

Crown Estate Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

December 2023

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Key messages

2022/23 annual report and accounts

- 1 An unmodified independent auditor's report has been issued for the 2022/23 Annual Accounts.
- 2 The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 3 The audited part of the Performance Report, Annual Governance Statement and Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

Financial management and sustainability

- 4 Revenue profits increased at 31 March 2023 by £87.9 million compared to the prior year, largely due to the ScotWind project with revenue profit of £103.6 million distributable to the Scottish Government Consolidated Fund.
- 5 Appropriate and effective financial management arrangements were in place with regular budget monitoring reports provided to the members.
- 6 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 7 A three-year revenue budget has been approved which forecasts increased turnover mainly relating to offshore wind projects. Staffing costs will also increase over the period to meet anticipated resource requirements.
- 8 The capital budget has been approved for the three-year period to 2025/26. A commitment is in place to review and refine this over the coming financial year.
- 9 The Crown Estate Act 2019 sets out arrangements for the transfer of a proportion of revenue balance to the capital accounts. Scottish Government have approved an increase on the prior year gross revenue balance from 9% to 13% for 2023/24 and 2024/25.

Vision, leadership and governance

- 10** Crown Estate Scotland has a clear vision and strategic objectives have been established along with underpinning actions to implement this vision.
- 11** Effective and appropriate governance arrangements are in place.
- 12** A Climate change action plan has been established which sets out the overarching target of achieving zero emissions by 2040. Short and medium-term actions are outlined within the plan.

Use of resources to improve outcomes

- 13** Crown Estate Scotland has arrangements in place to secure best value through its use of resources to meet strategic objectives.
- 14** The strategic plan 2020-23 established key performance indicators that are reported to the board and through the annual report. Targets are not in place for all key performance indicators which makes it difficult to measure the effectiveness of the organisation's activities to deliver strategic priorities and objectives.
- 15** A road map has been established and work has commenced on engaging with staff and stakeholders on the development of the next strategic plan 2025-2030.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Crown Estate Scotland. The scope of the audit was set out in an Annual Audit Plan presented to the 15 February 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Crown Estate Scotland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. 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.

Audit appointment from 2022/23

3. I, Louisa Yule, have been appointed by the Auditor General as auditor of Crown Estate Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [*Code of Audit Practice*](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Crown Estate Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. Crown Estate Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Crown Estate Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Communication of fraud or suspected fraud

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this report to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members have any such knowledge or concerns relating to the risk of fraud within the council, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Financial Statements being certified.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence. Our 2022/23 audit fee was £54,564 which includes an additional audit fee of £3,784 due to delays in obtaining audit evidence necessary to complete our work.

11. We add value to Crown Estate Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

An unmodified independent auditor's report has been issued for the 2022/23 Annual Accounts.

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The audited part of the Performance Report, Annual Governance Statement and Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

Audit opinions on the annual report and accounts are unmodified

12. The board approved the annual report and accounts for Crown Estate Scotland for the year ended 31 March 2023 on 6 December 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 FReM; and
- have been prepared in accordance with the requirements of the Scottish Crown Estate Act 2019 and directions made thereunder by the Scottish Ministers.

Overall materiality was assessed as £13.9 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Crown Estate Scotland's operations. It has been set at 2% of net assets as at 31 March 2023.	£13.9 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the Annual Accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of overall materiality.	£9.7 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.250 million

Source: Audit Scotland

Lower specific materiality levels for the 2022/23 audit

15. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

16. We recognise that transactions within the Revenue Account such as revenue (including rents and royalties), costs (including staff costs, management fees and costs, repairs and maintenance and other direct expenditure) and the net revenue account profit distributable to the Scottish

Government Consolidated Fund are likely to be of key interest to the users of the financial statements and we set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality: We have set this at 2% of profit distributable to the Scottish Government Consolidated Fund at 31 March 2023.	£2.1 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the Annual Accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of overall materiality.	£1.47 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.105 million
Source: Audit Scotland	

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

We have significant findings to report on our audit of the Annual Accounts

18. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. We identified one significant finding from the audit are summarised in [Exhibit 3](#).

Exhibit 3**Significant findings and key audit matters from the audit of the annual report and accounts**

Issue	Resolution
<p>1. Investment property valuations</p> <p>As at 31 March 2023 Crown Estate Scotland held investment properties of £653.1 million. Five valuers were appointed to undertake year end investment property valuations across the investment portfolio as follows:</p> <ul style="list-style-type: none"> • Savills – Offshore wind (£349.2 million), Coastal (£41.3 million) and Aquaculture (£66.8 million) • Strutt and Parker – Agriculture (£109.4 million) and Forestry (£47.9 million) • Wardell Armstrong – Minerals (£2.9 million) • Powis Hughes – Cables and pipelines (£27.1 million) and Renewables (£0.6 million) • JLL – Offices and Retain (£7.9 million) <p>Crown Estate Scotland requested that the above external valuers provide independent valuations as at 31 March 2023 across the above portfolio in line with the 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 the independent valuers.</p> <p>Management have disclosed that valuations are based on a number of key assumptions and that the valuations are conducted by independent, registered valuers on an annual basis and that valuations are in accordance with the RICS (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 within the 2022/23 financial statements.</p> <p>We have evaluated the competence, capability and objectivity of the professional valuers appointed as management experts by Crown Estate Scotland.</p> <p>We have used our auditor’s valuation expert in order to challenge managements expert’s advice in relation to the valuations.</p> <p>Using our auditor valuation expert to challenge Crown Estate Scotland’s management of the valuation instructions issued and approach adopted in valuing investment property as at 31 March 2023. No issues were identified.</p> <p>We are satisfied that investment property valuations have been calculated appropriately and that year end valuation balances have not been materially misstatement.</p> <p>We are satisfied that the disclosure and accounting treatment, of investment property valuations complies with required accounting practices.</p>

Audit Scotland

There were no identified misstatements within the financial statements above the reporting threshold

21. Our audit work did not identify any misstatements within the financial statements above the reporting threshold. The qualitative aspects of Crown

Estate Scotland's accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate.

22. In accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management. These included amendment of disclosures within the remuneration and staff report; fair value measurement of properties note and enhancements to the significant judgements; key assumptions and estimations note around option fee revenue and the judgements applied around the accounting treatment.

23. As part of our audit discussions, officers advised of their intention to adjust the accounts to reflect a difference between an accrual and the actual outturn for offshore wind production for the period January to March 2023. The accounts included an accrual of £5.7 million for offshore wind production between January and March 2023. The actual figure invoiced for the period was £3.9 million which was £1.8 million less than forecast. The reduction was due to the market price being lower than forecast and a reduction in output due to an unplanned outage. In August 2023, the Audit and Risk Committee noted that the impact of the reduction would reduce the 2022/23 revenue surplus to £103.6 million.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

24. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts on completion of our audit work. Exhibit 4 sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing 	<p>We assessed the design and implementation of controls over journal entry processing. We concluded our review satisfactorily.</p> <p>We have made inquiries of individuals involved in the financial reporting process and have not identified any inappropriate or unusual activity relating to the processing of journal entries or adjustments.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>entries and focus on significant risk areas.</p> <ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>A sample of journal adjustments were tested, and no indication of management override of controls were found.</p> <p>We reviewed transactions during the year and identified no issues with significant transactions outside the normal course of business.</p> <p>We substantively tested income and expenditure and undertook focussed testing on accruals and prepayments. Our audit testing provides us with assurance that there are no material misstatements and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>Conclusion: No instances of management override of controls were identified.</p>
<p>2. Estimation in the valuation of investment property</p> <p>Under the Financial Reporting Manual (FRM), investment property is required to be held at fair value and must be revalued at each balance sheet date. At 31 March 2022, total investment property of £568.1m was held. Crown Estate Scotland engage valuation experts to determine an appropriate valuation for these assets. Given the value of investment assets and the level of complexity and judgement in the estimation valuations, we have recognised a significant risk in</p>	<ul style="list-style-type: none"> • Review the information including instructions issued by Crown Estate Scotland to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review revaluations made during the year and confirm these have been input to the asset register correctly. 	<p>We obtained the confirmation of terms of engagement letters from the valuers to Crown Estate Scotland. These letters have been signed by Crown Estate Scotland giving assurance that the terms are in line with the instructions issued.</p> <p>We reviewed the confirmation of terms of engagement letters and obtained an understanding of the work of the valuers as managements experts. No issues were identified.</p> <p>We assessed the professional competence, capability and objectivity of the valuers engaged by</p>

Audit risk	Assurance procedure	Results and conclusions
<p>relation to the valuation of investment property.</p>	<ul style="list-style-type: none"> Engage our own valuations expert to assess the final valuer's report and the assumptions used that underpin the final valuations. 	<p>Crown Estate Scotland. No issues were identified.</p> <p>We obtained an understanding of the work of each of the valuers engaged. No issues were identified.</p> <p>We obtained the asset register and agreed it to the non-current assets note in the financial statements. No issues were identified.</p> <p>We checked whether the asset valuation disclosures in the financial statements agreed to the valuation reports. The figures in the accounts have been agreed to client schedules.</p> <p>We appointed a valuer and requested independent advice to assess the valuers reports and assumptions. Our audit valuation expert outlined some areas for follow up within their report. Responses have been received from Crown Estate Scotland's appointed valuers in response.</p> <p>Using our auditor valuation expert to challenge Crown Estate Scotland's management of the valuation instructions issued and approach adopted in valuing investment property as at 31 March 2023. No issues were identified.</p> <p>Conclusion: We are satisfied that investment property valuations have been calculated appropriately and that year end valuation balances have not been materially misstatement.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3. Presumed risk of fraud - over revenue recognition</p> <p>As stated in International Standard on Auditing (UK) 240 there is a presumed risk of fraud over the recognition of revenue.</p> <p>Crown Estate Scotland generate revenue through a range of activities including rent, royalties, and investments.</p> <p>This is the final year of the current direction, which sets out an agreed percentage of prior year gross revenue that is transferred to the capital account and the remaining surplus is an annual revenue contribution to the Scottish Government, with the final payment made after the year-end outturn position is finalised.</p> <p>There is a risk that revenue could be misstated in attempting to achieve budgeted year end outturn and this could result in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Evaluate the accounting policy for revenue recognition for appropriateness and compliance with HM Treasury's Government Financial Reporting Manual. • Substantive testing of income transactions throughout the year to verify the existence and accuracy of the transactions and to confirm they are recognised in the correct financial year. • Focussed testing of accrued and deferred income at the year end. 	<p>We are satisfied that the disclosure and accounting treatment, of investment property valuations complies with required accounting practices.</p> <p>Reviewed the accounting policy for revenue recognition and assessed that this has been applied in line with sectoral requirements.</p> <p>We substantively tested income and undertook focussed testing of accruals and prepayments. Our audit testing provides us with assurance that there are no material misstatements and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>Conclusion: Our audit testing of income and accrued and deferred income has been concluded satisfactorily.</p>
<p>4. Accounting treatment for Option Agreements</p> <p>Crown Estate Scotland have option agreements in place across a number of areas which give the holder rights to specific areas of land or the seabed. In April 2022, 17 new option agreements with developers were signed under</p>	<ul style="list-style-type: none"> • Review the framework agreement and governing legislation to understand the environment Crown Estate Scotland operate within and the arrangements for making payments to Scottish Government. 	<p>We reviewed the legal opinion commissioned by Crown Estate Scotland. The conclusions within the paper are consistent with our initial assessment and there is no legislative barrier to the transfer of option funds to the Scottish Consolidated Fund</p>

Audit risk	Assurance procedure	Results and conclusions
<p>the ScotWind project reserving rights to specific areas of the seabed. This resulted in Crown Estate Scotland receiving £700 million in ScotWind option fees that will be passed to the Scottish Government for public spending. A further three options started in November 2022 bringing the total to £756 million.</p> <p>There is a risk that the accounts could be materially misstated if income is not recognised in line with the appropriate accounting standards.</p>	<ul style="list-style-type: none"> Review the assessment undertaken by management for recognising option agreement income under accounting standards. Review accounting entries and disclosures within the annual accounts including those for estimates and key judgements. 	<p>as directed by Scottish Ministers.</p> <p>We considered the accounting treatment for the option agreements and concluded that we accept Crown Estate Scotland's rationale for applying IFRS 15. This applies to ScotWind and other option agreements.</p> <p>We have reviewed the accounting entries processed through the 2022/23 accounts and concluded that these are in accordance with relevant accounting requirements and guidance.</p> <p>We reviewed the significant accounting estimates made by management for bias. No issues were identified.</p> <p>We assessed whether significant judgements made by management in applying the accounting policies have been disclosed in the financial statements. We requested the disclosure be updated to include some additional details to explain the basis of the judgement for option fee revenue.</p> <p>Conclusion: We have reviewed and assessed the accounting treatment and accounting entries processed through the accounts and identified no issues.</p>

The unaudited annual report and accounts were not received in line with the agreed audit timetable

25. The unaudited annual report and accounts were not received in line with our agreed audit timetable on 12 June 2023 and were delayed until 29 June 2023. This was due to key personnel within the finance team leaving the organisation.

26. The audit team delayed our work on the annual report and accounts until 29 June. We requested the August Audit and Risk Committee be moved from the middle of August to a later date at the end of August, which was arranged, and it had been our intention to conclude and report on our audit in line with this revised committee date.

27. Crown Estate Scotland experienced ongoing capacity issues within the finance team across June, July and August. This impacted on the audit and resulted in the audit not progressing efficiently or in line with the planned timetable which had planned to report the audit findings to the August Audit and Risk Committee meeting.

28. Audit Scotland paused the audit in August and agreed that this would recommence from the start of October. This provided an opportunity for the finance team at Crown Estate Scotland to introduce and induct new finance employees, continue business as usual activities, and invest time responding to audit queries and prepare for the audit to recommence.

The audit recommenced at the start of the October, but all previously requested information was not available and capacity issues remained within the finance team with regard to managing the external audit.

Recommendation 1

Review the roles and responsibilities of the finance function to ensure that it is appropriately resourced and that effective succession planning arrangements are in place.

The Annual Governance Statement and Performance Report are consistent with the financial statements

29. Our review of the annual governance statement and performance report within the 2022/23 annual report and accounts concluded that both are consistent with the financial statements and are properly prepared in accordance with the account's direction.

30. The annual governance statement reflects the governance and risk management arrangements and the review of effectiveness of the internal control framework.

31. The performance report contains details of the work of Crown Estate Scotland throughout the year and is linked to its strategic objectives. Details are included within the performance report of actions delivered against each of the strategic priorities during 2022/23.

The audited part of the Remuneration and Staff Report was consistent with the Annual Accounts and has been prepared in accordance with applicable reporting requirements

32. The Government Financial Reporting Manual 2022/23 requires organisations to include a number of disclosures within the Remuneration and Staff Report within its Annual Accounts. This includes details of:

- the remuneration of relevant persons, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures at 31 March of that year,
- analysis of staff numbers and costs and
- information relating to exit packages.

33. We have no issues to report in relation to the information included within the Remuneration and Staff Report in the 2022/23 Annual Accounts.

Good progress was made on prior year recommendations

34. Crown Estate Scotland has made some progress in implementing the audit recommendations identified by Grant Thornton, Crown Estate Scotland's previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Revenue profits increased at 31 March 2023 by £87.9 million compared to the prior year, largely due to the ScotWind project with revenue profit of £103.6 million distributable to the Scottish Government Consolidated Fund.

Appropriate and effective financial management arrangements were in place with regular budget monitoring reports provided to the members.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Revenue profits generated in year increased due to ScotWind options income

35. Crown Estate Scotland generated a total comprehensive revenue account profit of £103.6 million in 2022/23. This profit is distributable to the Scottish Government Consolidated Fund. The profit was an increase of £87.9 million on the prior year (2021/22 revenue profit: £15.7 million).

36. The overall increase in the net revenue profit was mainly attributable to ScotWind revenues.

Accounting treatment for ScotWind Option Agreements

37. Crown Estate Scotland have option agreements in place across a number of areas which give the holder rights to specific areas of land or the seabed. Crown Estate Scotland undertook an application process for ScotWind Leasing, the first Scottish offshore wind leasing round to take place in over a decade and the first ever since the management of offshore wind rights were devolved to Scotland.

38. A total of 74 applications were received and in April 2022, 17 new option agreements with developers were signed under the ScotWind project reserving rights to specific areas of the seabed. The option agreements give developers reserved rights to specific areas of seabed for a ten-year period. The successful applicants paid just under £700m in option fees which will be passed to the Scottish Government for public spending. A further three option agreements

were finalised in November 2022, and these resulted in net income of £56 million bringing the total to £756 million.

39. As part of the audit, we considered:

- the accounting treatment applied by Crown Estate Scotland to the income from the ScotWind option agreements
- whether there were any legislative barriers to Crown Estate Scotland transferring the money to the Scottish Government Consolidated Fund in advance of being earned.

40. Crown Estate Scotland outlined their views of the accounting treatment that should be applied to the option income. We have reviewed the option agreements and Crown Estate Scotland's rationale for applying IFRS 15 and for recognising income across the life of the option and we have accepted this rationale for ScotWind and other option agreements. As part of the financial statements audit, we have reviewed the accounting adjustments processed through the accounts and the associated disclosures.

41. Typically, income is paid over to the Scottish Government Consolidated Fund (SCF) in a pattern that reflects when the income is recognised in the accounts. The proposal is for the options income to be paid over to SCF in a shorter period than the term of the options. While the cash has been received in full for the options, the income will only be recognised in full over the lifetime of the options. The funds could therefore be transferred to the SCF in advance of the income being reflected in the accounts.

42. We have looked at the legislation and framework agreement and understand the environment Crown Estate Scotland operate within. We note that there are no conditions attached to the options payments that could result in any repayments from Crown Estate Scotland. We do not see any restriction which prevents the funds being paid in full to the SCF on request.

43. We reviewed the legal opinion commissioned by Crown Estate Scotland. The conclusions within the paper are consistent with our initial assessment and there is no legislative barrier to the transfer of option funds to the Scottish Consolidated Fund as directed by Scottish Ministers.

44. Note 14 of the accounts shows the payments in 2022/23 to the Scottish Government Consolidated Fund. This outlines that the total payment of £111 million is made up of the following:

- £71.2 million ScotWind money earned in 2022/23
- £31.8 million advance of ScotWind money as requested by Scottish Ministers
- £8 million represents the non-ScotWind net revenue paid to the Consolidated Fund in 2022/23.

45. Although agreement in principle has been given to the retention by Crown Estate Scotland of the costs associated with the management of the ScotWind options this matter has not yet been finalised. Discussions are ongoing with Scottish Government around the costs associated with ScotWind over the life of the project, the agreement of how these costs will be funded, and where the budget will be held.

Budget monitoring and reporting processes were appropriate

46. Crown Estate Scotland has effective financial management processes in place to manage budgets. Finance reports and papers are presented regularly to the Audit and Risk Committee and Board. The papers provide updates to the committee on the revenue and capital performance of Crown Estate Scotland up to the end of the previous quarter.

47. The paper also takes into consideration actual performance compared to the forecasted performance for the year. In addition, the paper outlines income and expenditure variances and explains the reasons for these in comparison to forecasted budgets.

Crown Estate Scotland has appropriate financial control arrangements in place

48. As part of our audit, we identified and documented our understanding of key controls across a number of financial systems including general ledger, cash and bank, payroll and investment property valuations.

49. The key controls reviewed included system user access, authorisation of journals, bank reconciliations, changes to supplier bank details, authorisation of expenditure prior to payment, payroll exception reporting, instructions to valuers for investment properties and general IT controls.

50. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and we did not identify any internal control weaknesses which could affect Crown Estate Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

51. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

52. Crown Estate Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

A three-year revenue budget has been approved which forecasts increased turnover mainly relating to offshore wind projects. Staffing costs will also increase over the period to meet anticipated resource requirements.

The capital budget has been approved for the three-year period to 2025/26. A commitment is in place to review and refine this over the coming financial year.

The Crown Estate Act 2019 sets out arrangements for the transfer of a proportion of revenue balance to the capital accounts. Scottish Government have approved an increase on the prior year gross revenue balance from 9% to 13% for 2023/24 and 2024/25.

Crown Estate Scotland revenue budgets covers a three-year period to 2025/26

53. Crown Estate Scotland have three-year revenue and capital budgets in place until 2025/26. The Board approved these budgets on 31 March 2023 following previous discussions at the Board Strategy Day in February 2023.

54. Staffing levels increased during 2022/23 and it is anticipated that there will be a continued growth in the staffing establishment over the next three-year period. The increase in staffing establishment has been agreed following Executive Team submissions for anticipated resource requirements over the budget period to ensure capacity.

55. The budget also incorporated agreed changes approved at the February 2023 Audit and Risk committee to reclassify some Policy, Property and Marine roles from capital to revenue due to the changing nature of those roles. This reflects the shift in the nature of the work to revenue rather than capital activities.

56. The three-year budget forecast outlines an increase in turnover over the three-year period from £129.9 million to £143.7 million. The increase is mainly

due to the commencement of the offshore wind projects. There is a commitment to review and refine the revenue budget over the budget period.

A three-year capital budget has been approved but will continue to be refined over the course of the next financial year

57. The approved capital budget showed an improved position on capital receipts and a reduction in capital expenditure in relation to previous iterations of the budget. The capital budget paper outlines the impact of uncertainties and external dependencies around the budgeted capital receipts.

58. Whilst there is a level of uncertainty around aspects of the budget, there is a commitment to review and refine the longer-term capital plan over the course of financial year 2023/24.

The Crown Estate Act 2019 sets out arrangements for the transfer of a proportion of the revenue balance to the capital account

59. The Statements of Comprehensive Income within the annual audited accounts includes a revenue account and a capital account. The majority of income received by Crown Estate Scotland is classified as revenue in nature. The Crown Estate Act 2019 sets out arrangements for an annual transfer from the revenue account to the capital account. The amount transferred during 2022/23 was 9% of gross revenue balance.

60. The current direction for the revenue to capital transfer ended at 31 March 2023. As outlined within the 2023/24 to 2025/26 budget paper a 13% revenue to capital statutory transfer was approved by Scottish Government in March 2023 for the financial years 2023/24 and 2024/25.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Crown Estate Scotland has a clear vision and strategic objectives have been established along with underpinning actions to implement this vision.

Effective and appropriate governance arrangements are in place.

A Climate change action plan has been established which sets out the overarching target of achieving zero emissions by 2040. Short and medium-term actions are outlined within the plan.

Crown Estate Scotland has a clear vision and strategic objectives have been established along with underpinning actions to implement this vision

61. Crown Estate Scotland has a clear vision as outlined within the Corporate Plan 2020-23. A strategic framework has been developed. The framework sets out the purpose of Crown Estate Scotland as "Investing in property, natural resources and people to generate lasting value for Scotland" and their vision of "Communities and businesses thriving through enterprising and sustainable use of property and natural resources."

62. The strategic framework was developed to guide this work and bring together their core values alongside a newly defined purpose, vision and set of roles. This framework was created based on feedback from staff, tenants and stakeholders, alongside independent research.

Effective governance arrangements are in place

63. Crown Estate Scotland's governance arrangements are outlined within the Annual Report and Accounts. The Board consists of non-executive members who are appointed by Scottish Ministers.

64. An Audit and Risk Committee, Investment Committee and Remuneration Committee report to the Board. Established arrangements are in place for the issuing of committee papers a week before all committee meetings. Scrutiny arrangements are working well in Crown Estate Scotland. The audit team attend each meeting of the Audit and Risk Committee and there is clear evidence of scrutiny from members.

65. The previous auditors recommended that board papers and minutes are available on the website following approval. At the end of October 2023, the last version of approved minutes and papers available was March 2023. Further Board meetings were held in May and August 2023. The May papers were added to the website in early November 2023. To strengthen Crown Estate Scotland's approach to openness and transparency papers and minutes of the Board could be available on the website more promptly following approval.

A Climate change action plan has been established which sets out the overarching target of achieving zero emissions by 2040. Short and medium-term actions are outlined within the plan.

66. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

67. Crown Estate Scotland's Climate Change Action Plan 2021-23 sets out its:

- target date for achieving zero direct emissions of greenhouse gases;
- commitment to Scottish Government climate change reporting requirements; and
- contribution that Crown Estate Scotland's wider activities can make to Scotland's progress towards its net zero targets.

68. The action plan also outlines Crown Estate Scotland's overarching climate change target of achieving an absolute zero rather than a net zero target of zero emissions by 2040. This will require the removal of emissions without any offsetting measures. This takes into account the need for technology and infrastructure to develop before Crown Estate Scotland can address some sources of direct emissions.

69. The Plan identifies short and medium-term actions to reduce emissions as well as ongoing and long-term actions that will be required. It details activities that are particularly relevant to Scotland's net zero targets, such as ScotWind

and the natural capital work. During 2022/23, Crown Estate Scotland finalised their Green Travel and Office Plan to outline how the environmental impact will be reduced.

70. The nature of Crown Estate Scotland's operations mean that the organisation's work around climate is reflected within the financial statements. The ScotWind project is an example of a new project that commenced in 2022/23 which resulted in increased income from option agreements.

A sustainable communities fund has been established to support sustainable development and local regeneration

71. In 2020, Crown Estate Scotland, established the Sustainable Communities Fund to support local regeneration and sustainable development. The fund is split into two separate grant streams:

- Community Capacity Grants, which provide early-stage financial support for community enterprise projects. This programme is open to all communities up to five miles from Scotland's coastline or within five miles of our rural estates
- Environment Grants, which provide funding to Crown Estate Scotland tenants only, for projects which can deliver demonstrable environmental benefits within 18 months of award of funds.

72. Over the past three years, £0.320 million of environmental grants have been awarded to tenants. This has included funding for projects including:

- biodiversity projects to restore and regenerate the local environment, e.g. the removal of invasive non-native species
- providing natural climate solutions e.g. riparian planting and restoring watercourses
- facilitating a change to greener ways for operating e.g. measures to support recycling or waste reduction; enabling green travel; and activities that reduce flood risk, pollution or carbon emissions.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Crown Estate Scotland has arrangements in place to secure best value through its use of resources to meet strategic objectives.

The strategic plan 2020-23 established key performance indicators that are reported to the board and through the annual report. Targets are not in place for all key performance indicators which makes it difficult to measure the effectiveness of the organisations activities to deliver strategic priorities and objectives.

A road map has been established and work has commenced on engaging with staff and stakeholders on the development of the next strategic plan 2025-2030.

Crown Estate Scotland are committed to achieving best value and have established adequate arrangements to secure best value

73. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

74. As set out in the Framework Agreement with Scottish Government Marine Scotland Directorate, Crown Estate Scotland's purpose is to invest in property, natural resources and people to generate lasting value for Scotland. This includes maintaining and seeking to enhance income from, and a value of, the Scottish Crown Estate whilst supporting delivery of the Scottish Government's purpose.

75. A core purpose of Crown Estate Scotland 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 round took place since the management of offshore wind rights were developed to Scotland.

76. During 2022/23, further projects were progressed including the INTOG project that allows developers to apply for seabed rights to develop offshore wind projects that either reduce emissions from the North Sea oil and gas sector by support renewable electricity directly to oil and gas infrastructure (TOF) or consist of small-scale (IN) innovative project if 100MW or less. Total fees of £262 million are expected to be received from 13 successful bidders in 2023/24.

A road map has been developed for the development of the corporate plan 2030

77. Crown Estate Scotland's strategic plan covers a three-year period to March 2023. During 2021/22, Scottish Ministers approved a request to extend the strategic plan by two years to 2025. This aligns the development and approval of a new strategic plan in line with the scheduled five-year review of Scottish Ministers' Scottish Crown Estate Strategic Management Plan.

78. From May 2023, work commenced on planning for a new corporate plan with teams across the organisation being asked to think about what they do and what targets they are trying to achieve. Documentation has been developed to support staff in this process and to ensure that all required considerations are incorporated.

79. A road map has been established for the period May 2023 to April 2025. This outlines key milestones, with phase one of the project due to complete by December 2023. This first phase includes review of the vision, purpose and roles of the organisation alongside a policy review. Work will be undertaken to consider and review outputs from staff workshops. These activities will conclude with the drafting and finalisation of frameworks for the development of the corporate plan. Engagement with external stakeholders commenced in September 2023 and all staff engagement events are planned.

Performance monitoring arrangements could be enhanced

80. Key performance indicators for the corporate plan are reported annually through the performance report with the exception of the indicators relating to financial commitments e.g. total capital committed which is reported to the Board quarterly in the form of a dashboard report.

81. [Exhibit 5](#) provides an overview of performance against these key performance indicators during 2021/22 and 2022/23. As outlined below, the current corporate plan includes nine key performance indicators, of which four did not have a specific target for March 2023. A further target is measurable against staff survey results, however, as no staff survey had taken place in 2022/23, there is no data to measure this indicator.

82. Overall performance has been positive in 2022/23 compared to the prior year period, however, it is difficult to quantify due to the lack of measurable targets.

Exhibit 5

Key performance indicators – trend analysis

	Target	Progress at 31/03/22	Progress at 31/03/23
GW of offshore renewables in seabed agreements	No target	10.38GW	38.05 GW
Production capacity in new finfish agreements	No specific target	7,673 tonnes	13,343 tonnes
Total capital committed (including specifically Place Based and Blue Economy projects/activities)	£70 million	£12.9 million	£14.2 million
Number of projects promoting sustainable natural resource use	No specific target	22	26
Number of projects encouraging people to be more involved in how land, coast and seabed are managed	No specific target	15	18
Net revenue	Total of £24 million net revenue returned to Scottish Government over 2020-23 period.	£27.3 million returned for 2020 to 2022.	£130.9 million returned for 2020 to 2023.
Capital valuation	Valuation increased on March 2020	Valued at £568.2 million as at 31 March 2022.	Valued at £653.1 million at 31 March 2023.
Staff feedback/satisfaction	15% increase on 2019 baseline for staff satisfaction with employer (55%).	21/22 staff survey result showed 80% satisfied with Crown Estate Scotland as employer;	No staff survey undertaken in 2022/23.

	Target	Progress at 31/03/22	Progress at 31/03/23
	Employer engagement score matches or is greater than core Scottish Government score	Score of 0.75 for employee engagement (Scottish Government 2020 score is 0.69)	
Tenant and stakeholder satisfaction	Increase or no change in tenant satisfaction.	Net favourability among MSPs 29% Local authority CEOs' favourability 43%	Net favourability among MSPs 26% Local authority CEOs' favourability 35%
	Increase or no change in stakeholder satisfaction	Local authority Heads of Economic Development favourability 39%. 2020-21 rural tenants survey shows mean satisfaction rating of 6.8 out of 10 (cf. 2017-18 6.3). 2020-21 energy and infrastructure survey shows mean satisfaction rating of 7 out of 10 (cf. 2018-19 6.9)	Local authority Heads of Economic Development favourability 57%. 2022 Stakeholder survey shows a 70% favourable opinion (cf. 2017-18 mean satisfaction of 7.2) 2022-23 Property survey shows mean satisfaction rating of 6.5 (cf. 2019- 2020 of 6.7)

Source: Crown Estate Scotland Annual Report

83. Within the performance analysis section of the annual report and accounts there is a recognition of a need to refresh the key performance indicators and targets to ensure that indicators in place for 2023 to 2025 monitor delivery. The 2023/24 and 2024/25 business plans will set out appropriate new commitments.

Recommendation 2

Key performance indicators should be meaningful, clear and concise and should be based on strategic and business operations of Crown Estate Scotland. Specific and measurable targets should be established to measure all key performance indicators.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial capacity</p> <p>Over the past year Crown Estate Scotland have experienced staffing changes within the finance function. These changes affect officers involved in the preparation of the financial statements and subsequent audit process.</p> <p>There is a risk that the finance department is not sufficiently resourced in terms of time, scale and capacity to support the preparation of the financial statements.</p>	<p>Review the roles and responsibilities of the finance function to ensure that is appropriately resourced and that effective succession planning arrangements are in place.</p> <p>Paragraph 29</p>	<p>Additional resource has been added to the finance team and is being bedded in over H2 2023 and the roles and responsibilities of the finance team is under further review with an anticipation further new roles will be created. This review and any subsequent recruitment will be completed by March 2024.</p> <p>Responsible officer: Director of Finance and Business Services. Agreed Date: March 2024</p>
<p>2. Key Performance Indicators</p> <p>The corporate plan includes nine key performance indicators, however, four of these do not have a specific, measurable target in place.</p> <p>There is a risk that the Board are unable to fully assess performance against key strategic priorities and objectives without targets in place.</p>	<p>Key performance indicators should be meaningful, clear and concise and should be based on strategic and business operations of Crown Estate Scotland. Specific and measurable targets should be established to measure all key performance indicators.</p> <p>Paragraph 83</p>	<p>A review of KPIs for the 2020-25 corporate plan period was undertaken in 2023-24. New KPIs are being explored and tested in 2024-25 ahead of a new performance framework being in place for 2025-30.</p> <p>Responsible Officer: Director of Corporate Operations Agreed date: December 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Governance</p> <p>Minutes and papers for the February 2022 Board meeting were not available on Crown Estate Scotland's website at the time of the audit despite being approved.</p> <p>The May 2023 Board minutes and papers were uploaded to the website in early November 2023.</p>	<p>We recommend that all approved papers and minutes are made publicly available as soon as is practical.</p>	<p>Revised action: Additional resource has been brought into the Governance team during 2023-24. This provides additional capacity to ensure timely updating of the website.</p> <p>Responsible officer: Governance Manager</p> <p>Revised date: March 2024</p>
<p>b/f 2. Leases</p> <p>Audit testing identified a lease that had expired and was awaiting final sign off, as well as a lease for a new tenancy that was yet to be agreed, finalised and signed. Management confirmed that there were other leases yet to be agreed, finalised and signed.</p>	<p>Management implement risk assessment procedures in relation to these leases to ensure that the potential risks to Crown Estate Scotland as a result of unsigned leases is therefore kept to a minimum.</p>	<p>As part of our audit testing, we reviewed management processes around unsigned leases and licences and the subsequent accounting entries. We concluded that appropriate processes have been established and that ongoing work continues to reduce the number of unsigned leases or licences.</p> <p>Closed</p>
<p>b/f 3. KPI targets</p> <p>The Crown Estate Scotland 2020-2023 Corporate Plan contains eleven KPI's. However, six of these have no specific targets set for March 2023.</p>	<p>That targets are agreed and published for all KPI's to ensure that best value is achieved in these key performance areas.</p>	<p>See Action Plan point 2</p>

Crown Estate Scotland

2022/23 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk