management override of controls; income recognition; and expenditure recognition as set out in International Standards on Auditing (ISAs UK) and the FRC's Practice Note 10. We have recognised a significant risk around the valuation of investment property.

An audit underpinned by quality and adding value to you



Performance materiality is set at 65% and trivial is 5% of materiality. This reflects this being the first year of our audit appointment of the Crown Estate Scotland.



At the planning stage we have identified other areas of audit focus around opening balances transferred from the Crown Estate and governance arrangements.



Our audit is undertaken in accordance with the Code of Audit Practice and reflects the wider scope nature of public audit. We have not identified any significant wider scope risks at our planning stage. However, as a new organisation we will consider governance arrangements established and how the organisation is developing.

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# Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, 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
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular updates during the year
- clear reporting with focused actions which will support you in improving your controls/operations
- we will liaise effectively with Internal Audit.

## Adding value

Specific areas we will look to add value to the Crown Estate Scotland 2017/18, identified as part of our planning work and reflection on prior year include:

- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit and Risk Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will providing a briefing for the Audit and Risk Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.
- We will share the Scottish Public Sector Transparency report we produced for Audit Scotland at the end of December 2017, and alongside our wider UK Grant Thornton Transparency Report.



## External Audit deliverables for 2017/18 – Audit Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance and the Auditor General For Scotland (July/August 2018)
- Audit opinion (July/August 2018)
- Management letter of representation (July/August 2018)



## 2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of February 2018
- Current issues return for Central Government to Audit Scotland (19 January 2018 and 20 July 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018



## Planned Audit Scotland publications which may be relevant to Crown Estate Scotland

- Digital developments and projects – risks and issues
- Supporting Scotland's economic growth (Spring 2018) – Auditors impact assessment return
- Managing the implementation of the Scotland Acts

# Audit approach and 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
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

## Materiality

In performing our audit we apply International Standards on Auditing (UK) 320: *Materiality*. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received.



### Overall materiality

We have calculated overall materiality in line with forecast gross income. As this is our first year of the audit, and taking into account the context of your activities we feel it is appropriate to set our materiality benchmark to 1%. Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%. We will continue to evaluate the appropriateness of this figure and, where required revise to reflect your draft outturn results.

### 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 planning process and that this is the first year of our audit appointment, we have set this at 65%. This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

### Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements.

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit and Risk Committee in our Annual Report to those charged with governance.

### 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.

# A risk based audit methodology

The Crown Estate Scotland (Interim Management), trading as Crown Estate Scotland, was established by The Crown Estate Scotland (Interim Management) Order 2017. Under the Crown Estate Transfer Scheme 2017, the functions of the Crown Estate Commissioners, and the rights and liabilities set out in the transfer scheme, transferred from the Commissioners to Crown Estate Scotland.

The functions, duties, objectives and external accountability arrangements are defined within the Scottish Government Framework (Public Corporation Crown Estate Scotland (interim Management)). Under the Framework, Audit Scotland have been appointed as external auditors. We have subsequently been appointed by Audit Scotland and the Auditor General for Scotland to conduct the external audit of the Crown Estate Scotland.

The Crown Estate Scotland is responsible for managing a range of rural, costal and marine assets as well as some commercial property. This includes: leasing of land and property to individuals and businesses; Investing in marine leisure facilities to support coastal communities; and supporting aquaculture, farming, forestry, tourism and offshore renewables through leasing, research and other activities. The Crown Estate have established a business plan for 2017/18, detailing the corporation's objectives, ways of working and how it contributes to delivering Scottish Government's national outcomes.

## Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls	Valuation of investment properties
The Risk	As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. The organisation has multiple revenue streams. Our presumed risk focuses on material revenue streams including rent and royalties. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around this period.	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around this period.	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.	The Crown Estate Scotland holds a range of assets, including investment property. In accordance with the FReM, investment property is held on a fair value basis in accordance with IFRS 13. The valuation of these properties can often be complex.
Our planned response	<ul style="list-style-type: none"> <li>Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate</li> <li>Agree income in year to supporting receipts/invoices/cash</li> <li>Consider income cut off procedures and substantive testing over pre and post year end balances</li> <li>A focus on recoverability of balances at the year end</li> </ul>	<ul style="list-style-type: none"> <li>Perform cut off at year end on pre and post year end transactions and recording</li> <li>Walkthrough of the key expenditure controls in place</li> <li>Regularity – Expenditure incurred in accordance with the type/nature of the Authority as an organisation</li> </ul>	<ul style="list-style-type: none"> <li>A focus on understanding how/where management override of controls may occur</li> <li>Review of the controls over journal entries</li> <li>Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies</li> <li>Reviewing unusual and/or significant transactions</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of the arrangements in place to obtain investment property valuations</li> <li>Reviewing valuations to ensure that assumptions used are reasonable and have been appropriately reflected within the financial statements</li> <li>Where required, engaging out internal valuations experts to support our assessment of the assumptions contained within the valuation.</li> </ul>

## Other areas of audit focus

Through our audit planning process we identify areas and accounts that due to the nature of a transaction, disclosure or account balance in the financial statements that are inherently more at risk of material misstatement within the financial statements. While we do not consider these to represent significant risk we highlight them as areas of specific audit focus.

### Other areas identified at planning and our proposed approach continued

	Opening balances	Governance arrangements
The Risk	<p>Crown Estate Scotland took ownership and control of a significant number of assets previously held by the Crown Estate. Approximately £291 million of assets were transferred to Crown Estate Scotland.</p> <p>Given the material size of these assets there is a significant risk of material misstatement upon initial recognition.</p>	<p>Crown Estate Scotland was established during 2017 and is currently managing the estate on an interim basis until new legislation sets out permanent arrangements. Given the value of the estate managed and the range of operating activities undertaken, it is important that the new organisation establishes robust governance arrangements.</p>
Our planned response	<ul style="list-style-type: none"> <li>Review the accounting treatment to recognise the initial assets transferred to Crown Estate Scotland</li> <li>Confirm the completeness and accuracy of the initial assets recognised.</li> <li>Review the processes undertaken by Management to ensure that assets transferred to Crown Estate Scotland are recognised within the accounting records.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the design and implementation of governance arrangements established by the organisation</li> <li>From review of minutes and supporting papers, considering the how effectively financial and non-financial performance is scrutinised and challenged.</li> </ul>

## Wider Scope – Tailored approach

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of the Crown Estate Scotland’s operating activity and income and expenditure streams, and in light of this being the first full year the organisation has been in operation, we feel it is appropriate to treat you as a smaller body under the Code. Furthermore, the organisations operating activities in the first year have been predominantly based on previous arrangements when part of the Crown Estate. Consequently, these are well established. However, as part of our audit procedures we will review your governance and financial management arrangements in place to understand how these have been established and embedded within the new organisation and how they support the delivery of the organisation’s strategic objectives and ensure financial sustainability.

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# Appendices

**Key audit deliverables and our team**

**Independence and fees**

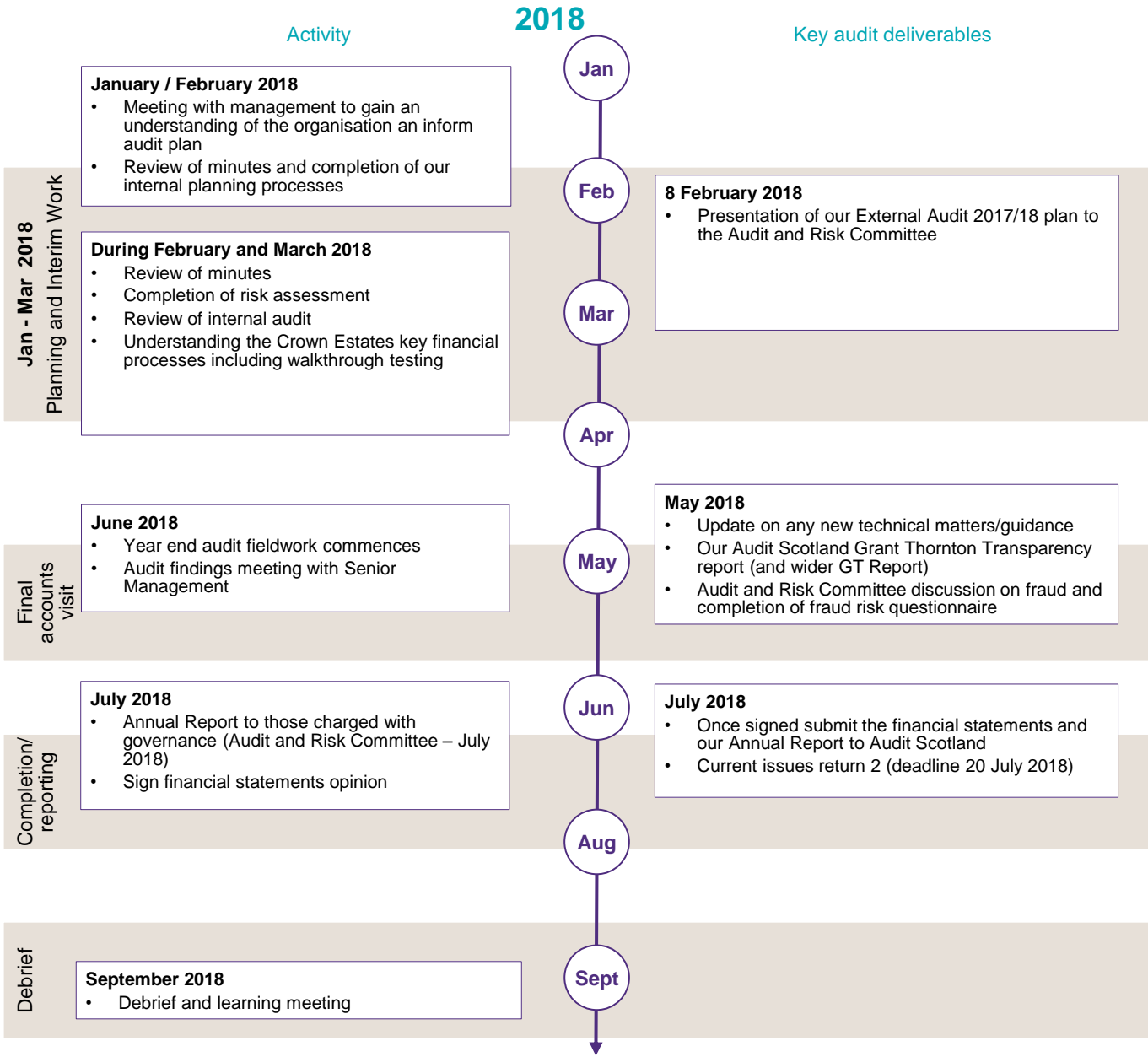
**Fraud arrangements**

**Respective responsibilities**

**Communication of audit matters with those charged with governance**



# Key audit deliverables and our team



**Our team**

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In addition we will use our technical specialists where required to support the core audit team.

# Fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	25,000
Pooled Costs	3,270
Contribution to Audit Scotland costs	820
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>29,090</b>

## Fees for other services

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

The audit fee is calculated in accordance with guidance issued by Audit Scotland. As this is the first year of the Audit of the Crown Estate Scotland, we have set the external auditor remuneration rate at that applied to central government bodies of similar size and complexity to yourselves. Pooled costs and contributions to Audit Scotland are set in accordance with guidance issued by Audit Scotland. The above proposed fee has been agreed with management. 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 the organisation activities will not change significantly from planned
- The Crown Estate Scotland 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 valuations of assets are supported by an independent specialist

## 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 your attention.

We have complied with the Auditing Practices Board'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 Auditing Practices Board'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.

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# 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 the Crown Estate Scotland.

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 the Crown Estate Scotland this is assumed to be the Audit and Risk 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.

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 the Crown Estate Scotland's 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 the organisation 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.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) 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	Crown Estate Scotland Responsibilities
Corporate governance	<ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control</li> <li>Maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
Financial position	<ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
Fraud and error	<ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- 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

## How do we do this in practice



- By reviewing and providing judgements and conclusions on the Crown Estate Scotland's arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- 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 the organisation
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Communication of audit matters with those charged with governance

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 the Crown Estate Scotland 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		•

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 above.

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 Crown Estate Scotland Management and the Audit and Risk Committee.



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