



Crown Estate Scotland (Interim Management)

External Audit Annual Report to the Board and the Auditor General for Scotland

For the financial year ending 31 March 2019

Crown Estate Scotland (Interim Management) Board 24 July 2019, final August 2019

Joanne Brown
Engagement Leader

John Boyd
Senior Manager

Heather Brandon
Assistant Manager



Our audit at a glance – financial statements



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice. We have issued an unqualified opinion on the financial statements.



Materiality was set at £285,000, representing 1.5% of gross income based on the draft 2018/19 financial statements. Our materiality was updated from our initial planning materiality to reflect the draft outturn figures.



We have performed audit testing around our identified area of significant risk including: 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 FRC practice Note 10; and valuation of investment property.

An audit underpinned by quality



While we received the draft financial statements and supporting working papers in line with our agreed timetable, there were delays in audit receiving the Annual Report and narrative elements to the accounts including the Performance Report, Accountability Report and Governance Statement. Management have recruited a Financial Controller to provide additional financial support to the finance team which should further assist the financial statement preparation process.

Our audit at a glance – wider scope dimensions



In accordance with the Code of Audit Practice our audit work includes consideration of Crown Estate Scotland (Interim Management) (CES) against the wider scope audit dimensions: financial management; financial sustainability; governance and transparency; and value for money.



We have raised audit recommendations around financial capacity and capability, and the publication of key corporate documents. We have followed up on 2017/18 External Audit actions and made further recommendations to Management reflecting work performed in 2018/19.



CES recognise the need to strengthen financial management capacity and capability within the organisation. With the development of the investment strategy and subsequent investment activity, it will become increasingly important that there is sufficient capacity and capability within the finance team.

Wider scope audit work



CES is a self-funding body. Each financial year CES agree a financial contribution target with the Scottish Government. For 2018/19, CES generated a profit (comprehensive revenue account) of £11.4 million (2017/18: £9 million). This performance allowed CES to contribute £11.4 million to the Scottish Government consolidated fund, exceeding its target by £4.1 million.



CES are in the process of developing a draft investment strategy. This will underpin the Corporate Plan due for publication in Spring 2020. The Corporate Plan and investment strategy will play a critical role in supporting the organisation deliver value from strategic investments and deliver lasting value to Scotland

Contents

Section	Page
1. Introduction	5
2. Our financial statements audit	6
3. Financial management	13
4. Financial sustainability	16
5. Governance and transparency	18
6. Value for money	21
Appendices:	
1. Audit Adjustments	24
2. Action plan and recommendations	25
3. Audit follow up of 2017/18 recommendations	26
4. Fees, independence and fraud arrangements	27
5. Communication of audit matters	28

Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of Crown Estate Scotland (Interim Management) (CES). In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

This report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented to the Crown Estate Board on 24 July and then following the approval and signing of the financial statements, our report was finalised.

We would like to thank Crown Estate Scotland's management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit. Our report is structured as follows:

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5



Our Opinion

For the financial year ended 31 March 2019 we have issued an **unqualified audit opinion** on:

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of Crown Estate Scotland
- Other prescribed matters (which include the audited information in the remuneration and staff report)



Audit process

We received a complete set of financial statements (numbers) at the start of our audit. However, the Annual Report (front end) was not received until late in the audit process. This resulted in delays in allowing us to finalise our audit procedures.



Audit completion

We identified one unadjusted difference included in this report, to report to the Crown Estate Scotland Board. This was a disclosure adjustment relating to lease income. We identified other disclosure adjustments within the financial statements and are satisfied that these have been reflected within the financial statements (see Appendix 1).

Our financial statements audit



We have issued a true and fair audit opinion on the financial statements, including the wider information contained in the financial statements, and regularity opinion. The audited parts of the Remuneration and Staff Report are free from error.



As noted in our audit plan we have updated our materiality assessment to reflect the draft 2018/19 financial statements. Materiality has been set at £285,000, representing approximately 1.5% of gross income. This is in line with the prior year. Performance materiality has been set at £213,000 (75% of materiality) and we report to management any audit difference identified over £14,250 (trivial is 5% of materiality).



Testing provided assurance on identified areas of significant audit risks and there were no material audit differences arising during the course of our audit. We did not identify any additional significant risks of material misstatement to the financial statements from those identified in our annual audit plan.



The draft financial statements were of a good standard and in line with the FReM and the requirements of the Crown Estate Act (1961) (as amended).

The financial statements were supported through detailed working papers. There were improvements in the audit process this year and we will continue to work with management to enhance the audit process going forward.

Audit approach and materiality

Our audit approach was set out in our annual plan presented to the Audit & Risk Committee on 26 February 2019. As noted in our audit plan, our planning materiality was based on Crown Estate Scotland's (CES) forecast gross income for the year. We have therefore updated our materiality assessment to reflect the draft 2018/19 financial statements. Materiality has been set at £285,000, representing approximately 1.5% of gross income. This is in line with the prior year. Performance materiality has been set at £213,000 (75% of materiality) and we report to management any audit difference identified over £14,250 (trivial is 5% of materiality).

The draft financial statements were of a good standard supported through detailed working papers. There were improvements in the audit process this year and we will continue to work with management to enhance the audit process **going forward**.

Audit opinion

Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- give a true and fair view in accordance with section 2(5) of the Crown Estate Act 1961 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its profit for the year;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM;
- have been prepared in accordance with the Crown Estate Act 1961 (as amended) and directions made thereunder by Scottish Ministers;
- the wider information contained in the financial statements, e.g. Performance Analysis and Governance Statement, is consistent with the financial statements;
- regularity of expenditure; and
- audited parts of the Remuneration and Staff Report have been prepared in accordance with applicable guidance

Internal control environment

During the year we sought to understand CES's overall control environment (design) as related to the financial statements. In particular, we have:

- Sought to understand procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas including revenue, expenditure

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on CES's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of these.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, the internal audit provider, during 2018/19. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. For 2018/19, Internal Audit's opinion conclusion "*In our opinion CES has a framework of controls in place, in the area of Managing Agents and taking cognisance of the wider activity set out in the "Audit Planning and Coverage" section, that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks in those areas.*" We are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement.

Responding to significant risks

Within our annual external audit plan we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue recognition	<p>As set out in ISA 240 there is a presumed risk that revenue may be 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.</p> <p>CES also generates revenue through capital receipts from the sale of assets. However, these are recognised through the Capital Fund for the purposes of capital reinvestment and therefore not directly impacting on the revenue outturn position. We therefore do not attach the significant risk to these transactions.</p>	<ul style="list-style-type: none"> • Understanding key revenue streams including walkthrough of the controls and procedures around material income streams and validation of key controls where appropriate • 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. In particular, we focused on the risk that revenue recognised in period 12 2018/19 may be overstated and relate to 2019/20. • A focus on recoverability of balances through sample testing of debtor accounts. 	<p>Assurance gained that revenue has been recorded within the appropriate financial year and that receivables are free from material misstatement.</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Override of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Developed our understanding of the entity level controls in place at CES that reduce the risk of management override • Performed review of journal transactions for unusual transactions or balances. This included reviewing any journals prepared by members of senior management; journal transactions with indications of fraud through their descriptions; and, journals reflecting transactions between unusual account pairings. • Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies including allocation of capital / revenue transactions to gain assurance that there was no inappropriate material manipulation of revenue performance through capital.. • All transactions, including journals, above materiality have been specifically tested to supporting records. 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>

	Identified audit risk at planning	Work completed	Our conclusion
<p>Fraud in expenditure recognition as set out in Practice Note 10.</p>	<p>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 account.</p>	<ul style="list-style-type: none"> • Developed our understanding of CES's material expenditure streams including walkthrough of key transactions. • Performed cut off at year end on pre and post year end transactions and recording with a focus on the risk that expenditure relating to 2018/19 is inappropriately deferred to 2019/20 • Reviewing the completeness of creditors (and expenditure) recognised through sample testing. • Using analytical procedures to provide assurance that expenditure is recognised in line with expectation 	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of CES as an organisation</p>
<p>Valuation of Investment Property</p>	<p>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.</p>	<ul style="list-style-type: none"> • We reviewed the approach to the valuation of investment properties to ensure this was consistent with IAS 40 as interpreted by the FReM. • We considered the suitability and competence of experts engaged by CES to provide valuations • We reviewed managements assessment of impairment risk on carrying value of investment properties through considering valuation assumptions and supporting information. • We reviewed the reasonableness of assumptions applied in the valuation across the various categories of investment property and challenged management (and valuer) on the assumptions made. This included, where appropriate, reference to third party information to validate these assumptions. 	<p>We are satisfied that the approach to valuing investments properties held by CES is appropriate and consistent with the IAS 40 as interpreted by the FReM. We are satisfied that Management have used suitable qualified experts to support the determination of investment property values and that the assumptions applied in the valuations were reasonable. We have target tested large or unusual valuation movements out with the average range for each class of investment property and are satisfied that this has been supported through appropriate rationale and evidence.</p>

Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude. This includes areas of key estimation and judgement and application of accounting policies.

Commentary:

The CES 2018/19 financial statements are prepared under the Crown Estate Act 1961 (as amended) and direction issued by Scottish Ministers on 4 July 2018. The Scottish Crown Estate Act (2019) is being brought into force in stages. The first provisions (sections 2,22,23,37,38,40 and 41) were brought into force on 1 June 2019 and require amongst other things, Ministers to prepare a strategic management plan for the Scottish Crown Estate and to provide guidance and direction.

None of the financial provisions of the 2019 Act have been brought in to force. Consequently, the CES 2018/19 financial statements are prepared under the Crown Estate Act 1961 (as amended) and direction issued by Scottish Ministers on 4 July 2018. Likewise, CES continue to be formally named Crown Estate Scotland (Interim Management) but are commonly referred to as Crown Estate Scotland. As yet, there is no formal timetable as to when the remaining provisions will come into force. When they do, the financial provisions will supersede the Crown Estate Act 1961 (as amended). Consequently, new ministerial directions will be required.

Accounting estimates and judgements:

CES's significant accounting estimates and judgement impacting on the annual accounts are the following:

Valuation of investment property: CES holds property, plant and equipment at fair value. Valuations of investment properties are reassessed by professional valuers annually. We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements and that underlying assumptions applied, including market movements are supported through appropriate market data.

We have reviewed the reasonableness of the revaluation through assessing in year movements across the asset base and investigated any movements out with the trend for assets in that category. These have been investigated with the valuer. We are satisfied that the revaluation has been appropriately reflected in the financial statements (see *Investment Properties* within Financial Management Section below).

Bonus scheme: CES staff who joined the organisation prior to 1 January 2018 are contractually eligible to participate in a discretionary bonus scheme. Bonuses are based on performance levels attained and are awarded as part of Crown Estate Scotland's appraisal process. They relate to performance in the 12 months ended 31 March 2019. The bonus is based on delivery of key performance targets including:

- The delivery of the overall financial targets for CES, being the level of contribution to the Scottish Government and the growth of capital,
- Individual performance targets – being assessment of a maximum of six individual objectives in addition to two mandatory objectives relating to behaviours and health and safety

Based on the annual performance assessment a sum of £125,469 (2017/18: £169,115) has been included as an accrual in the financial statements. We have reviewed the conditions of the bonus and are satisfied that the bonuses accrued as at 31 March 2019 reflect the CES performance framework.



New accounting standards

The 2018/19 financial statements reflect the adoption of two new International Financial Reporting Standards (IFRS): IFRS 9: Financial Instruments, and IFRS 15: Revenue Recognition. While the introduction of IFRS 9 resulted in some minor disclosure changes, given the nature and type of CES's transactions and balances there was limited impact on the financial statements. Management's assessment of these standards was that they did not have a material impact on the financial statements.

Going concern

CES has an agreed budget for 2019/20 and is satisfied that it continues to represent a going concern.

For 2018/19, CES generated a profit (comprehensive revenue account) of £11.4 million (2017/18: £9 million) and capital account profit of £82.2 million (2017/18: £54.8 million). This performance allows CES to contribute £11.4 million to the Scottish Government consolidated fund, exceeding its target by £4.1 million. In addition, CES retains a strong statement of financial position with net assets of £426 million (2017/18: £344 million) and cash and cash equivalents of £40.1 million. There are no indications that CES will not continue to meet its obligations as they fall due and therefore continues to represent a going concern.

Fraud and irregularity

Management have confirmed that there were no material frauds or irregularities during the financial year. Our audit procedures did not identify any indication of fraud or irregularity.

In relation to the audit risk of fraud, our testing of expenditure and revenue during the year as well as sample testing of manual journal entries did not identify any indication of fraud or management override of controls.

Post balance sheet events

There are no post balance sheet events which need reflected in the annual report and accounts.

Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of CES's arrangements, sharing relevant practices with the Audit & Risk Committee and Management.

We have continued to build on our working relationship with management and our understanding of CES as an organisation and looked to provide advice and support to Management on new accounting areas including IFRS 9 and IFRS 15.



Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



Financial management



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. For 2018/19, CES generated a profit (comprehensive revenue account) of £11.4 million (2017/18: £9 million) and capital account profit of £82.2 million (2017/18: £54.8 million). This performance allowed CES to contribute £11.4 million to the Scottish Government consolidated fund, exceeding its target by £4.1 million.



As at 31 March 2019, CES held investments of £385 million. For each class of property, we have agreed the valuation recognised to the independent valuation report. We have reviewed the appropriateness of the valuer, including their relevant skills, experience and objectivity as well as the scope of their work. We have considered the reasonableness of the valuation, including the technique applied and, where applicable, the accuracy of the underlying data to support this valuation. We are satisfied that the approach adopted is considered reasonable.



During 2019 CES has sought to recruit a financial controller to provide additional capacity and capability to the finance team. An appointment is due to join CES in autumn 2019. The pressure facing the finance team was evident in some of the findings in the Internal Audit report around enhancing controls and sign-offs as well as during our external audit where maternity leave left the finance team reduced to support the audit process. With the development of the investment strategy and subsequent investment activity, it will become increasingly important that there is sufficient capacity and capability within the finance team.

During our audit planning we identified a significant wider scope risk around financial management at CES reflecting the fact that a number of key financial processes are undertaken externally by managing agents. We conclude on this and other aspects of CES's financial management arrangements.

Identified audit risk at planning

Conclusion

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 reviewed the arrangements in place at CES to ensure effective scrutiny and oversight of the external management agents. We considered the findings of Internal Audit's 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 considered 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.

Through our audit testing we did not identify any material errors in the financial statements. Our testing, including samples testing of transactions administered through external management agents, did not identify any material errors. Across our sample of income and expenditure transactions, we did not identify any discrepancies between information recorded by CES and the management agents underlying records.

The draft internal audit report on external management agents concluded that "*We have gained assurance that there are a range of effective controls in place at Crown Estate Scotland's (CES's) managing agents in relation to processes for transactional services. We found a number of areas of where controls were well designed and operating effectively in relation to the delivery of rent accounting, purchase to pay, banking and cash and debt management. However, we also found a number of areas for improvement which, if addressed, should further strengthen CES's managing agent's control framework. The most significant of these relate primarily to in-house controls over leases, income, credit notes, and production billing.*"

We have considered the findings from the draft internal audit report and recognise that whilst there are opportunities for enhancing the processes and controls in place around the third party management agent, our substantive procedures did not find any material errors within the underlying records.

Finance team capacity

CES administer over £385 million of investments covering a diverse range of investments. While the organisation utilise the services of external managing agents, there is still a requirement for recording, authorising, monitoring and reporting of financial transactions centrally. Management have recognised that it needs additional resource within the finance function to support operational delivery as well as providing sufficient financial input into strategic planning and reporting.

During 2019 CES has sought to recruit a financial controller to provide additional capacity and capability to the finance team. A candidate has been identified and due to in Autumn 2019. The pressure facing the finance team was evident in some of the findings in the Internal Audit report around enhancing controls and sign-offs as well as during our external audit where maternity leave left the finance team reduced to support the audit process.

With the development of the investment strategy and subsequent investment activity, it will become increasingly important that there is sufficient capacity and capability within the finance team to support the organisation both in terms of financial operational management as well as supporting strategic planning and reporting. **Action plan point 1**

Financial performance

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. For 2018/19 CES generated a profit (comprehensive revenue account) of £11.4 million (2017/18: £9 million) and capital account profit of £82.2 million (2017/18: £54.8 million). This performance allowed CES to contribute £11.4 million to the Scottish Government consolidated fund, exceeding its target by £4.1 million. The main driver for the outturn performance exceeding plan was due to a combination of:

- Offshore wind projects generating electricity earlier than anticipated increasing in year revenue ahead of schedule;
- Reduced costs through management of the level of outsourced support in year resulting in underspend against budget.

During 2018/19, CES sold four farms (including three to existing tenants) and generated £25 million in capital receipts from offshore windfarms reaching significant milestones. As a result, as at 31 March 2019, CES had £38.2 million for reinvestment. During 2019/20, CES will consult on how this money is to be reinvested under the draft 2020-23 Corporate Plan and investment strategy.

Investment properties

In accordance with IAS 40: *Investment properties*, investment properties the property portfolio was valued on 31 March 2019. Given the diverse range of properties held, the work was conducted by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued.

Class of property	Fair value as at 31 March 2019 (£m)	Audit satisfied around suitability of work of expert	Valuation recognised consider reasonable
Rural	101.662	✓	✓
Mineral & Mines	2.484	✓	✓
Forestry	19.08	✓	✓
Urban & Coastal	49.205	✓	✓
Acquaculture	26.06	✓	✓
Offshore wind	163.04	✓	✓
Cables & Pipelines	24.064	✓	✓
Ocean energy / Carbon Capture	0.235	✓	✓
Total	385.83		

For each class of property, we have agreed the valuation recognised to the independent valuation report. We have reviewed the appropriateness of the valuer, including their relevant skills, experience and objectivity as well as the scope of their work. We have considered the reasonableness of the valuation, including the technique applied and, where applicable, the accuracy of the underlying data to support this valuation. We are satisfied that the approach adopted is considered reasonable.

Financial management

Financial performance is monitored by management and reported to the Board on a regular basis. From our review of the financial reports and Board papers:

- Financial performance reports were clear and concise
- From review of minutes there is challenge and scrutiny of performance in the year and key variances between actual and outturn performance.
- Financial pressures and challenges are discussed and savings profiles revised during the year to ensure accurate forecasting



CES scrutinise financial performance through regular reporting to the Audit and Risk Committee and Board. The Investment Committee also receive financial information on investment decisions. As the organisation looks to establish its investment strategy, effective scrutiny of these future investment decisions will become increasingly critical.

Changing the 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. CES recognise that, with the introduction of the Scottish Crown Estate Act (2019), as well as the nature of CES being a net contributor to the Scottish Government, there is likely to be increased level of scrutiny on the use of public funds.

Financial sustainability



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 Scottish Crown Estate Act 2019. A draft investment strategy has been developed to support the Corporate Plan 2020-23 due for consultation during 2019 and approval in Spring 2020.



For 2019/20, CES has forecast revenue of £19.3 million and has targeted a net contribution to the public purse of £8 million, representing 41.5% of gross revenue. While we recognise that this represents a challenging target for the organisation, it is in line with the current years performance of revenue of £19 million. We have reviewed Management's financial forecasts and consider these to be reasonable.



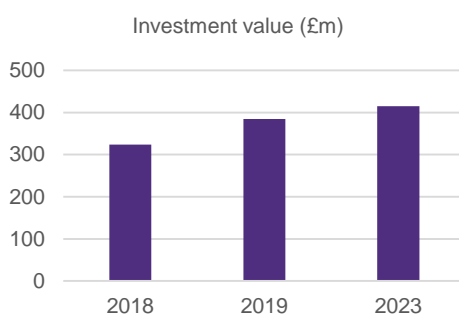
With the ongoing development of the 2020 Corporate Plan and investment strategy, the level of capital investment will be limited in year. CES plan investment of approximately £8.3 million, predominantly in investment and development of existing rural estate sites and capital improvements. More strategic investment decisions are anticipated following approval of the investment strategy under the new corporate plan.

Within our audit plan we did not identify and significant risks around financial sustainability at CES. We conclude on the wider financial sustainability within the organisation.

Strategic Investments

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 Scottish Crown Estate Act 2019. A draft investment strategy has been developed to support the Corporate Plan 2020-23 due for consultation during 2019 and approval in Spring 2020. 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 both CES strategic objectives and 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.

The draft investment strategy forecasts that primarily through increasing values across marine and built environments (through acquisitions and market increases) the underlying investment portfolio will increase by approximately 2% per annum between 2019 to 2020.



Management recognise that delivering value through investments need to balance sufficient return on investment while having a secure portfolio of investments that do not overly expose CES to risk. Furthermore, the Investment activity needs to continue to reflect CES wider Corporate priorities, which will require a balance of financial prudence against areas of wider corporate or public importance such as investment in farmed and forested estate as well as exploration of the potential to explore terrestrial renewables.

2019/20 Business plan and financial plan

The 2019/20 Business Plan and budget is aligned to support the delivery of the final year of the current Corporate Plan 2017-20. The Corporate Plan was established as the organisation was being developed and has seen the organisation develop into a stand-alone organisation. During 2017/18 and 2018/19, CES has continued to generate more funds for the public purse than initially estimated. However, Management recognise that the additional contributions can include one-off gains rather than a recurring surplus.

For 2019/20, CES has forecast revenue of £19.3 million and has targeted a net contribution to the public purse of £8 million, representing 41.5% of gross revenue. While we recognise that this represents a challenging target for the organisation, it is in line with the current years performance of revenue of £19 million. We have reviewed Management's financial forecasts and consider these to be reasonable. The plan recognises that whilst the initial costs relating to the initial establishment of CES have reduced, there are a number of emerging streams of activity, that whilst supporting longer term financial sustainability, may not generate immediate financial returns, including Local Pilots.

Capital plan

With the ongoing development of the 2020 Corporate Plan and investment strategy, the level of capital investment will be limited in the year. CES plan investment of approximately £8.3 million, predominantly in investment and development of existing rural estate sites and capital improvements. More strategic investment decisions are anticipated following approval of the investment strategy under the new corporate plan.

Governance and transparency



CES governance arrangements have continued to develop and embed during 2018/19, including the development of the risk management policy and supporting framework. In addition, two new board members were appointed in May 2019 increasing the leadership of the organisation.



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



There are opportunities to enhance public reporting. While we recognise that sensitive information may need to be withheld, we recommend that to enhance openness and transparency in decision making and the use of public funds, CES look to publish Board minutes in a more timely manner.

During our audit planning we identified a significant wider scope risk around governance arrangements at CES reflecting the fact that CES is a relatively new organisation and that the governance framework continues to be developed and embed. We conclude on this and other aspects of CES's governance arrangements.

Identified audit risk at planning

Governance

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.

Internal Audit

During 2018/19, CES appointed Scott Moncrieff to provide internal audit services to the organisation. During the year, of the four reports planned, only one formally reported during the year. Consequently, the annual internal audit opinion was limited to the work performed and therefore limited the overall annual assurance provided during the year.

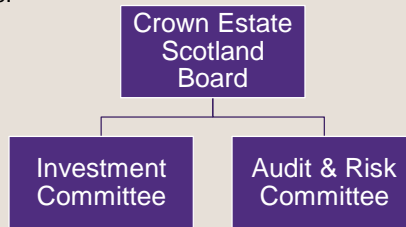
Internal Audit play a critical role in providing independent assurance to the Audit & Risk Committee around the efficiency and effectiveness of the systems of internal control. Management and Internal Audit recognised the challenges faced during the year. It is important that going forward, the Audit & Risk committee have sufficient assurance around the operating effectiveness of the systems of internal control, considering both internal and third party assurance activity. Recognising this, CES will initiate a fresh procurement exercise for internal audit services.

Conclusion

Governance arrangements continue to embed within CES. In May 2019 the Board was increased to nine members, including the Chair with two new members being appointed.

CES is required to comply with the Framework Document for Crown Estate Scotland (Interim Management) issued in September 2017. The CES board met seven times during the year reviewing CES's operational and financial performance compared to plan, business strategy and risk management as well as high level review and scrutiny of health and safety issues. The Board continue to explore opportunities to enhance governance arrangements. In May 2018 the Audit & Risk Committee completed a self-assessment against the Scottish Government's Audit and Assurance Committee handbook and the board and committees demonstrate commitment to continue to self-assess.

We found the level of reporting to the Board and its committees to be appropriate key performance reports are transparent and reports are aligned to the Board strategic priorities. The CES Board is supported through the Investment Committee, which focuses on key strategic investment and planning decisions and the Audit & Risk Committee.



Openness and transparency

There is an increased focus on how public money is used and what is achieved. This includes the extent to which the 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.

CES publish a range of key corporate documentation including business plans. Board meetings are held around the country to encourage wider engagement and participation with key partners across Scotland. Minutes of Board meetings are published online. However, committee minutes as well as board papers are not. In addition, we found that board papers are not uploaded onto the public website in a timely manner with the latest version online being March 2018.

While we recognise that sensitive information may be withheld, we recommend that to ensure openness and transparency in decision making and the use of public funds, CES look to publish Board minutes in a more timely manner.

Action plan point 2

Risk management

CES has continued to develop and embed its risk management arrangements during the year. In October 2018, the CES board approved the Risk Management Policy. Supporting this, CES has a risk management framework in place, including defined risk appetite and strategic risk register covering the key strategic risks facing the organisation.

The strategic risk register is monitored through the Executive Team, Audit & Risk Committee and Board throughout the year. The register has been subject to scrutiny and development to ensure that the risks identified and mitigating actions are appropriate and reflects the strategic risks facing the service.

While risk management arrangements continue to embed within CES, we are satisfied that the arrangements in place appear reasonable to provide effect oversight and management of risks facing the organisation.



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.

During 2018/19, CES ran a workshop across the business to consider the potential implications of EU withdrawal on the organisation and any potential actions required by CES in readiness. Management consider that the diversity of the Scottish Crown Estate is a strength and that there was unlikely to be an immediate impact operationally on the organisation either through investment performance or staffing. However, CES recognise that there are likely more longer term implications of EU withdrawal, particularly on tenants and this will continue to be monitored and considered through investment strategy.

Overall we consider CES to be well prepared for EU withdrawal. Management recognise that further consideration and monitoring is required around medium to longer term implications of EU withdrawal particularly on investment portfolio.



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.

CES operating model utilises a number of external managing agents to manage and maintain investment assets on CES's behalf. CES appoints managing agents to engage with tenants and deliver transaction services. Across Rural, Coastal and Urban activities, CES engages with three external managing agents: Savills, Bidwells and Wardell Armstrong. Cables & Pipeline tenants are serviced by both Bidwells and the CES in house team.

The managing agents provide key transactional services on behalf of CES including rent accounting, purchase to pay, bank and cash and debt management. Therefore there is considerable reliance on the operating effectiveness of these suppliers. Given the nature of these activities, CES have close operational monitoring of the performance of the suppliers and oversight of day to day service delivery. Consequently, should there be underlying concerns around performance, CES would have arrangements to detect and act upon performance issues, including the option to explore alternative service providers, recognising that given the specialist nature of some of the assets managed the alternative suppliers may be limited.



Value for money



CES are in the process of developing a draft investment strategy. This will underpin the Corporate Plan due for publication in Spring 2020. The Corporate Plan and investment strategy will play a critical role in supporting the organisation deliver value from strategic investments and deliver lasting value to Scotland.



CES performance framework enables key strategic performance targets to be devolved through annual business plans to individual staff members' performance objectives. Performance is monitored throughout the year by Management and the Board.



Management are in the process of developing a comprehensive assurance framework for use from 2019/20 onwards. With the introduction of the Scottish Crown Estate Act 2019, there are wider duty's on CES beyond generating financial returns on investment. For example provision that allows on a case-by-case basis for eligible bodies ('managers') to take on responsibility for specific assets, potentially in partnership or support from CES. It will be important that performance monitoring and assurance covers the wide range of CES responsibilities.

During our audit planning we did not identify any significant risks in relation to CES's arrangements for effectively utilising its resources and improving services. During our audit planning we identified a significant wider scope risk around CES's arrangements for ensuring value for money.

Identified audit risk at planning

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 considered 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.

Conclusion

The 2019/20 Business Plan has been developed to support the delivery of the CES existing Corporate Plan strategic objectives and targets. 2019/20 reflects the final year of the CES current strategy. As a consequence the primary focus has been on establishing the organisation with strategic investment focus on the development of the draft investment strategy.

During 2018/19, CES has continued to develop the draft investment strategy. A Strategic Environmental Assessment of the draft investment strategy conducted by LUC, was published in December 2018 and the findings from this are supporting the ongoing development of the new corporate plan, including investment strategy's due to be launched in spring 2020. The new corporate plan will reflect the key factors driving investment decision making:

- Increasing the long-term diversity and resilience of income streams
- Improving social and environmental returns
- Focusing on activity which creates significant and lasting benefits / value for Scotland

The corporate plan will also reflect the latest capital position as well as any key strategic investment areas, reflecting wider national and local priorities. With the development of the investment strategy and corporate plan, the level of investment activity has been limited. Consequently, CES, through in year sales and investment returns, has generated a large cash balance of £40.1 million as at 31 March 2019 (2018: £10.9 million). CES updated its treasury management policy to hold such fund appropriately while aligning to future investment strategy. CES plan to have wider consultation of the Corporate Plan and investment strategy over the coming months. The findings from this exercise will be then factored into the final version of the corporate plan due for launch in spring 2020.

The draft investment strategy forms part of CES's approach to meeting its statutory requirements to *'maintain and seek to enhance the value of the assets and the income arising from them'*. The Corporate Plan and Investment strategy will play a critical role in setting the strategic direction for the organisation and how it will deliver its statutory responsibilities, generating a lasting value for Scotland.

Performance

CES's Corporate Plan 2017-20 has a range of KPIs and targets covering the organisation's five strategic objectives. A performance management framework is in place to enable these performance targets to delegate the annual Business Plan to individual staff members' performance objectives. Progress is tracked throughout each financial year through quarterly reports to the Board, monthly leadership and team meetings as well as quarterly individual performance reviews.

As at 31 March 2019, CES were reporting good progress over a number the KPIs including financial performance and contribution to Scotland's economic, social and environmental well being (number of Local Management Pilots Scheme projects started). Further work is required in areas including tenant satisfaction and key partner satisfaction levels.

Management are in the process of developing a comprehensive assurance framework for use from 2019/20 onwards. With the introduction of the Scottish Crown Estate Act 2019, there are wider duty's on CES beyond generating financial returns on investment. For example provision that allows on a case-by-case basis for eligible bodies ('managers') to take on responsibility for specific assets, potentially in partnership or support from CES. It will be important that performance monitoring and assurance covers the wide range of CES responsibilities.

Appendices

Audit adjustments

Action plan

Follow up of 2017/18 recommendations

Fees, independence and fraud arrangements

Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

There were no corrected misstatements during the audit.

We identified a projected misstatement of £23,000 relating to accrued income. This related to a extrapolated testing error of £16,000 through accrued income testing being the difference between amount accrued and actual invoice issue.

The adjustments made are detailed below:

Item	Dr (£'000)	(Cr) (£'000)	Description
	23		Accrued income
1		(23)	Income <i>Being adjustment to reflect overstatement of accrued income</i>

Management have not adjusted for the error on the basis it not being material to the accounts.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

Disclosure omission	Detail	Adjusted
Lease disclosure	Being error in amount recorded lease income by £100k (note disclosure only)	No – Not considered material
Recommended amendments to annual report and governance statement	We identified areas for amending front end of financial statements. These have been updated accordingly	✓

Action plan and recommendations

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to CES that Management may wish to consider in the future.

Recommendation

Agreed management response

1. Financial capacity and capability

Management have recognised that it needs additional resource within the finance function to support operational delivery as well as providing sufficient financial input into strategic planning and reporting. During 2019 CES has sought to recruit a financial controller to provide additional capacity and capability to the finance team. An appointment has been made, the candidate is due to join the organisation in Autumn 2019. The pressure facing the finance team was evident in some of the findings in the Internal Audit report around enhancing controls and sign-offs as well as during our external audit where maternity leave and staff turnover left the finance team reduced to support the audit process.

With the development of the investment strategy and subsequent investment activity, it will become increasingly important that there is sufficient capacity and capability within the finance team to support the organisation both in terms of financial operational management as well as supporting strategic planning and reporting

Management response: Staff resourcing is an issue that has been raised and discussed with the Audit & Risk Committee and the Chief Executive, initially towards the end of 2018, and regularly since. It is acknowledged as an area of risk and recruitment has been a priority in order to improve resilience and to alleviate substantial pressure and workload of the existing team members. It has proved challenging to recruit suitable candidates swiftly. Future growth plans include additional roles to resource investment activities. It will be important to consolidate existing work activities and embed new staff in advance of that.

Action owner: Head of Finance & Commercial

Timescale for implementation: Finance team full complement by mid-October 2019. New investment roles (2) in place March 2020 and June 2020.

2. Corporate publications

CES publish a range of key corporate documentation including business plans. Board meetings are held around the country to encourage wider engagement and participation with key partners across Scotland. Minutes of Board meetings are published online. However, committee minutes as well as board papers are not. In addition, we found that board papers are not uploaded onto the public website in a timely manner with the latest version online being March 2018.

While we recognise that sensitive information may be withheld, we recommend that to ensure openness and transparency in decision making and the use of public funds, CES look to publish Board minutes in a more timely manner.

Management response: All agendas, papers & minutes for the meetings to March 2019 have now been uploaded to our website. The agenda, papers & minutes for the meeting held in May 2019 will not be uploaded until after the meeting next week when the Board have approved the draft minutes of the March meeting.

Action owner: Governance Manager

Timescale for implementation: Complete

Follow up of 2017/18 recommendations

We set out below our follow up of our 2017/18 recommendations and this is reflected below for information.

Recommendation

Financial statements preparation

We received a draft trial balance and supporting schedules to support our audit work. 2017/18 was the first year that CES(IM) financial statements have been required and the draft Accounts Direction, which clarifies the basis of preparation of the accounts, was received late in the accounts preparation process and required amendment. Consequently there were delays in finalising the financial statements. Going forward we recommend that arrangements are in place to ensure that a complete set of accounts are prepared for audit inspection.

Initial management response

Agreed – Note the Accounts Direction and accounts template now established.

Follow up

For 2018/19, the financial statements and supporting schedules were available for audit in a timely manner. However, a draft set of the 'front end' of the annual report was not available for audit inspection until late in the audit cycle. We recommend that for 2019/20 the annual accounts and audit timetable is reviewed to ensure a full set of annual accounts are available during the audit visit.

Management response: - We will undertake a review of the timetable as proposed to ascertain if this is practical.

Actions owner: - Head of Corporate Operations and Head of Finance & Commercial

Timescales for implementation: - Audit pre-planning (January 2020)

Recommendation

Financial sustainability

Following the establishment of CES(IM) in 2017 and ongoing progress of transitioning to a more permanent arrangement, the organisations key governance and operating systems and process continue to embed and be developed. It will be critical that the organisation embrace this change and ensure that there is continuous focus and prioritisation of the organisations strategic goals and objectives. To support this the continued development of key performance measures and the close monitoring of these will be critical in supporting the organisation continue to develop.

Initial management response

Agreed

Follow up

Complete - Performance measures have been established and reported against during the year to the Board. Management are in the process of developing a comprehensive assurance framework for use from 2019/20 onwards. With the introduction of the Scottish Crown Estate Act 2019, there are wider duty's on CES beyond generating financial returns on investment. For example provision that allows on a case-by-case basis for eligible bodies ('managers') to take on responsibility for specific assets, potentially in partnership or support from CES. It will be important that performance monitoring and assurance covers the wide range of CES responsibilities.

Fees, independence, fraud arrangements

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 was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £33,050.

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	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.

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

In assessing our audit risks, the audit team was 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 relation 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. We did 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. – None were identified in-year

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.

It is **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 worked with CES to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Anti-Money Laundering Arrangements

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

Communication of audit matters

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	•	•
We are independent of CES and have not identified any conflicts of interest		
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	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of CES accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. Nil fraud returns were submitted to Audit Scotland each quarter throughout 2018/19.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

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.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to CES Management and the Board

