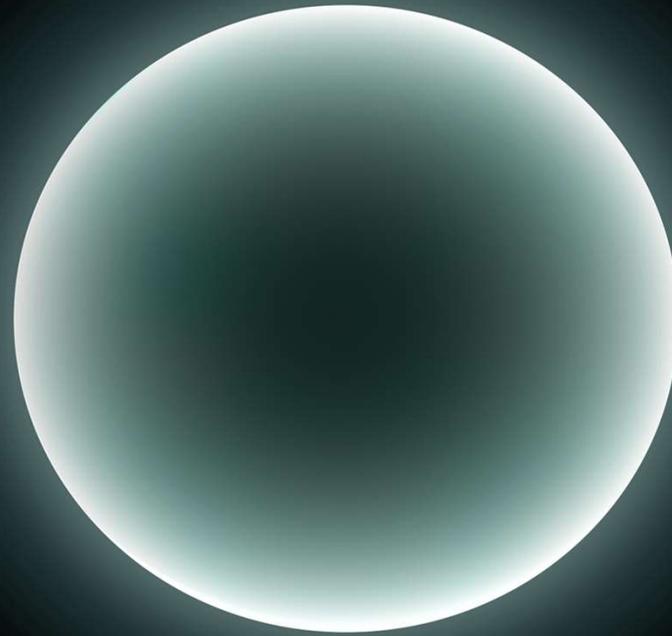


**Deloitte.**



**CROFTING COMMISSION  
COIMISEAN NA CROITEARACHD**



# **Crofting Commission**

Report to the Audit and Finance Committee, the Board and the Auditor General  
for Scotland on the 2021/22 audit

Issued on 20 July 2022 for the meetings on 27 July and 18 August 2022

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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 Annual Report and Accounts.
- 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 (“the Committee”) of the Crofting Commission (“the Commission”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **annual report and accounts**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, we concluded that it remained appropriate to apply expended wider scope requirements to specifically follow-up on the recommendations made in 2020/21. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area covered the following:
  - **Financial sustainability; and**
  - **Governance and transparency.**

### Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of the Commission.

The auditable parts of the Remuneration Report and Staff Report have been prepared in accordance with the relevant regulations. Following updates made by management, we are satisfied that the new requirements in relation to the Fair Pay Disclosure have been appropriately disclosed.

A summary of our work on the significant risks is provided in the dashboard on page 8.

We have not identified any misstatements above our reporting threshold. We have identified two disclosure deficiencies, which management have corrected, as set out on page 40.

# Introduction (continued)

## The key messages in this report (continued)

### Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

### Conclusions on audit dimensions

**Financial sustainability** – The Commission has achieved a small overspend in 2021/22 in relation to non-cash items and set a balanced budget for 2022/23, therefore is financially sustainable in the short term. It also has a MTFP which reflects the recommendations made in our 2020/21 audit report and is reporting moderate performance against its KPIs with resources targeted at those areas where further progress is required.

**Governance and transparency** - The Commission has acted quickly to address the weaknesses in the leadership and governance arrangements that were highlighted in our 2020/21 report. All recommendations have been assessed as being fully implemented. It is important that the Commission maintains the momentum during the first year of the new Board.

Our detailed findings and conclusions are included on pages 16 to 20 of this report.

### Added value

Our aim is to add value to the Commission by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Commission promote improved standards of governance, better management and decision making, and more effective use of resources.

### Quality indicators

The key metrics related to your control environment which can significantly impact the execution of the audit have been assessed on page 6. These have consistently been ranked as 'mature' which has enabled timely and efficient completion of audit procedures and strengthens the reliability of the Commission's financial reporting.

### Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Commission, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Commission, management and staff for the good working relationship over the period of our appointment.

**Pat Kenny**  
Associate Partner

# Annual Report and Accounts audit



# Quality indicators

## Impact on the execution of our audit

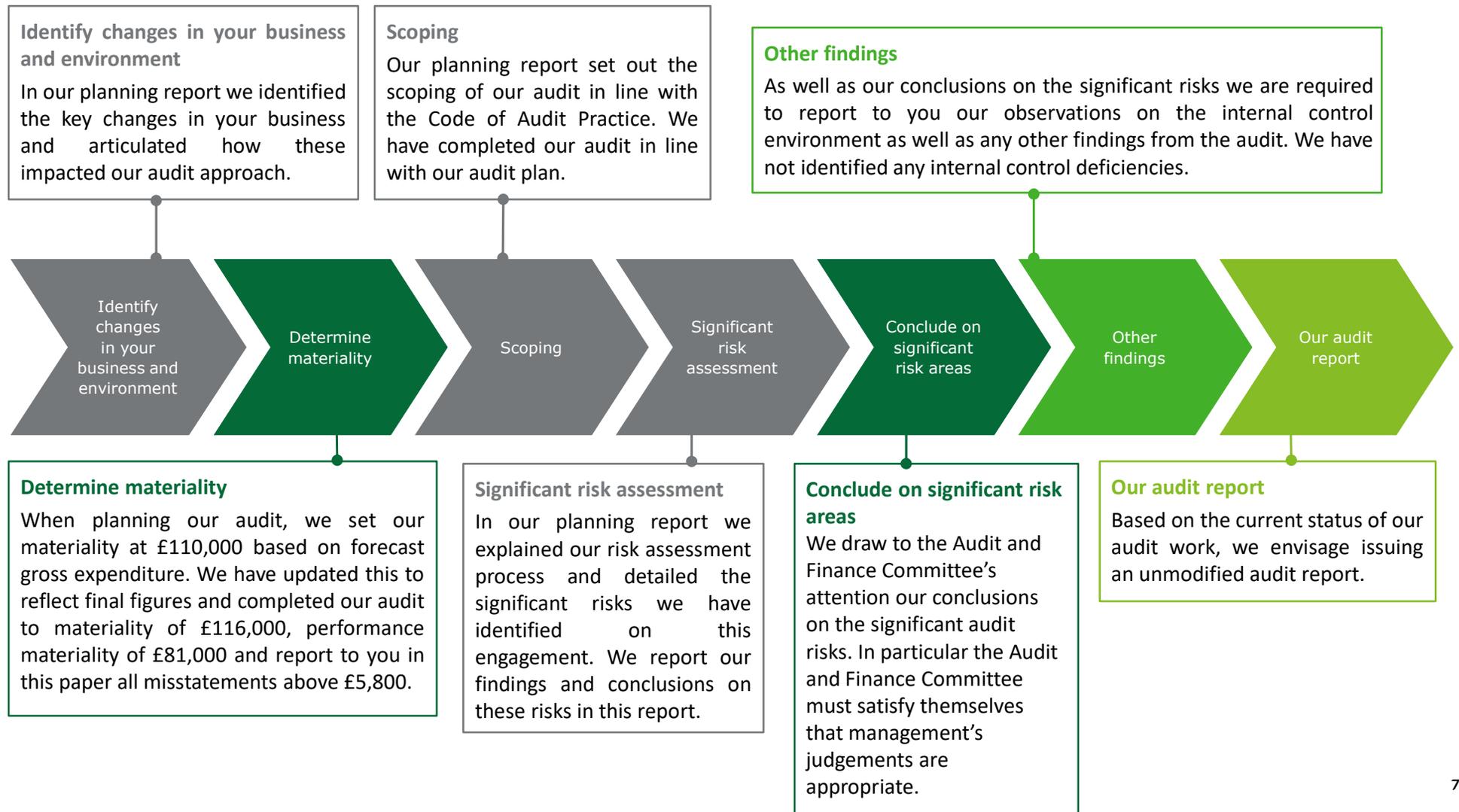
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements				Key judgements for the Commission relate primarily to live or potential appeals to the Land Court and the Court of Session. Management demonstrated a clear understanding of these areas, were able to explain them clearly and provide sufficient and appropriate evidence to support these judgements at an early stage in the audit.
Adherence to deliverables timetable				Management provided all evidence in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel				Deloitte and the Commission have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers				Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts. This is borne out by the resubmission rate on requests for the audit being low, at 1%.
Quality of draft Annual Report and Accounts				A full draft of the Annual Report and Accounts was received for audit on 16 June 2022. We identified areas of good practice throughout, including good use of graphics and good links to national outcomes.
Response to control deficiencies identified				We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors				We have identified two disclosure misstatements, as set out on page 40. These have been corrected by management.

Lagging    Developing    Mature

# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within expenditure resource limits			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)

## Operating within expenditure resource limits



### Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we do not consider this to be a significant risk for the Commission as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. The risk is that the Commission could materially misstate 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 the completeness of accruals and the existence of 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. 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 and challenge

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:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance, the processing of journals and management estimates;
- Obtaining independent confirmation of the resource limits allocated to the Commission by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

### Deloitte view

We identified no issues through the testing performed.

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

We confirmed that the Commission has performed within the limits set by the Scottish Government with a final outturn of a £66,000 deficit relating to non-cash items, and therefore is in compliance with the financial targets in the year.

# Significant risks (continued)

## Management override of controls



### Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



### Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

#### Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- 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; and
- Tested a sample of journal entries from throughout the year and other adjustments made at the end of a reporting period.

### Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Tested the design and implementation of controls over accounting estimates;
- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

### Significant and unusual transactions

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

#### Deloitte view

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

We have not identified any instances of management override of controls in relation to the specific transactions tested.

## Significant risks (continued)

### Management override of controls (continued)

**Key estimates and judgements** The key estimates and judgements in the Annual Report and Accounts include those which we have selected to be the significant audit risks around achievement of expenditure resource limits. These are inherently the areas in which management has the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on these risks, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Contingent Liabilities/Provisions	The Commission is aware of a small number of live or potential appeals to the Land Court and Court of Session which might, depending on the Court's decisions, lead to costs being awarded against the Crofting Commission. The likelihood of appeals and the amounts of any resulting liabilities cannot be estimated with certainty, but the overall potential liability estimated by the Crofting Commission is sufficient to require a contingent liability to be recorded.	In the draft Annual Report and Accounts, the Commission have disclosed a contingent liability of £17,000. In line with the requirements of ISA 540 (Auditing accounting estimates and related disclosures), we have obtained documents detailing management's assessment of ongoing legal claims. We have challenged management's assessment and consulted with management's legal expert to confirm there have been no subsequent events that may impact the amounts disclosed in the Annual Report and Accounts. We are satisfied that this meets the definition of a contingent liability and has been correctly disclosed as such.

# Other significant findings

## Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

### Qualitative aspects of your accounting practices:

The Commission has prepared its Annual Report and Accounts in line with the FReM. We have not identified any areas of non-compliance with accounting standards or good practice in our review of the Commission's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to our 'Audit Dimensions' report for 2020/21 and the conclusions and recommendations contained within.

We have also discussed the new accounting requirements for the Fair Pay disclosure and note that following updates made by management, we are satisfied that these have been appropriately disclosed.

### Regulatory change

IFRS 16, Leases, comes into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. We are satisfied that management have reviewed the potential impact of IFRS 16 and agree with management's conclusion that none of the Commission's current lease agreements fall under the scope of the standard.

### Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Board on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# 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.



### **Our opinion on the Annual Report and Accounts**

Our opinion on the Annual Report and Accounts is expected to be 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the Annual Report and Accounts 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.

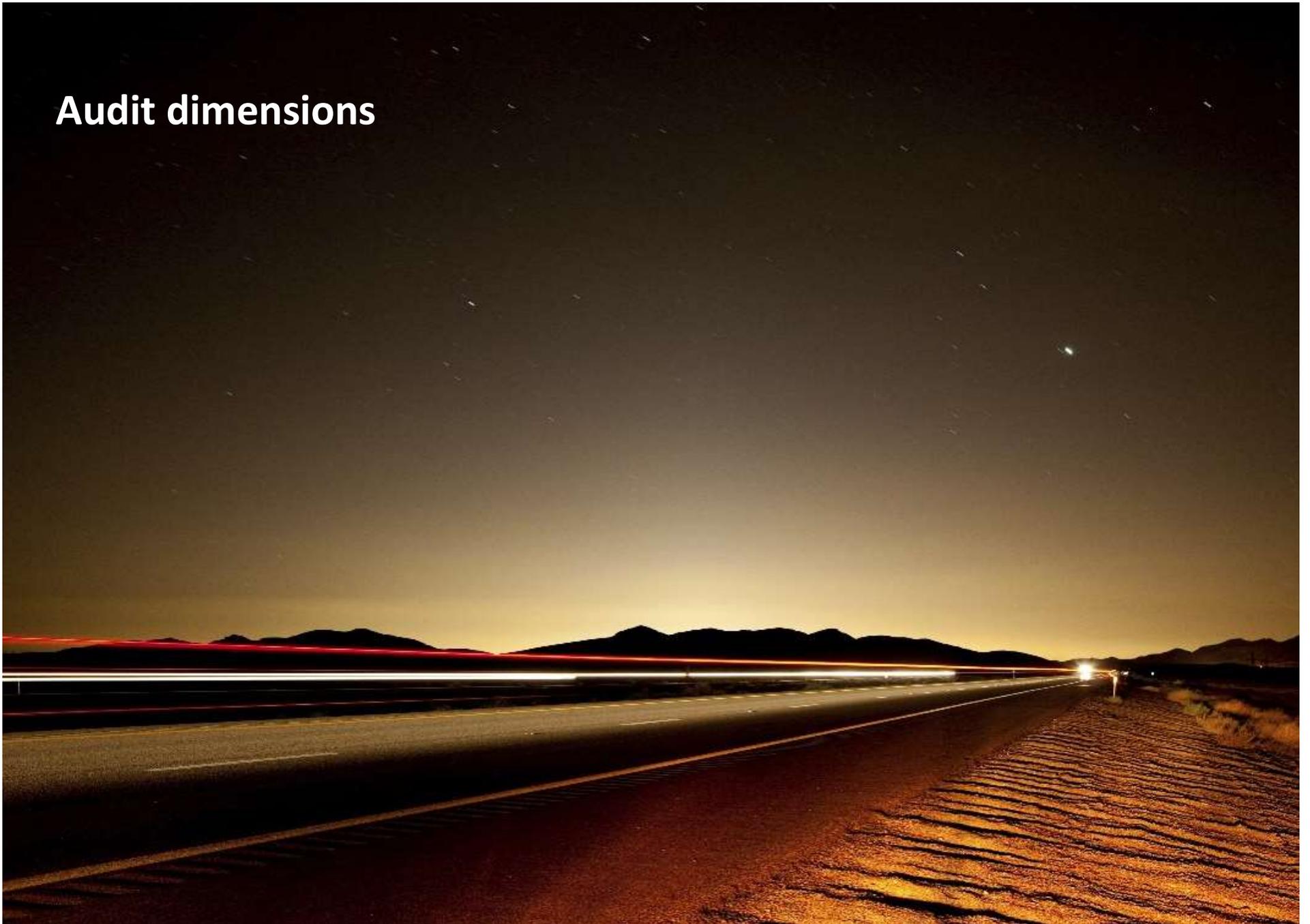
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 14.

# Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report and Staff Report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Commission.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. 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>There are several areas of good practice throughout the Performance Report. We identified a few minor areas for improvement which have been actioned by management.</p>
The Accountability Report	Management have ensured that the Accountability Report meets the requirements of the FReM, comprising the governance statement, Remuneration Report and Staff Report and the Parliamentary Accountability Report.	<p>We have assessed whether the information given in the Governance Statement is consistent with the Annual Report and Accounts, has been prepared in accordance with the Accounts Direction and is consistent with our knowledge of the entity. No exceptions have been 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. We provided management with minor comments and suggested changes and have received an updated version reflecting these changes.</p> <p>We have also audited the auditable parts of the Remuneration Report and Staff Report and confirmed that it has been prepared in accordance with the Accounts Direction. We identified two misstatements relating to the new Fair Pay disclosure requirements for 2021/22 as set out on page 40. These have both been corrected by management.</p>

# Audit dimensions



# Audit dimensions

## Overview

As set out in our Audit Plan, the Code of Audit Practice sets out four audit dimensions that frame the wider scope of the audit of the accounts. The audit dimensions provide a common framework for all the audit work conducted for the Auditor General and for the Accounts Commission.

As a result of a number of significant issues identified in our 2020/21 audit, the Auditor General for Scotland reported to the Scottish Parliament's Public Audit Committee (PAC) in November 2021 under section 22 of the Public Finance and Accountability (Scotland) Act 2000. This report drew the Parliament's attention to the issues relating to weaknesses in leadership and governance and financial sustainability that were identified in our 2020/21 audit. In view of these issues, we concluded that it remained appropriate to apply expanded wider scope requirements to specifically follow-up on the recommendations made in 2020/21. Our work in this area has therefore covered:

- Financial sustainability
- Governance and transparency.

We have carried out a detailed follow up of all recommendations made in our 2020/21 report and are pleased to note that all 41 recommendations have been implemented. The key actions are summarised on the following pages with the full action plan included within the Appendices at pages 23 to 39 of the report.



In addition to the above, we have reviewed the Commission's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Commission's arrangements to be effectively designed and appropriately implemented.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

# Financial sustainability

Can short-term (current and next year) financial balance be achieved?



Is there a long-term (5-10 years) financial strategy?



Is investment effective?



**Financial Sustainability**

## Significant risks identified in our Audit Plan

In our 2020/21 audit report, we concluded that the Commission achieved short term financial balance in 2020/21 and had plans in place to do so in 2021/22. However, we were unable to conclude that the Commission is sustainable in the medium-to-long term due to weaknesses in the overall business planning arrangements. This was highlighted in the Auditor General for Scotland's report to the PAC, published in October 2021. This therefore remained a significant risk and was a key area of focus for our audit work.

## Short term financial planning

The 2021/22 budget of £3.2m was approved by the Board on 13 May 2021. It has been updated throughout the year to include in-year movements and the final outturn as reported in the Annual Report and Accounts is an overspend of £66k (2%) relating to non-cash items. The Senior Management Team and Board regularly review progress against budget throughout the year. From review of the reporting throughout the year, variances are clearly reported and explained.

The 2022/23 budget of £3.9m, was approved by the Board on 31 March 2022, being a balanced budget. The key assumption underpinning the budget was access to £3.9m of Grant in Aid. 84.1% of this amount is budgeted for salaries, on the assumption that all vacancies will be filled as well as additional appointments detailed within the business case submitted to the Scottish Government in February 2022 and approved in April 2022. The budget for staff costs was based on the salary uplifts detailed within the Scottish Public Sector Pay Policy 2022-23. The budget notes that staff turnover and recruitment represent a key risk due to their unpredictability, as well as the risk that employer NI and pension uprates could vary from those rates assumed within the budget.

Recommendations made in our 2020/21 report relating to short-term financial planning have been followed-up on pages 23-26, with all being fully implemented. In particular, we are pleased to note:

- A more formalised budget setting process was put in place for 2022/23 to capture the input from the Audit and Finance Committee (AFC) and the Board;
- Staff costs are now reflected at a higher reporting level, with the budget setting process linked to the Corporate Plan and Workforce Plan; and
- The savings incorporated within the budget have been given a "RAG" status to highlight any areas of particular risk.

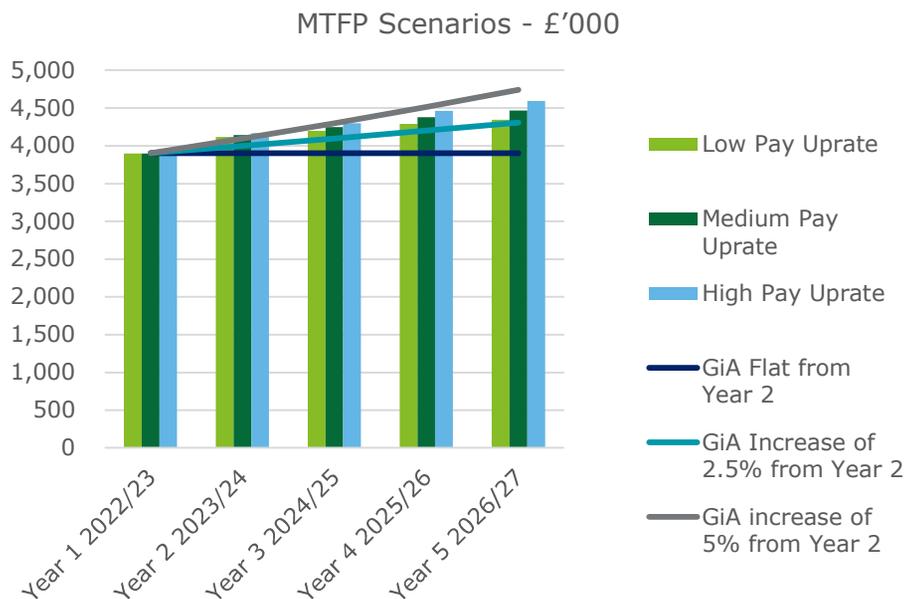
Based on the above, we are satisfied that the Commission can achieve short term financial balance.

# Financial sustainability (continued)

## Medium-to long-term financial planning

The Commission has updated the Medium-Term Financial Plan (MTFP) covering the period 2022 to 2027 in the year in line with the recommendation made in our 2020/21 audit report. The plan is formulated to consider an optimistic upside scenario for Scottish Government funding and future pay uplifts (5% increase in Grant in Aid from 2023/24 and a 1% pay uprate), a central most likely scenario (2.5% increase in Grant in Aid funding and a 2% pay uprate) and a pessimistic downside scenario (no increase in Grant in Aid funding and a 3% pay uprate).

We are satisfied that the medium-to-long-term financial planning recommendations made in our 2020/21 audit report have been fully implemented, as set out on pages 23-26. In particular, we are pleased to note it now covers a 5 year period, with different scenarios and a clearer link to the Corporate Plan and Workforce Plan.



In response to our 2020/21 report, the Commission engaged an independent reviewer to assess the optimal workforce structure for the organisation. The outcome of this formed the cornerstone of a business case to the Scottish Government and subsequent approval of additional Grant in Aid for 2022/23 which has been built into the 2022/23 budget.

Based on the above, we are satisfied that the Commission are in a financially sustainable position over the medium-term.

## Effective investment

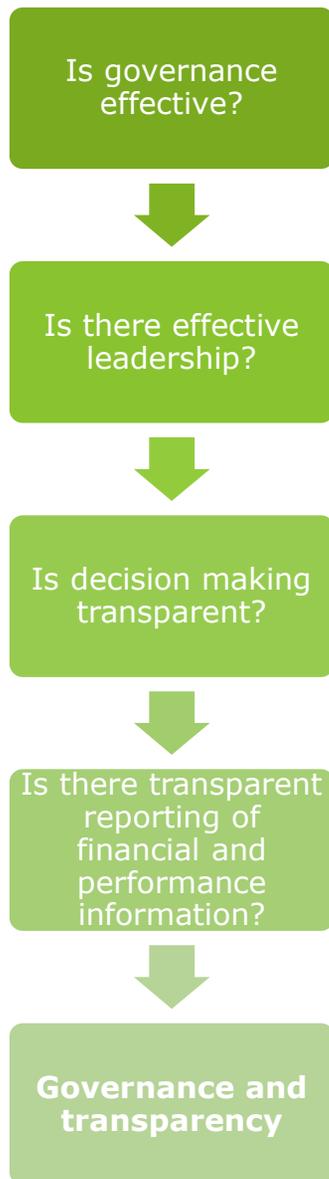
From the disclosures within the Performance Report, the Commission have achieved 43% of its High Level Indicators with a further 29% partially achieved (2020/21: 67% achieved). Where indicators have not been achieved, this is attributed to disruption caused by the impact of COVID-19 and the loss of experienced staff within the Commission. As noted above, an independent workforce review was undertaken in the year to address the workforce issues faced by the Commission.

Based on the above, we are satisfied that the Commission are working towards achieving its objectives as set out within its Corporate and Business Plan and have clear plans in place to address areas of lower performance. We recognise that future performance will be closely linked to having the right workforce in place.

### Deloitte view – Financial sustainability

Although the Commission saw an overspend in 2021/22, this related to non-cash items. It has also set a balanced budget for 2022/23, therefore is financially sustainable in the short term. It also has a MTFP which reflects the recommendations made in our 2020/21 audit report and is reporting moderate performance against its KPIs, with resources targeted at those areas where further progress is required.

# Governance and transparency



## Significant risks identified in our Audit Plan

In our 2020/21 audit report, we identified significant weaknesses in the leadership and governance arrangements as well as the relationship with the sponsor division which resulted in a breakdown in trust between the Board and its senior management team. This was also highlighted in the Auditor General for Scotland’s report to the PAC, published in October 2021. This was considered by PAC in November 2021, where the Chief Executive and the Convenor were asked to provide evidence. During this session it was confirmed that 33 of the 41 recommendations had been implemented, with a further two due for implementation during November 2021 and work was ongoing on the remainder.

While the progress reported was positive, there remained a significant risk which was a key area of focus for our audit work.

## Status of recommendations

Recommendations made in our 2020/21 report relating to governance and transparency have been followed-up on pages 30-38, with all being assessed as fully implemented. In particular, we are pleased to note the following:

### Leadership:

- The Board met privately with the Cabinet Secretary Minister for Rural Affairs and Natural Environment in July 2021. The Chief Executive Officer (CEO) also met with her in September 2021 and additional discussions were held between the Board and SMT in October 2021. As a result of these discussions, the Board has cancelled its earlier “no confidence” position with regard to the CEO.
- Commissioner Mathieson was appointed as Convenor by the Scottish Government Cabinet Secretary following Commissioner MacKenzie stepping down.
- Appraisals for Commissioners have taken place for 2021/22 and a training plan has been put in place. Two specific training sessions have taken place focussing on governance arrangements and specifically considering the root cause of the communication issues identified within our 2020/21 report.

# Governance and transparency (continued)

## Status of recommendations (continued)

### *Governance:*

- Following engagement with the Board, CEO and Sponsor Division, an updated and refreshed Framework Agreement is now in place.
- A Governance Responsibility Statement and overarching Code of Corporate Governance is now in place clarifying governance roles and decision-making responsibilities.
- During the run up to the elections for new Commissioners, work was carried out to address the expectation gap between what the role of the elected Commissioners is and what it is perceived to be. The Commission has assessed the effectiveness of this piece of work and recognises that a more defined campaign, outwith the framework of the elections, would be more appropriate and is something that is being taken forward by the new Board.

### *Openness and transparency:*

- Training has been provided to both the SMT and Board on risk management and the risk registers have been reviewed to ensure that they are reflective of the risks which actually face the organisation.
- The Commission has reviewed its Key Performance Indicators (KPI) and high-level regulatory case statistics are now included within the KPI report.
- An “Action Log” is now a standard on all Board agendas, and the use of “oral” updates only used where needed with written reports now standard practice.

### Deloitte view – Governance and transparency

The Commission has acted quickly to address the weaknesses in the leadership and governance arrangements that were highlighted in our 2020/21 report. All recommendations have been assessed as being fully implemented. It is important that the Commission maintains the momentum during the first year of the new Board.

# 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 and Finance Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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 and Accounts;
- Our internal control observations; and
- Other insights we have identified from our audit.

## The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

## Use of this report

This report has been prepared for the Commission, 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.

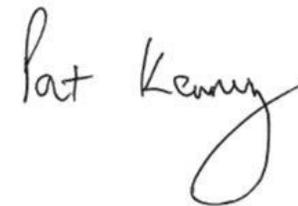
## What we don't report

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

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 procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 20 July 2022

# Appendices



# Action Plan

We have followed up the recommendations made in our previous years audits. We are pleased to note that all recommendations have been implemented.

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.1 Financial Sustainability</b></p> <p>The level of detail provided on staff costs in the budget should be reconsidered, with less focus on staff grades and a shift to considering at a high level how the budget drives progress to the optimal staffing structure in line with the Workforce Plan.</p>	<p>This recommendation will be incorporated within the 2022/23 budget process. Staff costs will be reflected at a higher reporting level, with a focus upon the delivery of operational functions. The budget setting process will also link to the Workforce Plan.</p> <p><b>Responsible Person:</b> Head of Finance</p> <p><b>Target Date:</b> June 2021</p>	<p>High</p>	<p>This recommendation has been incorporated within the 2022/23 budget process. Staff costs are reflected at a higher reporting level. The budget setting process is linked to the Corporate Plan and was also linked to the Workforce Plan after the Scottish Government approved the business case submitted by the Commission in February 2022 to draw down full £3.9m in funding outlined within Parliamentary budget in November 2021.</p> <p><b>Fully implemented</b></p>
<p><b>1.2 Financial Sustainability</b></p> <p>The MTFP should be revised to address the issues identified through our audit, as set out on page 12 of the Wider Scope Report.</p>	<p>MTFP to be revised. Initial work to be undertaken shortly but overall revision linked to 1.3 reviews.</p> <p><b>Responsible Person:</b> Head of Finance with CEO</p> <p><b>Target Date:</b> August 2021</p>	<p>High</p>	<p>The draft submitted to the April 2022 Audit &amp; Finance Committee was drafted by Head of Finance who has taken into account the various recommendations/issues identified on page 12 of the wider scope report. A reference page with links to the key documents referred to within the MTFP has also been added. This was approved by the Committee.</p> <p><b>Fully implemented</b></p>

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# Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.3 Financial Sustainability</b></p> <p>The Commission should engage an independent review into the optimal workforce structure for the organisation.</p>	<p>Identify and appoint independent reviewer to carry out consultation on staff structure and report on optimal structure to the Board.</p> <p><b>Responsible Person:</b> CEO with Vice Chair</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Identified and appointed an independent reviewer in September 2021 to carry out consultation on staff structure and report on optimal structure to the Board.</p> <p>Extensive consultation throughout. Review completed and initially considered by the Board on 3 December 2021. Report and recommendations have subsequently formed a cornerstone to business case submitted to SG.</p>
<p><b>1.4 Financial Sustainability</b></p> <p>Subject to the findings of the independent review into the Commission’s workforce, the Commission should revise its Workforce Plan to clearly set out how the Commission intends to make any transition from the current structure to the proposed structure.</p>	<p>Linked to 1.3/1.5.</p> <p><b>Responsible Person:</b> CEO with Head of Operations &amp; Workforce</p> <p><b>Target Date:</b> To follow after 1.3 review concludes</p>	High	<p>The Workforce plan has been revised and refreshed, with the final version approved by the Board at the June meeting.</p> <p><b>Fully implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.5 Financial Sustainability</b></p> <p>Management, in conjunction with the Board, should carry out a review into the optimal SMT structure for the organisation, with restructuring plans subsequently prepared following appropriate staff consultation to implement this structure, subject to approval by the Board.</p>	<p>Include SMT in review at 1.3.</p> <p><b>Responsible Person:</b> CEO with Vice Chair</p> <p><b>Target Date:</b> August 2021</p>	<p>High</p>	<p>Refer to 1.3 (which included an independent review of SMT structure) and 1.1 (which includes request to restructure SMT). The Board has considered and approved the business case in closed session at the February 8th 2022 Board Meeting.</p> <p><b>Fully Implemented</b></p>
<p><b>1.6 Financial Sustainability</b></p> <p>In conjunction with the Board, management should review and formalise the budget-setting process, including setting out those involved and their stage of involvement. In carrying out this review, there should be sufficient opportunity for the Board to contribute to the budget setting process at the 'input' stage, rather than only at the 'approval' stage.</p>	<p>A paper will be presented to the AFC for consideration at its scheduled meeting on 27 July 2021. It would be envisaged that a process for capturing input from AFC/Board for following year budget could be incorporated from Q3 of each financial year as a standing item within agendas.</p> <p><b>Responsible Person:</b> Head of Finance</p> <p><b>Target Date:</b> July 2021</p>	<p>Medium</p>	<p>A paper was presented to the AFC for consideration at its scheduled meeting on 27 July 2021. Approved a process for capturing input from AFC/Board for 2022/23 budget.</p> <p><b>Fully implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.7 Financial Sustainability</b></p> <p>For the high-level savings set out in the 'budget summary', management should clearly identify savings which have been specifically identified and those which remain to be identified – including a 'RAG' status to highlight any areas of particular risk to the Commission in terms of the achievability of savings.</p>	<p>This recommendation will be incorporated within the 2022/23 budget process and featured within the budget summary with appropriate RAG status. Will incorporate in 2022/23 budget process.</p> <p><b>Responsible Person:</b> Head of Finance <b>Target Date:</b> June 2021</p>	Low	<p>This recommendation has been incorporated within the 2022/23 budget process.</p> <p><b>Fully Implemented</b></p>
<p><b>2.1 Leadership</b></p> <p>The Commission should consider whether the CEO can reasonably expect to deliver his functions effectively in light of the Board expressing no confidence in his abilities to do so. This will need to be in consultation with the Scottish Minister. The conclusion reached should be formally communicated to the Board.</p>	<p>Noted - nothing more for AFC or Board to do at this stage.</p> <p><b>Responsible Person:</b> Board <b>Target Date:</b> October 2021</p>	High	<p>Board met privately with Cabinet Secretary Minister for Rural Affairs and Natural Environment in July 2021. CEO met with her on 1 September 2021.</p> <p>Additional discussion between Board and SMT within Closed Session of October 2021 Board Meeting.</p> <p>The Board has cancelled its earlier 'no confidence' position.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.2. Leadership</b></p> <p>The Board should consider whether the Convener can deliver his functions effectively in light of the issues highlighted through our audit. This will need to be in consultation with the Scottish Minister. The conclusion reached should be formally recorded.</p>	<p>Noted - nothing more for AFC or Board to do at this stage.</p> <p><b>Responsible Person:</b> Board</p> <p><b>Target Date:</b> June 2021</p>	High	<p>Commissioner Mackenzie stepped down as Convener and resigned from the Commission Board. Commissioner Mathieson subsequently appointed as Convener by SG Cab Sec.</p> <p><b>Fully Implemented</b></p>
<p><b>2.3 Leadership</b></p> <p>The Convener must conduct appraisals of fellow Commissioners. Appraisals for the 2020/21 year just ended should be performed as soon as possible, with plans for future appraisals clearly set out. The other Commissioners should ensure that they hold the Convener accountable for performing this key aspect of his role.</p>	<p>Convener to carry out 2020/21 Appraisals.</p> <p><b>Responsible Person:</b> Convener</p> <p><b>Target Date:</b> July 2021</p>	High	<p>Refer to Feb 2022 Board Papers (Agenda item 9)</p> <p><b>Fully Implemented</b></p>
<p><b>2.4 Leadership</b></p> <p>A training plan should be developed for members of SMT, informed by their role, objectives and identified development needs from their performance appraisal. The CEO should ensure that individual training plans address any perceived cross-SMT weaknesses identified either by the SMT themselves or the Board.</p>	<p>SMT Training Plan revised + individual SMT PLPs completed.</p> <p><b>Responsible Person:</b> CEO</p> <p><b>Target Date:</b> June 2021</p>	High	<p>SMT Training Plan revised + individual SMT PLPs completed.</p> <p>Monitoring System set up and populated. Is now a standing monthly agenda item for SMT continual professional development.</p> <p><b>Fully Implemented</b></p>

# Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.5 Leadership</b></p> <p>Communications between the CEO, Sponsor Division, and Convener, should be documented in a proportionate manner to the importance of the matters being discussed, always capturing key details of what has been communicated and setting out any actions arising.</p>	<p>1. CEO and Convener to document communications with sponsor division.</p> <p>2. Include update from meetings with sponsor division as Standing Item on Board agenda.</p> <p><b>Responsible Person:</b></p> <p>1. CEO/Convener</p> <p>2. Head of Business Support</p> <p><b>Target Date:</b></p> <p>1. Immediate effect</p> <p>2. August 2021</p>	High	<p>CEO and Convener to document communications with sponsor division.</p> <p>Include update from meetings with sponsor division as Standing Item on Board agenda.</p> <p><b>Fully Implemented</b></p>
<p><b>2.6 Leadership</b></p> <p>The Board, CEO and SMT should undertake joint training to understand and appreciate each other's roles. The Sponsor Division should be invited to this. This training should focus on specific areas of perceived ambiguity in the On Board guidance, Framework Document and other key governance documents within the Commission.</p>	<p>Arrange suitable venue to deliver joint training session with David Nichol as Facilitator, for the Board, CEO and SMT and sponsor division.</p> <p><b>Responsible Person:</b></p> <p>Convener/Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	High	<p>On 23 August 2021, the Commission appointed On Board Training and Consultancy Ltd (On Board) to facilitate two Governance Workshops.</p> <p>2 Workshops 'A' &amp; 'B' attended by SG Sponsor, SMT And Board.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.7 Leadership</b></p> <p>The Commission should nominate a Deputy Accountable Officer who will officially 'step in' when the designated Accountable Officer is unavailable.</p>	<p>Convener to contact SG for a suitable nominee deputy AO.</p> <p><b>Responsible Person:</b> Convener</p> <p><b>Target Date:</b> June 2021</p>	<p>High</p>	<p>Agreed CC Solicitor as the 'senior officer' will act on the Accountable Officer's behalf, when necessary, when the AO is uncontactable. Will be reflected within the Commission's Code of Corporate Governance.</p> <p><b>Fully Implemented</b></p>
<p><b>2.8 Leadership</b></p> <p>The Board, CEO, and SMT Division should have a facilitated development session to identify the root cause of communication issues highlighted throughout our audit, their implications, and proposed solutions. The Sponsor Division should be invited to this. An action plan should be prepared following this to address these underlying issues, with this being reported to the Board until such time as all parties are satisfied that the underlying issues have been addressed.</p>	<p>Refer to 2.6 - Arrange suitable venue to deliver joint training session with David Nichol as Facilitator, for the Board, CEO and SMT and sponsor division.</p> <p><b>Responsible Person:</b> Convener/Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	<p>High</p>	<p>Per recommendation 2.6 - On 23 August 2021, the Commission appointed On Board Training and Consultancy Ltd (On Board) to facilitate two Governance Workshops.</p> <p>2 Workshops 'A' &amp; 'B' attended by SG Sponsor, SMT And Board.</p> <p><b>Fully Implemented</b></p>
<p><b>2.9 Leadership</b></p> <p>The training plan for the Board should be subject to Board approval, and clearly set out how the training plan was informed and decided upon. It should be updated annually.</p>	<p>Update and revise Board Training Plan and create procedure for monitoring outputs.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> July 2021</p>	<p>Medium</p>	<p>Updated and revised Board Training Plan and created procedure for monitoring outputs. Programme has been revised to show all training to date, circulated to AFC who were content for Secretary to draft paper for Dec Board for annual approval of plan.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.10 Leadership</b></p> <p>The Commission should ensure that it has systems in place to monitor who attends training and to capture how effective this training is perceived to be.</p>	<p>Update and revise Board Training Plan and create procedure for monitoring outputs.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> July 2021</p>	Medium	<p>Feedback monitoring form created and circulated.</p> <p><b>Fully Implemented</b></p>
<p><b>3.1 Governance</b></p> <p>The Commission's should engage with the Sponsor Division to investigate if the Framework Document can be revised to explicitly set out that, where the CEO is an employee of the Scottish Government rather than the Commission, the Board is jointly responsible with the Sponsor Division for performing an appraisal of the CEO.</p>	<p>Discuss possibility of drafting written protocol relating to status of CEO with external auditor, to append to Framework Document when approved.</p> <p><b>Responsible Person:</b> Vice Chair of AFC</p> <p><b>Target Date:</b> July 2021</p>	High	<p>Significant engagement with Board, CEO &amp; Sponsor regards update and refresh of Framework Document.</p> <p><b>Fully Implemented</b></p>

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## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>3.2 Governance</b></p> <p>The Board, in consultation with staff, management and the Sponsor Division, should formally agree the Commission’s prospective approach to the appointment of employees in terms of appointing their own employees or using Scottish Government staff.</p>	<p>Explore possible SLA with SG to improve recruitment timescales + whether any HR support would be available if staff directly employed.</p> <p><b>Responsible Person:</b> CEO/Head of Finance</p> <p><b>Target Date:</b> June 2021</p>	High	<p>Board Strategy Meeting in August 2021 and Board Meeting in October 2021: outcome was not to pursue appointment of own employees (with the possible exception of a future CEO) at this time.</p> <p><b>Fully Implemented</b></p>
<p><b>3.3 Governance</b></p> <p>The Board, in conjunction with management and the Sponsor Division, should ensure there is an agreed protocol for ensuring that the Board has the necessary levels to effect accountability of the CEO where the CEO is an employee of the Scottish Government.</p>	<p>Create draft protocol as above, to clarify accountability of CEO. Linked to 3.1.</p> <p><b>Responsible Person:</b> Vice Chair of AFC</p> <p><b>Target Date:</b> July 2021</p>	High	<p>All parties (Convener, CEO, SG Sponsor) have agreed protocol and incorporated within Framework Agreement.</p> <p><b>Fully Implemented</b></p>
<p><b>3.4 Governance</b></p> <p>The Commission should consider whether it needs an overriding Code of Corporate Governance, bringing together its interpretation of its governing legislation, Scottish Government guidance as it applies to the Commission, and the Commission’s Framework Document.</p>	<p>Draft Code of Corporate Governance (as above) and link this to Framework Document. Linked to 3.1 &amp; 3.3.</p> <p><b>Responsible Person:</b> Vice Chair of AFC</p> <p><b>Target Date:</b> July 2021</p>	High	<p>A new Code of Corporate Governance was approved by the Board at the June 2022 meeting.</p> <p><b>Fully Implemented</b></p>

# Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>3.5 Governance</b></p> <p>In developing a Code of Corporate Governance or revising its Framework Document, the Commission should consider including an explicit 'reasonableness' test for communication of matters between management, the Board and the Scottish Government.</p>	<p>Incorporate 'reasonableness' test into above Code. Linked to 3.1, 3.3 &amp; 3.4.</p> <p><b>Responsible Person:</b> Vice Chair of AFC</p> <p><b>Target Date:</b> July 2021</p>	High	<p>A new Code of Corporate Governance was approved by the Board at the June 2022 meeting.</p> <p><b>Fully Implemented</b></p>
<p><b>3.6 Governance</b></p> <p>The Commission should arrange a joint development session between the Board and SMT on the governance arrangements as they apply across the Commission to ensure mutual understanding of the arrangements as every party expects them to work. The Sponsor Division should be invited to this.</p>	<p>Joint training of Board, SMT and sponsor to be included in Training Plan and Convener to invite sponsor division to participate.</p> <p><b>Responsible Person:</b> Convener/Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Joint workshops undertaken - refer to 2.6.</p> <p><b>Fully Implemented</b></p>
<p><b>3.7 Governance</b></p> <p>The Commission should arrange training for the Board and SMT on how to effectively challenge inappropriate behaviours where an individual or group is failing to follow the arrangements as they have been agreed.</p>	<p>Linked to 3.6.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Joint workshops undertaken - refer to 2.6.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>3.8 Governance</b></p> <p>The Commission should arrange training for both the Board and SMT, specifically covering the strategic and operational split in public sector organisations.</p>	<p>Linked to 3.6 and 3.7.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Joint workshops undertaken - refer to 2.6.</p> <p><b>Fully Implemented</b></p>
<p><b>3.9 Governance</b></p> <p>The governance structure within the Commission should be reviewed to ensure that the Audit and Finance Committee is considering matters in line with its Terms of Reference, that the Board considers appropriate matters and that there is a structure in place to provide appropriate scrutiny of performance.</p>	<p>Formalise revised procedure for items to be taken from AFC to Board for scrutiny.</p> <p>Paper scheduled for 27 July AFC recommending review of Key Performance Indicators is transferred to the Board. Head of Finance will contact Vice-Chair to review AFC workplan to gain assurance that agenda items being considered are in line with the SG Audit &amp; Assurance Committee Handbook.</p> <p><b>Responsible Person:</b> Vice Chair/Head of Finance</p> <p><b>Target Date:</b> August 2021</p>	High	<p>This was in connection with the AFC initially reviewing the KPI Report. The Key Performance Indicators Quarterly Review has now transferred as a standing Board Agenda item.</p> <p>Vice-Chair content that AFC Work Plan is in line with the SG Audit &amp; Assurance Committee Handbook. AFC Terms of Reference updated at November Committee Meeting to reflect completion of this recommendation.</p> <p><b>Fully Implemented</b></p>

# Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>3.10 Governance</b></p> <p>The Commission should consider how to address the expectation gap between what the role of the elected Commissioners is and what it is perceived to be, in advance of elections in 2022.</p>	<p>AFC to discuss action required with Jane Craigie Marketing.</p> <p><b>Responsible Person:</b> AFC Members</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Delivered within pre-election materials and events.</p> <p><b>Fully Implemented</b></p>
<p><b>4.1 Openness and Transparency</b></p> <p>The SMT should review the process through which papers are submitted to the Audit and Finance Committee and Board to ensure there is an appropriate review prior to the presentation.</p>	<p>The committee is satisfied with the quality of papers submitted and did not feel the need for changes to current processes.</p> <p><b>Responsible Person:</b> CEO</p> <p><b>Target Date:</b> August 2021</p>	High	<p>The full implementation of the spirit of this recommendation is not realistic until the shape of SMT changes.</p> <p>The process has been reviewed. We agreed that there was no point in having all 8 members of SMT check policies on fraud etc; that sensibly lay with Head of Finance and CEO. Equally on KPIs and risk registers, the way we work is for individual SMT members to complete the rows and for the CEO to check them for consistency.</p> <p>When there were major changes or additions to documents the SMT make space for them on the SMT agenda for a proper discussion.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4.2 Openness and Transparency</b></p> <p>Both the SMT and the Board should receive training on risk management – for example on identifying, understanding, responding to and scrutinising risk.</p>	<p>To be added to Training Plan.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	<p>High</p>	<p>Was added to Training Plan. Combination of Scottish Government CPD Risk training and a half day Board/SMT workshop facilitated by Azets (Internal Audit).</p> <p>22/9/21 Azets training workshop delivered. SMT Training delivered 9/11/21. Bespoke risk workshop facilitated by SG Governance &amp; Risk Team. Also reviewed at December 2021 Board Strategy Day.</p> <p><b>Fully Implemented</b></p>
<p><b>4.3 Openness and Transparency</b></p> <p>The risk registers should be reviewed in their totality to ensure that they are reflective of the risks which actually face the organisation.</p>	<p>Review Risk Registers</p> <p><b>Responsible Person:</b> Head of Finance</p> <p><b>Target Date:</b> July 2021</p>	<p>High</p>	<p>Refer to 4.2. The Outcome of workshops was a comprehensive review of risk registers.</p> <p>Review of Strategic Risk Register complete and Operational Risk Register reviewed in totality.</p> <p>26.01.22 AFC content with revised Operational Risk Register (also using an updated scoring template provided by SG Governance &amp; Risk Team). Board to consider the Strategic Risk Register on 8 February 2022.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4.4 Openness and Transparency</b></p> <p>The Commission should review its key performance indicators to ensure they provide performance information not only against the corporate plan outcomes, but also against key operational performance matters which may have a strategic impact.</p>	<p>Review KPIs</p> <p><b>Responsible Person:</b> Head of Finance</p> <p><b>Target Date:</b> November 2021</p>	<p>High</p>	<p>Reviewed KPIs. High Level Regulatory Case Statistics now included within KPI Report.</p> <p><b>Fully Implemented</b></p>
<p><b>4.5 Openness and Transparency</b></p> <p>Similar to the Audit and Finance Committee, the Board should institute a system of monitoring an Action Log as a standing item.</p>	<p>Include Action Points within Board Minutes.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> June 2021</p>	<p>Medium</p>	<p>Included Action Points within Board Minute. Action Log is a standing item within Board Paper agenda.</p> <p><b>Fully Implemented</b></p>
<p><b>4.6 Openness and Transparency</b></p> <p>The Commission should review its practice of regularly using 'oral' updates for the Board and ensure that these are only used where a paper would not be appropriate.</p>	<p>Oral updates to the Board will be accompanied by a brief written paper provided by SMT and Commissioners.</p> <p><b>Responsible Person:</b> SMT/Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	<p>Medium</p>	<p>Written reports now standard, with oral reports only as needed.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4.7 Openness and Transparency</b></p> <p>The Commission should identify the methods through which it provides information to the Audit and Finance Committee and the Board and assess whether it is appropriate to continue to provide that information informally or whether the information should form part of routine reporting at arranged meetings.</p>	<p>It was agreed that no action is required on 4.7 because the monthly statistics provided by Head of Operations &amp; Workforce are due to be incorporated into the quarterly KPI report.</p> <p><b>Responsible Person:</b> CEO</p> <p><b>Target Date:</b> August 2021</p>	Medium	<p>Captured within other actions.</p> <p><b>Fully Implemented</b></p>
<p><b>4.8 Openness and Transparency</b></p> <p>The Board should consider whether it is appropriate for the Strategic Risk Register to be 'for info' or whether the Board should perform a more in-depth challenge of the risks included and excluded.</p>	<p>AFC to review strategic risk register twice a year and forward to Board for discussion.</p> <p><b>Responsible Person:</b> CEO</p> <p><b>Target Date:</b> October 2021</p>	Medium	<p>The Strategic Risk Register will be scrutinised by the Board on a quarterly basis. The Agenda now ensures the SRR is for 'discussion' instead of 'info'.</p> <p><b>Fully Implemented</b></p>
<p><b>4.9 Openness and Transparency</b></p> <p>The SMT should explicitly consider at their meetings whether each item on their agenda should be reported to the AFC or Board and if it should, when that expects to be done.</p>	<p>SMT will consider whether any agenda items need to be transferred to Board.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> Immediate effect</p>	Medium	<p>SMT will consider whether any agenda items need to be transferred to Board. Standing item on every SMT agenda to ensure considered/captured.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4.10 Openness and Transparency</b></p> <p>The Standing Orders – or equivalent – should clearly set out how informal, private meetings of the Board can be called, how they should be conducted, any records which should be kept and emphasise the importance of the Board not using these meetings to in essence take Board decisions.</p>	<p>Explore revisions needed to Standing Orders/circulate draft changes.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	<p>Medium</p>	<p>Revised draft considered by Board on 3 December 2021.</p> <p><b>Fully Implemented</b></p>
<p><b>5.1 Relationships</b></p> <p>The Commission, in consultation with the Sponsor Division, should agree a protocol for attendance at Sponsor Division meetings, ensuring appropriate attendance to maintain effective relationships at appropriate levels between both parties.</p>	<p>The Convener will agree the action with the Board.</p> <p><b>Responsible Person:</b> Convener</p> <p><b>Target Date:</b> June 2021</p>	<p>High</p>	<p>The Convener agreed action with Sponsor Division. Invite will be automatically issued to Convener/Vice Convener. Another Board member will attend if both unavailable. Agenda will be issued in advance of meeting.</p> <p>The convener and vice convener have been routinely invited to all sponsor meetings and both have been regularly attending.</p> <p><b>Fully Implemented</b></p>
<p><b>5.2 Relationships</b></p> <p>In agreeing a protocol for the meetings between the Commission and Sponsor Division, consideration should be given to how the matters discussed at Sponsor Division meetings are shared with the wider Board.</p>	<p>Minutes/agenda of sponsor division meetings with Commission to be shared with Board.</p> <p><b>Responsible Person:</b> Convener</p> <p><b>Target Date:</b> Immediate effect</p>	<p>High</p>	<p>Minutes/agenda of sponsor division meetings with Commission shared with Board.</p> <p><b>Fully Implemented</b></p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>5.3 Relationships</b></p> <p>Similar to SMT meetings, there should be explicit consideration by the Commission as to whether items which are on the agenda at Sponsor Division meetings have been reported to the Committee or Board and if they have not, whether they should be.</p>	<p>Standing item to be added to Board agenda.</p> <p><b>Responsible Person:</b> Head of Business Support</p> <p><b>Target Date:</b> August 2021</p>	High	<p>Standing item added to Board agenda.</p> <p><b>Fully Implemented</b></p>
<p><b>5.4 Relationships</b></p> <p>The Commission should consider, in consultation with the Sponsor Division, the appropriateness of representatives of the Sponsor Division attending Board or other internal Commission meetings.</p>	<p>Sponsor division to be asked to reconsider numbers attending Board meetings.</p> <p><b>Responsible Person:</b> Convener</p> <p><b>Target Date:</b> June 2021</p>	High	<p>Agreed SG Sponsor will be invited to internal CC meetings 'as appropriate' and Convener will be aware in advance regards attendance.</p> <p><b>Fully Implemented</b></p>

# Audit adjustments

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Remuneration and Staff Report – Fair Pay disclosure</i></p> <p>Our review of the Draft Annual Accounts and Report highlighted that the disclosure for the average percentage change in salary in respect of the highest paid employee was missing.</p>	<p>FReM 6.5.19(a) – Entities are required to set out the average percentage change from the previous financial year in respect of the highest paid employee.</p>	<p>Qualitatively material – important for the users’ understanding of employees’ remuneration at the entity.</p>
<p><i>Remuneration and Staff Report – Fair Pay disclosure</i></p> <p>Our testing of the Fair Pay disclosure highlighted that the requirement relating to the average percentage change in salary in respect of the employees taken as a whole had been calculated on an incorrect basis.</p>	<p>FReM 6.5.19(b) – Entities are required to set out the average percentage change from the previous financial year in respect of the employees of the entity taken as a whole.</p>	<p>Qualitatively material – important for the users’ understanding of employees’ remuneration at the entity.</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### 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 auditor, we obtain reasonable, but not absolute, assurance that the Annual Report and Accounts 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 Annual Report and Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and 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 relation to operating within the expenditure resource limit and management override of controls as a key audit risk for your organisation.

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

In addition, we have reviewed management's own documented procedures regarding fraud and error in the Annual Report and Accounts.

# Independence and fees

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

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Commission and our objectivity is not compromised.

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## Fees

The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £19,820, as analysed below:

	£
Auditor remuneration	16,080
Audit Scotland fixed charges:	
Pooled costs	3,100
Audit support costs	640
<b>Total fee</b>	<b>19,820</b>

No non-audit services fees have been charged for the period.

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## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard 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.

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## Relationships

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.

We are not aware of any relationships which are required to be disclosed.

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