

External Audit Report for Crown Estate Scotland (CES)

Financial year ended 31 March 2022

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

August 2022



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 2022 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 2021/22 Government Financial Reporting Manual (FRoM); 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.

We have completed our audit of your financial statements and issued an unqualified audit opinion on 15 August 2022.

Our 2021/22 external audit work was completed remotely. Audit adjustments are detailed in Appendix 1 including financial statement 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 concluded that the Remuneration and Staff Report, subject to audit, has been prepared in accordance with requirements and is materially correct. Within our audit testing we did not identify any non-compliance with laws and regulations and our regularity opinion is unmodified

We have concluded that the information given in the Performance Report and the Governance Statement is consistent with the financial statements and has been prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

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 2022 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 £15.7 million in 2021/22. This profit is distributable to the Scottish Government Consolidated Fund. The profit of £15.7 million was an increase of £4.2 million on the prior year (2020/21: £11.5 million) and was ahead of the original budgeted profit of £12.0 million. The movement on prior year was due to an overall increase of £6.8 million in gross revenue, offset by an overall increase in costs of £2.6 million.

The increase in gross revenue was largely due to the increase of £6.8 million in rent and royalties revenue. Key increases were noted as follows:

- Coastal revenue (revenue generated by the activities managed as part of CES' Coastal portfolio including ports, harbours, moorings, pontoons, dredging and outfalls) increased by £0.6 million due to recovery from COVID-19;
- Marine (Energy and Infrastructure) revenues increased by £4.9 million as offshore wind revenue is linked to energy output and there was an increase in offshore production during the year, particularly in relation to offshore wind; and
- Marine (Acquaculture) increased by £0.7 million due to an increase in finfish production.
- The increase in costs of £2.6 million was due to;
 - An increase of £1.3 million in direct costs, including increases in repair costs across the estate as well as £0.2 million in relation to ScotWind legal fees (with a further £1.6 million having recognised as capital expenditure); and
 - An increase of £1.3 million in indirect costs, including increases in enabling costs, staff costs and office costs.

CES reported a net capital account profit of £111.5 million, an increase of £98.4 million on prior year (2020/21: £27.4 million). This increase was largely due to the increase in the net revaluation gains in property and investments which was £110.4 million in 2021/22 and £26.3 million in 2020/21. Increases in valuations were noted in 2021/22 across all portfolios, with significant increases in Rural (£26.4 million) and Marine (£80.1 million) portfolios.

Executive Summary

Wider scope audit

Financial Sustainability

CES have prepared a Revenue Budget and capital budget for the 3 year period 2022-25.

The original drafting of the 2022-25 budget was undertaken before the £700 million option fees were announced in January 2022. Board approval of the 2022-25 budget in February 2022 included the budget for the underlying activities, and also the expected impact of the ScotWind option fees. CES' assessment of the planned impact of ScotWind fees on CES' future financial statements is as follows:

- Option fee income of £700 million which will be evenly spread across the life of the options in the CES annual accounts; and
- Under the current CES Ministerial Direction, CES will pass the ScotWind option fee funds to Scottish Government (SG) annually as earned. CES are currently in discussion with SG around the timing of future cash transfers.

Excluding ScotWind option fees, CES revenue is forecast to increase to £31.8 million in 2022/23 and to £40.2 million in 2023/24, due to the planned commencement and increased production at offshore wind sites. As revenue of £28.4 million was achieved in 2021/22, increasing from £21.6 million, an increase of £6.8 million (31%), the budget for 2022/23 and 2023/24 are deemed reasonable.

CES have budgeted for a total comprehensive revenue account profit of £17.0 million in 2022/23 and £25.2 million in 2023/24. As £15.7 million and £11.5 million of total comprehensive revenue account profit was achieved in 2021/22 and 2020/21 respectively, the budget for 2022/23 and 2023/24 are deemed reasonable given the anticipated commencement and increased production at offshore wind sites.

CES have budgeted for £17.6 million of capital investment in 2022/23 and £5.0 million of capital receipts to give a net capital investment of £12.6 million. CES have noted that they continue to review the commitments they will make in the next 12 months to ensure that over a 3-5 year timeline they will have sufficient capital cash available to meet their obligations, particularly for investments such as the development of the ZeroFour hub near Montrose, as they start to utilise greater cash resources.

Executive Summary

Wider scope audit

Governance and transparency

Timings of Board meetings were adjusted during the year in order to ensure that there was better alignment with quarterly financial reporting. As such a Board meeting was held in March 2021 and then during the year 1 April 2021 to 31 March 2022 the Board then held 3 quarterly meetings (30 June 2021, 11 November 2021 and 23 February 2022). The Board held a further four strategic sessions (sessions held to discuss strategy, held in person and where possible away from CES' head office at locations relevant to the work of the organisation and management of the Estate) and one additional meeting was held to consider papers in relation to the Innovation and Targeted Oil and Gas (INTOG) offshore wind leasing programme. The Annual Report states that the Board's strategic meetings focused on developing its long term vision for the Scottish Crown Estate and held discussions with stakeholders in relation to the Blue Economy, marine natural capital, supporting offshore wind, and partnerships, with sessions being held in North Ayrshire, Montrose and Cromarty. We note that where the Board considers papers/decisions during strategy sessions, these matters are minuted. For example, papers considered as part of a strategy session in August 2021 were later included within the papers for the November 2021 Board meeting.

The meeting minutes and papers for the February 2022 Board meeting were not available on the CES' website at the time of our audit despite having been approved. We recommend that all approved papers and minutes are made publicly available as soon as is practicable.

The Board has delegated oversight of investment activity to the Investment Committee ("IC") and receives quarterly reports from the Chair of the IC as well as recommendations for decision. The IC met 4 times during the year (May, August and November 2021 and in February 2022). Standing areas considered by the IC during the year included capital budget proposals, build development updates, market updates, option appraisals and business cases as well as updates in relation to specific projects such as Montrose (ZeroFour Hub), George Street options appraisal and Whitehill engagement update.

The Audit and Risk Committee ('ARC') maintains oversight of internal audit, external audit, financial performance, risk and governance and Health and Safety. The ARC are independent and report to the Board. The ARC met 4 times during the year, in June, September and November 2021 and in February 2022.

Executive Summary

Wider scope audit

Value for Money

As noted above in our review of Financial Management, CES generated £15.7 million of net revenue account profit which is distributable to the Scottish Government Consolidated Fund. Most of CES' funds to date have been redistributed by the Scottish Government to coastal local authorities to fund projects benefitting coastal communities. From CES' first three years of operating, £28.3 million has been distributed to local authorities.

We also note that the value of the CES' estate has also increased from £455.6 million at 31 March 2021 to £568.2 million at 31 March 2022, an increase of £112.6 million (24.7%).

CES received more than 70 applications in relation to the ScotWind offshore leasing round. CES confirmed in April 2022 that 17 successful ScotWind applicants had secured seabed option agreements, allowing these projects to move into the development stage. As noted above on page 5, CES anticipate that the ScotWind option fee income of £700 million will be evenly spread across the life of the options in the CES annual accounts from 2022-23 onwards. As well as securing an initial £700.0 million for public spending, Supply Chain Development Statement Outlook (SCDS's) provided by Developers as part of the ScotWind process project an average £1.5 billion per project investment in Scottish supply chain.

CES' 2020-23 Corporate Plan details a range of KPIs and targets for the three years to March 2023 covering CES' five strategic objectives. During 2021-22, Scottish Ministers approved CES' request to extend the corporate plan to March 2025. This will allow the plan to be revised and updated in line with the scheduled five-yearly review of Scottish Ministers' Scottish Crown Estate Strategic Management Plan.

The Plan's KPIs and targets, as well as annual progress against targets, is published in CES' annual report and accounts. The KPIs disclosed include some that are specifically related to projects and investment, e.g. number of projects promoting sustainable natural resource use, number of projects encouraging people to be more involved in how land, coast and seabeds are managed, however as noted during the prior year audit, these KPIs do not have a specific set target against which performance can be measured. See [Appendix 3](#) for details of our follow up in relation to our prior year audit recommendation.

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 2022 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 8 February 2022.

The main elements of our audit work in 2021/22 have been:

- An audit of CES's annual report and accounts for the financial year ended 31 March 2022; and
- 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.

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.

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 2022 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 are 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 11 July 2022 and we received the draft primary financial statements in line with our agreed timetable. The draft financial statements were of a good quality and as noted in Appendix 1, there are no adjusted or unadjusted misstatements to the financial statements as a result of our audit procedures. Our 2021/22 external audit work was completed remotely, with the audit team and CES management team working together effectively via Teams.

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.

Audit of the annual report and accounts

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 8 February 2022 and finalised and submitted to Audit Scotland.

We updated our audit materiality to reflect your 2021/22 draft financial statements. Materiality was set at £12.700 million, representing 2.0% of total assets held by CES at 31 March 2022. This was an increase from our audit planning materiality of £10.300 million (based on the prior year signed financial statements). The change was largely attributed to the increase in the valuation of investment properties as at 31 March 2022. Performance materiality was set at £9.525 million, representing 75% of our calculated materiality.

All of CES revenue profits are paid to Scottish Government, therefore we recognise the importance of revenue to the users of the financial statements and apply a separate lower materiality level to the Revenue Account. We reviewed our planning assessment of materiality for the Revenue Account upon receipt of the 2021/22 draft financial statements. Materiality for the Revenue Account was set at £1.570 million, representing 10% of the net consolidated revenue account profit, distributed to the Scottish Government Consolidated Fund and 5.5% of revenue for the year ended 31 March 2022 as per the draft financial statements for 2021/22. Performance materiality for the Revenue Account was set at £1.178 million, representing 75% of our calculated Revenue Account materiality.

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

We applied a lower materiality threshold of £25,000 for Senior Officers' Remuneration for disclosures within the Remuneration and Staff Report to ensure that Senior Officers' Remuneration has been disclosed appropriately.

Internal control environment

In accordance with ISA requirements we have developed an understanding of CES's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature however we have assessed the design and implementation of key controls in relation to significant risk areas. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan. Areas of recommendation have however been identified over the course of the audit and have been outlined in Appendix 2 of this report.

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

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. 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's internal controls, related to individual transactions.

Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider the existence of revenue during the financial year and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.

In response to this significant risk, our audit response was as follows:

- 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 2022 and retrospective review of those estimates as at 31 March 2021.
- Journals testing including:
 - 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.

Conclusion

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.

Risks identified in our Audit Plan

Commentary

Risk of fraud in revenue recognition

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue for all entities.

CES generates revenue through a range of activities using the 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. There may therefore be an incentive for fraudulent revenue recognition to deliver budgeted targets. We therefore consider the risk to be most prevalent in the occurrence of revenue transactions and journals throughout the year.

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.

In response to this significant risk, our audit response was as follows:

- Performed walkthroughs of the controls and procedures in place over Revenue;
- Performed detail testing of revenue transactions throughout the year ended 31 March 2022 to verify the existence and accuracy of these transactions and confirmed that transactions had been recognised in the correct financial period;
- Reviewed the judgements and estimates made by management when recognising material accrued and deferred income at year end within the financial statements and where appropriate challenged management accordingly; and
- Tested material debtor balances to gain assurance over the occurrence and accuracy of these balances as at year end.

Conclusion

As a result of our testing we identified a lease that had expired and was due to be renewed and was awaiting final sign off, as well as a lease for a new tenancy which was due to be agreed, finalised and signed. Management subsequently confirmed that there were other leases which were yet to be agreed, finalised and signed but that they were satisfied with the controls currently in place in CES to actively monitor such leases with their managing agents and with CES' solicitors. Management confirmed that amounts held in the balance sheet in relation to these leases was circa £406k for coastal leases, £70k for C&P, £40k for rural leases and £2k for fishing leases. We are satisfied that the amounts referred to are not material and we have assurance that CES does not have a history of material bad debt write offs in previous years. We are therefore satisfied that these amounts will be recovered going forward however we recommend that management implement risk assessment procedures in relation to such leases to ensure that the potential risks to CES as a result of unsigned leases is therefore kept to a minimum.

Action Point 2

Risks identified in our Audit Plan**Commentary**

Risk of fraud in revenue recognition (continued)

Conclusion (continued)

Through audit procedures performed we did not identify any exceptions in relation to the occurrence, accuracy or completeness of revenue recognised by CES during 2021/22, either as a result of fraud or error. No exceptions were identified as a result of focused testing performed in relation to the existence of revenue transactions or revenue journals posted throughout the financial year. As a result of our substantive procedures and sample testing we did not identify any revenue 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.

Risks identified in our Audit Plan

Commentary

Valuation of investment properties

In accordance with the HM Treasury's Government Financial Reporting Manual (FReM), subsequent to initial recognition, CES is required to hold investment property at fair value and must subsequently revalue these assets at each balance sheet date. At 31 March 2022 CES held £568.1 million of investment property 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 these properties.

Given the value of investment property held by CES and the level of complexity and judgement in the estimation valuations, we have recognised a significant risk in relation to the valuation of investment property at 31 March 2022. We focus the risk on:

- Investment property where the valuation movement is not in line with the audit team's expectation; and
- Investment property deemed to be highly material to the financial statements and where there is therefore the potential for a material misstatement to occur given the nature of the key underlying assumptions and level of estimation required in relation to the year end valuation, namely:
 - Agricultural, including Development Land (2022: £107.2 million);
 - Coastal (2022: £40.8 million);
 - Forestry (2022: £46.6 million)
 - Renewables – Offshore Wind (2022: £288.6 million);
 - Cables and Pipelines (2022: £25.5 million).
 - Aquaculture (2022: £46.7 million).

In response to this significant risk, our audit response was as follows:

- 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 2022;
- Agreed the valuation report provided by the valuers to the underlying accounting entries made by CES in the 2021/22 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 2022, as well as a more detailed review of the valuation results for three of management's experts (Savills, Strutt & Parker and Powis Hughes). These three management experts provide valuations in relation to over 90% of the total investment property balance as well as providing valuations in relation to all individually material portfolios. This therefore provides us with sufficient audit evidence in relation to this audit area.

Risks identified in our Audit Plan**Commentary**

Valuation of investment properties (continued)

Conclusion

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.

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.

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 2021/22 HM Treasury Financial Reporting Manual (FReM).
- 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 2022. 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 judgements impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Property valuations (Investment properties £568.2 million at 31 March 2022)</p>	<p>As at 31 March 2022, CES held investment properties of £568.2 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 (£288.6m), Coastal (£46.7m) and Aquaculture (£40.8m); • Strutt and Parker – Agriculture (£107.9m) and Forestry (£46.6m); • Wardell Armstrong – Minerals (£2.8m); • JLL – Offices and Retail (£9.0m); and • Powis Hughes – Cables & Pipelines (£25.5m) and Renewables (£0.3m). <p>CES requested that the above external valuers provide independent valuations as at 31 March 2022 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>The valuation of investment properties has been identified as a significant audit risk. See details of the audit procedures performed in response to this risk on page 14.</p> <p>We have agreed the valuation reports prepared by management's experts to the underlying accounting entries made by CES in the 2021/22 financial statements. 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. We have used our auditor's valuation expert in order to challenge management expert's advice in relation to three professional valuers (Savills, Strutt and Parker and Powis Hughes) 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 2022. 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>

Significant estimates and judgements (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised we also requested further information from management in relation to the following estimates (which have not been considered significant by management as described above):

- Accrued income (£6.6 million);
- Rents received or invoiced in advance (£4.5 million); and
- Accruals and deferred income (£1.8 million).

We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated.

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 inquiries 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.

Other key elements of the financial statements (continued)

Issue	Commentary
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. 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 Report is consistent with the financial statements and the financial statements have been prepared in accordance with the financial reporting framework and directions made thereunder by the Scottish Ministers.</p>
Governance report	<p>The Governance Report is set out on page 42 of the Annual Report and Accounts. The report sets out how CES has been governed during 2021/22, 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 43 and the Governance Statement on page 44. 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 CES'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>

Issue	Commentary
Written representations	<p>A letter of representation was requested from Crown Estate Scotland, which was included in the Audit and Risk Committee papers. Specific representations were 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. We take a risk based audit approach, utilising our cumulative audit knowledge of CES and understanding of its risks and priorities. Within our audit plan we identified one significant wider scope risk in relation to Governance and transparency/Value for Money - Projects. 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 £15.7 million in 2021/22. This profit is distributable to the Scottish Government Consolidated Fund. The profit of £15.7 million was an increase of £4.2 million on the prior year (2020/21: £11.5 million) and was ahead of the original budgeted profit of £12.0 million. The movement on prior year was due to an overall increase of £6.8 million in gross revenue, offset by an overall increase in costs of £2.6 million.</p> <p>The increase in gross revenue was largely due to the increase of £6.8 million in rent and royalties revenue. Key increases were noted as follows:</p> <ul style="list-style-type: none"> • Coastal revenue (revenue generated by the activities managed as part of CES' Coastal portfolio including ports, harbours, moorings, pontoons, dredging and outfalls) increased by £0.6 million due to recovery from COVID-19; • Marine (Energy and Infrastructure) revenues increased by £4.9 million as offshore wind revenue is linked to energy output and there was an increase in offshore production during the year, particularly in relation to offshore wind; and • Marine (Acquaculture) increased by £0.7 million due to an increase in finfish production. <ul style="list-style-type: none"> • The increase in costs of £2.6 million was due to; <ul style="list-style-type: none"> • An increase of £1.3 million in direct costs, including increases in repair costs across the estate as well as £0.2 million in relation to ScotWind legal fees (with a further £1.6 million recognised as capital expenditure); and • An increase of £1.3 million in indirect costs, including increases in enabling costs, staff costs and office costs. 	<p>Through the audit procedures performed we have not identified any significant risks in relation to CES' financial management arrangements.</p> <p>We are satisfied that that financial management arrangements in place at CES are appropriate.</p>

Wider scope audit

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial Management (continued)		<p>(Continued)</p> <p>CES reported a net capital account profit of £111.5 million, an increase of £98.4 million on prior year (2020/21: £27.4 million). This increase was largely due to the increase in the net revaluation gains in property and investments, which was £110.4 million in 2021/22 and £26.3 million in 2020/21. Increases in valuations were noted in 2021/22 across all portfolios, with significant increases in Rural (£26.4 million) and Marine (£80.1 million) portfolios.</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>	

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:</p> <p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to CES' financial sustainability arrangements.</p>	<p>We have considered CES' in-year financial performance in "Financial management", see page 22 above.</p> <p>CES have prepared a Revenue Budget for the 3 year period 2022-25 and have also prepared a Capital Budget for the period too.</p> <p>The original drafting of the 2022-25 budget was undertaken before the £700 million option fees were announced in January 2022. Board approval of the 2022-25 budget in February 2022 included the budget for the underlying activities, and also the expected impact of the ScotWind option fees. CES' assessment of the planned impact of ScotWind fees on CES' future financial statements is as follows:</p> <ul style="list-style-type: none"> • Option fee income of £700 million which will be evenly spread across the life of the options in the CES annual accounts; and • Under the current CES Ministerial Direction, CES will pass the ScotWind option fee funds to Scottish Government (SG) annually as earned. CES are currently in discussion with SG around the timing of future cash transfers. <p>Option fee income is currently recognised in CES' financial statements under IFRS 15 and is not deemed to be material. However as noted above, ScotWind option fee income will be material to the financial statements of CES going forward. Management have confirmed that they will perform a review of their existing option fee agreements and ScotWind option fee agreements, and consider these under IFRS 16 to determine whether it remains appropriate for these to continue to be recognised under IFRS 15 as is currently the case, or whether these should be recognised under IFRS 16, prior to the preparation of the 2022/23 financial statements.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to CES' financial sustainability arrangements.</p> <p>We are satisfied that that financial sustainability arrangements in place at CES are appropriate.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)		<p>(Continued)</p> <p>Excluding ScotWind option fees, CES revenue is forecast to increase to £31.8 million in 2022/23 and to £40.2 million in 2023/24, due to the planned commencement and increased production at offshore wind sites. As revenue of £28.4 million was achieved in 2021/22, increasing from £21.6 million, an increase of £6.8 million (31%), the budget for 2022/23 and 2023/24 are deemed reasonable.</p> <p>CES have budgeted for a total comprehensive revenue account profit of £17.0 million in 2022/23 and £25.2 million in 2023/24. Again, as £15.7 million and £11.5 million of total comprehensive revenue account profit was achieved in 2021/22 and 2020/21 respectively, the budget for 2022/23 and 2023/24 are deemed reasonable.</p> <p>CES have budgeted for £17.6 million of capital investment in 2022/23 and £5.0 million of capital receipts to give a net capital investment of £12.6 million. CES have noted that they continue to review the commitments they will make in the next 12 months to ensure that over a 3-5 year timeline they will have sufficient capital cash available to meet their obligations, particularly investments such as the development of the ZeroFour hub near Montrose, as they start to utilise greater cash resources.</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>CES' core purpose is investing to generate lasting value for the people of Scotland. One way in which value is generated is through projects such as ScotWind Leasing, the first Scottish offshore wind leasing round in over a decade and the first offshore wind leasing round to take place since the management of offshore wind rights were devolved to Scotland.</p> <p>We will consider the governance and decision making arrangements established by CES in relation to projects. We will also consider the ways in which CES ensure such projects deliver financial benefits and wider and long-term social, economic and environmental benefits for Scotland and its communities.</p>	<p>Response to significant risk:</p> <p>The Crown Estate Scotland Order 2017 requires that CES must, so far as reasonably practicable, operate in a way which is transparent and accountable and in accordance with good governance practice. Timings of Board meetings were adjusted during the year in order to ensure that there was better alignment with quarterly financial reporting. As such a Board meeting was held in March 2021 and then during the year 1 April 2021 to 31 March 2022 the Board then held 3 quarterly meetings (30 June 2021, 11 November 2021 and 23 February 2022). The Board held a further four strategic sessions (sessions held to discuss strategy, held in person and where possible away from CES' head office at locations relevant to the work of the organisation and management of the Estate) and one additional meeting to consider papers in relation to the Innovation and Targeted Oil and Gas (INTOG) offshore wind leasing programme. The Annual Report states that the Board's strategic meetings focused on developing its long term vision for the Scottish Crown Estate and held discussions with stakeholders in relation to the Blue Economy, marine natural capital, supporting offshore wind, and partnerships, with sessions being held in North Ayrshire, Montrose and Cromarty. We note that where the Board considers papers/decisions during strategy sessions, these matters are minuted. For example, papers considered as part of a strategy session in August 2021 were later included within the papers for the November 2021 Board meeting.</p> <p>The meeting minutes and papers for the February 2022 Board meeting were not available on the CES' website at the time of our audit despite having been approved. We recommend that all approved papers and minutes are made publicly available as soon as is practicable.</p>	<p>We recommend that all approved Board papers and minutes are made publicly available as soon as is practicable on the CES website. With the exception of this matter, we are satisfied that that governance and transparency arrangements in place at CES are appropriate.</p> <p>Action Point 1</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)		<p>Response to significant risk (continued):</p> <p>The Board has delegated oversight of investment activity to the Investment Committee (“IC”) and receives quarterly reports from the Chair of the IC as well as recommendations for decision. The IC met 4 times during the year (May, August and November 2021 and in February 2022). Standing areas considered by the IC during the year included capital budget proposals, build development updates, market updates, option appraisals and business cases as well as updates in relation to specific projects. Specific updates to the IC during the year included Montrose (ZeroFour Hub), George Street options appraisal and Whitehill engagement update.</p> <p>The Audit and Risk Committee (‘ARC’) maintains oversight of internal audit, external audit, financial performance, risk and governance and Health and Safety. The ARC are independent and report to the Board. The ARC met 4 times during the year, in June, September and November 2021 and in February 2022.</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>Significant risk identified:</p> <p>CES' core purpose is investing to generate lasting value for the people of Scotland. One way in which value is generated is through projects such as ScotWind Leasing, the first Scottish offshore wind leasing round in over a decade and the first offshore wind leasing round to take place since the management of offshore wind rights were devolved to Scotland.</p> <p>We will consider the ways in which CES ensure such projects deliver financial benefits and wider and long-term social, economic and environmental benefits for Scotland and its communities.</p>	<p>Response to significant risk:</p> <p>As noted above in our review of Financial Management, CES generated £15.7 million of net revenue account profit which is distributable to the Scottish Government Consolidated Fund. Most of CES' funds to date have been redistributed by the Scottish Government to coastal local authorities to fund projects benefitting coastal communities. From CES' first three years of operating, £28.3 million has been distributed to local authorities.</p> <p>The value of the CES' estate has also increased from £455.6 million at 31 March 2021 to £568.2 million at 31 March 2022, an increase of £112.6 million (24.7%).</p> <p>CES received more than 70 applications in relation to the ScotWind offshore leasing round. CES confirmed in April 2022 that 17 successful ScotWind applicants had secured seabed option agreements, allowing these projects to move into the development stage. As noted above on page 24, CES anticipate that the ScotWind option fee income of £700 million will be evenly spread across the life of the options in the CES annual accounts from 2022-23 onwards. As well as securing an initial £700.0 million for public spending, Supply Chain Development Statement Outlook (SCDS's) provided by Developers as part of the ScotWind process project an average £1.5 billion per project investment in Scottish supply chain.</p> <p>CES' 2020-23 Corporate Plan details a range of KPIs and targets for the three years to March 2023 covering CES' five strategic objectives. During 2021-22, Scottish Ministers approved CES' request to extend the corporate plan to March 2025. This will allow the plan to be revised and updated in line with the scheduled five-yearly review of Scottish Ministers' Scottish Crown Estate Strategic Management Plan.</p>	<p>The Corporate Plan's KPIs and targets, as well as annual progress against targets, are published in CES' annual report and accounts. The KPIs disclosed include some that are specifically related to projects and investment, e.g. number of projects promoting sustainable natural resource use, number of projects encouraging people to be more involved in how land, coast and seabeds are managed etc, however as noted during the prior year audit, these KPIs do not have a specific set target. See Appendix 3 for details of our follow up in relation to our prior year audit recommendation.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)		<p>Response to significant risk (continued):</p> <p>The Plan's KPIs and targets, as well as annual progress against targets, is published in CES' annual report and accounts. The KPIs disclosed include some that are specifically related to projects and investment, e.g. number of projects promoting sustainable natural resource use, number of projects encouraging people to be more involved in how land, coast and seabeds are managed etc, however as noted during the prior year audit, these KPIs do not have a specific set target. See Appendix 3 for details of our follow up in relation to our prior year audit recommendation.</p>	

Other areas of focus

In accordance with Audit Scotland Planning Guidance, as part of our audit work in 2021/22 we consider CES' arrangements for equality and fairness as well as considering the risk of fraud in procurement. We did not identify any significant wider scope audit risks in these areas. Utilising Audit Scotland's Best Value guidance we considered the arrangements at CES.

Risk of fraud in procurement

In accordance with Audit Scotland's planning guidance we considered the risk of fraud and corruption within the procurement function. Through our audit procedures performed we have not identified any significant risks or deficiencies in relation to CES' arrangements over fraud and corruption within procurement.

As part of our Wider Scope procedures in the 2020-21 external audit we noted 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 reviewed the progress made by CES in publishing its Procurement Strategy and Policy and the ways in which CES embedded its requirements internally. We also reviewed the progress made by CES in preparing, publishing and maintaining a Contract Register and Record of Planned Regulated Procurements. Our prior year recommendation in relation to this area, as well as our follow up in the current year, can be seen in [Appendix 2](#) of this report.

We have not identified any risks or significant deficiencies in relation to procurement fraud within CES.

Equality and fairness

In accordance with Audit Scotland's Code of Audit Practice and Audit Scotland Planning Guidance, as part of our 2021/22 external audit we considered the Fairness and Equality characteristics and the arrangements in place at CES.

In 2021-22 CES developed their first Equality, Diversity and Inclusion ('ED&I') plan. Crown Estate Scotland's 2020-23 Corporate Plan included a commitment to strengthen CES' approach to equality and diversity and the Equality, Diversity and Inclusion Plan sets out what CES aim to achieve and the steps they plan to take from 2021 to 2025 when the next corporate plan is expected to start. The ED&I plan is published on the CES website.

CES confirm in the 2021-22 Annual Report that all staff undertake annual equality and diversity awareness training and lists the activities undertaken during the year to enhance their approach to equality and diversity, including reviewing and updating their recruitment policy, with input from a D&I specialist.

We have not identified any further risks or significant deficiencies in relation to equality and fairness arrangements within CES.

Other areas of focus (continued)

Climate change

CES are working to implement their Climate Change Action Plan, which details how CES will reduce greenhouse gas emissions and how CES can positively influence the sectors they work with to reduce emissions across the Estate and Scotland as a whole. The plan commits CES to achieve zero direct emissions by 2040.

CES' latest Biodiversity Duty Report for 2018-2020 is published on their website and in line with SG requirements sets out a number of actions taken by CES in relation to biodiversity.

As a public body subject to the Environmental Assessment (Scotland) Act 2005, CES must carry out Strategic Environmental Assessments (SEA) on certain plans, programmes and strategies. A SEA was performed in relation to the Corporate Plan 2020-23 and confirmed that implementing the 2020-23 Corporate Plan would not have a negative impact on the environment.

CES have communicated the above in their 2021-22 Annual Report. We have not identified any risks or significant deficiencies in relation to climate change within CES.

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?
IFRS 15 Revenue from Contracts with Customers	CES' accounting policies should be enhanced to meet all of the disclosure requirements of IFRS 15 in relation to revenue from contracts with customers.	Yes
Statement of Financial Position	The date when the financial statements were authorised for issue and who gave that authorisation to be disclosed should be disclosed on the SOFP.	Yes
Disclosure of amounts recognised in profit or loss	<p>CES should disclose the amounts recognised in profit or loss for:</p> <ul style="list-style-type: none"> • rental income from investment property; • direct operating expenses arising from investment property that generated rental income during the period; • direct operating expenses arising from investment property that did not generate rental income during the period; and • the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used. 	Partly. CES currently present segmental reporting on an operating division basis which is based on the way they review and utilise their accounts. While some direct expenditure (i.e. repairs and maintenance) can be individually allocated to investment properties, other expenditure cannot (for example managing agent costs).

1. Audit Adjustments

Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Remuneration Report	Disclosure adjustment identified by management. Various disclosures were updated from testing including the Chair's remuneration and Benefits In Kind disclosed.	Yes
Capital commitments	Disclosure adjustment identified by management. Capital commitments were overstated by £21k. Due to rounding accounts have been subsequently updated to reduce capital commitments from £0.4 million to £0.3 million.	Yes

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2021/22, the significant recommendations arising from our audit work:

Recommendation	Agreed management response
<p>1. Governance</p> <p>We noted the meeting minutes and papers for the February 2022 Board meeting were not available on the CES' website at the time of our audit despite having been approved. We recommend that all approved papers and minutes are made publicly available as soon as is practicable.</p>	<p>Management response: We do publish all Board agendas, and approved Board papers and minutes on our website, however note there had been a delay publishing those of the February 2022 meeting. These are now published. We have tightened processes to ensure the necessary documents are published as soon as practicable.</p> <p>Action owner: Governance Manager</p> <p>Timescale for implementation: August 2022</p>

2. Action plan and recommendations

Recommendation

2. Leases

As a result of our testing we identified a lease that had expired and was due to be renewed and was awaiting final sign off, as well as a lease for a new tenancy which was due to be agreed, finalised and signed. Management subsequently confirmed that there were other leases that were yet to be agreed, finalised and signed but that they were satisfied with the controls currently in place in CES to actively monitor such leases with their managing agents and with CES' solicitors. Management confirmed that amounts held in the balance sheet in relation to these leases was circa £406k for coastal leases, £70k for C&P, £40k for rural leases and £2k for fishing leases. We are satisfied that the amounts referred to are not material and we have assurance that CES does not have a history of material bad debt write offs in previous years. We are therefore satisfied that these amounts will be recovered going forward however we recommend that management implement risk assessment procedures in relation to these leases to ensure that the potential risks to CES as a result of unsigned leases is therefore kept to a minimum.

Agreed management response

Management response: We note that for coastal assets these transactions are mainly with public bodies, local authorities etc, with a very low risk of default. The rural transactions relate to, in the main, lease renewals at varying stages of progress to completion with solicitors etc. We are confident that Crown Estate Scotland has sufficient controls already in place to mitigate the risk of bad debt in addition to the day-to-day operational management actions. For example, monthly finance reports on progress with accruals are submitted from Managing Agents, monthly meetings are held with Managing Agents to review progress with long-standing cases and also Crown Estate Scotland's solicitors submit regular progress reports on all live casework. Crown Estate Scotland has a management structure to facilitate escalation to senior management if officer-level communication has stalled in this regard. As with all processes and procedures, these controls are themselves monitored for effectiveness and improvements made whilst working collaboratively with our business partners to deliver the best possible service to our tenants and providing value for money for the public purse.

We have considered the full £0.5m balance that sits on the March 2022 balance sheet in conjunction with CES risk management policy. The risk management policy classifies the risk as "Minor to Low" based on the income levels. Also, as a result of our existing controls we already have in place, the likelihood of default is "Low to Remote". This gives a combined impact and likelihood score of under 6, which means it is a "Manageable risk" in line with CES risk management policy, and with our on-going monitoring, there is no further action needed.

We will continue to regularly monitor and manage this balance through our established processes, and look to strengthen our control and escalation processes.

Action owner: Director of Property

Timescale for implementation: March 2023

3. Follow up of 2020/21 recommendations

Procurement

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.

Responsible officer: Director of Finance and Business Services

Initial 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.

Timescale for implementation: March 2022

Follow up: **CLOSED** The Crown Estate Scotland Procurement Strategy for 2020-23 is now available on the CES website as well as the Regulated Procurements Contracts – External (Contract Register) and the Regulated Procurement Forward Plan 2022-24 (Planned Regulated Procurements).

KPI targets

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:

- 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.

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.

Responsible officer: Director of Corporate Operations

Initial management response: There are 11 KPIs noted in the 2020-23 corporate plan, and 6 of these do not have specific targets set against them. The 2020-23 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 2020-23 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 2021/22 financial year CES intends to do a more formal review of the KPIs and performance against them to date.

Timescale for implementation: June 2022

Follow up: ONGOING A comprehensive review of KPIs and targets is planned to take place during 2022-23 with revised KPIs planned to be published in the 2023-24 Business Plan in April 2023.

4. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	39,420
Pooled costs	7,030
Contribution to Audit Scotland costs	1,440
Contribution to Performance Audit and Best Value	Nil
2021/22 Fee	47,890

Fees for other services

Service	Fees £
We confirm that for 2021/22 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 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021).

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		•

