

External Audit Report for Crown Estate Scotland (CES)

Financial year ended 31 March 2021

Prepared for the Board of Crown Estate Scotland and the
Auditor General for Scotland

28 September 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Crown Estate Scotland or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Crown Estate Scotland ('CES') and the preparation of the financial statements for the year ended 31 March 2021 for those charged with governance (the Board) and the Auditor General for Scotland.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The financial statements give a true and fair view of the financial position of CES and their total comprehensive revenue account profit for the year;
- the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (FReM); and
- the financial statements and the audited parts of the Remuneration and Staff Report have been prepared in accordance with the Accounts Direction issued by Scottish Government and in a form directed by Scottish Ministers in accordance with the Scottish Public Finance Manual.

We are also required to report whether other information published together with the audited financial statements in the Annual Report and Accounts, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Our 2020/21 external audit work was completed remotely. Audit adjustments are detailed in Appendix 1 including disclosure corrections identified during our audit. We identified no adjusted or unadjusted misstatements to the financial statements. We have also raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior year's audit are detailed in Appendix 3.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit opinion (audit report) is unmodified.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider CES' arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial Management

CES generated a total comprehensive revenue account profit of £11.5 million in 2020/21. This profit is distributable to the Scottish Government Consolidated Fund. This profit was a decrease of £0.5 million on the prior year however exceeded the initial budgeted target for 2020/21 of £8.9 million. The movement on prior year was largely due to:

- An overall decrease of £0.4 million in gross revenue. This was the result of decreases in revenue across Rural and Coastal due to the impact of COVID-19 as well as decreases in aquaculture due to finfish production. These decreases were partly offset by an increase in Energy and Infrastructure revenues as a result of offshore production and a number of new infrastructure options signed;
- A decrease of £0.5m in Direct Costs due to a decrease in repairs and maintenance and other direct expenditure during the year;
- An increase in indirect costs of £0.3 million as a result of increased staffing costs; and
- An increase in Transfers to Capital Account of £0.3 million compared with 2020/21.

CES reported a net capital account profit of £27.4 million in 2020/21. This was a decrease of £13.1 million on the prior year profit (2019/20: £40.5 million). This decrease was largely due to the decrease in the net revaluation gains in property and investments for 2020/21 compared with the prior year. In 2020/21, increases in valuations were noted across the Rural, Coastal and Marine portfolios, however the increase in the Marine portfolio in particular of £21.5 million was not as significant as the increase seen in this portfolio in 2019/20 of £43.2 million.

Financial Sustainability

As detailed within the 2021/22 Business Plan, CES have budgeted for revenue of £26.1 million in 2021/22, an increase of £4.5 million on the £21.6 million achieved in 2020/21. It is anticipated that this increase will largely be due to offshore wind turnover as production starts at sites. Income is also anticipated to increase further over the coming years from revenue streams that are anticipated to be minimally impacted from either COVID-19 or Brexit.

CES have budgeted for a total comprehensive revenue account profit of £12.0 million in 2021/22 to be distributable to the Scottish Government Consolidated Fund.

Similarly for 2021/22, CES have allocated up to £20.8 million for capital investment covering acquisitions as well as other expenditure. Receipts are expected to total £10.2 million to give a net capital investment of £10.6 million. CES note that the budget reflects current market intelligence and that there are uncertainties relating to the impact of COVID-19 and Brexit on the property market, tenants and potential investors.

Executive Summary

Wider scope audit

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In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Governance and Transparency

CES' website has a "Procurement" page. Here CES explain how they use the Scottish Government's Public Contracts Scotland ("PCS") advertising portal for all CES specific procurement opportunities above £10,000. Compliance with procurement legislation and statutory guidance is encapsulated within Crown Estate Scotland Interim Procurement Policy and Strategy which is aligned to the best practices of the Scottish Government's Procurement Journey, however we note that the Policy and Strategy itself was not available via the website at the time our audit procedures were performed. The web page also explains that current and future requirements are advertised on the PCS portal where it is free for potential suppliers to register and receive information on all public sector opportunities in Scotland. CES also maintain a Contracts Register where information on current contracts and their expected end dates is held, however we note that neither the current and future requirements nor the Contracts Register were available via the website at the time of our audit procedures.

CES adopted contracting authority status on 1 April 2020 and appointed a Procurement Manager to support their procurement activity. The Procurement Manager reports to the Audit and Risk Committee on a quarterly basis and prepares a Procurement Activity Report which provides a periodic update on procurement activity and highlights areas of interest. The Procurement Manager attends Audit and Risk Committee meetings in order to answer questions raised in relation to the report and/or procurement queries in general.

As noted in the prior year audit, CES implemented remote working arrangements in March 2020 to continue to operate whilst adhering to the travel and social distancing measures introduced by Scottish Government following the outbreak of Covid-19. CES were prepared to operate remote working arrangements with online access already available to their staff. It was therefore noted that there had been limited impact on CES' operations, internal processes and controls as a result of COVID-19 during 2020/21.

During the year ended 31 March 2021, the Board met six times. Due to COVID-19 restrictions these meetings were held using video-conferencing software. The Board were unable to meet with tenants and stakeholders as they had done in previous years however agendas, minutes and papers for Board meetings are available on the CES website in the "Structure & Governance" section. CES note within the Annual Report and Accounts that as offices re-open in line with COVID-19 guidelines, they envisage a hybrid approach to working from the office and working from home going forward. We also note that CES relocated to a new Edinburgh office location during the year, to Quartermile in Edinburgh, due to their previous lease ending. Due to more favourable lease terms at their previous location, increased annual indirect costs have been budgeted for in relation to this move going forward.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider CES' arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Value for Money

From review of minutes and committee papers, it is clear that there is a focus on performance and effective use of resources within CES. Review shows that CES continue to consider the ways in which it can create and maximise public value on an ongoing basis. CES revenue profits are paid to Scottish Government and these funds are then largely redistributed by Scottish Government to coastal local authorities to fund projects benefiting coastal communities. To date, £16.9 million of revenue generated by CES in 2017/18 and 2018/19 has been distributed to coastal communities.

The CES 2020-2023 Corporate Plan details a range of KPIs and targets for the three years to March 2023 covering CES' strategic objectives. CES' assurance framework identifies and documents assurance on key business functions and activities. Progress is tracked throughout the financial year through quarterly Board meetings, as well as through leadership and team meetings. A full list of KPIs and associated targets has been detailed within the Performance Analysis section of the Annual Report and Accounts. We note that of the eleven KPIs listed, six have "no specific target" set for March 2023 as follows:

- Gigawatts (GW) of offshore renewables in seabed agreements;
- Production capacity in new finfish agreements;
- Number of projects promoting sustainable natural resource use;
- Number of projects encouraging people to be more involved in how land, coast and seabed are managed;
- Capital committed to place-based projects; and
- Capital committed to blue economy.

With no agreed March 2023 target it may be difficult for the Board to assess performance against strategic priorities. There is therefore a risk that best value may not be achieved in these key performance areas.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 for CES. The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Risk Committee on 18 May 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of CES's annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money; and
- Any other work requested by Audit Scotland.

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

This report is addressed to the Board of Crown Estate Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

CES is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

Adding value through our audit work

We aim to add value to CES throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help CES promote improved standards of governance, better management and decision making, and more effective use of resources.

Following lessons learned from last year's audit we changed the audit timeline slightly and this worked better for management. In addition, we reflected on our audit of valuations in prior year and improved the audit arrangements, working with our external valuer and managements valuers.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the Annual Report and Accounts.

We have identified no adjusted or unadjusted audit misstatements to the financial statements. Disclosure corrections identified during our audit have been detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior year's audit are detailed in Appendix 3.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income were incurred in accordance with applicable enactments and guidance;
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan, our audit work commenced on 21 June 2021 and we received the draft primary financial statements in line with our agreed timetable.

There were no audit adjustments to the draft primary financial statements and no unadjusted audit misstatements have been identified as a result of our audit procedures. We have however identified disclosure adjustments in respect of the draft financial statements, a full listing of which is detailed in Appendix 1.

We have raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations from the prior year's audit are detailed in Appendix 3.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit and Risk Committee on 18 May 2021 and finalised and submitted to Audit Scotland.

We reviewed our planning assessment of materiality based upon your 2020/21 draft financial statements and concluded that materiality should remain at £8.487 million, representing 1.6% of total assets held by CES at 31 March 2021. Performance materiality was set at £6.365 million, representing 75% of our calculated materiality. Similarly we reviewed our planning assessment of materiality for the Revenue Account and concluded that materiality should remain at £385,000, being 1.8% of revenue as per the 2020/21 draft financial statements. Performance materiality for the Revenue Account was set at £288,750, representing 75% of our calculated Revenue Account materiality.

We report to management any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £5,000).

Responding to significant financial statement 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.

This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override CES' internal controls, related to individual transactions.</p> <p>Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> • We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures. • We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020. • Journals testing including: <ul style="list-style-type: none"> • Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger; • Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger; • Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries. <p>Conclusion</p> <p>We can confirm that we did not find evidence of management override of controls in our testing of journal transactions or any instances of material error. Furthermore we did not identify any indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.</p>

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p>Risk of fraud in revenue recognition</p> <p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.</p> <p>CES generates revenue through a range of activities using investments held, through rent and royalties as well as the sale of produce. CES are a net contributor to the Scottish Government, therefore as part of the annual budget setting process CES agree the percentage of net revenue surplus that will be transferred to the capital account each year with the remaining surplus being an annual revenue contribution to Scottish Government. Contributions are made throughout the year but the final payment is due to Scottish Government once the financial statements audit is complete and the outturn position finalised. Therefore there may be an incentive for fraudulent revenue recognition to deliver budgeted targets within CES. We consider the risk to be most prevalent in revenue transactions and balances recognised around the year end as we believe these transactions are most susceptible to incorrect fraudulent recognition. Our planned testing procedures include specific testing around revenue cut-off procedures and substantive testing over pre and post year end revenue transactions.</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 rebut the risk in relation to these revenue streams.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> • Walkthroughs of the controls and procedures over material revenue streams; • Substantive testing of revenue recognised during 2020/21 to confirm its occurrence, accuracy and completeness of recording; • Focused substantive testing of revenue recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off; and • Detailed testing of trade and other receivables (where material) to gain assurance over the occurrence and accuracy of these balances as at year end. <p>Conclusion</p> <p>Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of revenue recognised by CES during 2020/21. No exceptions were identified as a result of focused testing performed in relation to the risk of cut-off. As a result of our substantive procedures and sample testing we did not identify any income which was not in accordance with the nature of CES (regularity testing). We have gained assurance in relation to the recoverability of year end debtor balances and are satisfied that these balances have occurred and have been recorded accurately.</p>

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
<p>Valuation of investment properties</p> <p>In accordance with the HM Treasury’s Government Financial Reporting Manual (FReM), subsequent to initial recognition, CES is required to hold investment properties at fair value and must subsequently revalue these assets at each balance sheet date. At 31 March 2021 CES held £455.5 million of investment properties including commercial and residential properties, land leased for energy production, forestry and seabed. CES engage valuation experts to determine an appropriate valuation for these properties, with valuations being based on a number of key assumptions including an estimate of future rental income associated with the properties.</p> <p>Given the value of investment properties held by CES, the level of complexity and judgement in the estimation valuations and the revisions to ISA 540 in relation to significant accounting estimates, we have recognised a significant risk in relation to the valuation of investment properties at 31 March 2021.</p>	<p>In response to this significant risk, our audit response was as follows:</p> <ul style="list-style-type: none"> • Walkthroughs of the controls and procedures over the valuation of investment properties; • Consideration of the arrangements in place at CES for ensuring the carrying value of investment properties is appropriate and in accordance with IAS 40 and IFRS 13; • Evaluation of the competence, capability and objectivity of CES’ professional valuers who represent management’s experts under ISA 500; • Confirmed the completeness and accuracy of underlying information provided by CES and used by their valuers in arriving at the valuation of investment property as at 31 March 2021; • Agreed the valuation report provided by the valuers to the underlying accounting entries made by CES in the 2020/21 financial statements; • Challenged the appropriateness of the assumptions adopted by the valuer; • Challenged management’s assessment of potential impairment of investment property including consideration of any indicators of impairment of investment property not recognised by CES; and • Used our auditor’s valuation expert in order to challenge CES’ management of the valuation instructions issued and approach adopted by CES in valuing investment property as at 31 March 2021, as well as a more detailed review of the valuation results for two of management’s experts (Savills and Strutt & Parker). <p>Conclusion</p> <p>CES commissions independent valuations of its assets on an annual basis. A total of ten individual valuations of asset type are carried out. All such valuations are conducted by independent, registered valuers, in accordance with the Royal Institute of Chartered Surveyors (RICS) requirements. In the prior year RICS issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as ‘where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted’. Due to the impact of Covid-19 on markets at that time, CES’ valuers reported their valuation advice on the basis of ‘material valuation uncertainty’ and an emphasis of matter paragraph was included within the independent audit report to highlight the matter to the reader of the accounts. Our audit opinion was not modified in respect of this matter. CES’ valuers have confirmed that as at 31 March 2021 the uncertainty is no longer deemed to be material. Accordingly the 2020/21 valuation of investment property is not reported as being subject to “material valuation uncertainty” as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Our auditor’s expert has also confirmed that this commentary is in line with the wider view across the profession at 31 March 2021 and is therefore in line with our valuer’s expectations. We have concluded that the view taken by the appointed valuers is appropriate. No emphasis of matter paragraph is therefore required to be included within the auditor’s opinion in relation to this matter in the current year.</p> <p>Based on our testing we conclude that investment properties have been valued in accordance with the FReM and that the assumptions adopted by management and their valuer are deemed reasonable.</p>

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to CES and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of management and the Audit and Risk Committee, concerning CES' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of CES' financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered CES' financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of investment property as at 31 March 2021. Our audit procedures are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - CES' operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - CES' control environment, including the policies and procedures implemented by CES to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

CES' financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property valuations (Investment properties £455.5 million at 31 March 2021)	<p>As at 31 March 2021, CES held investment properties of £455.5 million. CES appointed six valuers to undertake year end investment property valuations across CES' investment portfolio as follows:</p> <ul style="list-style-type: none"> Savills – Offshore wind (£228.6m), Coastal (£38.3m) and Aquaculture (£26.4m); Strutt and Parker – Agriculture (£103.5m); Wardell Armstrong – Minerals (£3.1m); Tim R Kirk – Forestry (£22.5m); JLL – Offices and Retail (£8.6m); and Powis Hughes – Cables & Pipelines (£24.3m) and Renewables (£0.2m). <p>CES requested that the above external valuers provide independent valuations as at 31 March 2021 across the above portfolio in line with RICS Red Book requirements.</p> <p>Management have disclosed that investment properties are recorded at fair value in the financial statements in accordance with the valuations performed by their independent valuers. Management have disclosed that valuations are based on a number of key assumptions including an estimate of future rental income. They have also disclosed that valuations are conducted by independent, registered valuers on an annual basis and that valuations are in accordance with the RICS 'Valuation – Global Standards' (RICS Red Book) requirements within the annual accounts.</p>	<p>We have agreed the valuation reports prepared by management's experts to the underlying accounting entries made by CES in the 2020/21 financial statements.</p> <p>We have tested the data and assumptions applied by management and their experts in producing the investment property valuations. We have evaluated the competence, capability and objectivity of CES' professional valuers who represent management's experts under ISA 500.</p> <p>We have used our auditor's valuation expert in order to challenge management expert's advice in relation to two professional valuers (Savills and Strutt and Parker) as well as CES' management of valuation instructions issued to all of their external valuers and the approach adopted in valuing investment properties as at 31 March 2021.</p> <p>We have challenged management's assessment of potential impairment of investment properties including consideration of any indicators of impairment of investment property not recognised by CES.</p> <p>We are satisfied that investment property valuations have been calculated appropriately and that year end valuation balances have not been materially misstated.</p>	<p>● Light purple</p>

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other key elements 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 focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is CES' responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of CES' accounting policies, accounting estimates and financial statement disclosures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we have issued an unmodified opinion in this respect.
Opinion on other aspects of the annual report and accounts	<p>We are required to give an opinion on whether the parts of the Remuneration and Staff Report subject to audit have been prepared properly in accordance with the Accounts Direction issued by Scottish Government and in a form directed by Scottish Ministers in accordance with the Scottish Public Finance Manual. Following discussion with management it was agreed that remuneration disclosures would be made in the current year in relation to CES' Senior Management Team (Director of Corporate Operations, Director of Finance and Business Services, Director of Marine and Director of Property) to improve and enhance transparency within the Annual Report. Previously only remuneration information in relation to the Chief Executive was disclosed within the report. Management have made these additional disclosures within the final Annual Report and Accounts.</p> <p>We have audited the elements of the Remuneration and Staff Report , as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation.</p> <p>The information given in the Performance Analysis and the Governance Statement is consistent with the financial statements.</p>

Issue	Commentary
Governance report	<p>The Governance Report is set out on page 40 of the Annual Report and Accounts. The report sets out how CES has been governed during 2020/21, including CES' Board and Audit & Risk Committee members and how they support the achievement of CES' objectives and includes the Statement of Accountable Officer's Responsibilities on page 41 and the Governance Statement on page 42. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value for CES as well as Value for Money for the public sector as a whole. Through our audit work over the wider scope audit dimensions: financial management; financial sustainability; governance and transparency; and, value for money, we have considered the arrangements in place at CES for securing Best Value.</p> <p>Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The governance statement also reflects the assurances and conclusions reached by the Board's Internal Audit function in year.</p>
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit, or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Written representations	<p>A letter of representation has been requested from Crown Estate Scotland, which was included in the Audit and Risk Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for investment property valuations as well as a specific representation in relation to the completeness of contingent liabilities disclosed in the Annual Report and Accounts.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by CES meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management's assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>

Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified two significant wider scope risks in relation to Financial Sustainability and Governance and Transparency. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to CES' financial management arrangements.</p>	<p>CES generated a total comprehensive revenue account profit of £11.5 million in 2020/21. This profit is distributable to the Scottish Government Consolidated Fund. The profit of £11.5 million was a decrease of £0.5 million on the prior year (2019/20: £12.0 million) however exceeded the initial budgeted target for 2020/21 of £8.9 million by £2.6 million. The movement on prior year was largely due to:</p> <ul style="list-style-type: none"> • An overall decrease of £0.4 million in gross revenue. This was the result of decreases of £1.6 million of revenue across Rural and Coastal due to the impact of COVID-19 as well as decreases in aquaculture due to finfish production. These decreases were offset by an increase in Energy and Infrastructure of £1.2 million as a result of increases in offshore production and a number of new infrastructure options signed; • An decrease of £0.5m in Direct Costs due to a decrease in repairs and maintenance and other direct expenditure during the year; • An increase in indirect costs of £0.3 million as a result of increased staffing costs; and • An increase in Transfers to Capital Account of £0.3 million compared with 2020/21. <p>CES reported a net capital account profit of £27.4 million, a decrease of £13.1 million on prior year (2019/20: £40.5 million). This decrease was largely due to a decrease in the net revaluation gains in property and investments (including profit/(loss) on disposal) of £13.2 million compared with the prior year. Increases in valuations were noted in 2020/21 across the Rural, Coastal and Marine portfolios, however the increase in the Marine portfolio in particular of £21.5 million in 2020/21 was not as significant as the valuation increase in this portfolio of £43.2 million as noted in 2019/20.</p> <p>We have considered the arrangements in place for monitoring and scrutiny of financial performance during the year, including oversight from management and those charged with governance. This has included inquiry of management and review of minutes and papers and review of Internal Audit reports.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to CES' financial management arrangements.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether CES is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Significant risk identified: Consideration of the medium to long term financial sustainability of CES. We will consider how COVID-19 has impacted on CES' financial strategy and understand the ways in which CES have ensured that investment decisions taken support CES' medium to long term financial sustainability while supporting the delivery of the wider corporate objective of supporting the wider Scottish economy and acting as an enabler for other organisations to manage the assets of the Crown.</p> <p>We will focus on in-year financial performance and review CES' medium to long term financial plans.</p>	<p>Response to significant risk:</p> <p>We have considered CES' in-year financial performance in "Financial management", see page 16 above.</p> <p>As detailed within the 2021/22 Business Plan, CES have budgeted for revenue of £26.1 million in 2021/22, an increase of £4.5 million on the £21.6 million of revenue achieved in 2020/21. It is anticipated that this increase will largely be the result of an increase in offshore wind turnover as production starts at sites. Income is also anticipated to increase further over the coming years from revenue streams that are anticipated to have minimal impact from either COVID-19 or Brexit.</p> <p>CES have budgeted for a total comprehensive revenue account profit of £12.0 million in 2021/22 to be distributable to the Scottish Government Consolidated Fund. As £11.5 million and £12.0 million of total comprehensive revenue account profit was achieved in 2020/21 and 2019/20 respectively, the budget for 2021/22 is deemed reasonable.</p> <p>Similarly for 2021/22, CES have allocated up to £20.8 million for capital investment covering acquisitions as well as other expenditure. Receipts are expected to total £10.2 million to give a net capital investment of £10.6 million. CES have noted that the budget reflects current market intelligence and that there are uncertainties relating to the impact of COVID-19 and Brexit on the property market, tenants and potential investors.</p>	<p>We have not identified any significant risks in relation to CES' financial sustainability arrangements.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified (alongside Audit Scotland planning guidance):</p> <p>We noted during the 2019/20 external audit that CES had established plans to publish a Procurement Strategy and Policy as well as a Contract Register and a Record of Planned Regulated Procurements, in order to provide greater transparency of procurement operations. We will review the progress made by CES in publishing its Procurement Strategy and Policy and the ways in which CES have embedded its requirements internally. We will also review the progress made by CES in preparing, publishing and maintaining a Contract Register and Record of Planned Regulated Procurements.</p>	<p>Response to significant risk:</p> <p>The CES website includes a “Procurement” page. Here CES explain how they use the Scottish Government’s Public Contracts Scotland (“PCS”) advertising portal for all CES specific procurement opportunities above £10,000 including (where carried out on behalf of CES) by their Managing Agents. CES note that compliance with procurement legislation and statutory guidance is encapsulated within the Crown Estate Scotland Interim Procurement Policy and Strategy (approved in April 2020) which is aligned to the best practices of the Scottish Government’s Procurement Journey, however we note that the Policy and Strategy were not available via the CES website at the time of performing our audit work.</p> <p>The page further explains that current and future requirements are advertised on the PCS portal where it is free for potential suppliers to register and receive information on all public sector opportunities in Scotland. CES also detail that they maintain a Contracts Register where information on current contracts and their expected end dates is held, however we note that neither the current and future requirements nor the Contracts Register were available via the CES website at the time of performing our audit work. Action Point 1</p> <p>CES adopted contracting authority status on 1 April 2020 and appointed a Procurement Manager to support their procurement activity. The Procurement Manager reports to the Audit and Risk Committee on a quarterly basis and prepares a Procurement Activity Report. This report provides a periodic update on procurement activity and highlights areas of interest. The report details procurement activities in four categories; Completed (contract awarded) previously reported; Completed (contract awarded); Underway (current activity); and Future (significant activity planned for future delivery). The report then lists the procurement activity name, value, status as well details of CES' need for the service (e.g. requirement for web services), the contract term, the number of suppliers who tendered for the contract and who the contract was awarded to. The Procurement Manager attends the Audit and Risk Committee meetings in order to answer questions raised in relation to the report and/or procurement queries in general.</p>	<p>We note the progress made by CES in relation to its work around procurement and the internal scrutiny that contracts are subject to however as the Procurement Strategy and Policy as well as a Contract Register and a Record of Planned Regulated Procurements were not available on the CES website at the time of audit testing we have raised a recommendation in relation to this matter. Action Point 1</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>We will, as set out in the planning guidance, consider how CES has maintained good governance throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic.</p>	<p>Response to significant risk:</p> <p>As noted in the prior year audit, CES implemented remote working arrangements in March 2020 to continue to operate whilst adhering to the travel and social distancing measures introduced by Scottish Government following the outbreak of Covid-19. CES were prepared to operate remote working arrangements with online access already available to their staff. It was therefore noted that there had been limited impact on the operation of internal processes and controls as a result of COVID-19 during 2020/21.</p> <p>During the year ended 31 March 2021, the Board met six times. Due to COVID-19 restrictions these meetings were held using video-conferencing software. The Board were also unable to meet with tenants and stakeholders as they had done in previous years. The agendas, minutes and papers for Board meetings are however available on the CES website in the “Structure & Governance” section.</p> <p>CES note within the Annual Report and Accounts that as offices re-open in line with COVID-19 guidelines, they envisage a hybrid approach to working from the office and working from home. We also note that CES relocated to a new Edinburgh office location during the year, to Quartermile in Edinburgh, due to their previous lease ending. Due to more favourable lease terms at their previous location, increased annual indirect costs have been budgeted for in relation to this move going forward.</p>	<p>Through our audit procedures performed we have not identified any significant risks or deficiencies in relation to CES' arrangements for ensuring appropriate governance and transparency during the year.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Value for money Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to CES' financial management arrangements.</p>	<p>From review of minutes and committee papers, it is clear that there is a focus on performance and effective use of resources within CES. Review shows that CES continue to consider the ways in which it can create and maximise public value on an ongoing basis. CES' revenue profits are paid to Scottish Government and these funds are then largely redistributed by Scottish Government to coastal local authorities to fund projects benefiting coastal communities. To date, £16.9 million of revenue generated by CES in 2017/18 and 2018/19 has been distributed to coastal communities.</p> <p>We have considered CES' in-year financial performance in "Financial management", see page 16 above.</p> <p>The CES 2020-2023 Corporate Plan details a range of KPIs and targets for the three years to March 2023 covering CES' strategic objectives. CES' assurance framework identifies and documents assurance on key business functions and activities. Progress is tracked throughout the financial year through quarterly Board meetings, as well as through leadership and team meetings. A full list of KPIs and associated targets has been detailed within the Performance Analysis section of the Annual Report and Accounts. We note that of the eleven KPIs listed, six have "no specific target" set for March 2023 as follows:</p> <ul style="list-style-type: none"> • Gigawatts (GW) of offshore renewables in seabed agreements; • Production capacity in new finfish agreements; • Number of projects promoting sustainable natural resource use; • Number of projects encouraging people to be more involved in how land, coast and seabed are managed; • Capital committed to place-based projects; and • Capital committed to blue economy. <p>Management explained that with regard to these KPIs, specific targets were not deemed to be in the best interest of the business due to their content and nature in all instances. For example, for KPIs that have an external focus and where CES are reliant on funding projects/purchasing assets it may give rise to the risk that where CES are reliant on having quality opportunities to invest in, that they invest in something mainly with the intent of meeting the agreed target. We note however that the Board do monitor progress of the Corporate Plan KPIs, and as such do monitor progress made in the above areas throughout the year and over the life of the plan.</p> <p>However, with no agreed March 2023 target we believe it may be difficult for the Board to fully and effectively assess performance against strategic priorities. There is therefore a risk that best value may not be achieved in these key performance areas.</p>	<p>We have noted that not all KPIs in relation to CES' 2020-23 Corporate Plan have published, agreed targets. Without agreed targets it may be difficult for the Board to fully and effectively assess performance against strategic priorities. There is therefore a risk that Best Value may not be achieved in these key performance areas. Action Point 2</p>

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report there were no corrected or uncorrected misstatements to the financial statements arising during our audit.

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

Disclosure	Auditor recommendations	Adjusted?
Remuneration and Staff Report	Following discussion with management it was agreed that remuneration disclosures would be made in the current year in relation to CES' Senior Management Team (Director of Corporate Operations, Director of Finance and Business Services, Director of Marine and Director of Property) to improve and enhance transparency within the Annual Report. Previously only remuneration information in relation to the Chief Executive was disclosed within the report. Management have made these additional disclosures within the final Annual Report and Accounts.	Yes
Payables – Rents received in advance	We requested the addition of “or invoiced” to the “Rents received or invoiced in advance” balance in order to fully reflect the nature of the balances recorded and disclosed within.	Yes
IFRS 15 Revenue from Contracts with Customers	Additional disclosure required in relation to CES' revenue from contracts with customers on further consideration of the FReM.	Yes
Financial Instruments	On further consideration of the FReM, prepayments to be excluded from financial assets disclosure as prepayments are not defined as a financial asset under IFRS 9. Deferred income to be excluded from financial liabilities disclosure as this represents an obligation to deliver a good or service. Furthermore an accounting policy is required to be disclosed providing an explanation of the classification, measurement and accounting treatment under IFRS 9 of financial instruments. Trade receivables and cash and cash equivalents are disclosed as being measured at fair value through the OCI as opposed to being measured at amortised cost	Yes
Leasing – Operating leases with tenants	On further consideration of the FReM, future minimum rentals excluding contingent rents receivable under non-cancellable leases to be disclosed on a gross rental income basis.	Yes

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation	Agreed management response
<p>1. Procurement</p> <p>The CES website includes a “Procurement” page where CES explain how they use the Scottish Government’s Public Contracts Scotland (“PCS”) advertising portal for all CES specific procurement opportunities above £10,000 including (where carried out on behalf of CES) by their Managing Agents. CES note that compliance with procurement legislation and statutory guidance is encapsulated within Crown Estate Scotland Interim Procurement Policy and Strategy (approved in April 2020) which is aligned to the best practices of the Scottish Government’s Procurement Journey, however we note that the Policy and Strategy were not available via the CES website at the time of performing our audit work. The page further explains that current and future requirements are advertised on the PCS portal where it is free for potential suppliers to register and receive information on all public sector opportunities in Scotland. CES also detail that they maintain a Contracts Register where information on current contracts and their expected end dates is held, however we note that neither the current and future requirements nor the Contracts Register were available via the CES website at the time of performing our audit work. We recommend that the Procurement Strategy and Policy as well as a Contract Register and Record of Planned Regulated Procurements are published on the CES website.</p>	<p>Management response: CES launched a new website in July 2021. We have now rectified issues with access to procurement documents on the new external website and confirm the Interim Procurement and Policy Strategy and regulated contract register are now visible. We will work to provide a record of planned regulated procurements on our website.</p> <p>Action owner: Director of Finance and Business Services</p> <p>Timescale for implementation: March 2022</p>
<p>2. KPI targets</p> <p>The CES 2020-2023 Corporate Plan details a range of KPIs and targets for the three years to March 2023 covering CES' strategic objectives. Progress is tracked throughout the financial year through quarterly Board meetings, as well as through leadership and team meetings. A full list of KPIs and associated targets has been detailed within the Performance Analysis section of the Annual Report and Accounts. We note that of the eleven KPIs listed, six have “no specific target” set for March 2023 as follows:</p> <ul style="list-style-type: none"> • Gigawatts (GW) of offshore renewables in seabed agreements; • Production capacity in new finfish agreements; • Number of projects promoting sustainable natural resource use; • Number of projects encouraging people to be more involved in how land, coast and seabed are managed; • Capital committed to place-based projects; and • Capital committed to blue economy. <p>Management explained that with regard to these KPIs, specific targets were not deemed to be in the best interest of the business due to their content and nature in all instances. For example, for KPIs that have an external focus and where CES are reliant on funding projects/purchasing assets, it may give rise to the risk that where CES are reliant on having quality opportunities to invest in, that they invest in something mainly with the intent of meeting the agreed target. However, with no agreed March 2023 target we believe it may be difficult for the Board to fully and effectively assess performance against strategic priorities. There is therefore a risk that best value may not be achieved in these key performance areas. We recommend that targets are agreed and published for all KPIs.</p>	<p>Management response: There are 11 KPIs noted in the 20-23 corporate plan, and 6 of these do not have specific targets set against them. The 20-23 Corporate Plan, including these KPIs and targets has been approved by the Cabinet Secretary. The Executive Team has discussed with the Board the setting of targets for KPIs and it is felt that for some KPIs publishing targets is not in the best interests of the business. This is because there can be unintended consequences of target setting (for example decision making bias to meet targets, rather than acting in the best interests for the business based on an opportunity presenting at any point in time). It is acknowledged that some target setting is appropriate, and these have targets in the 20-23 Corporate Plan. The Executive team reports regularly to the Board on performance of the business against all the KPIs, and that reporting has been, and will continue to be, subject to continuous improvement over the corporate plan period. Following the 21/22 financial year CES intends to do a more formal review of the KPIs and performance against them to date.</p> <p>Action owner: Director of Corporate Operations</p> <p>Timescale for implementation: June 2022</p>

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

Valuation instructions

As part of our audit testing over investment property valuations we considered the scope of the valuers' work including terms of appointment and valuation instructions provided by Management. From our review we found that instructions did not always explicitly state the accounting and valuation standards to be applied (RICS guidance) and explicit details around the assets to be valued. While our subsequent testing of the valuations, including challenge to the valuers, did not find any issues with the valuation standards and guidance applied, it is important that CES ensure that instructions to valuers provide a clear framework in which they expect valuations to be conducted to avoid potential non-compliance with applicable guidance or accounting standards. We understand that CES is in the process of retendering valuation services. We recommend that CES will use this as an opportunity to review the instructions issued to valuers to ensure these are kept up to date, reflect the latest RICS guidance and clearly define assets to be valued.

Responsible officer: Director of Finance and Business Services

Initial management response: A number of contracts for annual portfolio valuations are currently being re-procured. Each Invitation to Tender document explicitly states the accounting and valuation standards to be applied and details around the assets to be valued. For the remaining valuations the Letters of Instruction (provided prior to the valuation being undertaken) will contain this information.

Timescale for implementation: March 2021

Follow up: **CLOSED.** We used our auditor's valuation expert in order to review and challenge CES' management on the valuation instructions issued to their professional valuers. We are satisfied that CES and the professional valuers appear to have clearly outlined the proposed process undertaken as part of the year end valuation process and that the instruction process meets the requirements set out within relevant guidance. We therefore consider this recommendation closed.

Financial planning and the impact of COVID-19

Looking forward, CES should ensure that as the investment framework is embedded they ensure that there continues to be robust scrutiny and challenge of investment opportunities and ensure continued focus on the strategic priorities while facing potentially significant operational challenges, including the impact of Covid-19.

Responsible officer: Chief Executive

Initial management response: The CES management response is in four parts. 1. Budget structures - Key steps to revising our budget structures are well advanced, this includes further strengthening cost allocation to roles and asset types, and building the capital pipeline in advance of budget sign-off. 2. Portfolio management - CES is introducing a portfolio management approach across the asset-base. This will use a variety of indicators of performance, both financial and non financial and will include the application of the Value Project asset profile measures. 3. Capital decision making - CES is introducing enhanced capital decision making processes and have established programme and project management for significant capital activities. 4. Reporting - Financial reporting will be added to through the use of portfolio reporting, and it is intended the annual report and accounts section 2 will be developed to provide further financial information on the four roles of the assets and the Investment Strategy Portfolio.

Timescale for implementation: March 2021

Follow up: **CLOSED.** We have reviewed the 2021/22 budget as part of our work in relation to Wider Scope – Financial Sustainability. We have considered CES' performance during the year including portfolio management as a result of our work in relation to Wider Scope – Value for Money. Capital decision making and financial reporting have both been considered as part of our work in relation to Wider Scope – Financial Management. A recommendation has been raised as a result of our work on Value for Money in relation to KPIs and this will be tracked separately going forward (see Appendix 2), therefore we deem this recommendation to now be closed.

4. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	29,865*
Pooled costs	6,860
Contribution to Audit Scotland costs	1,520
Contribution to Performance Audit and Best Value	Nil
2020/21 Fee	38,245

* Incorrectly disclosed as £29,790 within our External Audit Plan. Updated here for completeness and accuracy. We have also confirmed that this agrees to amount disclosed in CES' Annual Report and Accounts 2020/21.

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	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 Financial Reporting Council'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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. Communication of audit matters

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 below.

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 Crown Estate Scotland's 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		•

