

Final report to the Audit And Finance Committee and the
Auditor General for Scotland on the 2016/17 audit

9 August 2017

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Director introduction

The key messages in this report

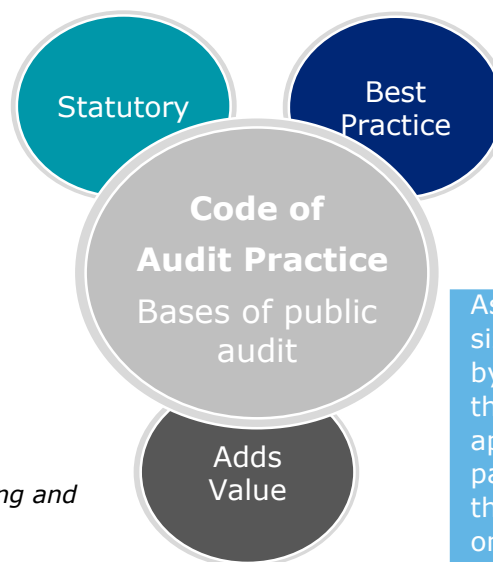
Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

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

I have pleasure in presenting our final report to the Audit and Finance Committee for the 2017 audit.

As detailed in our plan presented to the Audit and Finance Committee in January 2017, the new Code of Audit Practice, which came into force for the 2016/17, audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

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

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

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Compliance with expenditure resource limits; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of our internal quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2017.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FReM), confirming that the annual report and accounts comprise a performance report, an accountability report (which includes the remuneration report and staff report, the governance statement and the parliamentary accountability disclosures) and the financial statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - the performance report has been prepared in accordance with the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 (the Acts) and the directions made thereunder by the Scottish Ministers;
 - the information given in the governance statement is consistent with the financial statement; and
 - the governance statement has been prepared in accordance with the Acts and the directions made thereunder by the Scottish Ministers.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the performance report and accountability report (including the governance statement) and confirmed that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the Acts and the directions made thereunder by the Scottish Ministers.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance Statement

The FReM requires a governance statement to be published with the financial statements and guidance on content is provided in the governance statement section of the SPFM which sets out the essential features. We have confirmed that the Commissions governance statement is in compliance with this guidance and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and the date of authorisation which have not been included in the governance statement.

As part of his review of the effectiveness of the systems of internal control and risk management arrangements, the Accountable Officer has been informed by letters of assurance from each head of the operating areas, the work of internal auditors, comments from Deloitte as external auditors, the annual report provided by the Vice Chair of the Audit and Finance Committee and letters of assurance from Scottish Natural Heritage and the Scottish Government.

Appropriate disclosure has been made of the opinion provided from internal audit, including the significant governance issues raised in its report commissioned by the Cabinet Secretary for the Rural Economy and Connectivity which was published in February 2017.

Financial Sustainability

The Crofting Commission had approved funding for 2016/17 of £2,489k, to cover cash expenditure of £2,447k and £42k for non-cash costs, with additional funding of up to £310k allowed to be utilised to help with the delivery of the new duties introduced by the Crofting Reform (Scotland) Act 2010, including croft registration and the Annual Notice.

The Commission operated within its cash allocation, drawing down £2,437k of the allocation. Other income of £229k was secured in the year to fund additional specified areas of expenditure, such as the delivery of the crofting census and processing croft registration applications on behalf of the Registers of Scotland.

A 5 year Corporate Plan is in place for the period 2017-2022, which details the Commissions objectives over the next 5 years and how these fit with the Scottish Government national outcomes. Budgets are created on an annual basis as there is uncertainty around the funding that will be received. The payroll budget is prepared and spans 2 years, and is rolled forward bi-annually, with payroll being the Commissions largest element expenditure. Within the Commission's Business Plan for 2017-18, it has estimated the cost of delivery against each outcome, estimated at £2,708k, which is in excess of the confirmed grant funding of £2,397k. The Commission has secured additional pressure funding of £310k from the Scottish Government for 2017/18, however this is not expected to continue beyond 2017/18.

Pat Kenny
Audit Director

Responsibilities of the Audit and Finance Committee

Helping you fulfil your responsibilities

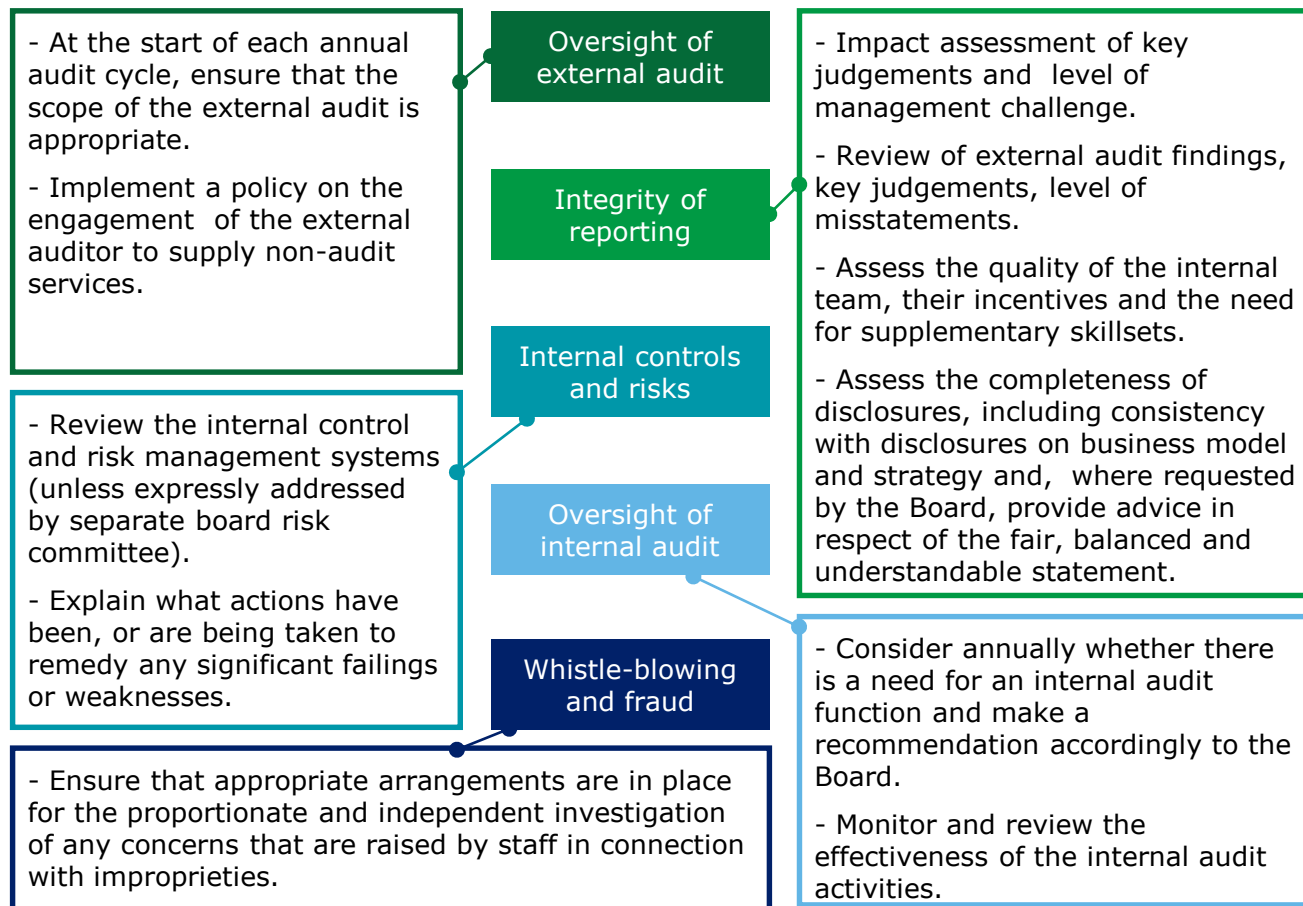
The primary purpose of the Auditor's interaction with the Audit and Finance Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit and Finance Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities

We use this symbol throughout this document to highlight areas of our audit where the Audit and Finance Committee need to focus their attentions.



As a result of regulatory change in recent years, the role of the Audit and Finance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Finance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Finance Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

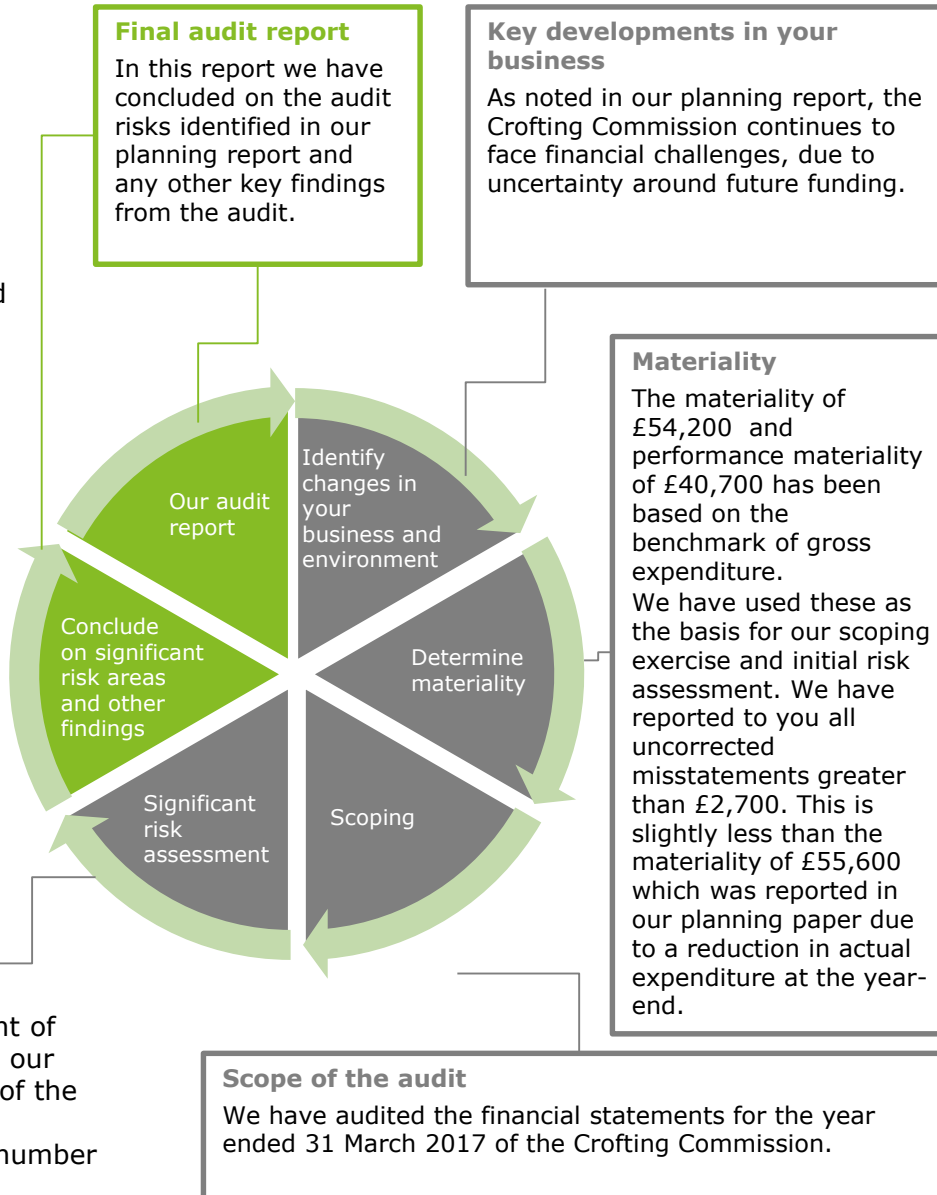
- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Commission and the services that it delivers over the medium to longer term.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence







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



Timeline 2017



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Core expenditure resource limits			D+I	Satisfactory		Expenditure in 2016/17 was within budget	10
Management override of controls			D+I	Satisfactory		Controls in place are appropriate	11



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)

Core expenditure resource limits

Risk identified

The key financial duty for the Crofting Commission is to comply with the DEL allocated by the Scottish Government to cover cash expenditure and non-cash costs such as depreciation and amortisation. Given the pressures across the whole of the public sector, there is an inherent risk associated with the accuracy and completeness of recording of expenditure within this limit, therefore expenditure and accruals posted at the year-end was a key focus of our audit.



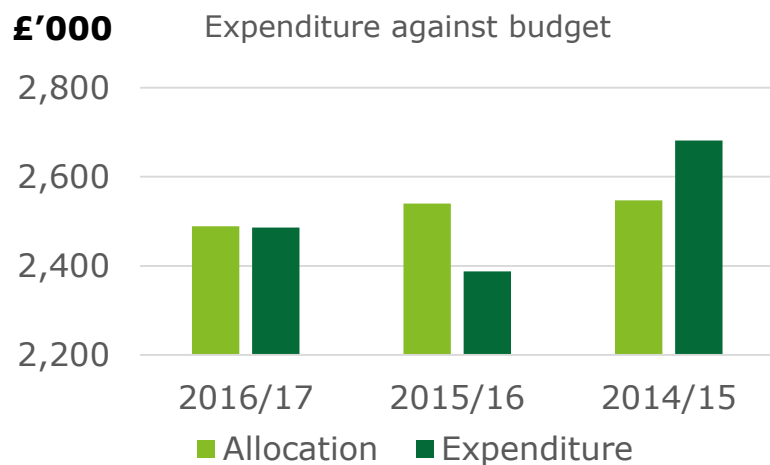
Key judgements and our challenge of them

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Government.



Deloitte response

- We assessed the design and implementation of controls in relation to monitoring of expenditure within limits;
- We performed focused cut-off testing;
- We reviewed the projected run rate of expenditure throughout the year to identify the risk of over or under accrual at the year-end to inform focused testing;
- We reviewed the classification between revenue and capital;
- We reviewed and challenged the assumptions made in estimating accruals to assess completeness of recorded expenditure; and
- We obtained independent confirmation of the resource limits allocated to the Crofting Commission by the Scottish Government.



Deloitte view

- We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.
- We confirm that Crofting Commission has performed within the limits set by the Scottish Ministers and therefore in compliance with the financial targets in the year.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

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

- the Commission's results throughout the year were projecting to meet budget, this was closely monitored by the Senior Management Team so the Commission would be able to meet its overall financial targets.
- senior management's remuneration is not tied to particular financial results.

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

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Commission.

Journals

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

Accounting estimates

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

Significant transactions

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

Your annual report

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

	Management response	Deloitte response
The Performance Report	<p>This reports the Crofting Commission's performance, both financial and non-financial. It outlines its vision, purpose and what its achieved against its outcomes. It also highlights the difficult year it has had due to public criticism and action being taken.</p>	<p>We have assessed whether the performance report has been prepared in accordance with the Acts and the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	<p>Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.</p>	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the Acts and the accounts direction. No exceptions noted. Our more detailed consideration of the governance statement is provided on page 13 of this report.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	<p>Management has made appropriate disclosure relating to Going Concern matters.</p>	<p>We have confirmed that the 2017/18 Budget was approved by the Board on 8 February 2017. We have concluded that the plan is sufficiently robust to demonstrate that Crofting Commission will be a Going Concern for 12 months from signing the accounts.</p> <p>We note that the Plan was approved by the Board in June 2017 and confirmation from the Scottish Government is outstanding.</p>

Wider scope requirements

Governance statement disclosures

Audit dimension

As part of our wider scope responsibilities, we have considered the appropriateness of the disclosures in the governance statement.

Areas considered



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

Deloitte view

The Governance Statement meets the requirements of the SPFM and no inconsistencies noted between the disclosures and our knowledge gained during the audit.

Deloitte response



In the year Catriona MacLean, resigned as Chief Executive as she was subsequently promoted to Deputy Director of Food, Drink and Rural Communities Division in the Scottish Government Senior Management Team. Bill Barron has taken on her role as Chief Executive from 24 October 2016.

6 Commissioners' terms in office ceased on 17 March 2017 who were replaced by newly elected Commissioners. There was also one Commissioner in the year that was re-appointed for a 3 year term and two others that were appointed in 2017.

The above key changes have been appropriately disclosed within the governance statement.

As part of his review of the effectiveness of the systems of internal control and risk management arrangements, the Accountable Officer has been informed by letters of assurance from each head of the operating areas, the work of internal auditors, comments from Deloitte as external auditors, the annual report provided by the Vice Chair of the Audit and Finance Committee and letters of assurance from Scottish Natural Heritage and the Scottish Government.

Appropriate disclosure has also been made in relation to the significant governance issues identified as a result of a review performed by Internal Audit which was commissioned by the Cabinet Secretary for Rural Economy and Connectivity. We have confirmed that an Action Plan is now in place to address the recommendations made in this report and we will monitor the implementation of this over the next year.

Wider scope requirements

Financial sustainability

Audit dimension

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

Areas considered



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

Deloitte response



We have monitored the Board's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved and whether effective planning is in place for the longer term.

Deloitte view

As with all public sector bodies, the Crofting Commission is faced with a challenging financial position in the longer term, and while pressure funding has been secured to address the funding gap for 2017/18, this is not secured for future years. Additional funding or cost efficiencies therefore need to be generated to ensure longer term financial balance.

Short Term

The 2016/17 budget was agreed by the Board on 3 February 2016. The Grant in Aid funding available to cover cash expenditure decreased compared to 2015/16 from £2,547k to £2,447k in 2016/17. The Commission operated within its cash allocation, drawing down £2,437k of the allocation.

The Commission's staff costs remained consistent with 2015/16, with agency costs being replaced by more fixed term contracts to provide more stability whilst also ensuring flexibility should funding be reduced in the future. Overall costs have decreased as a result of efficiencies in non-pay costs during the year.

Medium-Long Term

A 5 year Corporate Plan is in place for the period 2017-2022, which details the Commissions objectives over the next 5 years and how these fit with the Scottish Government national outcomes. Budgets are created on an annual basis as there is uncertainty around the funding that will be received. The payroll budget is prepared and spans 2 years, and is rolled forward bi-annually, with payroll being the Commissions largest element expenditure. Within the Commissions Business Plan for 2017-18, it has estimated the cost of delivery against each outcome, estimated at £2,708k, which is in excess of the confirmed grant funding of £2,397k. The Commission has secured additional pressure funding of £310k from the Scottish Government for 2017/18, however this is not expected to continue beyond 2017/18.

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

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

What we don't report

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

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

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

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

The scope of our work

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

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you on 24 January 2017.

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



Deloitte LLP

Glasgow

24 July 2017

Appendices



Audit adjustments

Corrected misstatements

- No corrected misstatements have been identified from our audit work to date.

Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work to date.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Audit and Finance Committee if anything arises from our outstanding work.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

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



Audit work performed:

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

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

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

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

We have identified no cause for concerns from the work noted above and our audit procedures



Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £16,845 as detailed in our Audit Plan.</p> <p>No non-audit services fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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