Deloitte.

CROFTING COMMISSION
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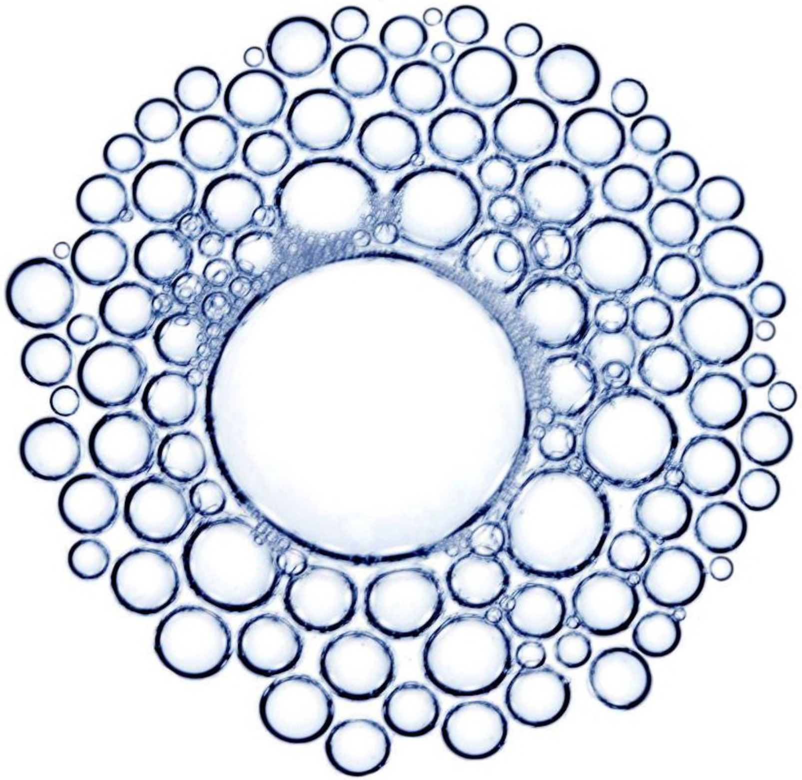


Crofting Commission

Report to the Audit & Finance Committee and the Auditor General for Scotland on the 2018/19 audit

Issued 6 August 2019 for the meeting on 14 August 2019

Contents

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 & Finance Committee ('the Committee') of the Crofting Commission for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in January 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officer's duty to secure best value.

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Crofting Commission.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Crofting Commission has met it's financial targets for 2018/19.

No misstatements in excess of our reporting threshold of £2.75k or disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Consideration of audit dimensions

In our audit plan presented to the Committee in January 2019, we explained that due to the relative size and scale of the functions delivered by the Commissioner, the full wider scope audit was not appropriate. Our planned 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

We did, however, agree to expand the scope of our work to specifically consider the effectiveness of governance and leadership, the use of resources and the focus on improvement at the Commission.

Through our work, we identified areas for improvement which could be addressed through changes in financial management processes. In order to add value to the Commission through our audit, we revisited our plan and concluded that the application of the full wider scope in 2018/19 is appropriate, with the four areas covered by this set out on page 3.

To inform our work on the audit dimensions, we held detailed interviews with the Convener; Chair of the Audit & Finance Committee; CEO; Deputy CEO; Finance Manager; Finance Officer; attended Audit & Finance Committee meetings and a Senior Management Team ('SMT') meeting, and reviewed supporting documentary evidence.

Conclusions on audit dimensions

As set out above, our audit work covered the four audit dimensions. We have also considered the specific risks highlighted by Audit Scotland, in particular:

- The impact of EU withdrawal;
- The changing landscape for public financial management;
- Dependency on key suppliers; and
- Increased focus on openness and transparency.

Our overall conclusion on the audit dimensions is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability

The Crofting Commission has achieved short-term financial balance. However, the financial position of the Commission is extremely challenging given the 3.6% reduction in funding in 2019/20. The Commission should develop a Medium-Term Financial Plan (‘MTFP’), linked to the Scottish Government Medium-Term Financial Strategy (‘MTFS’) and quantifying any medium-term funding gap, setting out actions to address this. The Commission’s workforce plan needs to be enhanced and it should be linked to the MTFP.

Financial management

The Commission has effective financial management processes in place. However, there is room for improvement in the budget setting process and the understanding of financial implications of decisions. The Commission should also consider whether giving finance a more strategic role in the organisation would help to address some of the issues identified in relation to financial sustainability, financial management and value for money.

Governance and transparency

Overall, the Commission has a good attitude to openness and transparency and has strong governance and scrutiny arrangements in place. We note that additional training has been provided to Commissioners in relation to observing the boundary between operational and strategic matters in June 2019.

The Commission has competent and dedicated leadership. However, the SMT need to develop a ‘one Commission’ culture. SMT need to ensure consistency in performance management, improve the processes in place for managing organisational change, and improve communication with staff.

Given the findings of the 2018 and 2019 staff surveys, the Commission should review its processes for dealing with alleged and perceived inappropriate behaviour, and should consider conducting an initial independent review to look into these concerns.

Value for money

An increase in regulatory applications, combined with staffing and IT issues, has resulted in the Commission’s performance declining substantially in 2018/19, with complaints received increasing by 120% in the year (due primarily to a backlog in processing regulatory applications in the summer of 2018, with most resolved at frontline stage). The Commission should prepare a clear and concise annual Improvement Plan. This Improvement Plan should be informed by self-assessments, staff surveys, stakeholder surveys and national reports.

The Commission needs to move to the regular use of business cases to underpin decision making and put measures in place to ensure that the causes of the issues (as discussed above) in 2018/19 do not recur.

Our detailed findings are included on pages 16 – 32 of this report. An agreed Action Plan is set out on pages 35 – 39. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

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

This is provided throughout this report. In particular, we have added value through our work by considering each of the audit dimensions, considering areas which would normally not be assessed for bodies the size of the Commission, and identifying improvements as a result. We have worked with the Commission to develop a detailed action plan to improve governance and leadership, medium-term financial planning, workforce planning and demonstrating value for money in decision making.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

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

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

Final audit report

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

Key developments in your business

The Commission continues to face significant financial pressures, with anticipated funding reductions coming into effect from 2019/20. There is also an ongoing review of crofting legislation that is likely to affect the roles and responsibilities of the Commission and its operations in the medium to longer-term.

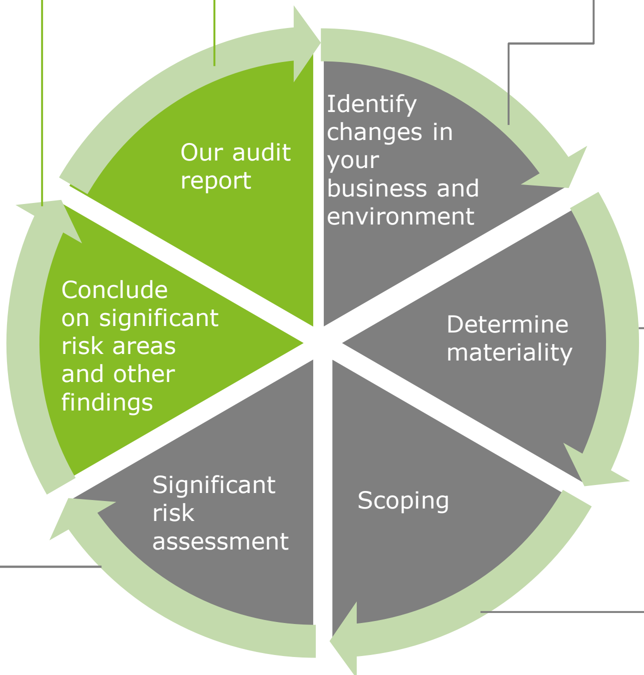
Materiality

Materiality of £55k and performance materiality of £46k has been based on the benchmark of gross expenditure and is consistent with what we reported in our planning paper.

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

Significant risks

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



Quality and Independence

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

Scope of the audit

We will audit the financial statements and perform work around wider audit dimensions for the year ended 31 March 2019 of the Crofting Commission.

Timeline 2018/19

November 2018
Meetings with management and other staff to update understanding of the processes and controls.

23 January 2019
Presented planning paper to the Audit and Finance Committee.

February – March 2019
Fieldwork for the wider scope.

31 March 2019
Year end.

June 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

28 June 2019
Audit close meeting.

14 August 2019
Audit & Finance Committee meeting.

19 August 2019
Accounts sign-off.

Financial statements audit

Significant risks

Dashboard

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

Overly prudent, likely to lead to future credit − − ● + + Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

The key financial duty for the Commission is to comply with the Departmental Expenditure Limit (‘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 as there is an incentive for management to either over or under accrue expenditure at the year-end, depending on the forecast position, in order to meet the allocation.

Key judgements and our challenge of them

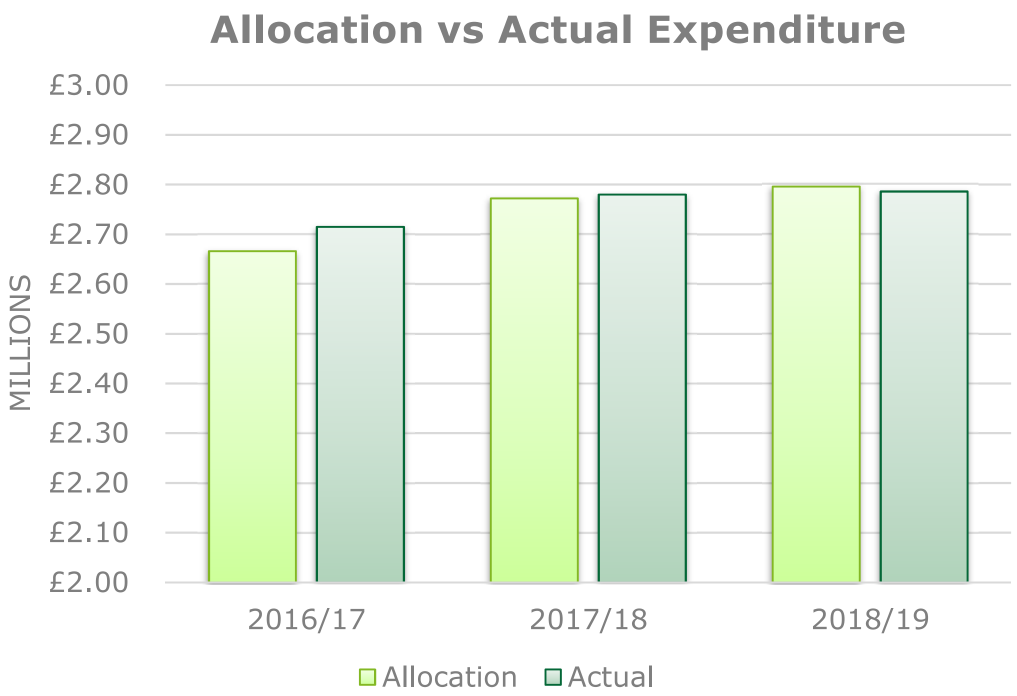
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and expenditure around year end.

Deloitte response

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

- evaluating the design and implementation of controls around monthly monitoring of financial performance and authorisation of expenditure;
- obtaining independent confirmation of the resource limits allocated to the Commission by the Scottish Government;
- performing testing of accruals at the year-end; and
- performing focused cut-off testing of invoices received and paid around the year end.

Note: We had set out in our audit plan that we would perform testing of prepayments at the year-end. However, given that prepayments are immaterial, no further work has been performed on this balance.



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.

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

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

The key judgements in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. This is inherently the area in which management has the potential to use their judgement to influence the financial statements. Our challenge is discussed on page 9.

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 a breakeven position in operational areas; and
- Senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

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

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, including accruals and consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value. No issues were identified through the work performed.

Deloitte view

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

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

Other matters

Implementation of IFRS 9 and IFRS 15

Matter identified	The Commission is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Commission is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. No opening adjustments were posted with regards to the adoption of either IFRS 9 or IFRS15 as no material impact was identified.
Response	Following requests during the audit, management prepared a memorandum on IFRS 9 and IFRS 15, setting out the key areas of impact of both of these standards. These memorandums and discussion with management confirmed no transitional issues with respect to either IFRS 9 or IFRS15. The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses – a practical expedient available for portfolios of debt such as that at the Commission, is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. This method has been adopted by the Commission and has resulted in no provision being identified given the low level of debtors held by the organisation. The entirety of the Commission's income comes from the Scottish Government and is therefore treated under IAS 20, rather than IFRS 15. From our review, we agree with management's assessment that there is no material impact from transition to IFRS 15.

Deloitte view

We have not identified any material impact from transition to IFRS 9 and IFRS 15 in 2018/19. Management assessed the impact appropriately. Management will need to ensure that they continue to assess the potential for an expected credit loss provision if the debtor position increases in any given year.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Based on our work completed to date, we anticipate that our opinion on the financial statements will be unmodified.

Material uncertainty related to going concern

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

While the Commission is faced with financial sustainability issues (as discussed on pages 17 – 20), it met its financial targets in the year and there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) public bodies will continue in operation, therefore it is appropriate to continue as a going concern.

Emphasis of matter and other matter paragraphs

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

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

Other reporting responsibilities

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

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

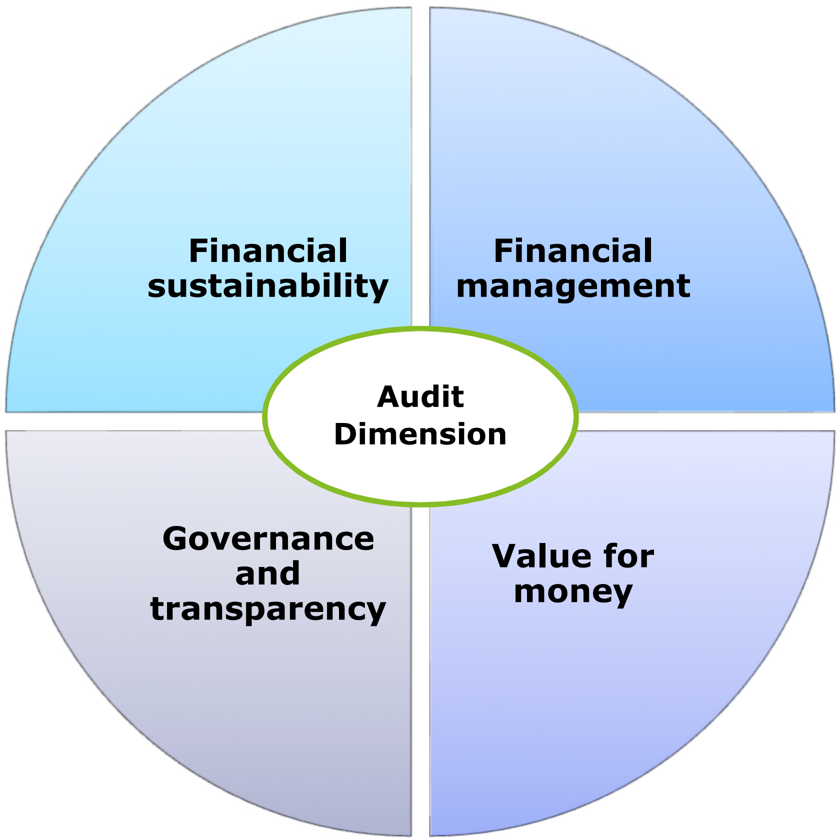
	Requirement	Deloitte response
The Performance Report	The report outlines the Crofting Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainty facing the Commission.	We have assessed whether the performance report has been prepared in accordance with the accounts direction. We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We have identified a number of areas for improvement in the draft performance report and are pleased to note that these have been acted upon by management. It is important that, given the short timeframe involved, the performance report is complete and ready at the time of the audit to enable a full, detailed review to take place. There were delays in the current year with this information and management should ensure they have processes in place to address this for 2019/20 so as to avoid any potential delays to the audit or the issuing of the Annual Report.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	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 Scottish Public Finance Manual. We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We 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. We identified a number of areas of non-compliance in the draft accountability report, which were communicated to and rectified by management. We have also identified a number of areas for improvement which have been acted upon.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that the 2019/20 budget was approved by the Commission and included scenario planning for draft budgets for 2019/20 to 2021/22. We have concluded that the plan is sufficiently robust to demonstrate that the Commission will be a going concern for 12 months from signing the accounts.

Audit dimensions

Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusions on our audit work covering the following areas. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on Best Value and specific risks as summarised below.



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

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

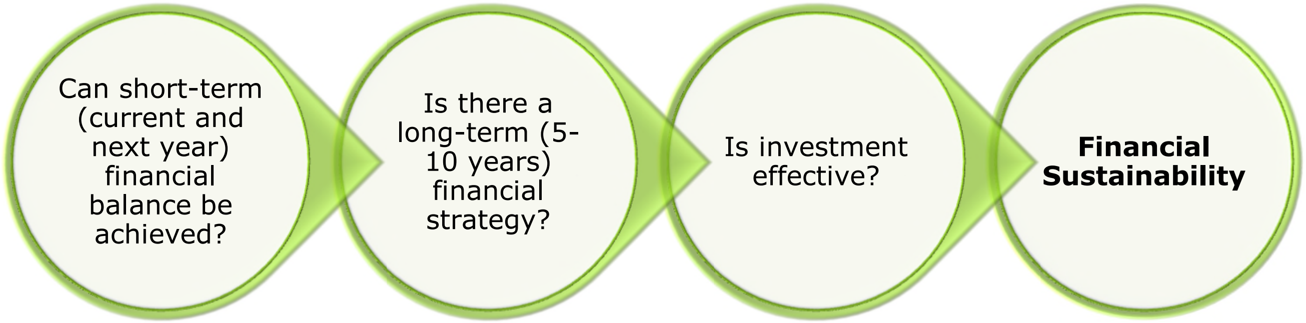
Specific risks (SR)
As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal
SR 2 – Changing landscape for public financial management
SR 3 – Dependency on key suppliers
SR 4 – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Commission is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified a number of risks as follows:

- The Commission may be unable to meet its statutory commitments due to funding restrictions and the use of resources on non-statutory services;
- The Commission's long-term financial planning is inconsistent with the Scottish Governments five-year plan; and
- The Commission may not have sufficient planning in place to deliver on its statutory obligations.

Audit dimensions (continued)

Financial sustainability (continued)

Short-term financial balance

The Crofting Commission has a history of breaking even (as set out in the graph on page 9), within small tolerable thresholds set by the Scottish Government, and has done so again in 2018/19. For 2019/20, the budget includes an "overspend" of approximately £65k (~2%), which the Commission expect to address through the year by managing staff turnover and through other savings achieved in the year. Given the Commission's history of achieving these savings, the Board approved the budget on the assumption that these savings (primarily staff turnover) would be achieved.

We have considered the appropriateness of this approach to budgeting on page 22.

Medium-term financial sustainability

The Crofting Commission is not in a financially sustainable position. A body is considered to be financially sustainable if it (i) has adequate reserves, (ii) is spending within budget and (iii) has credible medium term plans in place. The first of these is not applicable to the Commission. As at May 2019, the Commission is overspending against budget - and the budget is set on the basis of spending more than is available to the Commission - and has no medium-term plans in place. This risks underplaying the seriousness of the financial position the Commission expects to find itself in over the medium to long-term. These issues and the lack of specific savings plans in place inform our conclusion.

The Crofting Commission does not have any detailed financial planning in place beyond its one year budget. This results in a number of issues, such as it not being clear how the Commission intends to allocate resources to deliver its Corporate Plan over the life of the plan, how the Commission's Workforce Plan links in with the savings required over the life of the plan, and the lack of 'longer-term' thinking by the SMT when it comes to decision making (page 22). While the Commission is aware that from 2020/21 it will be in a difficult position financially, it has not quantified how difficult a position that will be or considered in detail how it can address those difficulties. This essentially delays the necessary action needed to address anticipated funding gaps and reduces the amount of time available to the Commission to address them, thereby also reducing the options available.

The Commission needs to develop an MTFP covering a 3-5 year period, being updated annually. The following approach is best practice:

1. The plan should cover a period of three to five years and be updated annually.

2. The plan should include scenarios - a best case and worst case of reasonable possibilities, with the case demonstrated in the plan being the mid-point of these.

3. The plan should not be made to balance. If there is a funding gap, the plan should quantify how much this is on an annual basis. Future budgets and annual savings plans to close the funding gap should then be linked to the MTFP.

4. There should be clear links between the MTFP, the Corporate Plan and the Workforce Plan, demonstrating how the Commission plans to use its resources over the medium term to achieve its objectives, deliver its statutory duties, and deliver improved outcomes as set out in its Corporate Plan.

5. The MTFP should take account of the Scottish Government’s MTFS and the assumptions set out therein, including how it intends to use its resources to contribute to the National Performance Framework and to the key themes of public service reform.

Audit dimensions (continued)

Financial sustainability (continued)

Workforce planning

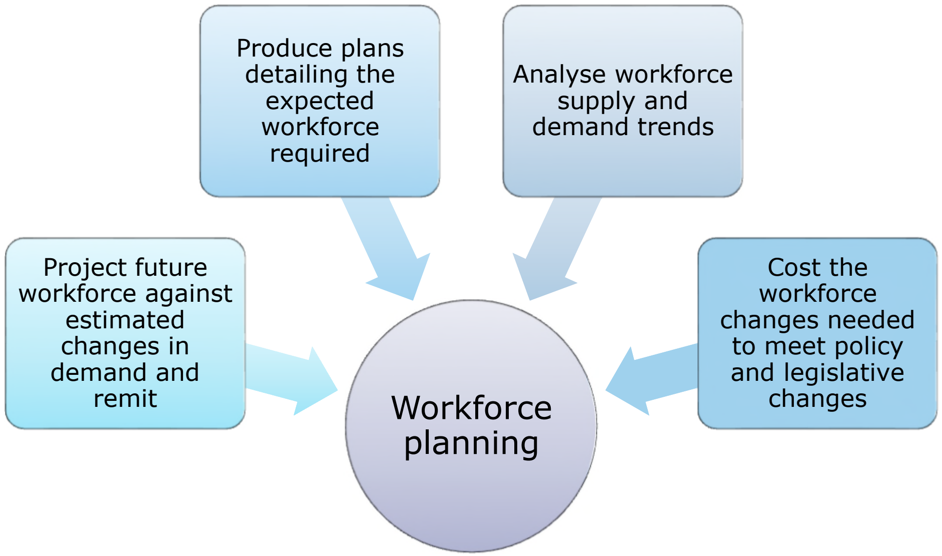
We welcome the development of a workforce plan in 2018/19. While this is a useful starting point, substantial improvements are needed as a matter of priority. The consequences of not having a detailed workforce plan in place are clear - steps to address vacancies in key posts are not appropriately prioritised, training is not systematically planned, roles and responsibilities of staff are not regularly considered to ensure they're still appropriate, and there is a lack of a workforce development strategy.

The workforce plan needs to consider the needs of the organisation and those of its workforce, ensuring it is sufficient to meet its legal obligations and objectives. Workforce planning provides a basis for understanding workforce behaviours, considering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and changes in productivity. Understanding these issues can allow the organisation to plan appropriately. Workforce planning is an ongoing process, and should be considered for appropriateness by the Board on an annual basis.

Audit Scotland has produced reports on workforce planning in the NHS in Scotland, identifying key areas which need to be considered for effective workforce planning. Although not directly applicable, the overarching principles here should be used to guide the Commission's workforce planning.

Succession planning needs to be included in the Workforce Plan. This needs to include clear promotion opportunities within the organisation, effective delegation to staff, and tailored training plans to enable staff to carry out more senior roles. Taking these steps can help to address issues highlighted in the recent staff survey, such as perceived poor career development opportunities.

In order to develop a meaningful workforce plan, the Commission needs to understand (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision). While the Commission understands the first point, the approach adopted by it (page 18) does not enable it to understand the following points. The Commission should consider whether it has the capacity to carry out a review to address these points internally, or whether an external review should be conducted.

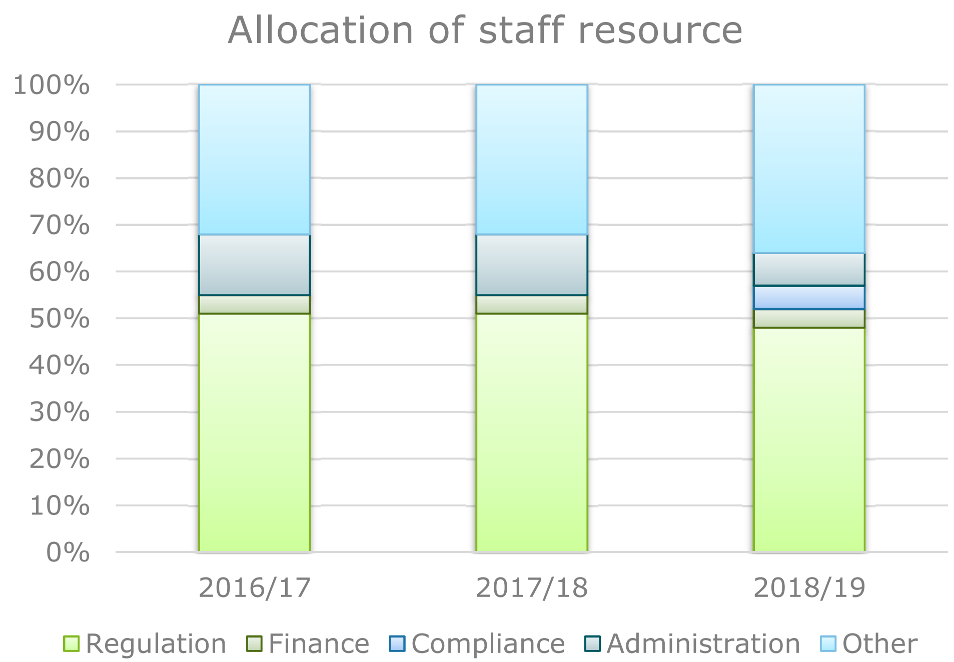


Audit dimensions (continued)

Financial sustainability (continued)

Staffing structure

The staffing structure in the Commission has not arisen out of strategic long-term thinking or as a result of a critical review of the positions in the Commission against its current and anticipated future requirements. Management have confirmed that the staffing structure is managed on an incremental basis, with changes being made in the spring of each year depending on the budget outlook and the latest strategic priorities from the Board and the Scottish Government. This ad-hoc approach is evidenced by a review of staffing costs by area in the Commission, shown in the graph below. This ad-hoc approach is likely to have impacted on the regulatory application backlog experienced in 2018 (staff spend on regulation has dropped from 51% to 48% in the year at the same time as a 29% increase in regulatory applications), with consequent impacts on complaints received by the Commission (page 30), risk perceived by the Commissioners and pressure felt by staff.



Considering the staffing structure as a whole is increasingly important given the issues identified in the recent staff survey around workload management (56% of staff said workload was managed unfairly, compared to 20% who said it was fair). There is room for improvement - while 46% of staff feel their workload is unacceptable, 32% said it was acceptable, which suggests that some staff in the Commission could absorb some of the functions which other areas are currently seeing as unsustainable. The Commission needs to undertake further work to identify where these areas are and build their workforce plan accordingly – having such a split in perceived workloads poses a risk to the organisation and is not sustainable.

Agency spend

Between 2016/17 and 2018/19, the spend on agency staff has increased by 22% despite decreasing reliance on agency staff being a stated aim of the Commission. There are various reasons for this: difficulties in filling posts; uncertainty over future funding; delays in HR processing, and management haste. In the same period, the proportion of staff costs spent on agency staff has increased from 9.7% to 11.3%, with agency staff now making up 15.8% of staff in the Commission, up from 13.5% in 2016/17. By comparison, the NHS in Scotland spends about 4% of its pay budget on agency and locum staff, with reliance and expenditure on agency staff decreasing in 2017/18 and 2018/19. The need to use agency staff across the public sector is generally linked to poor workforce planning and the failure to identify workforce needs and action them at an early stage.

The impact on the financial sustainability of the Commission must not be understated: while agency staff costs between 2016/17 and 2018/19 accounted for an average of 10.6% of staff costs, they have accounted for 52.5% of the overall increase in staff costs. Spend on agency staff has risen at a rate of five times faster than spend on staff overall. This is not sustainable. If the Commission were to have had fixed or permanent staff in place in 2018/19 as opposed to agency, it would have saved approximately £43k (2%) of its overall pay bill. For every month that there is a delay between the Commission filling a post with a fixed-term or permanent position for which agency is used instead, there is an additional cost to the Commission of approximately £410.

Audit dimensions (continued)

Financial sustainability (continued)

Focus on outcomes

The Commission's Corporate Plan includes a specific section on the National Outcomes, linked clearly with the Commission's outcomes. The Business Plan outcomes and the budget are linked to the Corporate Plan outcomes, thereby being linked to the National Outcomes. We are pleased to note progress has been made in the year, acting on an audit recommendation in 2017/18, whereby spend in the year is aligned to the outcomes in the Corporate Plan.

While the Commission references the National Outcomes in its public reporting (including its Annual Report), this is only to the extent of a copy and paste from the Corporate Plan. Going forward, the Commission needs to set out how it has contributed to the National Outcomes in each year, as it is not clear to the reader how performance against the Commission's KPIs link with the Corporate Plan outcomes and the National Outcomes. By reviewing the KPIs, readers should be able to easily understand whether the Commission is on track to achieve its Corporate Plan outcomes and to what extent it has contributed to the National Outcomes.

Deloitte View – Financial sustainability

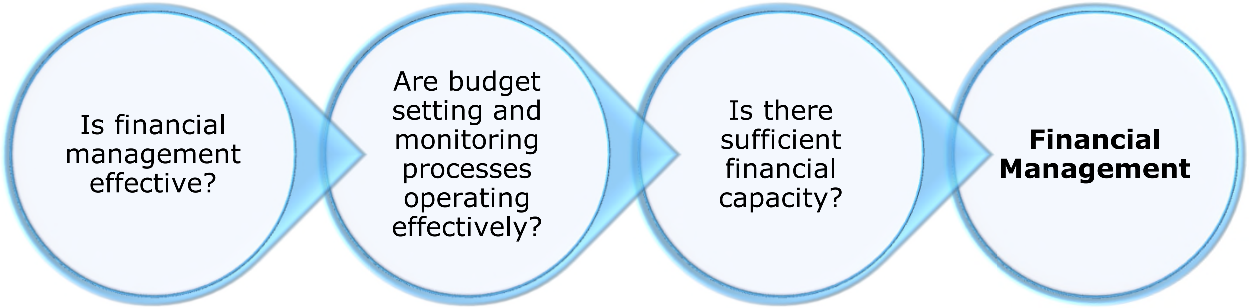
As discussed on page 17, the Crofting Commission achieved financial balance in 2018/19 and expects to achieve financial balance in 2019/20. The position over the medium term is expected to be more difficult, although the Commission has not identified a medium-term funding gap so it is not possible to quantify the difficulty at present. As the Commission does not have clear savings plans, has no medium-term financial plans in place and has received a reduction of funding in 2019/20, we have significant concerns about the medium to longer term financial sustainability of the Commission.

Given the increasing reliance of the Commission on agency staff, and the financial impact that that is having on the Commission, the Commission needs to place particular focus on its approach to workforce planning and give consideration to a review of its staffing structure, taking into account the good practice set out on pages 45 - 47.

Audit dimensions (continued)

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Audit risks

We did not identify any risks within our audit plan. Through our audit work, we identified a number of risks as follows:

- The budget setting process may not be operating effectively; and
- Finance team capacity and structure may not be appropriate in light of the move across the public sector from viewing finance as an operational role to a combined strategic and operational role.

Audit dimensions (continued)

Financial management (continued)

Financial capacity

The Crofting Commission has a competent, effective finance function in place. However, there are a number of concerns we have identified through our work, namely:

1. Staffing in the finance function has reduced by 57% in the past number of years, but there has not been a corresponding reduction in workload. Although the Commission now has an SLA with Scottish Natural Heritage for the provision of some finance services, this does not fully address the reduction in staffing. Given the lack of wider financial expertise at SMT level and throughout the Commission, coupled with accepted recruitment difficulties and the lack of contingency plans in place, there is a substantial risk that the Commission could be left with inadequate financial support if either member of the finance function were to leave the organisation.

2. There is no financial representation on the SMT nor does a member of finance always attend SMT meetings. This can result in financial implications (considered further across) being an afterthought in decision making, as opposed to a fundamental part of the decision making process.

3. Finance is treated in the Commission as being a purely operational role. Across public bodies, there is a change in approach where the Head of Finance (or equivalent) role is strategic and supported by operational staff. Given the issues identified in our audit relating to financial sustainability, financial management and value for money, the Commission needs to consider whether reviewing the structure of the finance function would help to address these issues.

In order to address these issues, the Commission needs to consider the finance function as it currently stands, assess the functions that the finance team need to do (bearing in mind the additional strategic role recommended, as set out above) and identify gaps in terms of capacity and skills, with actions set out to address these (which could be further recruitment, regrading of existing positions with a degree of additional administrative support, removing certain responsibilities from the finance function, etc.)

We have included good practice guidance on pages 45 – 47 of this report.

Financial implications of decisions

Before decisions are made by the SMT or the Board which are not included in the pre-approved budget, the financial implications of these decisions need to be explicitly set out, understood and accepted. In order to develop a culture where long-term financial sustainability and effective financial management is at the forefront of decision makers' minds, the Commission should:

1. Ensure that it has representation from the finance team at all SMT meetings to advise on financial implications of decisions.

2. Include the impact that decisions will have on the Commission's position against the budget and the funding gap identified in the budget and MTFP (when developed) in papers presented to the SMT and Board, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short-term.

3. Ensure that where a decision will result in an overspend against budget, that the SMT or Board identifies the savings which will offset this overspend, or identifies a specific budget holder responsible for finding the necessary savings, prior to approving the additional cost.

Budget setting

In 2019/20, the Commission adopted an approach of "over budgeting", resulting in an unbalanced budget (£65k overspend) being approved. This approach was adopted due to anticipated staff turnover, but it risks important decisions needing to be made at short notice towards the end of 2019/20 to close a budgeted funding gap for which no specific plans are in place at the start of the year. This approach to budgeting is not in line with good practice and should be reconsidered.

While the approach adopted is not non compliant, we highlighted the risks and implications associated with this approach at the Audit & Finance Committee in January 2019. The Commission proceeded with the approach but agreed to review it through 2019/20. As highlighted at that meeting, the Commission should adopt an approach to budgeting which separately identifies savings expected to be achieved, enabling tracking of performance against savings targets in the year.

Audit dimensions (continued)

Financial management (continued)

Budget setting (continued)

Going forward, the Commission needs to separately disclose in the budget paper the specific savings targets for each area, enabling monitoring throughout the year. For each area, it should be made clear in the budget how many of the required savings are identified/unidentified at the time.

The Commission needs to ensure it only budgets to use the resources available to it each year. Where the Commission identifies an unsustainable level of expenditure, it needs to focus on the identification of savings rather than accepting the use of an 'overspend' and thus removing the onus from specific budget holders to find efficiencies. The fact that budget holders can rely on additional savings being 'found' across the Commission allows work to identify and achieve savings to be a lower priority, resulting in a lower level of achieved savings and a delay in achieving them.

The approach adopted by the Commission in 2019/20 risks fostering an unhealthy attitude to budgeting and demonstrates a reliance on the belief that because the Commission always has broken even, it always will. While the Commission does have a good history of breaking even, it needs to ensure that this is maintained and it cannot be assumed that it will.

Deloitte view – Financial management

The Commission achieved a breakeven position in 2018/19. Throughout the year, the Commission was forecasting a breakeven position, which provides assurance about the financial management processes in place. However, the Board and SMT need to put measures in place to ensure that they are fully aware of the financial implications of their decisions prior to making them, bearing in mind the need to demonstrate value for money and ensure that the Commission is financially sustainable.

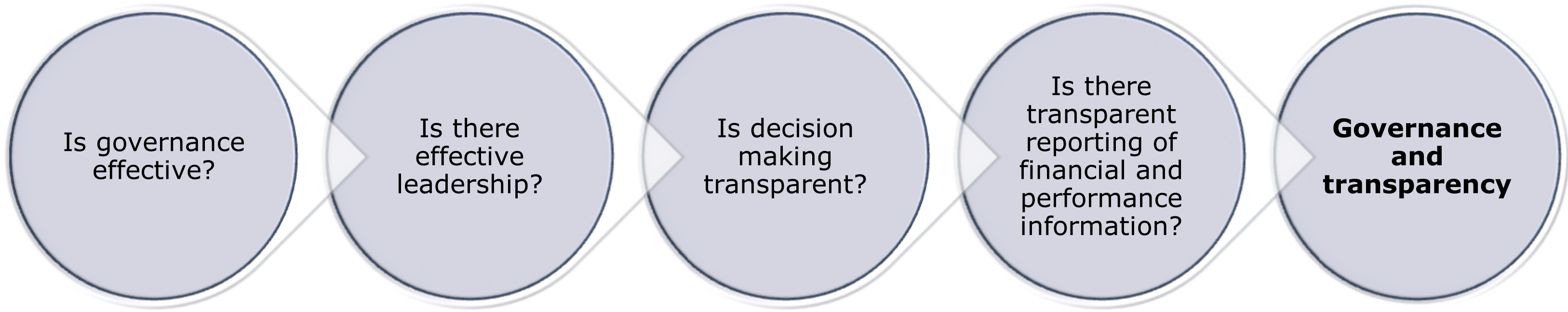
The approach to budgeting is not in line with good practice. This approach should be reconsidered going forward, ensuring that assumed savings are embedded in the budget and assigned to specific budget holders, with savings separately disclosed in the narrative to the budget (outlining whether they are identified or unidentified) to enable monitoring throughout the year.

While we are satisfied with the experience and dedication of finance personnel, the Commission needs to consider whether there is sufficient capacity in the team given the increasing expectations of finance in the public sector (regarding it as both an operational and strategic function).

Audit dimensions (continued)

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



Audit risks

Within our audit plan we identified a number of risks as follows:

- Failure to have appropriate leadership and governance in place at all times, or mitigating transitional arrangements, increases the risk that the Commission will fail to deliver on its services, especially in times of difficulty; and
- There is a risk that the Commission's approach to openness and transparency is not keeping pace with public expectations and good practice.

Audit dimensions (continued)

Governance and transparency (continued)

Openness and transparency

Taking an ***open approach*** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfy the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

The Crofting Commission has a generally positive attitude towards openness and transparency and is positively disposed to improving in this area. We are pleased to note improvements in recent times - such as attendance at agricultural shows, holding stakeholder meetings, greater engagement with other organisations in the field of crofting. Actions such as these demonstrate an attitude of striving for more, in line with good practice.

In order to continue this journey of improved openness and transparency, we recommend that the Commission adopts a process of placing Board papers on its website, in order to demonstrate to the public how the Commission conducts its business and makes decisions. Board meetings are public and so any member of the public could already obtain these papers by attendance at meetings or through request if they so wished. The Commission should also consider carrying out regular surveys of crofters' views, perhaps in conjunction with the crofting census.

We are pleased to note that in line with good practice, where private meetings are held, the reason that the meetings are private is publicly set out - explaining why something is not public can by itself improve openness and transparency.

On an annual basis, the Commission should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider crofting community. Through this review, the Commission should identify improvements which can be made in the coming year, demonstrating a commitment to continuous improvement, ensuring it is always striving for more and keeping up with public expectations.

Audit dimensions (continued)

Governance and transparency (continued)

Effectiveness of governance arrangements

From our attendance at Audit & Finance Committee and Board meetings, through our review of minutes of these meetings and through our interviews with Commissioners and staff, we have noted that there is generally a good level of challenge and scrutiny demonstrated by the Board.

The Crofting Commission has good arrangements in place for carrying out self-assessments of its governance arrangements, including annual self-assessments completed by the Audit & Finance Committee and the Board. For responses which are not unanimous or which raise concerns, the Commission responds appropriately, arranging remedial action in a timely manner.

We are also pleased to note that the Commission regularly keeps its governance arrangements under review and proactively identifies areas for improvement in line with updated good practice. For example, in the year, the Commission undertook to develop an assurance framework for the organisation, with the initial framework being approved in April 2019. In 2018/19 also, the Commission agreed a refreshed Framework Document which governs its relationship with its Sponsor Division in the Scottish Government. The Framework Document is detailed and clearly sets out areas of responsibility and expectations of the Commission and the Scottish Government.

Through our work, we identified a number of areas for improvement which could enhance the effectiveness of governance, scrutiny and challenge at the Commission, as set out across.

1. Commissioners need to be aware of their roles and responsibilities and be mindful of their strategic role, being careful not to cross over into operational matters. In particular, the Commissioners must remember that they have no authority to instruct staff on operational matters and they should not be carrying out operational duties. We are pleased to note that training was arranged on this point in June 2019, but it requires ongoing vigilance by both management and Commissioners to point out when the roles are being blurred, ensuring that the roles are always respected. We have set out on the following page a number of initiatives which could be considered by Commissioners for increasing engagement with staff while not crossing over into operational areas.

2. There is no dedicated training plan for Commissioners. While training is organised for the Board, the training provided is decided by management and not systematically informed by personal development plans for Commissioners. This is partly due to the lack of documented appraisals carried out for Commissioners. Going forward, Commissioners should have personal development plans agreed and training should be arranged to address any gaps identified.

3. In line with the statutory guidance on appraisals of NDPB Board members, the Convener should carry out formal annual appraisals for all Commissioners, assessing performance against individual objectives and contributions and ensuring that training and developments needs are identified.

Audit dimensions (continued)

Governance and transparency (continued)

Staff engagement

To ensure that Commissioners have appropriate engagement with staff and fully understand the work of the Commission while still respecting the boundary between operational and strategic matters, the Commission should consider the following options:

(1) The appointment of one Commissioner as a staff engagement champion;
(2) The implementation of a shadowing programme for Commissioners to better understand the work of staff;
(3) The regular attendance by more junior staff at Board and Committee meetings; and
(4) The consideration of an annual staff engagement report by the Board or Committee.

Leadership

From our work, we are confident that management at the Commission are competent, dedicated to the organisation, demonstrate a clear interest in the work of the Commission and show a keen interest in the staff they work with. This is evidenced through the results of the staff survey - 98% of Commission staff feel that their line managers are considerate of their life outside of work, 95% feel that they are open to new ideas, 90% feel that they recognise good performance and 86% have confidence in their decisions.

However, there are concerns about management *as a group*, which again reflect themselves in the staff survey findings. Only 43% feel that the Commission has good management, only 41% have confidence in the SMT, 71% feel that communication from management is poor, 86% feel that change management is poor and only 33% feel that changes made are generally for the good. Overall, 57% feel that management do not have a clear vision for the future of the Commission.

Simply put, staff are generally satisfied with their immediate team and managers, and markedly less satisfied with the management team in place at the Commission, with their perception of how management is elsewhere in the Commission markedly worse than how they perceive it to be in their team.

This demonstrates and is arguably due to the 'silo' approach in the Commission – some staff have little understanding or experience of the roles carried out elsewhere in the Commission. This results in difficulties changing the roles and responsibilities of staff and changing how the Commission operates: we have seen evidence of management arguing that it is not "their team's" job when asked to help out in other areas. Tasks are seen as 'belonging' to teams, rather than to the Commission, and there is a consequent lack of cross-team working. SMT need to challenge this attitude whenever they see it - adopting a 'one Commission' approach - and we expect that the development of a clear workforce plan (page 18) and consideration of the staffing structure in the Commission (page 19) will also go some way to addressing this point.

Change management and communication are both considered to be particular weak points for management at the Commission. This was reflected in the staff survey and in discussions we had with Commissioners, management and staff. We hope that our recommendation on the development of an organisation-wide Improvement Plan goes some way to address the perceived weaknesses in change management. To inform this Improvement Plan, management should engage with staff to identify specific areas of weakness in communication and ensure measurable actions are included for improvement in this area. The involvement of staff in the development of the Improvement Plan and the regular reporting of progress against it will go towards addressing the concerns raised on communication.

Through our work, we have identified inconsistencies in the application of the appraisal and performance management process, the monitoring of performance and the addressing of areas of poor performance. Management need to work together to ensure they are adopting a consistent approach across the Commission, particularly given that it is a small organisation. The Commission should set out what behaviours and attributes it expects its managers to demonstrate and measure performance against these, in addition to the line managers own knowledge. For the CEO, although the appraisal is carried out by the Scottish Government, the Board should ensure that they are involved by being given an opportunity to comment on performance to the Convener, who in turn passes these on to the Scottish Government for consideration in the annual appraisal.

The Commission should consider specific training for the SMT as a group on change management, the implementation of consistency and clarity in the performance management process, and how to address poor performance.

Audit dimensions (continued)

Governance and transparency (continued)

Embedding a positive culture

In the 2019 staff survey, 6 staff (12% of the workforce) said they had personally experienced behaviour that they considered to be bullying in the previous 6 months. Instances of alleged bullying often go unreported, with 100% of those who had not reported bullying saying they lacked confidence that reporting it to SMT, Trade Union or HR would lead to it being addressed. Whether this belief is held rightly or wrongly, this is a serious situation for the Commission to find itself in (particularly given the relatively high percentage of staff who have indicated a desire to leave the Commission). In order to address the alleged issues of bullying and inappropriate behaviour, we consider that the Commission should:

1. Ensure that there is an independent person with whom staff can raise concerns. The availability of such an independent resource should be communicated to staff. The Board should receive reporting on this point, setting out overarching themes identified in allegations, the number of allegations received and recommendations arising from this.

2. Review the recent Sturrock Review into NHS Highland at Board level, identifying which recommendations can be implemented at the Commission (being proportionate, taking into account the size of the Commission).

3. Ensure that, as set out above, management are specifically assessed against attributes and behaviours considered acceptable by the Commission.

Although not directly comparable as the question in the staff survey changed between 2018 and 2019, the trend of alleged bullying appears to be consistent. Given this, the Board should consider whether an initial independent review by a suitable independent HR professional would be appropriate, to inform the three recommendations above. If such a review is carried out, we would suggest that the Board is cognisant of the definitions of bullying set out in the Sturrock Review, as opposed to relying on any singular definition which may currently be in Commission policies.

Deloitte view – Governance and transparency

In general, the Commission has a good attitude to openness and transparency and has made improvements in this area in recent times. To maintain this progress, the Commission should review its approach to openness and transparency on an annual basis, developing an action plan in conjunction with the Board and wider stakeholders, monitoring improvements in openness and transparency on an ongoing basis thereafter.

We are satisfied that the Commission has strong governance and scrutiny arrangements in place, with good self-assessment processes and a focus on improvement and ensuring that the Commission keeps up with evolving good practice. Further improvements could be made by Commissioners having annual appraisals and agreeing personal development plans with training provided to address gaps in skills.

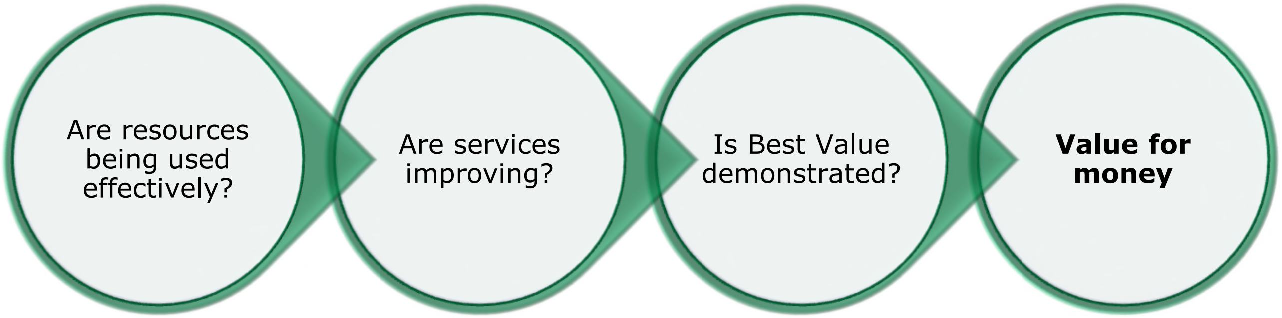
We are satisfied that the Commission has competent and dedicated leadership. However, improvements need to be made in a number of key areas: adopting a ‘one Commission’ mind-set; ensuring consistency in performance management; improving the processes in place for managing organisational change, and communication with staff.

Given some of the issues highlighted in the 2018 and 2019 staff surveys, the Commission should review its processes for dealing with alleged and perceived inappropriate behaviour, and should consider whether an initial independent review would be an effective exercise to begin to address these concerns.

Audit dimensions (continued)

Value for money

Value for money is concerned with using resources effectively and continually improving services.



Audit risks

Within our audit plan we identified a single audit risk as follows:

- Insufficient resources may be targeted to areas of underperformance**.**

Audit dimensions (continued)

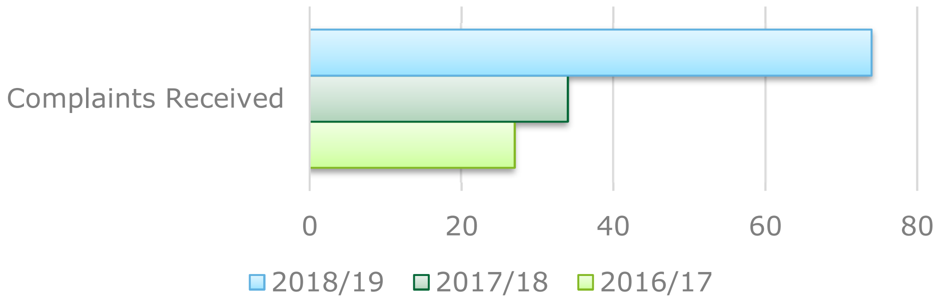
Value for money (continued)

Demonstrating value for money

Value for money is concerned with the effective, efficient and economic use of resources. It is not concerned with whether something "feels like" it represents value for money in layman's terms. The Commission - from the Board to SMT - demonstrated a lack of understanding of this key difference in our interviews. While the Commission may provide value for money to crofters, that does not necessarily mean it is demonstrating value for money in the use of resources.

From our work, we have noted a general lack of use of business cases to underpin and justify decisions. Decisions are taken, and the justification is an afterthought. From the evidence reviewed, there is an evident assumption that if a member of SMT asks for something, then they must need it – rather than the onus being on the member of SMT to demonstrate *why* they need it. This approach needs to change: the Commission needs to assess whether any change in its decisions would result in a more effective, more efficient or more economic use of resources. Where a decision will result in financial consequences elsewhere in the Commission, there needs to be an understanding of the impact of that and to assess whether the proposed action demonstrates value for money by comparison to the consequence. A similar recommendation was made in 2017/18, relating to staffing decisions. This was not actioned in the year (page 41).

Given the lack of consideration of these elements in decision making across the Commission at present and the ad-hoc approach to allocating resources after the budget has been approved, we have concerns about the ability of the Commission to demonstrate that it is achieving value for money.

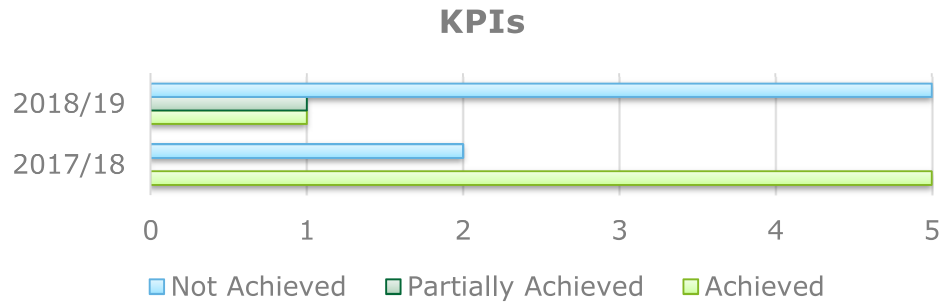


Focus on improvement

The level of KPIs achieved in 2018/19 fell to 29% from 63% in 2017/18, although this needs to be understood in the context of a 29% increase in regulatory applications in 2018/19 from 2017/18. Complaints against the Commission increased by 120% in the year (primarily in summer 2018, due to the backlog in processing regulatory applications). In the 2019 staff survey, 26% of responses were more than 5% worse than 2018, compared to just 19% which were more than 5% better, and 70% of staff feel there has been no improvement since the previous staff survey. Interestingly, staff at the Commission overwhelmingly feel that they work together to improve the services they provide, so there is a commitment and a belief in improvement, but this does not necessarily reflect itself in performance.

Given the apparent commitment to improvement across the Commission, the issue is one of prioritisation and organisation. In order to address this, and to be seen to be acting, the Commission should develop a clear and concise, organisation-wide Improvement Plan (proportionate to the size and complexity of the Commission). This Improvement Plan should be made available to staff and the Board and regular updates should be provided, with actions added or removed as appropriate. The SMT should work with the Board and staff to develop an appropriate and effective mechanism for oversight and monitoring of the Improvement Plan.

The Commission needs to move from a reactionary position to proactively identifying areas for improvement and addressing these areas before they risk damage to the Commission, its staff or the communities it serves.



Audit dimensions (continued)

Value for money (continued)

Alternative models of delivery

In the summer of 2018, the Commission experienced a significant backlog of regulatory casework. This resulted in unmanageable pressure on staff, an increase in complaints received by the Commission, unease amongst Commissioners, concerns raised by the Sponsor Department and questions being raised at First Minister's questions in the Scottish Parliament. The issues should have been foreseeable, but were not as the Commission did not have workforce planning and vacancy analysis systems in place and failed to understand the implications and consequences of decisions made. While IT issues contributed to the backlog, it should have been less severe had the Commission planned appropriately.

In order to address this issue, the Commission drafted in staff from across the organisation to help with the regulatory casework. This helped to bring the backlog down and the workload is now at a more manageable level. However, the position still - a year later – does not seem to have recovered to historical norms. While the Commission dealt with the immediate crisis, it has not taken sufficient steps to ensure that it does not recur. The Commission should, at the earliest opportunity:

1. Ensure that it adopts workforce planning, the use of business cases and clear documentation of implications of decisions as set out elsewhere in our report to better foresee staffing issues which might arise.
2. Provide training to all new administrative staff on regulatory casework, to enable them to provide a limited degree of cover. We understand that this idea was floated before by the SMT but not acted upon. This is an innovative and welcome approach and should now be actioned.
3. Reconsider the structure of the Commission's regulatory team. Teams are organised on a geographical basis, despite there being differences in the level of casework in each area. The Commission should consider whether having a single regulatory team would provide a more streamlined, consistent and resilient service.

We are aware that the Commission is moving towards digital regulatory applications and this demonstrates that the Commission is open minded to alternative ways of working. Given the increased demand for the Commission’s services (page 29), along with static or reducing funding (page 17), the Commission needs to ensure that it prioritises the implementation of these changes.

Deloitte view – Value for money

The Commission needs to improve its focus on continuous improvement and value for money. Such focus can be driven by the regular use of business cases to inform decision making and service redesign, which the Commission does not make use of at present. The use of business cases to underpin decisions should become the accepted default at the Commission.

Performance at the Commission declined markedly in 2018/19, with complaints received increasing by 120%. This is due partly to the increase in regulatory applications in the year, with the increase in demand coming at a time of static or reducing funding. In order to move to a proactive approach to improvement, the Commission should develop an organisation-wide Improvement Plan.

While the Commission dealt with the immediate problems created by the regulatory casework backlog in the summer of 2018, the causes of the backlog have still to be addressed and the caseload is still to return to historical norms. The Commission needs to consider how it can change service delivery – through the use of technology or the change or internal structures – to ensure that this key area of the Commission’s work continues to operate effectively.

Audit dimensions (continued)

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Commission has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	The Crofting Commission does not anticipate being impacted directly by EU Withdrawal to any significant degree. The Commission has identified that there will be no direct impact on its employees or recruitment prospects, no direct impact on its finances and no direct impact on its operations arising from changes in rules and regulations. Given the low direct impact anticipated and the level of uncertainty, we are satisfied that the Commission has appropriately prepared for EU Withdrawal and has appropriate arrangements in place to maintain a watching brief of developments as they occur in order to work with its partners to mitigate any risks across the wider crofting community.
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 20) we have considered how the Commission have reviewed the potential implications of the Scottish Government’s Medium Term Financial Strategy for its own finances, including long term planning.	The Commission has not, as a body, considered the Scottish Government's MTFS. The MTFS has not been an agenda item at SMT, Audit & Finance Committee or Board level. Going forward, revisions to the MTFS should be considered by the SMT - and if considered appropriate, the Committee or Board - with the potential implications on the Commission discussed, with any actions arising from revisions to the MTFS (e.g. changes to the Commission's to be developed MTFP) being noted and progressed. Within the Commission's Corporate Plan, Business Plan and budget, the MTFS is not mentioned. It is not clear from reviewing the Commission's plans how they are consistent with the MTFS and such a link needs to be made clearer in any revised versions. Further, the Commission's planning does not make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles contained within the MTFS are reflected in the Commission's planning, and how the Commission intends to align its resources to these key principles or monitor progress against them.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	No specific risks of key supplier failure have been identified. While the Commission has a number of key suppliers (such as Scottish Natural Heritage and Global Highland Ltd), these are either public bodies or bodies who provide services which could be provided by alternative suppliers in the event of supplier failure.
Openness and transparency	We have considered the Commissions' approach to openness and transparency as part of our audit work on governance and transparency.	Our conclusions on openness and transparency are set out on page 25.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

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 again in this report.

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

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

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow

6 August 2019

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial sustainability	The Crofting Commission should develop a MTFP, in line with best practice, including links to the Scottish Government MTFS and demonstrating a focus on outcomes.	We will develop a Medium Term Financial Plan to inform future budget planning and business planning.	CEO	December 2019	High
Financial sustainability	The Commission should enhance its workforce plan, setting out (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision). The Commission should consider whether it has the capacity to carry out a review to address these points internally, or whether an external review should be conducted. In light of these changes to the workforce plan, the Commission should review its staffing structure to ensure it is as efficient and resilient as possible.	We will revise and complete our Workforce Plan.	Head of Operations & Workforce	December 2019	High
Financial management	The Commission should ensure that finance adopt a more strategic role, as opposed to being purely operational as at present. The Commission should consider the finance function as it currently stands, assess the functions that the finance team need to carry out, identify gaps in terms of capacity and skills, and set out actions to address these.	Agree to consider the finance function as part of the Workforce Plan. Currently, although the Finance manager is not a member of SMT, he often attends SMT meetings and works directly with the CEO on budget planning and management. This arguably already provides the connection between Finance and Strategy, but we will consider whether this needs to be strengthened as part of the Workforce Plan.	Head of Operations & Workforce	December 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and transparency	The Commission should set out what behaviours and attributes it expects its managers to demonstrate and measure performance against these. For the CEO, although the appraisal is carried out by the Scottish Government, the Board should ensure that they are involved by being given an opportunity to comment on performance to the Convener, who in turn passes these on to the Scottish Government for consideration in the annual appraisal.	Agree. We will assess the skills we require from our managers and consider internally how performance in these aspects can be consistently assessed.	CEO	February 2020	High
Governance and transparency	The Commission should consider specific training for the SMT as a group on change management, the implementation of consistency and clarity in the performance management process, and how to address poor performance.	Agree. We will consider whether there are training needs for SMT as a group. However, it is too early to say whether this consideration will conclude that joint training for SMT is needed at this stage.	CEO	March 2020	High
Governance and transparency	The Commission should review the recent Sturrock Review into NHS Highland at Board level, identifying which recommendations can be implemented at the Commission. The Board should consider whether an initial independent review by a suitable independent HR professional would be worthwhile.	We will consider the summary (section 37) of the Sturrock Review at an SMT meeting and consider whether any improvements can be made to our handling of staff issues, including whether an independent review would be helpful.	Head of Operations & Workforce	December 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Value for money	The Commission needs to assess whether any change in its decisions would result in a more effective, more efficient or more economic use of resources, through the regular use of business cases to underpin decision making.	As budgets have become tighter, the decision-making needs to be more rigorous, especially those decisions which impact on financial sustainability, value for money or prioritisation. We will standardise the use of Business Cases for decisions about changes to staffing and for spending beyond any individual budget line.	Finance Manager	September 2019	High
Financial sustainability	The Commission should consider revisions to the MTFS at SMT or Board level, ensuring its financial planning is updated to reflect changes in the MTFS. The Commission should ensure that its planning documents are consistent with the MTFS and set out how the Commission is addressing the key principles of public service reform.	Whenever there are significant changes to the SG's Medium Term Financial Strategy that are likely to impact on the Commission, the Finance Manager will ensure these are highlighted to SMT and the Audit & Finance Committee.	Finance Manager	December 2019	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial management	The Commission should separately disclose in the budget paper the specific savings targets for each area, enabling monitoring throughout the year. For each area, it should be made clear in the budget how many of the required savings are identified/unidentified at the time.	We will adopt this approach within the current financial year and in full for the financial year 2020/21.	CEO	January 2020	Medium
Financial management	The Commission should: 1. Ensure that it has representation from the finance team at all SMT meetings. 2. Include the impact that decisions will have on the Commission's position against the budget and the funding gap identified in the budget and MTFP in papers presented to the SMT and Board. 3. Ensure that where a decision will result in an overspend against budget, that the SMT or Board identifies the savings which will offset this overspend, or identifies a specific budget holder responsible for finding the necessary savings, prior to approving the additional cost.	The first action will be considered in conjunction with the recommendation on the role of finance. Once the Commission has drawn up its Medium Term Financial Plan, those decisions which have financial consequences will be highlighted against it.	CEO	December 2020	Medium
Governance and transparency	The Convener should carry out formal annual appraisals for all Commissioners, assessing performance against individual objectives and contributions and ensuring that training and developments needs are identified. Commissioners should have personal development plans agreed and training should be arranged to address any gaps identified.	The Convener does assess the performance of his colleagues, albeit in a collegiate way given that he was elected alongside 5 other Board members as a newcomer to a public sector role. We will ensure that all Commissioners have the opportunity to consider their development needs and aspirations and offer them support in drawing up a Personal Development Plan.	Head of Compliance & Board Support	June 2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Value for money	The Commission should provide training to all new administrative staff on regulatory casework, to enable them to provide a limited degree of cover. The Commission should also reconsider the structure of the Commission's regulatory team, assessing whether having a single regulatory team would provide a more streamlined, consistent and resilient service.	While this recommendation will be considered for adoption, we keep the structure of the Regulatory team [geographic or otherwise] under review, and will seek to identify ways to increase the number of staff in the Commission who are able to provide back up cover for regulation as necessary. The solution proposed in the first part of the recommendation may not be easily workable, and in any case, almost all permanent recruitment of admin staff is already into the regulatory team.	Head of Operations & Workforce	December 2019	Medium
Financial sustainability	The Commission should set out how it has contributed to the National Outcomes in each year. By reviewing the KPIs, readers should be able to easily understand whether the Commission is on track to achieve its Corporate Plan outcomes and to what extent it has contributed to the National Outcomes.	In our 2019/20 Annual Report and 2020/21 Business Plan, we will set out more specifically how the Commission's work contributes to the national outcomes.	CEO	June 2020	Low

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report and are pleased to note that xx of the total 5 recommendations made have been fully implemented. We will continue to monitor recommendations which have not been implemented and provide an update to the Committee as part of our 2019/20 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial sustainability	A high level review should be carried out to identify what proportion of staff time at the various grades is spent on discretionary services and to reach an estimation of the total cost of these services. A high-level review of the proportion of work each level of staff spends on each of the strategic aims outlined in the Corporate Plan should be carried out.	Management have confirmed that they will take this recommendation on board and plan to implement it in 2018/19. Management note, however, that given the staffing structure in place, there is some difficulty in aligning staff time with strategic aims. However, this will be looked into to determine if this is feasible and would provide any value to the Commission.	Deputy CEO & CEO	31/03/19	High	*Fully implemented:* In the 2019/20 budget and operational plan, staff costs are aligned with Corporate Plan outcomes.
Financial sustainability	The cost of providing the registration services should be accurately measured in order to determine the net cost to the Commission of providing these duties, taking into account the additional Scottish Government funding received to provide them.	Management will review this in line with the recommendation on reviewing spend on each of the Commission's strategic aims.	Deputy CEO & CEO	31/03/19	High	*Fully implemented:* Crofting Registration costs have now been identified within the budget mapping exercise.

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial sustainability	Where a vacancy arises, there should be a clear and documented process for the approach to take to filling this vacancy. Where new positions are required to be filled (as opposed to a replacement), greater consideration as to affordability should be given and should involve members of the finance team.	Management have confirmed that they will develop a more structured approach to staffing decisions and that as part of the workforce planning currently underway, the level of capacity which can be utilised will be better understood and feed into recruitment decisions going forward.	Deputy CEO	31/03/19	High	*Partially implemented:* A draft workforce plan has been developed by the Commission, although a recruitment template still needs to be developed. This will be monitored as part of our updated recommendation on workforce planning on page 35.
Financial function	The Commission should request to be involved in the development of the new SNH system so that it has the functionality which the Commission requires and is tailored to the Commission's needs.	Management have confirmed that they have discussed being involved in the development of the new system with SNH and hope to have an improved system in place in 2018/19.	Finance Manager	31/03/19	Medium	*Fully implemented:* The Commission has moved to a new, enhanced software system from early 2019/20.
Financial statements	The Commission should post a reclassification adjustment at year-end by performing analysis of what they have accrued and allocating some of these to creditors, as appropriate.	Management have confirmed that this issue will be addressed when the new system is developed.	Finance Manager	31/03/19	Low	*Fully implemented:* The Commission separately identified accruals and creditors in the draft annual accounts.

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 Board 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 Board 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 achievement of expenditure resource limits and management override of controls as key audit risks 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 and Finance Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), 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	The audit fee for 2018/19 is £18,680 as broken down below: £ Auditor remuneration £14,940 Audit Scotland fixed charges: Pooled costs £750 Audit support costs £2,990 **Total audit fee** **£18,680** No non-audit fees have been charged by Deloitte in the period.
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	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Deloitte perspectives

Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insight on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

https://www2.deloitte.com/uk/en/pages/public-sector/articles/talking-public-sector.html

Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10th edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share our perspective which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier.*

https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-tech-trends.html

Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at: https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html

The Digital Disruption Index is available online: https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html

One of the key insights is around Artificial Intelligence (AI) which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

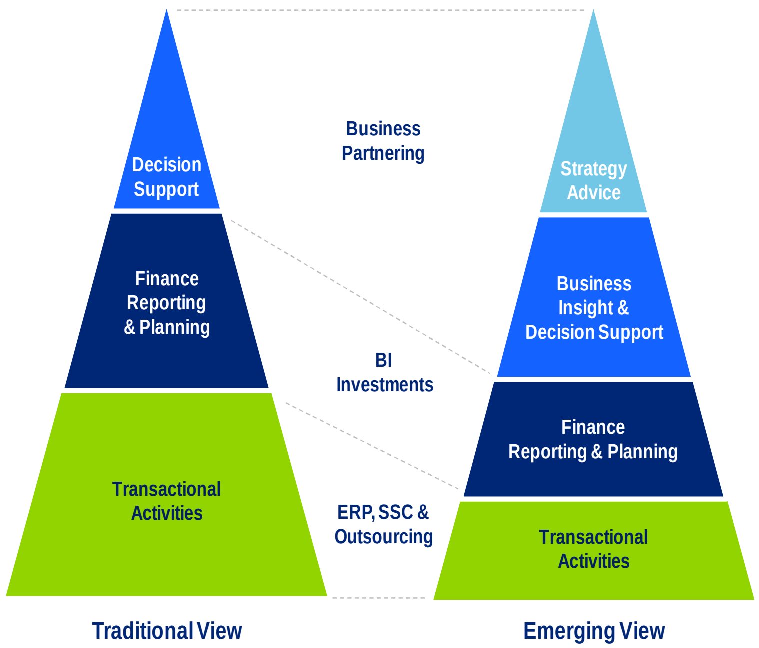
The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.

Effective Finance Business Partnering

The modern finance function is an increasingly important strategic partner to organisations and businesses facing a range of complex challenges

Overview

In an increasingly complex business environment the Finance function is now tasked with delivering decision support and strategy advice, moving away from low value transactional activities. Contributing to outcomes in the strategy rather than focussing on tactical or incremental changes. By taking advantage of improved data availability, smarter tools and skilled resource, Finance now has the opportunity to transform to meet business needs.



The changing role of Finance

Strategic Relationship	Business partnering is the development of a successful, strategic relationship between Finance and the rest of the organisation/business, for example working in partnership with procurement and the supply chain.
Deep Insights	Business partnering involves the provision of deep insights into the business, its performance, the market and the competition, to support decision making and deliver strategy and outcomes.
Decision support	Business Partnering leads to the business actively relying on Finance for input on all major decisions with a tangible financial impact.
Challenge	Business Partnering includes the ability for Finance to challenge assumptions in decisions and drive cost consciousness.
Value add	Business Partnering is key to unlocking value otherwise untapped by the business.

Effective Finance Business Partnering (continued)

Finance Partners need to have both the technical ability and emotional intelligence with sufficient capacity to improve the financial acumen of the organisation.

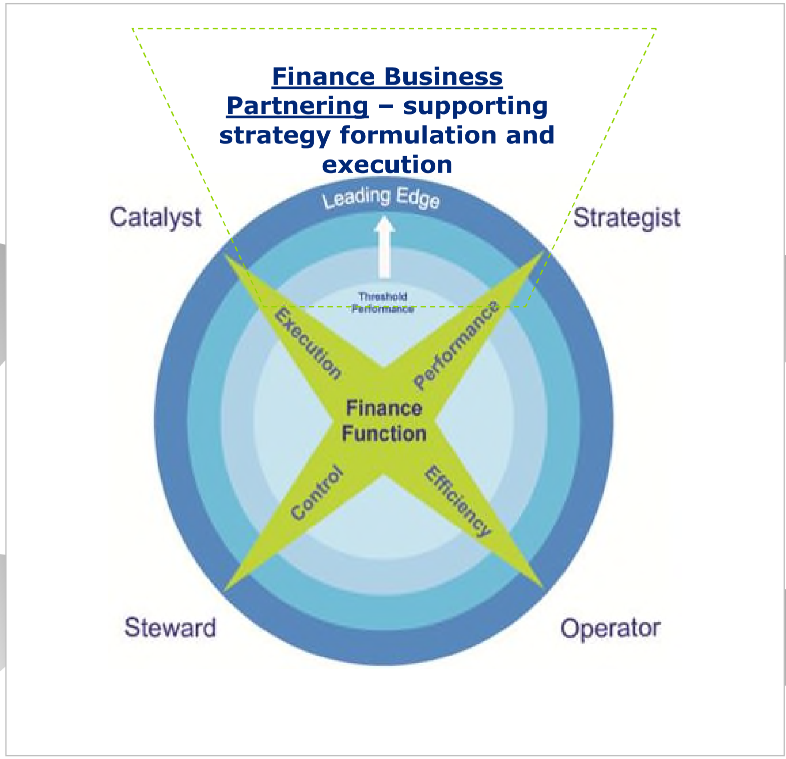
'Business Partnering' can be defined as the role that Finance undertakes to support and challenge the business, creating value by improving the quality of decisions (e.g. budgets, resource allocations & outcomes) and ensuring that a chosen business strategy delivers the highest value at an acceptable level of risk.

CATALYST

- Stimulate behaviours across the organisation to achieve strategic and financial objectives
- Gain business alignment to successfully identify and understand the business strategy
- Act as a catalyst in driving forward initiatives critical to delivering the strategy

STEWARD

- Support the Finance Function in protecting the assets of the company and in ensuring compliance with financial regulations



Deloitte's Four Faces of the CFO model

STRATEGIST

- Provide financial leadership in determining strategic business direction and align financial strategies
- Understand the business strategy and provide highly relevant insight
- Act as a key stakeholder in the decision making process through the provision of risk-adjusted financial information and analysis

OPERATOR

- Supporting effective financial planning and analysis
- Provide business expertise into accounting processes (e.g. valuation of accruals)

Effective Finance Business Partnering

What makes Finance Business Partnering work?

Senior Executive Commitment and Sponsorship

- Ensure senior management commitment and understanding of the need and benefits of having Finance Business Partnering
- Involve senior management in defining what Finance Business Partnering should involve
- Regularly update senior management on successes and ensure they communicate throughout the organisation

Understanding the Business expectations of Finance

- Identify and understand what the customer requirements are from the Finance function, and the level of importance of each customer of Finance
- Gain buy-in from the organisation by effectively communicating the benefits of Finance Business Partnering – get some "quick win" examples

Defining the organisation structure, roles and skills required

- Clearly define the role of the business partner with alignment to the organisation structure
- Identify and establish the right skills and business acumen, capabilities and environment within Finance (and/or recruit in) in continuing to develop Finance Business Partnering
- Invest in training and the development; align performance metrics with clear career progression that enhance business partnering behaviours

Effective change management

- Ensure visible senior sponsorship by leaders across the organisation for Finance Business Partnering
- Communicate and consult all areas of the organisation on the introduction of Finance Business Partnering
- Make sure the role is clear and consistently understood

Set expectations with a clear service offering

Be able to explain Finance in simple terms to non-Finance individuals

Regularly and appropriately challenge the budgets, results and ideas of the partnered department

Physically sit in the department you are partnering with for a proportion of your time

Demonstrate industry knowledge and awareness of the business

Be proactive; this is key to gaining respect and trust

Gain a reputation for speed and competence for a few key activities before expanding services

Get to know everyone in the department and understand the work they do, not just the leadership