



**CROFTING COMMISSION
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Crofting Commission

Report to the Audit & Finance Committee and the Auditor General for
Scotland on the 2017/18 audit

Issued on 27 July for the meeting 15 August 2018

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Finance Committee of the Crofting Commission for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Audit and Finance Committee in January 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the Crofting Commission ('the Commission'), we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of the Commission and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Achievement of expenditure resource limits; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- We have not identified any audit adjustments from our procedures to date.
- The annual report and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Commission.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have performed analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- Given the increasing importance of social media, we have included some insights from analysis of the Commission's Twitter account on page 11.
- We have raised several insights for areas where improvements could be made to the Commission's operations, detailed on pages 26 – 29.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

The Commission continues to face a challenging financial position, although positive developments have been noted – particularly with regard to pressure funding now being included within the grant in aid allocated to the Commission. The Commission met all of its financial targets in 2017/18 as summarised below. However, the Commission’s draft budget for 2018/19 is projecting £10k of savings that are to be achieved. The Commission’s use of fixed term and temporary employees allows for sufficient headroom should there be a need to make additional savings.

2017/18 final outturn position reported an accounting deficit of £8k (0.3%). However, the Commission has underspent against its core grant in aid by 0.22% (£6k) and remained within the £310k limit on pressure funding.	A balanced budget for 2018/19 was approved by the Commission. This includes £10k of recurring savings that need to be made, which will be met primarily by using flex within the payroll budget through the use of fixed term and temporary contracts.	The Commission has achieved recurring savings of £11k in staff costs in the year, with this representing an underspend of £46k against budget. A proportion of this underspend was due to the ring-fenced nature of funding received and uncertainty over retention of the funding in future years.	The impact of new Crofting legislation is not measurable at this early stage, however, the Commission is aware that this may result in additional workload and anticipates it may have to amend longer term budgets when more information becomes available.
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Governance statement

We have reviewed the annual governance statement for appropriateness of the disclosures in the governance statement or any other issues and best practice. A number of changes were suggested to bring this in line with best practice and these have been implemented by management.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the wider audit dimensions:

- Financial sustainability
- Governance and transparency

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the Commission continues to face significant financial challenges due to increased regulatory requirements and the development of a new Crofting Bill.

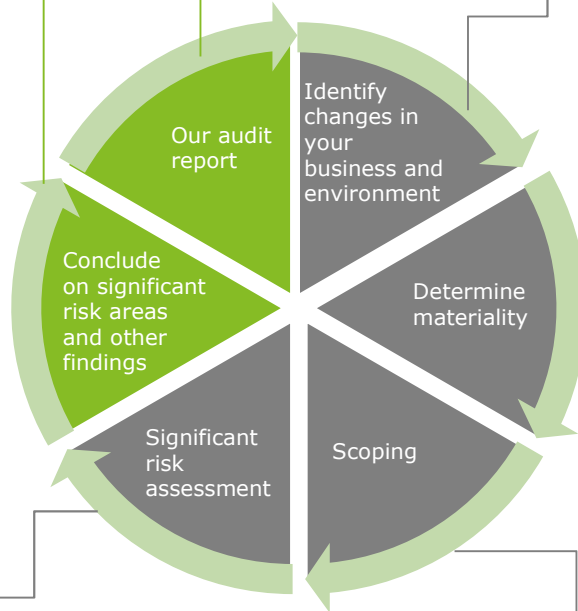
Materiality

The materiality of £55k and performance materiality of £41k has been based on the benchmark of gross income and is a slight decrease from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £2.75k.

Scope of the audit

We will audit the financial statements and perform work around wider audit dimensions for the year ended 31 March 2018 of the Crofting Commission.



Timeline 2017/18

November 2017 – February 2018

Meetings with management and other staff to update understanding of the processes and controls.

24 January 2018

Presented planning paper to the Audit & Finance Committee

May 018

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

31 March 2018

Year end

15 August 2018

Audit & Finance Committee meeting

28 June 2018

Audit close meeting

22 August 2018

Accounts sign off







Quality and Independence

We confirm we are independent of the Crofting Commission. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

There is a key financial duty for the Crofting Commission to comply with the Departmental Expenditure Limit ('DEL') set by the Scottish Government.

The risk is therefore that the Commission materially misstates expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

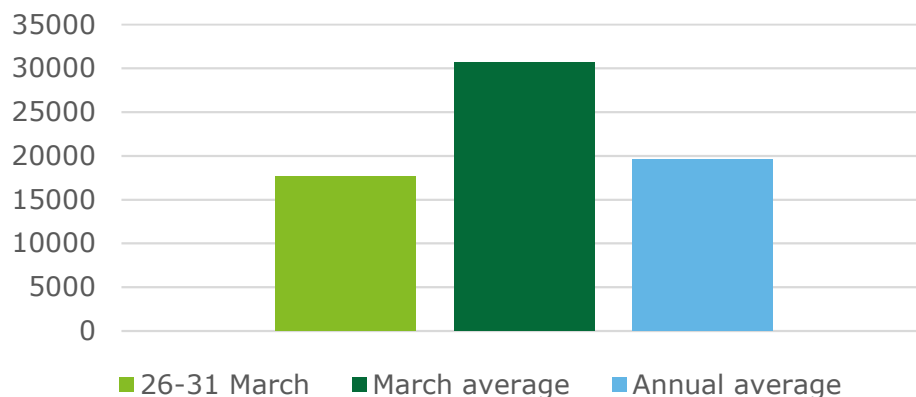


Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- Obtained independent confirmation of the DEL allocated to the Commission by the Scottish Government;
- Performed focused testing of accruals and prepayments made at the year end; and
- Performed focused cut-off testing of invoices received and paid around the year end.

Expenditure per week 2017/18



Deloitte view

As shown above, the spend in the final month of the year is significantly higher than the annual average, and this is where we have focused our attention. We do not consider this to represent a risk to securing best value as increased expenditure is incurred towards the year end due to additional funding being received for specific projects.

We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified.

We confirm that the Crofting Commission has performed within the limits set by the Scottish Government and therefore is in compliance with the financial targets in the year.

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Commission's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Commission's results throughout the year were projecting underspends. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval with no issues noted.

We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates

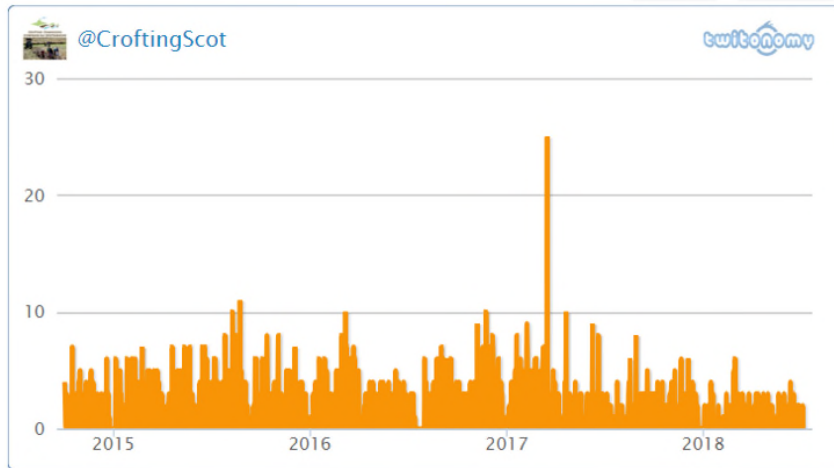
In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Other significant findings

Insights delivered

Given the increasing importance of social media, we have reviewed the Commission's Twitter account for any areas where improvements can be made.

Activity on social media has remained relatively consistent throughout the year, as shown on the graph below. Despite this, the Commission has attracted additional followers in the current year. However, the Commission still has just over 1,400 followers, suggesting that there is room for improving the reach of the Commission's message.

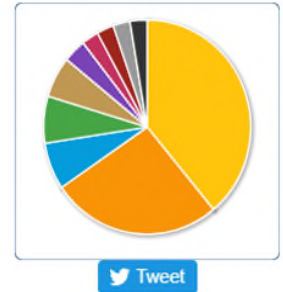


Twitter reports that the time most people checked Twitter is 1 – 3 PM Monday to Thursday, with the lowest amount checking in after 8 PM every day and 3 PM on Fridays. The Commission should consider the timing of its posts to better reflect this: currently, 8 – 11 AM is when the Commission posts the most, as shown in the graphs to the right.

We noted from review of the Commission's Twitter account that it regularly posts images and this practice should be continued: according to Twitter, this increases retweets by 41% and favourites by 48%.

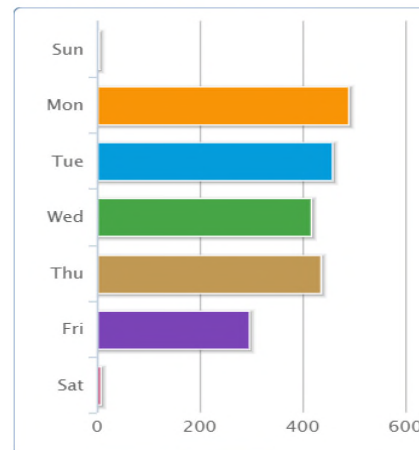
Hashtags most used

#croftingcensus	44	#crofting	30
#croftingscot	8	#crofters	8
#storasaig10	7	#gaelic	4
#gàidhlig	3	#orkney	3
#ag17	3	#roconline	3

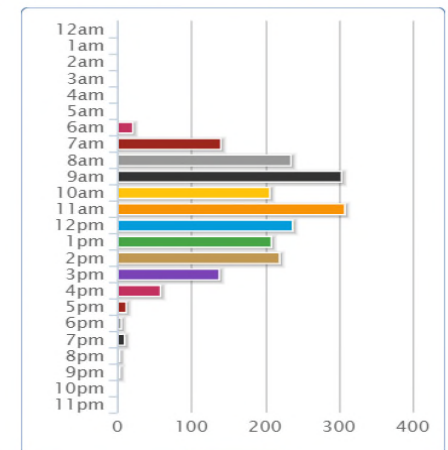


The 'hashtags' most used by the Commission are niche and consideration should be given to whether the use of more general hashtags, in addition to the specific ones as shown above, would result in wider reach of the Commission's tweets. We also noted that a lot of the Commission's tweets have no hashtags used in them at all, which greatly limits their reach.

📅 Days of the week



🕒 Hours of the day (UTC)



Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

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.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 13.



Your annual report

We welcome this opportunity to set out for the Audit & Finance Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Management response	Deloitte response
The Performance Report	The report outlines the Crofting Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the budget.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have made a number of recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 14.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that the 2018/19 budget was approved by the Commission and included scenario planning for draft budgets for 2018/19 to 2020/21. We have concluded that the plan is sufficiently robust to demonstrate that the Commission will be a going concern for 12 months from signing the accounts.

Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. Although not specific to NDPBs, we would encourage the Commission to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

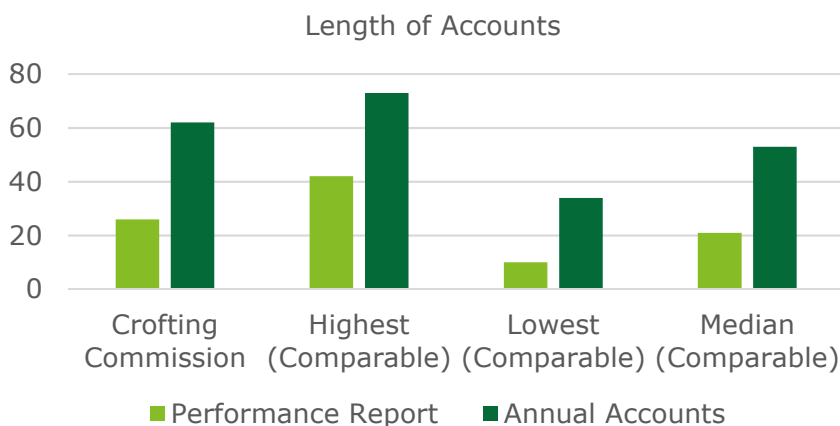
We have provided below some extracts which should be considered by the Commission in drafting future annual reports.

Annual report

The following areas for improvement were identified when reviewing the Commission's annual report:

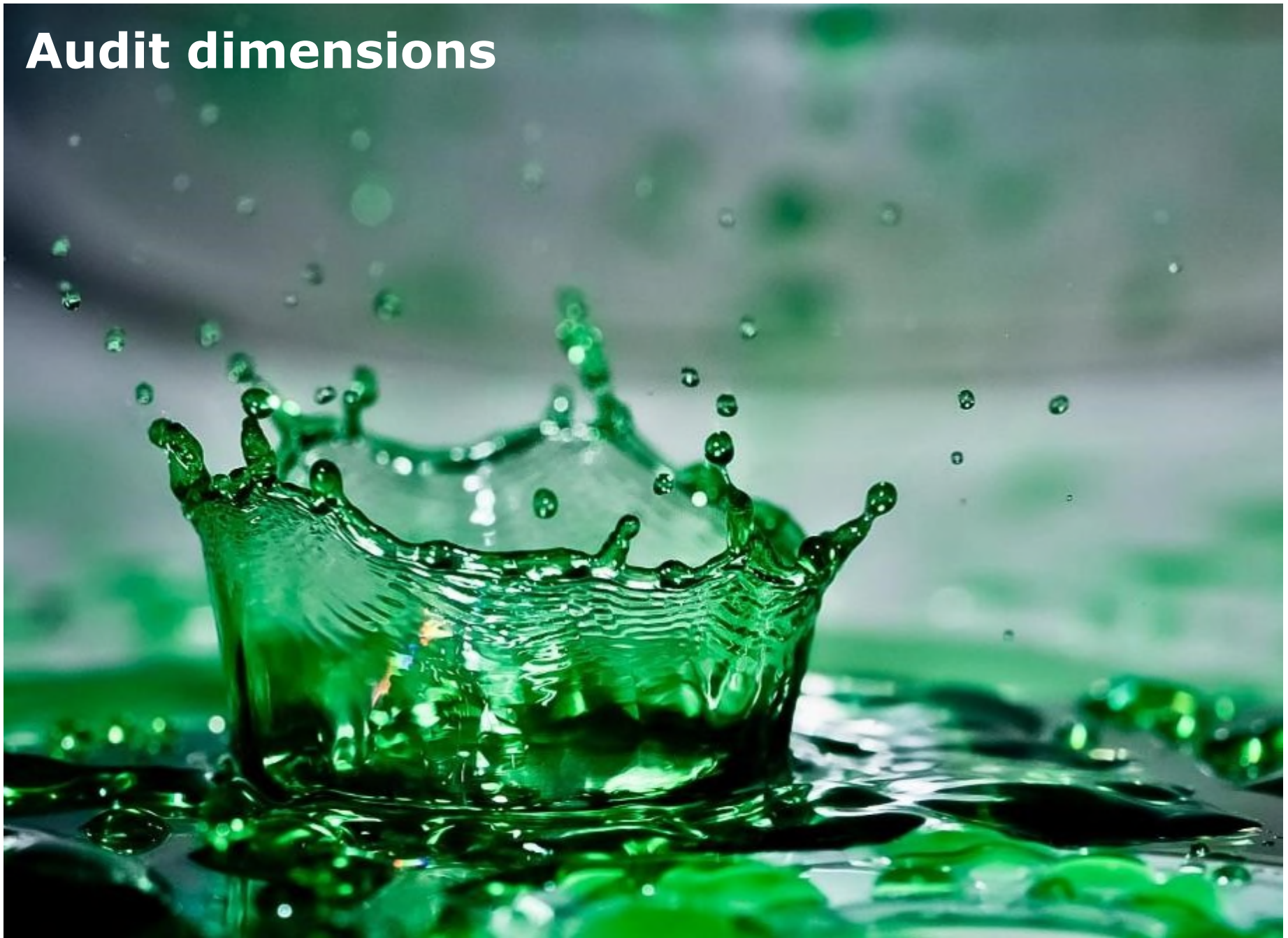
- Reduce the length of the performance overview and achieve a greater balance between overview and analysis, through use of graphics/pictures, signposting to web pages and by placing non-summary information in the analysis section rather than the overview.
- The performance report in total could be reduced: the average is 5-15 pages, whereas the Commission has 25. Review in total and remove irrelevant information, use graphics/pictures/tables to reduce unnecessary narrative.
- Including a glossary of terms at the end of the accounts would be beneficial to the users of the accounts where sector-specific or accounting terminology is used.

A list of comments for improvement, including the above, have been provided to management at the Commission with a strong recommendation that these be implemented for the 2017/18 accounts and going forward. Deloitte are pleased to note that management have accepted the majority of these recommendations and the annual accounts have been updated, with a commitment to consider the remaining recommendations for the 2018/19 accounts.



We have reviewed the annual accounts of the Commission against comparable clients in terms of size and remit within our public sector portfolio. This shows that the Commission sits at the higher end – with the performance report 5 pages longer than the median, and the accounts as a whole 9 pages longer than the median. Further, given that the Commission will also translate its annual accounts into Gàidhlig, this will serve to essentially double the length of the accounts and bring the Commission significantly out of line with comparable bodies. Given this, the Commission should review its annual accounts during preparation to ensure any 'boilerplate' information or information which is not important to users is excluded. Although the annual accounts must cover a wide breadth of information, it is important that they are concise.

Audit dimensions



Wider scope audit work

Overview

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 covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by the Commission, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the Commission and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal

SR 2 – New Financial Powers

SR 3 – Ending public sector pay cap

SR 4 – Cyber security risk

SR 5 – Openness and transparency

Wider scope audit work (continued)

Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have consider the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the Scottish Public Finance Manual.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte response



Based on our audit work and the work of internal audit, we have not identified for reporting any changes in governance arrangements or any issues of concern in the governance statement.

Deloitte view

The governance statement meets the requirements of the Scottish Public Finance Manual and no inconsistencies have been noted.

Having reviewed the processes in place at the Commission, and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

Wider scope audit work (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response



From our work in 2016/17 we made various recommendations to the Commission around review of risk management processes and consideration of longer term financial planning. This year we have assessed progress in relation to these recommendations and identified other areas for improvement going forward.

Deloitte view

The Commission continues to face a challenging financial position, however, the Commission met its financial targets in 2017/18. The budget for 2018/19 is projecting £10k of savings that need to be achieved. Achieving sufficient savings in the medium term, given rising costs and a standstill budget, is likely to prove increasingly difficult.

We note that there is currently no link in the budget between spend and strategic aims as outlined in the Corporate Plan. It is not possible to identify whether spend is being appropriately allocated between strategic aims, or to identify where spend can be reduced when a strategic aim has been achieved in order to increase spend in areas where progress is not as advanced. A high-level review of the proportion of work each level of staff spends on each of the strategic aims (including croft registration) outlined in the Corporate Plan should be carried out. This will allow an estimate of the cost of achieving each of these aims. Where progress against some aims is currently more advanced than others, the Commission should then consider reducing staff time in certain areas to increase them elsewhere in order to improve outcomes in line with the Corporate Plan.

Linked to this is a recommendation that the cost of providing the Crofting registration services be accurately measured in order to determine the net cost to the Commission of providing these duties, taking into account the additional Scottish Government funding received to provide them. This will allow the Commission to determine the net impact of additional duties on the sustainability of the Commission in the longer term and should feed into considerations on the provision of discretionary services and the development of the new Crofting Bill.

Wider scope audit work (continued)

Financial sustainability (continued)

Short term financial position

For **2017/18**, the Commission approved a balanced budget of £2,807k (of which £2,497k was core grant in aid and £310k was pressure funding). The final position for 2017/18 was an underspend of £6k against core grant in aid. Further, the Commission spent £281k of the £310k pressure funding available, although we note this £310k was set as a limit, not a target.

The **2018/19** budget has been approved by the Commission and budgets total expenditure of £2,797k, a reduction of £10k year on year. This incorporates £76k of savings in running costs, offset by anticipated increases in staff costs (£66k).

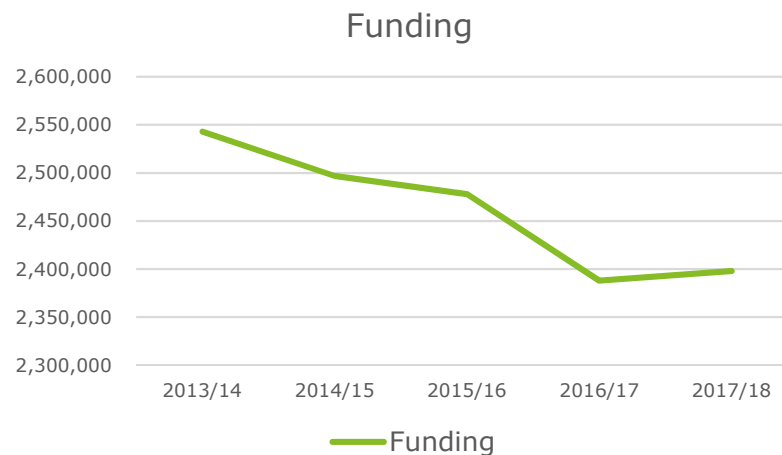
In setting its budget the Commission has recognised that a number of risks exist, such as inflation and the ending of the public sector pay cap. Scenario planning work has been carried out by the Commission which demonstrates that the Commission has the capacity to meet increased pay awards even with a standstill budget.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.

Medium to long term financial sustainability

The Commission has managed its budget appropriately over the last 5 years, maintaining services within budget, despite a 5.7% real terms reduction in in the funding allocation.

However, due to increasing costs and the continuing restraint in relation to funding, the Commission will have to consider how it can transform operations in order to continue to meet Crofting community needs with reducing budgets. The development of new Crofting legislation provides an ideal opportunity for the Commission to achieve this.



The conversion of additional funding from 'pressure funding' to being included in the core grant in aid allocation is beneficial to the long term sustainability of the Commission. As this funding was specific to the additional responsibilities placed on the Commission following the Crofting Reform (Scotland) (Act) 2010, it is not included in the above funding review as this funding was meant to match approximately the cost of the additional responsibilities.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
<p>EU Withdrawal</p>	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The Commission has noted that this is unlikely to have a significant impact on its operations but should keep a watching brief as the details are developed. The impact is most likely to be felt by the communities which the Commission primarily deals with.</p>
<p>New financial powers</p>	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The Commission should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
<p>Ending public sector pay cap</p>	<p>The Commission will align with the Scottish Government on pay awards for employees and has budgeted an increase in staff costs to account for this, which is achievable within the funding allocation. Scenario planning has shown that irrespective of the actual increase in staff costs (falling within the 1-3% being discussed by the Scottish Government), the Commission has sufficient headroom to meet these costs for 2019/20.</p>

Wider scope audit work (continued)

Specific risks (specific risks)

Risk identified	Response
<p>Cyber security risk</p>	<p>The approach to cyber security is included within IT policy. This policy is reviewed annually (formally) and on an ongoing basis (informally). The Deputy CEO is responsible for cyber security as they are also Head of Information Services. Reports on cyber security are sent to the Audit & Finance Committee, which ultimately goes to Board.</p> <p>The Commission has detailed business continuity plans (reviewed and updated in full in the current year), including for responding to IT issues.</p> <p>The cyber essentials pre-assessment was carried out by an independent consultant. Work on the recommendations is underway with this expected to be completed by September 2018, ahead of the October deadline. Further, the CEO and Deputy CEO receive all communications from the Scottish Government Cyber Resilience Unit, taking immediate proactive steps to address any potential issues flagged by the unit</p> <p>The risk management process under review. There is currently no set risk appetite as it was felt that additional work was needed to enhance Board understanding of risk, tolerance and actions prior to setting a risk appetite.</p>
<p>Openness and transparency</p>	<p>From our audit work, we are satisfied that the Commission is appropriately open and transparent in its operations and decision making.</p> <p>We note the following areas of good practice at the Commission with regards to openness and transparency:</p> <ul style="list-style-type: none"> - KPIs are published quarterly on the Commission website and annually in the annual accounts; - There is a specific 'Openness' section on the Commission website; - The Register of Crofts has been placed online with public access to details of crofters; - Board meetings are conducted in public and can be viewed online; - The Commission has a designated 'Compliance Officer' who is responsible for dealing with all Freedom of Information requests and complaints.

Technical update



Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FRm). These new standards are not expected to have a significant impact on the Commission.

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to the Crofting Commission from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Potential impact on the Commission

Following review of the agreement with Scottish National Heritage for use of Great Glen House, Deloitte are of the view that this will qualify as a lease and would result in a significant amount being carried as an asset/liability in the financial statements and a degree of complexity in determining the amounts to be recognised.

The Commission should consider the feasibility of such an exercise or the potential benefit of renegotiating the agreement with Scottish National Heritage so as to render the lease a year-to-year agreement rather than two years, thus allowing the Commission to continue the current practice of expensing rent as it is incurred.

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Finance Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Audit & Finance Committee and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



for and on behalf of Deloitte LLP
Glasgow

27 July 2018

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial sustainability:</i> 'Value added' services and linking spend with strategy	<p>The Commission provides a range of services to crofters which it is not statutorily obliged to provide. However, the proportion of staff time and a rough estimate of cost associated with providing these services is not known. There is currently no link in the budget between spend and strategic aims as outlined in the Corporate Plan.</p>	<p>Management have confirmed that they will take this recommendation on board and plan to implement it in 2018/19.</p>	Deputy CEO/CEO	31 March 2019	High
	<p>There is a risk that the Commission is spending undue staff time and cost on discretionary services that do not further the strategic aims and which could be better used in improving outcomes against the Commission's strategic aims and KPIs.</p>				
	<p>Given that the area where the Commission can make obvious efficiencies is by reducing or stopping the provision of 'value added' services, it would be recommended that a high level review be carried out to identify what proportion of staff time at the various grades is spent on discretionary services and reach an estimation of the total cost of these services.</p>	<p>Management note, however, that given the staffing structure in place, there is some difficulty in aligning staff time with strategic aims. However, this will be looked into to determine if this is feasible and would provide any value to the Commission.</p>			
	<p>Further, a high-level review of the proportion of work each level of staff spends on each of the strategic aims outlined in the Corporate Plan should be carried out. This will allow an estimate of the cost of achieving each of these aims. Where progress against some aims is currently more advanced than others, the Commission should then consider reducing staff time in certain areas to increase them elsewhere in order to improve outcomes in line with the Corporate Plan.</p>				
<p>This should be presented to the Board to determine if the level of spend on discretionary areas is appropriate or whether it should be managed in a different manner.</p>					

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial sustainability:</i> Impact of Crofting Registration	The Commission has been required as a result of the Crofting Reform (Scotland) Act 2010 to provide services related to croft registration, with this coming into effect in 2012/2013. This has resulted in a large increase in the workload of the Commission, particularly related to controversial cases. However, work on understanding the actual cost of meeting these additional duties has been limited.				
	The additional funding request from the Scottish Government may not be sufficiently and appropriately informed and there may be additional costs to the Commission as a result of this Act which have not been considered, with this having a negative impact on the achievement of the Commission's strategic aims and KPIs.	Management will review this in line with the recommendation on reviewing spend on each of the Commission's strategic aims.	Deputy CEO/CEO	31 March 2019	High
	Linked to the recommendation on reviewing the allocation of time and cost to each of the strategic aims of the Commission is the recommendation that the cost of providing the registration services be accurately measured in order to determine the net cost to the Commission of providing these duties, taking into account the additional Scottish Government funding received to provide them.				
	This will allow the Commission to determine the net impact of additional duties on the sustainability of the Commission in the longer term and should feed into considerations on the provision of discretionary services and the development of the new Crofting Bill.				

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial sustainability:</i> Workforce planning	<p>There is an acceptance that in certain areas of the Commission there is capacity within the team (the level of capacity to be informed by the completion of the workforce planning exercise currently underway), but discussions at SMT level on the need for new/replacement staff do not generally break down the duties and the estimated time to be spent on each of those duties, and whether or not they can be met by someone (or several persons) within the organisation who have capacity.</p>				
	<p>There is therefore the potential for savings to be made by utilising capacity within the Commission rather than creating new positions/filling replacement positions. Where a vacancy arises, there should be a clear and documented process for the approach to take to filling this vacancy. This could be met through the development of a recruitment 'template'.</p>	<p>Management have confirmed that they will develop a more structured approach to staffing decisions and that as part of the workforce planning currently underway, the level of capacity which can be utilised will be better understood and feed into recruitment decisions going forward.</p>	Deputy CEO	31 March 2019	High
	<p>For both new positions and replacements, the responsibilities included in the role should be broken down, which anticipated time on each role and a clear link to the Commission's strategic aims.</p>				
	<p>There should then be consideration of whether there is the skillset and capacity within the organisation for one or several people to assume these roles rather than replacing with additional staff. This process should be aided by the development of the new workforce plan currently underway, which Deloitte recommends be progressed as a priority.</p>				
<p>Where new positions are required to be filled (as opposed to a replacement), greater consideration as to affordability should be given and should involve members of the finance team.</p>					

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Finance function: System limitations</i>	The Crofting Commission utilises Oracle within the SNH system as its financial system. However, the Commission does not have the full range of functionality and there are some limitations in the system that make obtaining sufficient and appropriate audit evidence difficult.				
	There is an impact on the audit as it can make obtaining certain files difficult which affects that type and amount of testing required.	Management have confirmed that they have discussed being involved in the development of the new system with SNH and hope to have an improved system in place in 2018/19.	Finance Manager	31 March 2019	Low
	Deloitte understand that SNH is currently in the process of redesigning its system and we strongly recommend that the Commission request to be involved in the development of this new system.				
	Whilst it is appreciated that the size and complexity of the Commission means a standalone system is not required, the expenditure on the current system is not insignificant and for the expenditure incurred, the Commission should be getting functionality which is sufficient to enable a complete and efficient audit.				
<i>Financial statements: Creditors & Accruals</i>	The Commission only holds an accrual balance, having no creditors. However, in our cut off testing it was realised that 2 items should have been included as a creditor as the invoice was dated pre year end – however they were accrued. This was an immaterial issue. Going forward, we recommend that the Commission post an reclassification adjustment at year end by performing analysis of what they have accrued and allocating some of these to creditors, as appropriate.	Management have confirmed that this issue will be addressed when the new system is developed.	Finance Manager	31 March 2019	Low

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Commission to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Commission to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in complying with departmental expenditure limits and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit & Risk Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2017/18 is £16,479.</p> <p>No fees for non-audit services have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



Events and publications

Our publications and insights to support the Commission

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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