AUDIT SCOTLAND

Crofting Commission

Annual Audit Report 2014/15

Prepared for members of the Crofting Commission and the Auditor General for Scotland

Aug 2015

Contents

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This report has been prepared for the use of the Crofting Commission and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Audit and Finance Committee and the financial statements have been laid before parliament. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key Messages

Audit of financial statements	• Unqualified independent auditor's report (audit certificate) on the 2014/15 financial statements. • Officers provided good support to the audit team.
Financial management and sustainability	• Scottish Government core grant-in-aid (“GIA”) funding for the year was £2.547 million. • Commission received an additional £183,000 pressure funding to assist with a number of new duties and functions introduced by the Crofting Reform (Scotland) Act 2010 (Crofting Census, liaising with Registers of Scotland regards processing Croft Registration applications etc). • The Commission overspent its Resource Departmental Expenditure Limit (“DEL”) by £32,000, its Capital DEL by £69,000 and its Ring Fenced (non-cash) depreciation and amortisation budget by £60,000 on an accruals basis. Management have advised that Sponsor Division are aware of this.
Governance and transparency	• The Commission had sound governance arrangements in place during 2014/15. • Several Commissioners called a special meeting to consider a vote of no confidence in the Convener, Susan Walker. Prior to the meeting being convened, Ms Walker resigned in May 2015 and Colin Kennedy was elected as Convener in June 2015.
Best value	• The Commission has still to undertake a self-evaluation of its Best Value work in line with Scottish Government guidance.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Crofting Commission (“the Commission”).

2. The Commission and the Chief Executive, as the Accountable Officer, are responsible for:
   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - preparing and publishing with their financial statements an annual governance statement and a remuneration report.

3. Our responsibility, as the Commission’s external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.

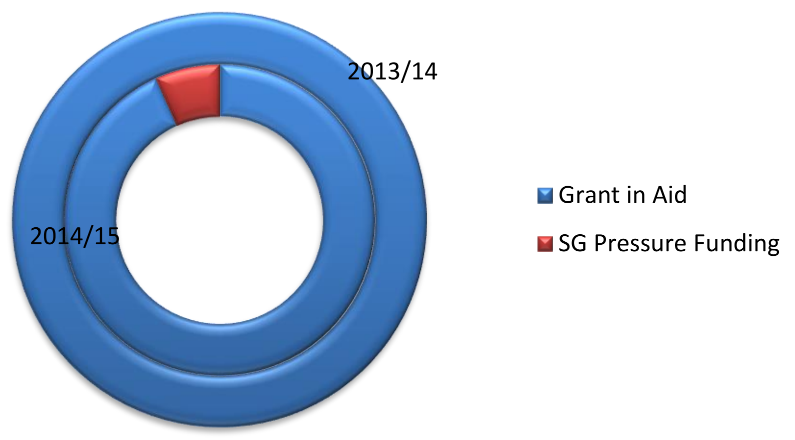
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendices 2 and 3.

6. Appendix 4 is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Commission understands its risks and has arrangements in place to manage these risks. The Audit and Finance Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

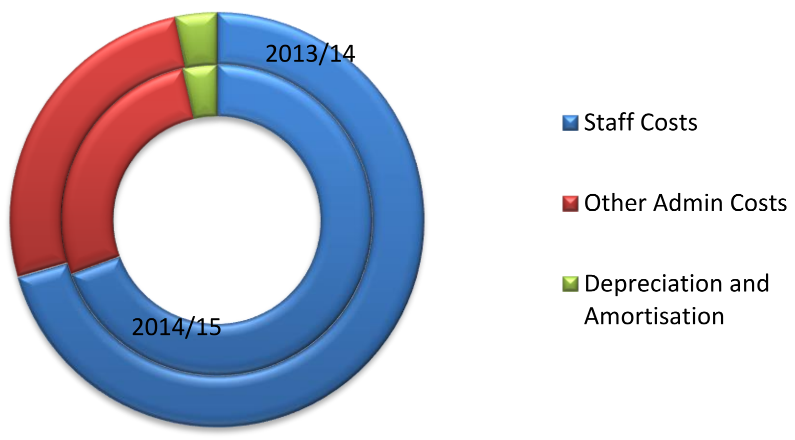
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

2014/15 financial statements

Income/ Funding: £2.730m (£2.547m in 2013/14)



Expenditure: £2.864m (£2.502m in 2013/14)



The financial statements show that Scottish Government ("SG") core grant-in-aid funding was £2.547 million in 2014/15. In addition, £183,000 of pressure funding was obtained from the SG to fund additional activity as a result of the requirements of the Crofting Reform (Scotland) Act 2010 e.g. the Crofting Census. Overall expenditure increased by £362,000 from £2.502million in 2013/14 to £2.864 million in 2014/15. This was mainly due to a £220,000 increase in staff costs to fill long-term vacancies. There was also a £121,000 increase in Other Admin Costs as a result of the delivery of the Crofting Census and development of online applications, (£57,000), the delivery of the Assessors' conference (£23,000) and increases shared services staffing (£30,000). The Commission underspent its Grant in Aid ("GIA") budget by £1,000 on a cash basis. However, on an accruals basis, it overspent its Resource GIA budget by £32,000, its Capital budget by £70,000 and its Ring Fenced (non cash) depreciation and amortisation budget by £60,000.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements	• The financial statements of the Commission for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. • We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Crofting Reform (Scotland) Act 2010 and directions.
Regularity	• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
Other prescribed matters	• The remuneration report to be audited has been properly prepared in accordance with the requirements of the Crofting Reform (Scotland) Act 2010 and directions. • The information in the Commission's annual report, strategic report and directors' report is consistent with the financial statements.

Submission of financial statements for audit

8. We received the unaudited financial statements on 11 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided support to the audit team during the audit. We completed our on-site audit testing on Friday 19 June 2015.

Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Finance Committee on 28 January 2015.

10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was £14,620 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

12. Appendix 1 sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law).

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. We summarised our approach to materiality in our plan. Based on the financial statements, we revised materiality for 2014/15 to £28,640 (planning materiality set at £25,000) based on actual expenditure for the year.

17. We also set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements.
- nature and extent of prior year misstatements.
- extent of audit testing coverage.

18. Performance materiality has been set at £21,480 (i.e. 75% of materiality).

Evaluation of misstatements

19. We report all misstatements greater than £1,000. No misstatements were identified during the audit which exceeded this threshold. Therefore, no amendments have been made to the financial statements which impact on either the net expenditure or the net assets position at 31 March 2015.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit as detailed below:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

21. A number of minor presentational and disclosure issues were identified during the course of the audit. We discussed these with management who agreed to amend the financial statements.

22. We have no significant issues which we consider require to be communicated to you under ISA 260.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

23. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
- Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.

24. **Restructuring of the annual report**: the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- A performance report which will give a fair, balanced and understandable analysis of performance and will include and overview section and a performance analysis section.
- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement.
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates.
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

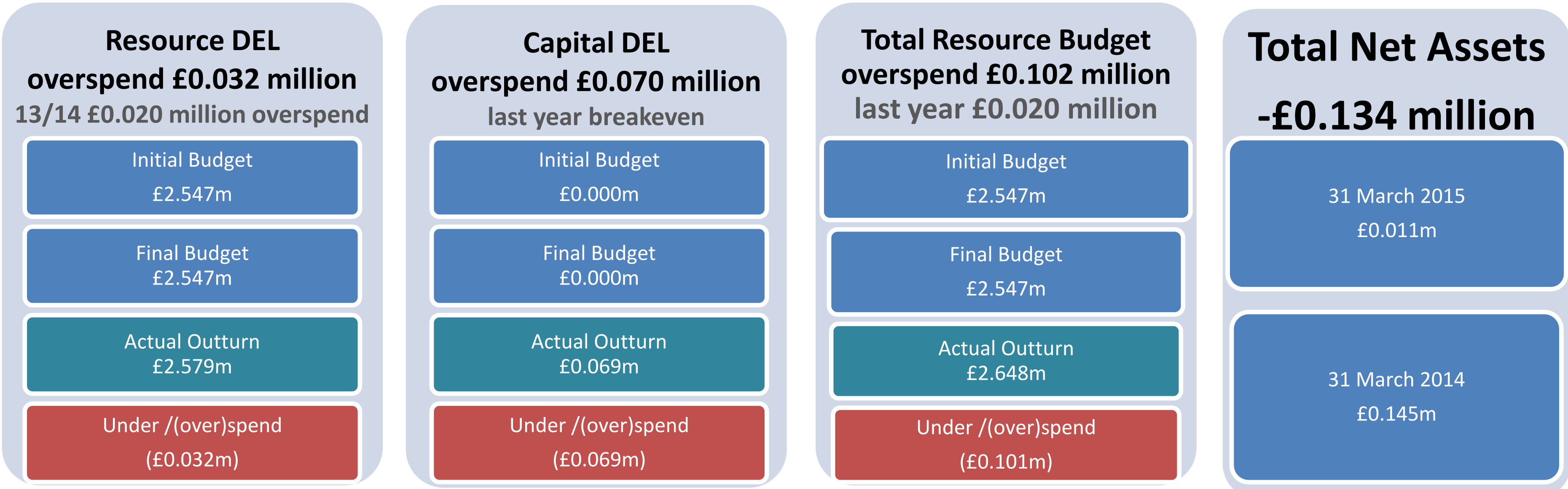
Refer to Appendix 4 – Action Plan No. 1

25. **International Financial Reporting Standards (IFRS) 13 Fair value measurement:** sets out the requirements for assets to be to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

26. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptions to *IAS (International Accounting Standard) 16 Property, Plant and Equipment.*

27. As the Commission does not hold any assets of this nature this will not impact upon their 2015/16 financial statements.

Financial management and sustainability



28. The arrangements for budget setting and monitoring in place are sound, with management exercising a close control over expenditure and reporting financial results to the Board and Audit and Finance Committee.

2014/15 financial position

29. As shown in the table below, the Commission's Resource Departmental Expenditure Limit (DEL) allocation for 2014/15 was £2.547 million. This was based on the final Grant in Aid allocation from the Sponsor Department as of 25 August 2015.

30. The main financial objective of the Commission is to ensure that financial year is within the resource budget allocated by Scottish Ministers.

31. The 2014/15 financial statements show that the Commission has underspent its Grant in Aid budget by £1,000 on a cash basis, but has overspent its Grant in Aid budget on an accruals basis as follows:

- Resource DEL by £32,000,
- Capital DEL by £69,000,
- Non Cash DEL (depreciation/amortisation) by £60,000.

We have been advised by management that Sponsor Division are aware of the above overspend.

32. As part of an agreement reached with the Sponsor Division, the Commission received permission to overspend by up to £310,000 per annum from 2013/14 to 2016/17. This is to allow for increased costs as a result of the additional duties conferred on the Commission by the Crofting Reform (Scotland) Act 2010, including the Crofting Census. In 2014/15, the Commission obtained an additional £183,000 of pressure funding.

33. We note that the Commission has overspent its budget during the past two financial years on an accruals basis and required additional pressure funding from the SG. The Commission should ensure that it operates within its Grant in Aid budget in future years.

Refer to Appendix 4 – Action Plan No. 2

34. Net assets, as outlined in the Statement of Financial Position, have decreased by £134,000 from £145,000 to £11,000. This is largely due to:

- a £77,000 increase to trade and other payables, which is an accrual for the cost of exit packages agreed in 2014/15, but which were not paid until 2015/16
- a £33,000 decrease in non-current assets due to depreciation and amortisation
- recognition of a £16,000 provision in respect of ongoing legal cases.

Financial management

35. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the officer responsible for finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

36. Based on our accumulated knowledge, our review of relevant board papers and through our attendance at committees we conclude that the Authority has sufficient financial management arrangements in place.

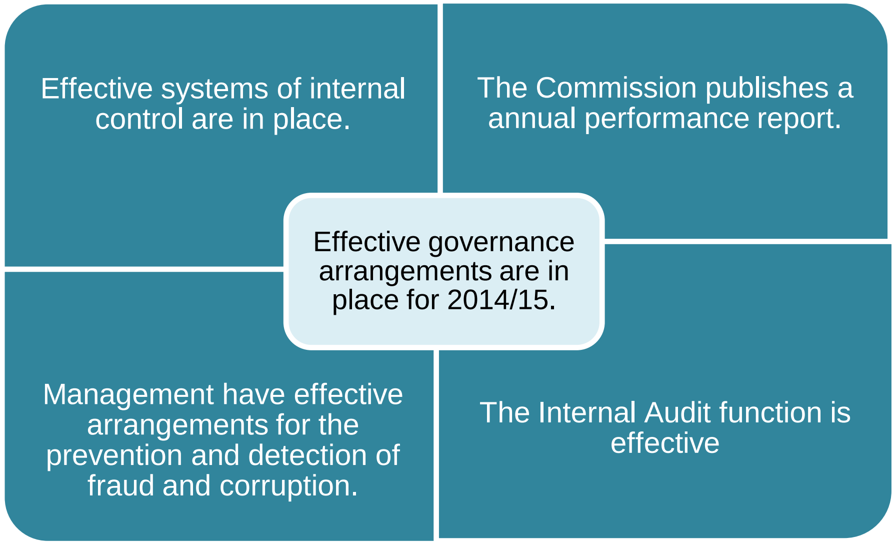
2015/16 and beyond

37. The Board approved the 2015/16 budget on 11 February 2015.

38. As per the approved 2015/16 budget, the Commission's core Scottish Government funding for 2015/16 will be £2.547 million, which is the same as in 2014/15. In addition, the Commission will be allowed to overspend its budget by up to £310,000 to allow it to meet the increased requirements of the Crofting Reform (Scotland) Act 2010.

39. The Commission has forecast that it will use its entire £310,000 pressure funding limit in 2015/16, forecasting a total spend of £2.857 million.

Governance and transparency



Corporate governance

40. The Board and Chief Executive (as Accountable Officer) are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Authority and for monitoring the adequacy of these arrangements.

41. The Board consists of a mixture of six elected commissioners and two commissioners appointed by the Scottish Ministers. The strategic direction and performance of the Commission is governed by the Board.

42. The Commission has two committees in place: the Audit and Finance Committee and the Complaints & Investigations Committee. These are required to meet regularly throughout the year. The Commission also has a number of Short Term Working Groups ("STWG") in place, on which Board members sit. These include the Grazings Regulations STWG and the Key Performance Indicators STWG.

43. The Audit and Finance Committee has the direct responsibility for overseeing the Commission's arrangements for corporate governance and provides the Accountable Officer with assurance as to the Commission's compliance. The committee considers all internal and external audit reports and ensures any issues raised are addressed.

Convener Resignation

44. In April 2015, several Commissioners sought to move a motion of no confidence in the Convener, Susan Walker. The Convener subsequently resigned in May 2015 prior to a special meeting taking place. The Scottish Ministers gave the Commission permission to elect its own Convener and Colin Kennedy was elected as Convener on 24 June 2015.

45. Following the resignation of Susan Walker, the Commission's Board currently has eight Commissioners including the Convener. We understand that the Scottish Ministers do not

plan to appoint a replacement Commissioner.

Transparency

46. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
- making corporate plans and the annual report widely available.

47. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:

- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
- identification of, and explanation of, any significant movements in budget during the year.

48. It is important that the Commission demonstrates that it is complying with the SG's On Board guidance.

Internal audit

49. As part of our risk assessment and planning process we assessed the work of the internal auditors, Scott Moncrieff. We concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and have sound documentation standards and reporting procedures in place. We were therefore able to rely on their work in terms of our wider Code of Audit Practice responsibilities.

IT Strategy

50. The Commission's IT Strategy has not yet been formally approved. We have been advised by management that the IT Strategy will be approved during 2015/16.

Staff Register of Interests

51. The Commission does not have a register of interests for its staff. We have been advised that management are currently developing a policy for a staff register of interests. This is expected to be complete during 2015/16.

Refer to Appendix 4 - Action Plan No.3

Provision and Contingent Liability

52. As a result of a post balance sheet event identified during the 2013/14 audit, we requested that the Commission's new in-house solicitor should undertake a review of all outstanding legal cases at 31 March 2015, and consider whether there is a need for a provision or a contingent liability in respect of these.

53. As a result, the Commission recognised a £16,000 provision and a £22,000 contingent liability in the 2014/15 accounts.

Arrangements for the prevention and detection of fraud

54. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

55. There were no instances of fraud or corruption reported by the Commission in 2014/15.

56. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit.

57. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

58. We note that the Commission has not developed its own Fraud Policy, but has adopted the Scottish Government's Fraud Policy. The Commission should implement its own Fraud Policy, which is tailored to its own requirements. We understand that the Commission will be assisted by Scott Moncrieff, its internal auditors, in creating its own Fraud Policy.

Refer to Appendix 4 – Action Plan No. 4

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

59. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Arrangements for securing Best Value

60. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

61. In our previous two Annual Audit Reports, we noted that the Commission had not undertaken a self-evaluation of its Best Value work, in accordance with Scottish Government guidance issued in March 2011. We recognise that the Commission needs to be proportionate in its approach to implementing Best Value. However, the Commission has still not performed a

formal self-assessment.

62. Management advised that they will be assisted by Scot Moncrieff in undertaking Best Value work during 2015/16 and this is expected to take place in the coming months.

Refer to Appendix 4 – Action Plan No. 5

Acknowledgements

63. We would like to express our thanks to the Commission’s staff and members for their help and assistance during the audit of this year’s financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix 1 – Significant audit risks

The table below sets out the financial statement audit risks identified in our 2014/15 Annual Audit Plan, how we addressed each risk, and our judgement in arriving at our opinion on the financial statements.

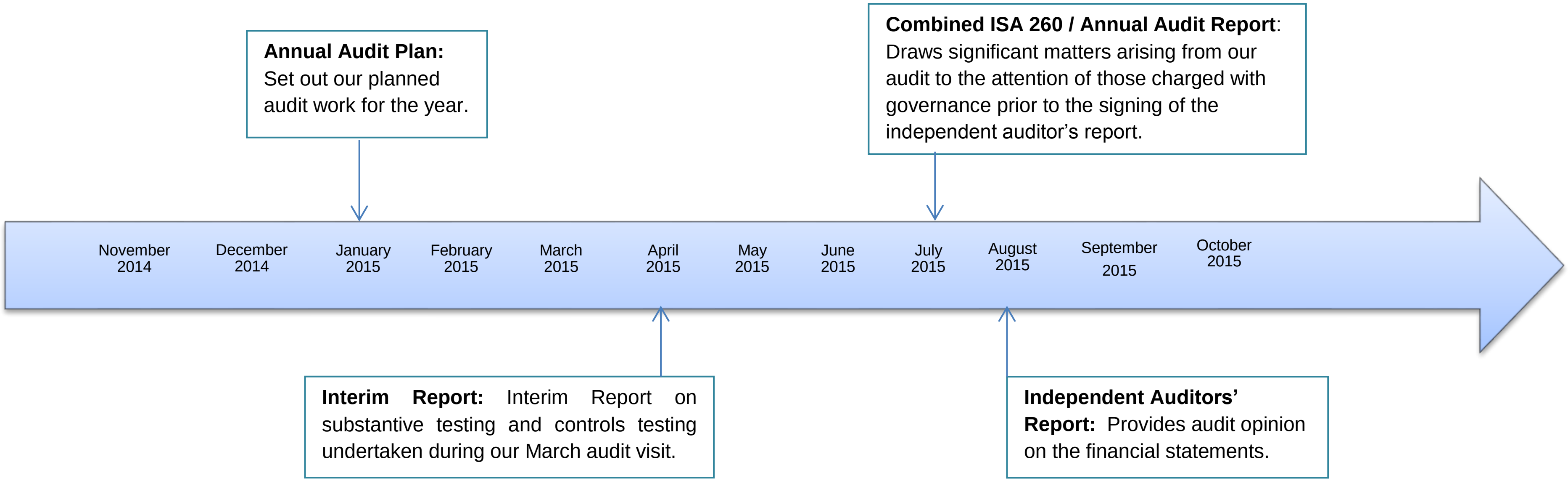
Audit Risk	Planned assurance procedure	Results and conclusions
Changes in Management Structure The Head of Finance is on sick leave. His role is being filled on a temporary basis by the Finance Manager, who does not have experience of preparing FReM-compliant accounts. Also, management propose to restructure the Senior Management Team. *There is a risk that the quality of the accounts and working papers received may be adversely affected. There is also a risk to the financial stewardship of the Commission during this transitional period.*	• We will meet with the Finance Team in early 2015 to discuss potential issues arising from the change in structure and determine how these will be addressed. • We will sample-test disclosures contained in the Commission's NAO Checklist. • Significant issues with the accounts or working papers will be identified through our audit testing.	We liaised with the Finance Manager during the 2014/15 financial year and in advance of the financial statements audit. The Commission was assisted in preparing the 2014/15 financial statements by an experienced accountant. We sample tested disclosures contained in the Commission's NAO Checklist. **Satisfactory**
Crofting Information System The Commission is developing a Crofting Information System in-house. Therefore, it will require to capitalise staff costs. *There is a risk that staff costs are not properly capitalised and that the asset is not accurately valued in the Commission's accounts.*	• We will liaise with management during 2014/15 to confirm that they are capitalising staff time correctly. • We will substantively test the Crofting Information System at year-end to confirm that it has been valued correctly.	We substantively tested this during our financial statements audit. The Commission has capitalised £37,000 of staff costs as an asset under construction within its Intangible Assets Note. **Satisfactory**

Audit Risk	Planned assurance procedure	Results and conclusions
Tagging of Fixed Assets In 2013/14, we found that management had not tagged assets with a unique reference number. *There is a risk that not all assets are included in the Commission's accounts, or that the accounts include assets that are no longer held by the Commission.*	• We will substantively test a sample of assets at year-end to confirm the completeness of the asset register and the existence of assets listed in the asset register.	The Commission has tagged a number of assets. However, we identified that some assets have still not been tagged, including servers. Additionally, the Commission has updated a separate asset listing held by IT with the asset number, rather than its own asset register. **Refer to Appendix 4 - Action Plan No 6**
Legal Cases In 2013/14, there was a post-balance sheet event relating to a legal case which was found against the Commission. *There is a risk that the Commission does not fully recognise the potential cost of legal cases.*	• We will review the solicitor's assessment of ongoing legal cases and assess whether any require to be recognised in the accounts.	We substantively tested the solicitor's assessment of ongoing legal cases and agreed that a provision of £16,000 and a contingent liability of £22,000 should be recognised in the Commission's 2014/15 financial statements. **Satisfactory**
Remuneration Report In the last two years, there have been delays in receiving pensions information from MyCSP for inclusion in the Remuneration Report. *There is a risk that the pensions disclosures for the Senior Management Team are not received in time for inclusion in the accounts.*	• We will require sight of the MyCSP information to audit the Remuneration Report. Any delays may impact on the proposed timeline for the signing of the Independent Auditor's Report.	We were provided with the MyCSP information required for the Remuneration Report at the start of the audit. No issues were identified. **Satisfactory**

Audit Risk	Planned assurance procedure	Results and conclusions
Approval of severance, early retirement and redundancy terms The Scottish Government has announced a recent amendment to the Scottish Public Finance Manual. Central government bodies are required to consult with the Scottish Government before offering or entering into any settlement agreement, but submitting a business case. *There is a risk that the Commission does not comply with the revised requirements of the SPFM.*	• We will obtain relevant supporting documentation for any redundancy or compensation for loss of office payments made during the year as part of the 2014/15 financial statements audit. We will review these to ensure they comply with the revised SPFM.	We substantively tested the two exit packages agreed to during 2014/15. We confirmed that these have been disclosed correctly and Scottish Government approval has been obtained. **Satisfactory**
Risk of management override of control Management have the ability to override controls. *There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.*	• Detailed testing of journal entries. • Review of accounting estimates. • Evaluation of any significant transactions that are outside the normal course of business.	We undertook substantive testing of journals and review of accounting estimates during our financial statements audit. No issues were identified. **Satisfactory**

Audit Risk	Planned assurance procedure	Results and conclusions
Third Party Money The Commission receives cheques from crofters who are applying to join the Register of Crofts. These cheques are cashed once the application is processed by the Commission and funds are forwarded to the Keeper of the Registers of Scotland. *There is a risk of fraud over the handling of this money.*	• We will undertake controls testing of the receipt, handling and payment of this third party income during our interim visit in March 2015.	We performed controls testing and substantive testing of the Commission's handling of third party monies during our interim visit in March 2015. We reported our findings in our Interim Report to the 29 April Audit and Finance Committee. ***Satisfactory***

Appendix 2 – Summary of local audit reports 2014/15



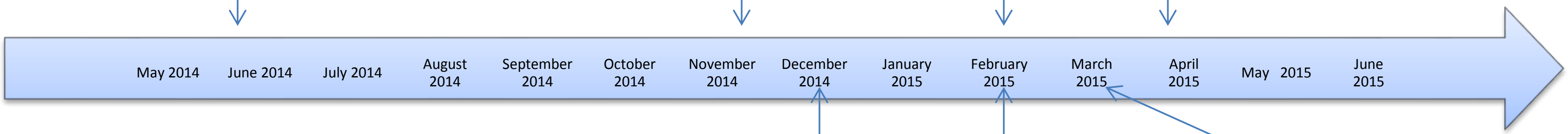
Appendix 3 – Summary of national reports 2014/15

Scotland's public finances - a follow-up audit: Progress in meeting the challenges -Provides a high-level update on the financial position and on how public bodies are meeting the challenges of reduced public spending.

Community planning: Turning ambition into action - Provides a national update on community planning in Scotland since March 2013. The report assesses progress locally and nationally and identifies opportunities for further improvement.

Superfast broadband for Scotland: a progress report: assesses whether the Scottish Government and HIE have clear plans and arrangements in place to build their superfast broadband network in Scotland.

Update on developing financial reporting - reviews the principles of public financial management and provides an update on the actions the Scottish Government is taking to further develop financial reporting.



Preparations for the implementation of the Scotland Act 2012: Reports progress in preparing for the Land and Buildings Transaction Tax (replacing the current stamp duty arrangements), Scottish Landfill Tax and other financial powers for the Scottish Government from 1 April 2015.

The Scottish Government's purchase of Glasgow Prestwick Airport: Assesses if the Scottish Government's approach to the purchase of Glasgow Prestwick Airport was reasonable, considers the future plans for the airport's development and the governance arrangements that have been put in place.

Commonwealth Games 2014: third report: third report on the Games. The overall aim was to answer the question: Was the Commonwealth Games 2014 delivered within budget and is it achieving value for money?

Appendix 4 – Action plan

No.	Para/page	Issue	Management action/response	Responsible officer	Target date
1	24/8	**FReM Changes** The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts. Management should review the revised requirements to identify the impact upon their 2015/16 financial statements. Management should also complete the NAO Disclosure Checklist as part of their year-end closedown procedures in advance of the 2015/16 financial statements audit.	The Commission will review the 2015/16 FReM and revise the Annual Report and Accounts accordingly. Management will complete the NAO Disclosure Checklist to assist with the preparation of the 2015/16 annual report and accounts.	Finance Manager	31 March 2016

No.	Para/page	Issue	Management action/response	Responsible officer	Target date
2	33/9	**Overspend** The Commission has overspent its Grant in Aid budget on an accruals basis as follows: • Resource DEL Grant in Aid budget by £32,000, • Capital DEL budget by £69,000 • Ring Fenced non cash (depreciation/ amortisation) DEL by £60,000 on an accruals basis. It has required additional £183,000 of pressure funding from the Scottish Government. The Commission should seek to operate within its Grant in Aid allocation in future years.	The Commission underspent its GIA budget on a cash basis. The deficit arose as a result of a voluntary early release package (approved by SG as a managed overspend) and provisions. This will have no impact upon 2015/16 GIA allocation. The Commission's primary focus is to operate within the cash GIA budget. Aiming to operate within the GIA budget on an accruals basis as well could result in a significant underspend on a cash basis at year end. We obtained Sponsor Branch approval to vire Resource DEL to Capital DEL. Depreciation costs increased as a result of approved capital expenditure in 2013-14. Finance Manager will seek to clarify with Sponsor Unit depreciation amounts that are reflective of the Commission's requirements for future years. The pressure funding was secured after a successful bid to Sponsor Branch to assist with a number of new duties and functions introduced by the Crofting Reform (Scotland) Act 2010. Had this bid been unsuccessful, we would have adjusted our output expectations accordingly to operate within core cash Grant in Aid DEL.	Finance Manager	31 March 2016

No.	Para/page	Issue	Management action/response	Responsible officer	Target date
3	51/12	**Staff Register of Interests** The Staff Register of Interests is not readily accessible. The Commission does not perform a review of senior management's declarations for potential Related Parties transactions that require disclosure under IAS 24.	The Commission will develop a Staff Register of Interests.	Chief Executive	31 March 2016
4	58/13	**Fraud Policy** The Commission has not implemented a formal fraud policy, but has adopted the Scottish Government's fraud policy. The SPFM requires the Commission to develop its own fraud policy, which should comply with the requirements of the SPFM.	The Commission is developing its own anti-fraud policy with the assistance of Scott-Moncrieff. Initial field work will be undertaken 24/26 August 2015.	Chief Executive	31 December 2015
5	62/14	**Best Value** The Commission has not undertaken formal self-assessment of its Best Value performance. We reported this in our Annual Audit Report in 2012/13 and 2013/14.	The Audit & Finance Committee recommended a 15 day high level review be undertaken by Scott Moncrieff, which was subsequently approved by May 2015 Board. Work is scheduled for 9 November 2015, to ensure that all key members of Board and Senior Management Team are available to provide input.	Chief Executive	31 March 2016

No.	Para/page	Issue	Management action/response	Responsible officer	Target date
6	Appendix 1/page16	**Asset Tagging** The Commission has not tagged all of its assets. Further, it has not updated the asset register with the asset tags. The Commission should prioritise the tagging of all of its capitalised assets, as well as ensuring the asset register is updated with the asset numbers.	Significant progress has been made in the latter part of 2014/15. This is a priority and managed exercise and work is currently on-going. Finance Manager is aware that the asset register does not have cross referenced asset tags. This is due to the development of a multi-purpose tagging register that will also be of use to Commission IS Team. It is envisaged that all assets will be tagged and reconciled as appropriate to the asset register. The CC is also tagging assets that while fully depreciated, are still of use to the organisation.	Finance Manager	31 December 2015