Crown Estate Scotland (CES)

External Audit Plan for the financial year ending 31 March 2019

Audit & Risk Committee 26 February 2019

Final Plan

Joanne Brown
Engagement Leader

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Our audit at a glance

Performance materiality is set at 75% of materiality and trivial is 5% of materiality. This is consistent with the values applied in the prior year reflecting our knowledge and understanding of the Crown Estate Scotland's (CES) financial management and reporting arrangements.

Materiality is set at £246,000 being approximately1.5% of budgeted gross income. 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.

Significant audit risks are: management override of controls; the risk of fraud in revenue as set out in International Standards on Auditing (ISAs UK); risk of fraud in expenditure as set out in practice Note 10; and, valuation of investment property.

An audit underpinned by quality and adding value to you

During 2018/19 as set out in the Audit Scotland planning guidance we will consider certain factors that may impact on the Board including: EU Withdrawal, changing landscape for public financial management, dependency on key suppliers and openness and transparency in reporting. We will consider these where relevant throughout our audit work.

For 201/19, new accounting standards will apply for revenue and financial instruments. We will consider CES's evaluation of the new standards and the recognition of ay adjustments required to the financial statements from their adoption.

Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Arrangements in place to secure value for money in the use of the Crown Estate, financial management and governance arrangements as these embed at CES.

Contents

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').

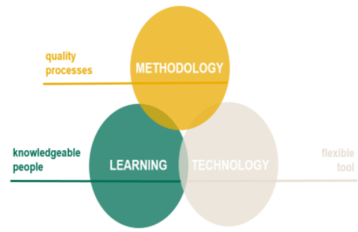
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ 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

Adding value

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

- **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.
- **Investing in our peopl**e: Our resourcing model is designed to ensure you have a skilled, public sector experienced and knowledgeable audit team.
- **Investing in technolog**y: We continue to invest in data analysis and audit software to deliver more efficient ISA compliant audit processes.



We will share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit and Risk Committee, identifying particular areas for consideration. We will pro-actively work with management during the year to discuss any new or emerging matters such new applicable standards.

Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019
- Annual quality report to the Auditor General and Accounts Commission (January 2019)
- Current issues return for Central Government to Audit Scotland (21 January 2019 and 19 July 2019)
- Submission of fraud cases to Audit Scotland on a quarterly basis
- Submission of annual audit report and audited accounts

Planned Audit Scotland publications which may be relevant to CES

- Digital progress in central government and health (reporting early 2019/20)
- Modern Apprenticeships

External Audit deliverables for 2018/19 – Audit Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance (June 2019)
- Audit Opinion
- Management letter of representation (July/August 2019)

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
- 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 our audit knowledge and the financial statements

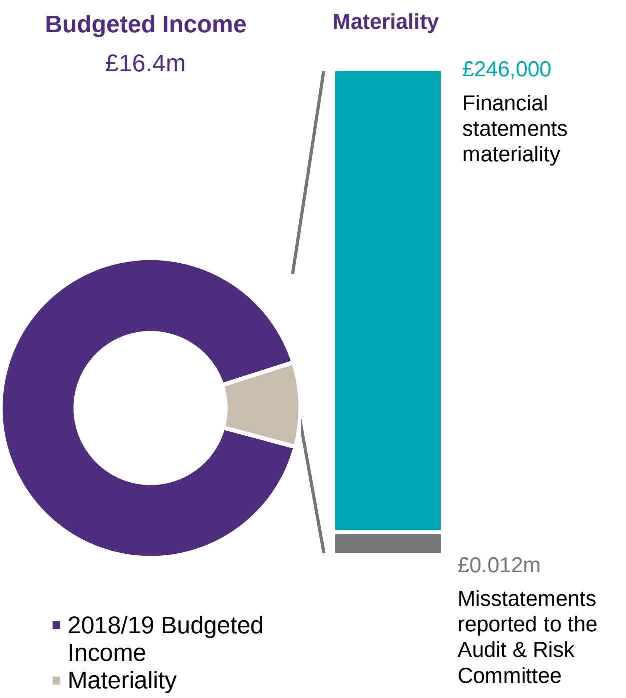
Basis for materiality

We determine financial statement materiality based on a proportion of the total income. This approach is consistent with our prior year materiality determination. We have determined materiality to be **£246,000**, which equates to approximately 1.5% (2017/18: 1%) of your budgeted income for the year. This is based on our judgement of our consideration of material to the user of the account based on understanding of CES.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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 in 2017/18 we have set this at 75%. Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.



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 the Audit Committee 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 obliged 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 **£12,300**.

A risk based audit methodology

The Crown Estate Scotland Act 2019 received Royal Assent on 15 January 2019. The Act renamed the former Crown Estate Scotland (Interim Management) to Crown Estate Scotland (CES) and outlines the statutory functions of the organisation. Part 3 (34) of the Act, requires Crown Estate to prepare financial statements and the Act defines the accounting requirements around specific transactions and balances, including the requirement to maintain separate capital and revenue accounts. With Act defining the requirement to prepare accounts, we would anticipate that a new Ministerial Direction will be forthcoming to direct CES as to the methods and principles by which the financial statements would be prepared.

CES is a self-financing body making net contributions to the Scottish Government each year. During 2017/18, CES exceeded its revenue profit target by £3 million making contributions totalling £9m to Scottish Government. For 2018/19, CES are forecasting a profit and contribution to Scottish Government of approximately £7 million. Looking forward, CES are in the process of defining its key strategic vision and priorities, reflecting the provisions contained within the Crown Estate Scotland Act 2019. Underpinning this will be a revised investment strategy which will be critical to ensure that strategic investments of the Crown Assets, delivery value for money and support the achievement of winder strategic priorities.

Significant risks

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.

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

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	As set out in ISA 240 there is a presumed risk that revenue may by misstated due to improper recognition of revenue. CES generates revenue through a range of activities using the investments held. This includes: rental income, from commercial and residential properties; minerals; coastal income including revenue from piers and harbours and moorings; forestry income; marine income through fisheries production; and revenue through energy production (windfarms) on CES assets. CES performance is predominantly monitored against year outturn position and the contribution to Scottish Government. 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. We note this risk is increased given that CES operates a bonus scheme linked to financial outturn performance therefore increasing the incentive for management manipulation. 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.	• Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate • Considering management's assessment of the impact of IFRS 15 on revenue streams and ensuring that revenue has been recognised in accordance with the new standard. • Evaluation of the existence of debtor balances held at 31 March 2019 • Using analytical procedures to provide assurance that income recognised is in line with expectation • Consider income cut off procedures and substantive testing over pre and post year end balances, over non grant in aid revenue streams • A focus on recoverability of balances

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

Risk area	Description of risk	Planned response
Management override of controls	As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities	• A focus on understanding how/where management override of controls may occur • Review of the controls over journal entries using our IDEA journal analyser tool to focus on higher risk journals • Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. • Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions. • Reviewing any areas of judgement around the allocation of capital / revenue transactions to ensure there is no manipulation of revenue performance through capitalising operating expenses.
Fraud in expenditure recognition as set out in Practice Note 10.	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. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure through revenue Fund.	• Perform cut off at year end on pre and post year end transactions and recording • Reviewing the completeness of creditors (and expenditure) recognised. • Using analytical procedures to provide assurance that expenditure is recognised is in line with expectation • Walkthrough of the key expenditure controls in place
Valuation of Investment Property	As at 31 March 2018, CES held £324.6 million of investments. This includes a range of assets including commercial and residential properties, land leased for energy production, forestry and seabed. This requires specialist input to determine an appropriate valuation for these. There is a risk that the valuation either under or overstates the asset values reflected in the accounts. There is also a potential risk around impairment, particularly around the year end with the potential impact of EU withdrawal on valuations.	• We will review the approach to the valuation of investment properties to ensure this is consistent with IAS 40 as interpreted by the FReM. • We will consider the suitability and competence of experts engaged by CES to provide valuations • We will review managements assessment of impairment risk • We will review the reasonableness of assumptions applied in the valuation across the various categories of investment property including, where appropriate, reference to third party information to validate these assumptions.

Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider the work of internal audit throughout the year and maintain and ongoing, open, dialogue.

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.
- Perform procedures around IT general controls.
- Perform walkthrough procedures on key controls around identified risk areas including revenue, expenditure and valuation of investments.

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).

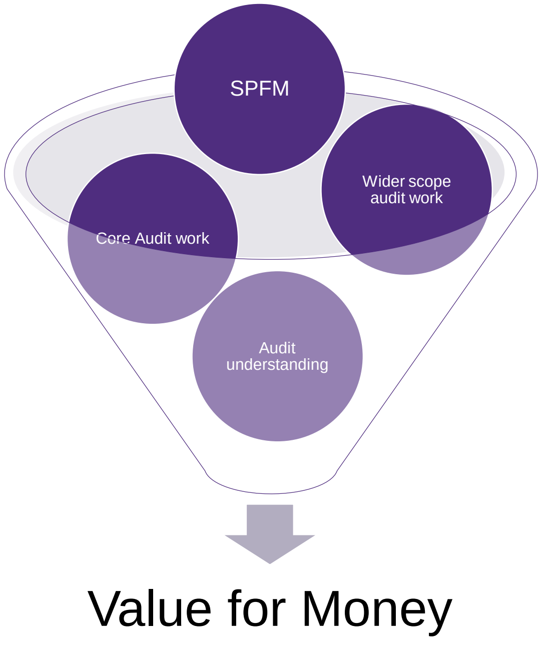
We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, confirming these are appropriate through our substantive testing.

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:

- Four audit dimensions defined within the Audit Scotland Code of Audit Practice
- Scottish Public finance Manual (SPFM) nine characteristics of Value for Money
- Our core audit work and audit knowledge

We consider each of these areas through our audit planning process.

Audit Scotland Audit Planning guidance

Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the organisation we will consider the following:

- EU Withdrawal,
- changing landscape for public financial management,
- dependency on key suppliers and
- openness and transparency.

Details included in the **appendix 6**. We consider these areas during our audit planning and throughout our wider scope audit work.

Financial sustainability

Financial sustainability

CES is a self-funding body. Revenue and capital are generated through the use of the CES assets. CES has a diverse portfolio of investments. Each financial year CES agree a financial contribution target with the Scottish Government. During 2017/18 the target of £6 million was exceeded by £3 million, reflecting higher revenue generated on assets that planned. For 2018/19, CES forecasts that it will again meet its Scottish Government contribution targets of £7 million.

The financial performance of the organisation is dependent on the level of return on capital investments. CES are in the process of reviewing its vision, corporate priorities and objectives to be aligned to the principles of the Crown Estate Scotland Act 2019. Once the vision and priorities are refined, this will allow the organisation to revisit its investment strategy, outlining the key principles of investment activity. This will involve a balance of investing to ensure sufficient return, both revenue and capital, on investments to meet operating, deliver Scottish Government targets, and maintain or enhance the value of the estate as well as the delivery of the wider priorities for the organisation.

We have not identified any specific financial sustainability risks in relation to CES during our audit planning. We will review the financial plans in place, including the development of the investment strategy. the scenarios set out, the governance of the plans and regular reporting on future financial scenarios.

Financial management

CES internal financial processes and controls have continued to embed within the organisation. Financial performance is monitored through the Audit and Risk Committee and Board and these reports provide detail on both capital and revenue performance across the different investment streams.

CES utilise a number of management agents to manage the day to day operational management of a number of investment assets. This includes the collection of income as well as day to day operational expenditure on assets held. There is a risk that given the operational activity is being undertaken by third parties, there are insufficient controls in place within CES to ensure resources are being managed efficiently and effectively and that all income is being collected.

Our response

We will review the arrangements in place at CES to ensure effective scrutiny and oversight of the external management agents. We understand Internal Audit are undertaking a review of the third party management arrangements and we will consider the findings from this review and any actions taken by management in response to any findings. We will consider the extent to which CES have sufficient oversight of income and expenditure of investment properties managed by management agents, including evaluation of performance against budget.

Governance and transparency

CES started operating on 1 April 2017, initially acting as an interim body managing the assets which comprise the Scottish Crown Estate. During 2017/18 the governance structures, including committees, structures and policies and procedures were developed. Effective governance arrangements are critical to ensure effective oversight and scrutiny of the organisation. With the development of the new strategic priorities and vision, it is important that governance arrangements are in place to support the oversight and scrutiny of the delivery of these.

Our response

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

Value for money

CES's corporate plan 2017-2020 outlines CES's strategic objectives. The Crown Estate Scotland Act 2019, further develops the statutory objectives of the organisation and therefore these will need to be reflected into revised strategic objectives and priorities.
Critical in the delivery of the strategy is effective decision making and use of resources, underpinned by the investment strategy. CES have a challenge in ensuring that investments generate sufficient revenue return whilst maintaining or enhancing capital value. Further, investments must support the delivery of wider strategic priorities including contributing to the Scottish Government's wider social, environmental and economic priorities. This requires careful balance of having a portfolio of investments which generates sufficient revenue whilst supporting these wider priorities.

Our response

We will consider the progress made by CES in shaping and developing its investment strategy and how this is aligned to the delivery of the wider strategic priorities. We will look to understand the medium to longer term investment plans and the performance management framework developed to ensure there is adequate oversight of investments to monitor the extent to which these deliver both financial and non-financial targets.

Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year.

Appendices

Key audit deliverables and our team

Phase	Activity	Month	Key audit deliverables
		2018	
	October to December 2018 • Meeting with the Head of Finance and finance team to reflect on 2017/18 lessons learned and start planning conversations for 2018/19 • Review of minutes and completion of our internal planning processes	Oct Nov	
Dec 2018 and Jan 2018 Planning and Interim Work	**During December and early January** • Review of minutes • Completion of risk assessment • Review of internal audit • Issuing group instructions; and instructions to the valuer's	Dec **2019** Jan	**January 2019** • Current issues return 1 (deadline 21 Jan 2019)
	February 2019 • Substantive testing of balances for the first 9 months of the financial year – focused on management accounts reporting • Walkthroughs of the key controls and validation of controls (to inform year end substantive testing)	Feb Mar	**February 2019** • Presentation of our External Audit 2018/19 plan to the Audit Committee • Audit and Risk Committee enquiry on fraud and completion of fraud risk questionnaire
Final accounts visit	**May 2019** • Year end fieldwork commences	May	
Completion/ reporting	**May/June 2019** • Audit findings meeting with Senior Management • Annual Report to those charged with governance (Audit and Risk Committee) • Sign financial statements opinion	Jun-July	**June/July 2019** • Once signed submit the financial statements and our Annual Report to Audit Scotland • Current issues return 2 (deadline 19 July 2019
Debrief	**August 2019** • Debrief and learning meeting	Aug	

Our team

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In addition we will use our Accounting technical team as required

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	26,250
Pooled Costs	5,440
Contribution to Audit Scotland costs	1,360
Contribution to Performance Audit and Best Value	0
2018-19 Fee	**33,050**

The audit fee is calculated in accordance with guidance issued by Audit Scotland. As this is CES second year of operating, Audit Scotland have proposed local auditor proposes the fee reflecting level of audit work required and nature of the entity. The above proposed fee, has been set on the basis of the prior year audit fee with an uplift of 5% reflecting the level of audit work required around investment property valuations and sets the fee similar to organisations of the size and complexity of CES (with pooled costs and contribution to Audit Scotland costs set by Audit Scotland). 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 activities will not change significantly from planned
- CES 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 assets are supported by an independent specialist

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 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.

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.

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.

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 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.

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 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 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 a quarterly basis.

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 Crown Estate Scotland we will report to the Auditor General as required by Audit Scotland.

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	CES Responsibilities
Corporate governance	• 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	• 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 • 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	• Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	• 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 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

How do we do this in practice

- By reviewing and providing judgements and conclusions on CES 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
- 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.

Technical updates

For 2018/19, new accounting standards (International Financial Reporting Standards (IFRS)), will apply covering revenue (IFRS 15) and financial instruments (IFRS 9).

IFRS 9: Financial Instruments

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

IFRS 9	Impact
Criteria for classification of financial assets	IFRS 9 applies a single classification and measurement approach to all types of financial assets based on: - The body's business model for managing financial assets; - The contractual cash flow characteristics of the financial asset. This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not).
Measurement categories for financial assets	The new measurement categories for financial assets are as follows: - Financial assets measured at amortised cost - Financial assets measured at fair value through other comprehensive income - Financial assets measured at fair vale through profit or loss
Impairment	IFRS 9 contains a forward looking expected loss impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements. The FReM requires the simplified approach allowed under IFRS 9, which removes the need for an entity to consider whether the credit quality of trade receivables, contract assets and lease receivables has deteriorated since initial recognition.

Implementation: IFRS 9 has a mandatory effective date for annual periods beginning on or after 1 January 2018.
Under the FReM, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The FReM requires bodies to recognises any changes in carrying value as at 1 April 2018 arising from the adoption of IFRS 9 within the opening general fund.

IMPACT

The key practical change in IFRS 9 for most public bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.

ACTION

CES should undertake an assessment of the potential impact IFRS 9 has on financial instruments held to ensure it has sufficient information to ensure compliance with the standard for the year end accounts.

Technical updates

IFRS 15: *Revenue from Contracts with Customers*

The core principle of IFRS 15 is that a body should recognise revenue for the transfer of goods or services to customers at an amount that reflects the expected price. A body recognises revenue in accordance with that core principle by applying the following five steps:

1. Identify the contract(s) with a customer. The FReM has extended the definition of a contract to include legislation which enables a body to obtain revenue that is not classified as taxation.
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Implementation: IFRS 15 has a mandatory effective date for annual periods beginning on or after 1 January 2018.
Under the FReM, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The impact of the introduction of IFRS 15 will vary across organisations.

The FReM interpretation removes the policy choice to retrospectively restate in accordance with IAS 8. On transition, entities will recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening reserve position.

IMPACT

The impact of the introduction of IFRS 15 will vary across organisations. For the CES, careful consideration will need to be given to any contractual arrangement and the potential performance obligations contained within these.

ACTION

CES should undertake an assessment of the potential impact IFRS 15 across its material revenue streams to ensure it has sufficient information to allow with the standard. Early evaluation is advised as this may impact on final outturn reported in the financial statements. and budgetary implications.

Audit action

We will continue to work with management to understand the impact of the introduction of IFRS 9 and IFRS 15 on the entity's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the entity's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contract arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with the FReM and applicable accounting standards.

Specific considerations as set out in the Audit Scotland planning guidance

In accordance with the Audit Scotland Planning Guidance, we consider the following areas of focus as part of our audit work:

EU Withdrawal	There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019 and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for CES.	**Planning consideration** There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the CES are: workforce implications; funding; investment valuations and regulation. We will consider the work done by the CES with regards assessing the potential risks faced and readiness for EU withdrawal.
Changing landscape for public financial management	Recognising the changing landscape of Scottish public finances, including significant tax –raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. This is likely to increase the scrutiny of public sector annual accounts and audit reports.	**Planning consideration** The focus on public entities performance reporting will be under increasing security, including that of CES and how public funds are used. CES are unusual as they are a net contributor to the public purse. As part of our audit we will consider the extent to which the performance report provides an accessible account of CES' financial performance.
Dependency on key suppliers	The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We will consider the arrangements in place for identifying key supplier and risks, if any associated with these and how effectively these are being managed.	**Planning consideration** We consider the risk to CES and the arrangements in place with regards key supplier dependencies during our audit. We recognise the organisation use a number of management agents and we will incorporate these relationships into our assessment.
Openness and transparency	There is an increased focus on how public money is used and what is achieved. This includes the extent to which CES keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.	**Planning consideration** We will consider Audit Scotland's guidance around openness and transparency as we consider CES's governance arrangements during 2018/19.

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 CES 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 CES Management and the Audit & Risk Committee.

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