AUDIT SCOTLAND

Crofting Commission

2015/16 Annual audit report to Members and the Auditor General for Scotland

August 2016

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Asif A Haseeb, Engagement Lead, Audit Scotland is the appointed external auditor of the Crofting Commission for the period 2012/13 to 2015/16.

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

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

Contents

Key messages

Audit of financial statements	• Unqualified independent auditor's report on the 2015/16 financial statements. • Working papers were of a high standard and officers provided good support which enabled the audit team to complete on-site fieldwork by the planned target date. • Minor presentational and disclosure changes required to the financial statements presented for audit.
Financial Position	• We are satisfied that the Commission have sufficient financial management arrangements in place. • All financial targets in 2015/16 were met. • A surplus of £0.080 million was achieved against total Department Expenditure Limit (DEL).
Governance & Transparency	• The Commission had sound governance arrangements in place during 2015/16. • Systems of internal control operated effectively during 2015/16. • An effective internal audit function and robust anti-fraud arrangements were in place. • William Swann resigned from the Board on 2 June 2016 and was replaced as Vice Chair of the Audit & Finance Committee by Murdo MacLennan on 7 June 2016.
Outlook	• Her Majesty's Revenue and Customs (HMRC) have ruled that the Scottish Government (SG) who process the Crofting Commission's payroll, should be applying Value Added Tax (VAT) to the total payroll costs as it is a supply of services. This equates to around £0.3 million per annum and appears to be a reversal of the opinion given by HMRC based upon information supplied by the SG when the Commission was established in April 2012. The SG are in dialogue with HMRC in an attempt to achieve a resolution to this matter. This is not an issue for 2015/16 but will have a significant impact from 2016/17 onwards if the decision is not successfully challenged.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Crofting Commission ("the Commission").

2. The board and the Accountable Officer are responsible for:
   - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
   - maintaining proper accounting records
   - preparing financial statements which give a true and fair view of the financial position of the Commission as at 31 March 2016 and its expenditure and income for the year then ended
   - publishing with their financial statements an annual report, comprising a performance report and accountability report.

3. Our responsibility, as the 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. Appendix I sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

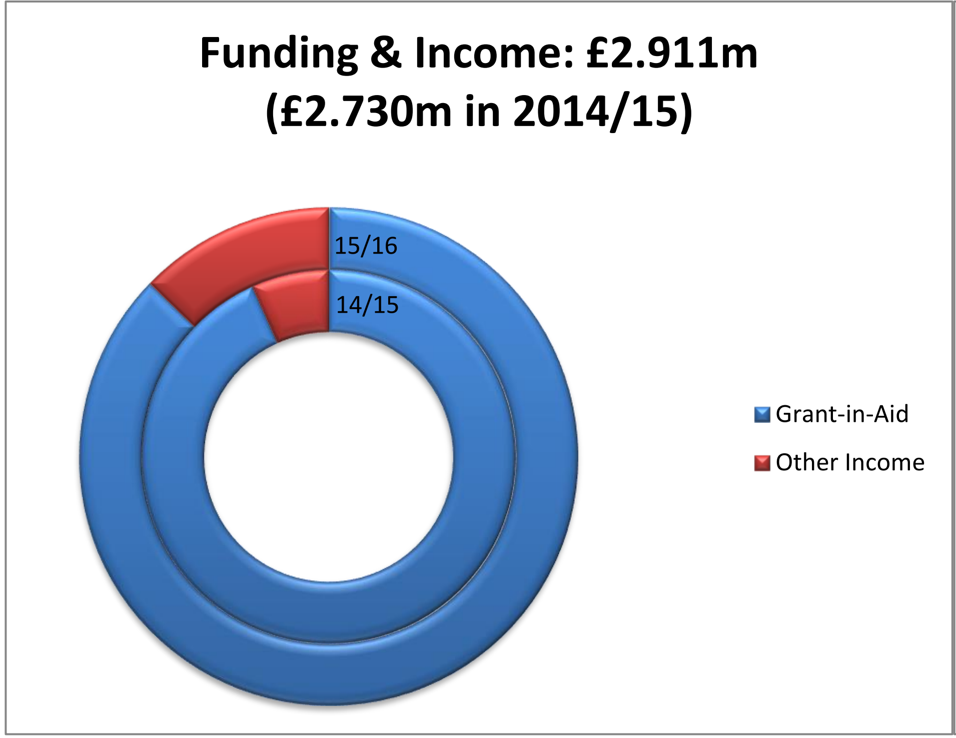
6. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendix II and appendix III.

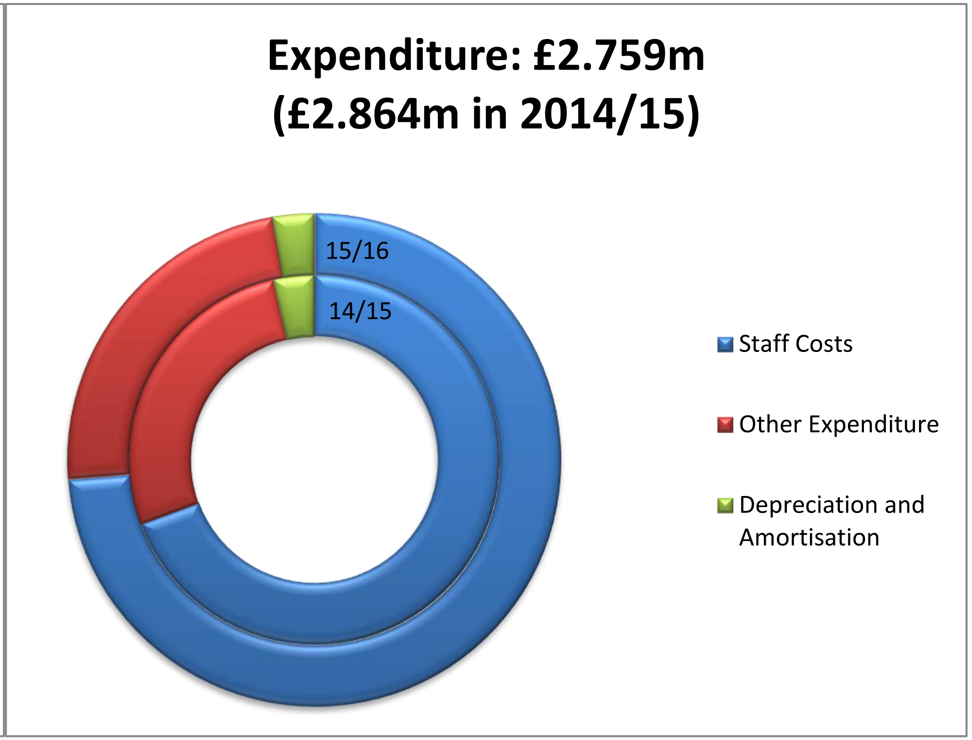
7. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated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

8. 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.

9. 2015/16 is the final year of the current audit appointment. From 2016/17 the auditor of the Commission will be Deloitte LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements





The financial statements show that Scottish Government core grant-in-aid funding was £2.540 million in 2015/16 (£2.547 million in 2014/15). In addition, £0.371 million of pressure funding was obtained from the Scottish Government to fund additional activity as a result of the requirements of the Crofting Reform (Scotland) Act 2010 e.g. the Crofting Census. Overall expenditure decreased £0.105 million, from £2.864 million in 2014/15 to £2.759 million in 2015/16. This is mainly attributed to a decrease in other expenditure (Information Systems & Telecommunications £0.037 million, Legal Fees £0.043 million and Assessors' Conference & Travel Expenses £0.030 million) and a decrease in depreciation and amortisation £0.027 million. This is mainly offset by a net increase in staff costs £0.049 million.

Audit opinions

Financial Statements	• The financial statements of the Commission for 2015/16 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 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
Other prescribed matters	• The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. • The information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 13 June 2016, in accordance with the agreed timetable. The working papers provided for audit were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork by the planned target date of 17 June 2016.

Overview of the scope of the audit of the financial statements

11. 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 & Finance Committee on 14 January 2016.

12. 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 any non-audit related services. The 2015/16 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.

13. 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 work we proposed to undertake to secure appropriate levels of assurance.

14. 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.

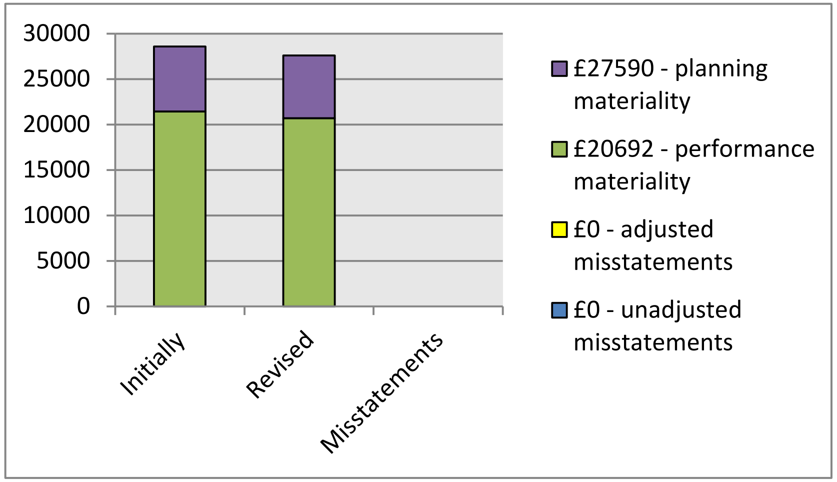
Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. 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 Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £27,590 (1% of Total Expenditure).

17. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £20,692 (i.e. 75% of materiality). We report all misstatements greater than £1,000.

Exhibit 1: Overall materiality misstatements



Source: 2015/16 Commission Unaudited Accounts

Evaluation of misstatements

18. No misstatements have been identified during audit work.

19. A number of minor presentational adjustments were identified during the course of our audit. These were discussed with management who agreed to amend the financial statements.

Significant findings from the audit

20. International Standard on Auditing 260 (ISA 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 judgement, are significant to the oversight of the financial reporting process.

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

Future accounting and auditing developments

22. HM Treasury have issued the 2016/17 Government Financial Report Manual (FReM). This applies EU adopted IFRS and Interpretations in effect for accounting periods commencing on or after 1 January 2016 (i.e. the Commission's 2016/17 annual accounts.

23. We have reviewed the 2016/17 FReM and there are no significant changes from the 2015/16 FReM.

Financial management and sustainability

Resource Departmental Expenditure Limit (DEL) underspend £0.169m
last year (£0.092m overspend)

Initial Budget
£2.557m

Final Budget
£2.928m

Actual Outturn
£2.759m

Underspend
£0.169m

+

Capital Departmental Expenditure Limit (DEL) overspend met by revenue expenditure £0.089m
last year (£0.069m overspend)

Initial Budget
£0.032m

Final Budget
£0.032m

Actual Outturn
£0.121m

Overspend
£0.089m

=

Total Departmental Expenditure Limit (DEL) Budget underspend £0.80m
last year (£0.161m overspend)

Initial Budget
£2.589m

Final Budget
£2.960m

Actual Outturn
£2.880m

Underspend
£0.080m

Total Net Assets

+ £0.163 million

31 March 2016
£0.163m

31 March 2015
£0.011m

24. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

Financial Planning

25. The Commission, as a Non-Departmental Public Body (NDPB) of the Scottish Government, receives almost all of its funding directly from the Scottish Government.

26. As funding from the Scottish Government is the Commission's primary source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the Commission is achieving a balanced financial plan to remain within their annual allocation.

Financial management

27. 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
- audit committee members provide a good level of challenge and question significant variances.

28. Based on our accumulated knowledge, our review of Senior Management Team meeting papers and through our attendance at the Audit & Finance Committee we concluded that the Commission has sufficient financial management arrangements in place.

2015/16 financial position

29. On an income and expenditure basis, the financial statements show a surplus of £0.152 million. This is the difference between the total operating expenditure for the year as shown in the Statement of Comprehensive Net Expenditure of £2.759 million, Scottish Government annual funding of £2.540 million and Pressure Funding drawn down of £0.371 million. However, this surplus includes a number of non-cash items and requires a number of adjustments for budget purposes. Removing these balances show a surplus of £0.080 million at 31 March 2016.

30. The 2015/16 financial statements show that the Commission has overspent its Grant in Aid budget on an accruals basis as follows:

o Capital DEL by £0.089 million met by revenue contribution to capital budget

o Non Cash DEL (depreciation/amortisation) by £0.033 million.

31. However, the Non-Cash DEL (depreciation/amortisation) overspend of £0.033 million is not considered to be a significant issue as it is on a non-cash basis.

32. The Statement of Financial Position at 31 March 2016 shows an increase in net assets of £0.152 million from £0.011 million in 2014/15 to £0.163 million in 2015/16. This position is largely attributable to additions in intangible assets as a result of the capitalisation of staff costs relating to the implementation of the new Croft Information System.

33. The financial position of the Commission remains stable with the body operating within its available funding and reporting an excess of assets over liabilities.

34. As part of an agreement reached with the Sponsor Division, the Commission received permission to draw down additional funding of up to £310,000 per annum from 2014/15 to 2017/18. 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 2015/16, the Commission obtained an additional £371,000 of pressure funding. This included £77,280 related to two employees who were granted permission to leave the employment of the Crofting Commission under the Scottish Government's voluntary exit scheme. This arrangement was recognised in the 2014/15 accounts with associated payment being issued in 2015/16.

2016/17 budget

35. The arrangements for budget setting and monitoring in place at the Commission are satisfactory, with management monitoring income and expenditure against budget and reporting financial results on a regular basis to the Board.

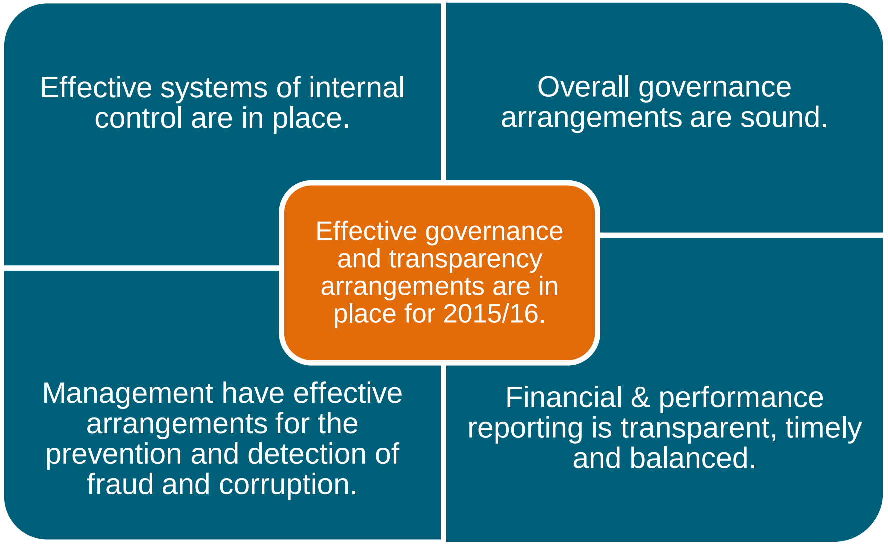
36. The 2016/17 revenue budget was approved by the Board at its meeting on 14 January 2016. The budget has been prepared on the assumption of Grant in Aid resource allocation funding for 2016/17 allocated to the Crofting Commission by the Scottish Government being £2.447 million. This is £0.100 million less than 2015/16 due to the cessation of the Grazings Mapping project and its associated funding.

37. All Commission staff are Scottish Government (SG) employees. The SG Sponsor Directorate informed the Commission's Accountable Officer on 6 April 2016 that Her Majesty's Revenue and Customs (HMRC) have concluded that the SG who process the Commission's payroll should be applying Value Added Tax (VAT) to the total payroll costs as they consider this to be a supply of services. This equates to around £0.3 million per annum and appears to be a reversal of opinion given by HMRC based upon information supplied by the SG when the Commission was established in April 2012. If the current position stands, this will create significant budgetary and operational pressures for the Commission. The Commission's Accountable Officer is liaising with the Audit & Finance Committee, Internal and External Audit and SG Sponsor Directorate to ensure that this risk is managed. The SG

are currently in dialogue with HMRC in an attempt to achieve a resolution to this matter. This is not considered to be an issue for the Commission in 2015/16 but may have a significant budgetary impact from 2016/17 onwards.

Appendix IV – Action Plan No. 2

Governance and transparency



Corporate governance

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

39. During 2015/16, the Board had 8 Commissioners including the Convener. It comprised of three members who are directly appointed by Scottish Ministers, whilst the other five commissioners are elected. The strategic direction and performance of the Commission is governed by the Board.

40. The Commission has two committees in place: the Audit and Finance Committee and the Complaints and Quality Assurance Committee. The Complaints and Quality Assurance Committee was renamed during the year after a change to the Terms of Reference. It had previously been known as the Complaints Committee. These committees 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.

41. 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.

42. The 2010 Act requirement for the Convener to chair the Audit and Finance Committee at its meetings is in contravention of the best practice guidance issued by the Scottish Government in the Scottish Public Finance Manual, the Audit Committee Handbook and on Board. In order to comply with both the 2010 Act and best practice guidance, the Commission has appointed a Vice Chair of the Audit and Finance Committee and the Convener does not normally attend meetings of this committee. The Commission's Scottish

Government sponsor branch has confirmed its approval of this arrangement.

Resignation

43. William Swann resigned from the Board on 2 June 2016 and was replaced as Vice Chair of the Audit & Finance Committee by Murdo MacLennan on 7 June 2016.

Common Grazings

44. Common grazings are areas of land shared by crofters and others who hold a right to graze stock on that land. Grazing committees are set up to manage these areas of land and their members are elected by crofters.

45. As part of our audit testing we noted that the Commission engaged a grazing constable to assist with a case in the Western Isles. The Crofters (Scotland) Act 1993, as amended, states that a grazing constable is to be paid by the crofters sharing in the common grazing. The Commission, in an effort to be seen as working with, and supporting the shareholders, decided that the cost of the constable would, on this occasion, be borne by the organisation. We have been advised that this is in line with the precedent set previously where, in similar circumstances, the Commission appointed a member of the Rural Payments and Inspections Division (RPID) staff to be constable and the opportunity and costs of such an appointment were borne by RPID which had a service level agreement with the Commission, and not levied on shareholders. Fees and expenses totalled £4,659 and were paid within financial year 2016/17 of which £3,038 related to 2015/16 and had been recognised in 2015/16. The Commission is satisfied that it was acting in good faith and does have the general power under Schedule 1 of the 1993 Act to do anything they consider is necessary or expedient for the purpose of exercising or in connection with their functions and that payment could be made under this section of the Act. The Chief Executive as Accountable Officer has made a statement to this effect in her management representation letter in accordance with International Standards on Auditing (ISA) 580.

46. The Commission have been asked to investigate a number of complaints against grazings committees. These normally resolve through negotiation but in three instances this has not been the case and two of these have become high profile. There are a number of risks to the organisation associated with these decisions. Firstly, they may be open to legal challenge as the language in section 47 of the Crofter Scotland Act 1993 is open to interpretation until it is clarified by a court. Should a challenge go to court and be successful then it is likely that expenses will follow. There are also other financial implications as, while the Act allows the Commission to levy shareholders for the cost of appointing a Constable it does on occasion bear the cost itself. We have been advised by management that these costs are difficult to predict as much depends on the actions required to be taken by the Constable, the length of time taken to complete the actions and the location of the common grazings.

47. The Commission's risk register outlines that there are unquantifiable reputational costs relating to unpopular decisions taken by the Commission. The Commission may seek to obtain Senior Counsel opinion to address these issues.

Appendix IV – Action Plan No. 3

Transparency

48. 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.

49. 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 and explanation of any significant movements in budget during the year.

50. Overall we concluded that the Commission is open and transparent. In particular, we note that the board hold meetings in public and these are advertised on the Commission's website.

Internal audit

51. Internal audit provides the audit committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

52. Internal audit is provided by Scott Moncrieff. Our review of internal audit concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. This enabled us to place reliance on the work of internal audit as outlined in our annual audit plan.

Staff Register of Interests

53. In our 2014/15 annual audit report, we reported that the Commission does not have a register of interests for its staff and

that a policy was being developed with expected completion in 2015/16. The Commission now has a staff register of interests policy that was approved by the Board in December 2015. However staff are only required to complete a declaration of interest form on a voluntary basis. In line with good practice, all staff should be required to complete a declaration of interests form in order for the Commission to undertake a review of related party transactions in accordance with IAS 24 and the FReM.

Appendix IV – Action Plan No. 4

Arrangements for the prevention and detection of fraud

54. The Commission is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and assessed these arrangements and have concluded that there are effective arrangements for the prevention and detection of fraud.

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

55. 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. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within the Commission.

Best Value

Arrangements for securing Best Value

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

57. The Commission has considered Scottish Government guidance on Best Value and has been proactive in their approach. The internal audit service provider, Scott Moncrieff, carried out a high level review of the activities that the Commission are currently delivering against each of the Best Value themes. This identified various arrangements which are in place that show the Commission is delivering continuous improvement against each theme.

National performance audit reports

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued as outlined in Appendix III.

Workforce Management

59. As part of our 2015/16 audit activity we conducted a review of workforce management arrangements across all our audited bodies. This work was a follow-up to the *Scotland's Public Sector Workforce* report published by Audit Scotland in November 2013.

60. We discussed the Commission's current workforce management arrangements with the Head of Information Services. Through these discussions we established that the Commission do not currently have an organisation-wide workforce plan. However, in developing their new Corporate Plan which will run from 2017-2022 work will be done on preparing a workforce plan alongside the Corporate Plan which will consider use of resources, skills gaps, development of the organisation and succession planning.

61. In developing the new Corporate Plan, the Commission should develop a workforce plan proportionate to its size and nature that includes:

- projections of short, medium and long term workforce requirements (i.e. staff numbers, skills and expertise, and costs),
- arrangements for staff appraisal and training,
- plans for succession planning, and
- arrangements for joint working or shared resources with other public sector bodies.

Appendix IV – Action Plan No. 5

Acknowledgements

62. We would like to express our thanks to the staff and members of the Commission for their help and assistance during the audit of this year's financial statements, and throughout the course of the audit appointment.

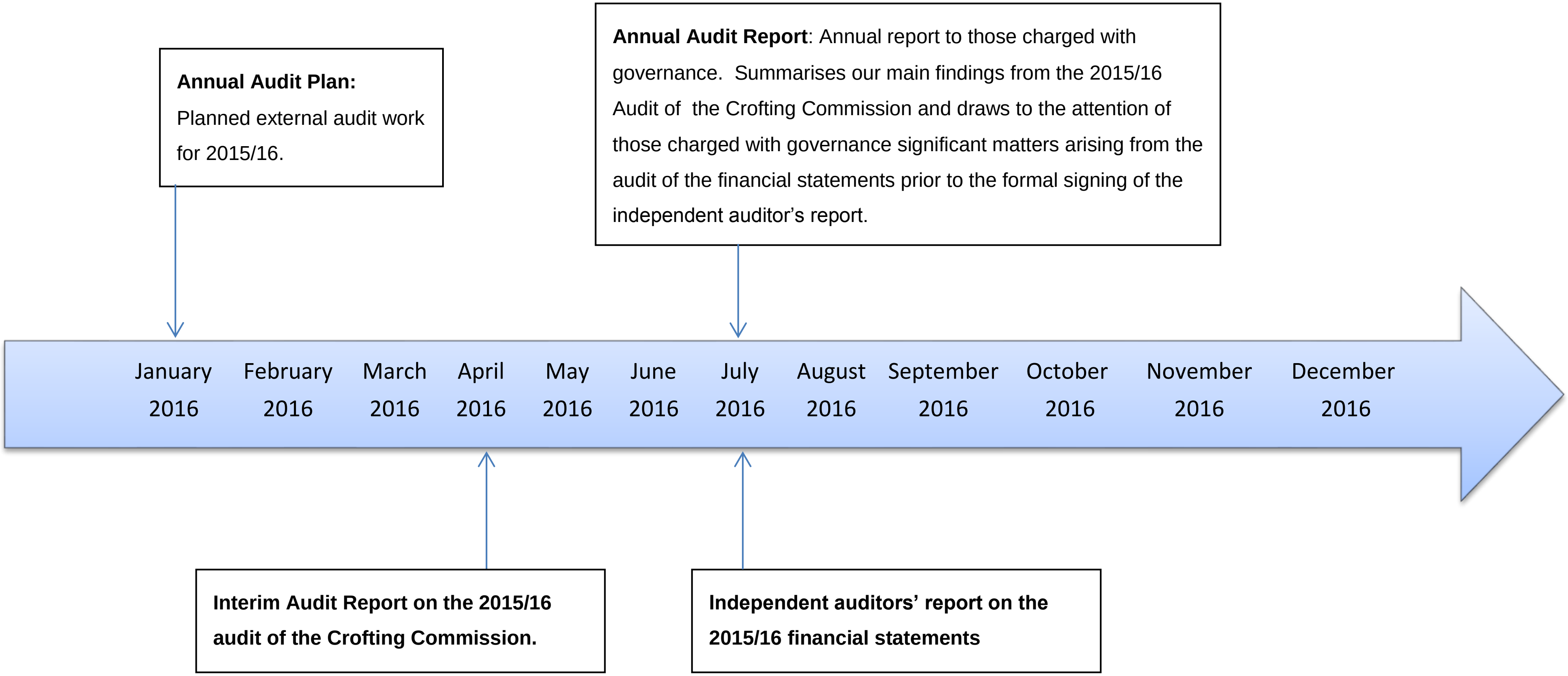
Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the planning stage of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	• Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • 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.
Tagging of Non-Current Assets In 2014/15, we found that the Commission does not tag all of its assets. *As a result of assets not having an asset 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 substantively tested this at the year-end to verify the completeness of the asset register and the existence of the assets	The Commission has tagged a number of assets. However, we identified that some assets have still not been tagged. The Commission has been waiting for the appointment of a new IT Officer in order to help them develop an on-line system to record assets.

Audit Risk	Assurance procedure	Results and conclusions
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 reviewed capitalised staff costs in the 2015/16 working papers to consider whether staff costs have been correctly accounted for in line with the relevant accounting standards.	The Commission has capitalised staff costs and these have been correctly recorded in the fixed asset register.
Restructuring of Annual Report The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts. *There is a risk that the Commission's 2015/16 financial statements will not reflect the revised FReM requirements.*	• We met with management in March 2016 to discuss the required changes and their proposals for the revised Annual Report layout and content. • We reviewed the Annual Report included within the unaudited financial statements against the requirements of the 2015/16 FReM as part of the financial statements audit.	Our review did not identify any significant departures from the requirements of the 2015/16 FReM. However, a number of minor presentational and disclosure issues were identified as a result of the new Performance Report and Accountability Report requirements. Management reflected the required changes in the final version of the accounts.

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16

Managing ICT contracts in central government – an update: This reviewed the progress that the Scottish Government and central government bodies had made against the recommendations in our previous report.

**Scotland's public finances - a follow up: Progress in meeting the challenges – ** Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Board members have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and, the sustainability of financial plans.

May 2015	June 2015	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016

Implementing the Scotland Act 2012: an update: This report assessed how effectively Revenue Scotland implemented, and is collecting, the two devolved taxes introduced in April 2015. It also examined how the Scottish Government is working with HM Revenue and Customs to prepare to introduce the Scottish rate of income tax in April 2016. and looked at how the Scottish Government.

Update on developing financial reporting - Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.

Appendix IV: Action plan

No.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
1.	Appendix 1	**Asset Tagging** **Issue**: The Commission has not tagged all of its assets. Furthermore, it has not updated the asset register with the asset tags. **Recommendation**: 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.	The Commission has tagged approx. 80% of assets. The Finance Manager has limited resource within the team and has taken strategic decision to liaise with CC IS Team regards developing an on-line system to record assets that can be utilised by both teams to fulfil different priorities. An IT Officer was appointed in June 2016 on a 23 month fixed term contract, and initial discussion has already taken place regards working in partnership to meet Audit Scotland recommendation.	Finance Manager / 31 March 2017

No.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
2	37	**VAT on Staff Costs** **Issue**: The SG Sponsor Directorate informed the Commission's Accountable Officer on 6 April 2016 that HMRC have concluded that the SG who process the Commission's payroll should be applying Value Added Tax (VAT) to the total payroll costs as they consider this to be a supply of services. This equates to around £0.3 million per annum and appears to be a reversal of opinion given by HMRC based upon information supplied by the SG when the Commission was established in April 2012. If the current position stands, this will create significant budgetary and operational pressures for the Commission. The Commission's Accountable Officer is liaising with the Audit & Finance Committee, Internal and External Audit and SG Sponsor Directorate to ensure that this risk is managed. The SG are currently in dialogue with HMRC in an attempt to achieve a resolution to this matter. This is not considered to be an issue for the Commission in 2015/16 but may have a significant budgetary impact from 2016/17 onwards. **Recommendation**: The Commission should ensure that they have the financial resources in place to meet any increase in payroll costs.	All Crofting Commission staff are Scottish Government employees. As a result of a VAT audit by HMRC on the Scottish Government, HMRC has determined that the cost of staff seconded from the Scottish Government to the Crofting Commission is subject to VAT. The Commission is working closely with the Scottish Government to ensure that any future financial implications for the Commission are minimised. The Accountable Officer is being kept updated on this issue and in turn is liaising with the Audit & Finance Committee, Internal and External Audit, and SG Sponsor Directorate to ensure that any risk is managed appropriately, including future levels of funding.	Chief Executive / On-going

No.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
3	45	**Common Grazings** **Issue**: The Commission has been asked to investigate a number of complaints against grazings committees. These normally resolve through negotiation but in three instances this has not been the case and two of these have become high profile. There are a number of risks to the organisation associated with these decisions. **Recommendation**: The Board should be aware of these risks when reaching decisions in this type of case and by keeping any expenditure under close review.	Agreed. In addition, as a result of the cases this year, we have reviewed the process for investigating complaints of this nature to ensure that more focus is placed on resolving through negotiation	Chief Executive / 31 March 2017

No.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
4	51	**Staff Register of Interests** **Issue**: The Commission has developed a staff register of interests policy which was approved by the Board in December 2015. However, staff complete a declaration of interests form on a voluntary basis. **Recommendation**: All staff should be required to complete a declaration of interests form in order for the Commission to undertake a review of related party transactions in accordance with IAS 24 and the FReM.	We have an Anti-Fraud Policy in place for the Commission, based on recommendations from Scott-Moncrieff. All staff have received training on this. It includes a Declaration of Interests form, which all staff have been invited to complete. To date almost all staff have done so. Staff had a deadline of 30 June 2016 to complete the form by. Most of those outstanding are presently on annual leave so SMT will follow up by mid-July to conclude the exercise. All members of the SMT have completed a return. It is not possible to make this a compulsory requirement, as Scott-Moncrieff acknowledged in their report to the Commission. What we are asking staff to do goes over and above what they are obliged to do as civil servants employed by Scottish Government (i.e. complete the Register of Interests in e-HR). We received union clearance to put the form to staff but given they are all employees of Scottish Government, they cannot be compelled to complete it. To date there has been a 97% return rate.	Head of Corporate & Customer Services / 30 September 2016

No.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
5	59	**Workforce Plan** **Issue**: The Commission do not currently have an organisation-wide workforce plan. **Recommendation**: The Commission should develop a workforce plan that is proportionate to its size and nature.	Agreed. In developing the new Corporate Plan which will run from 2017-2022 work will be undertaken on preparing a workforce plan which will consider use of resources, skills gaps, development of the organisation and succession planning.	Head of IS/Chief Executive / 31 March 2017