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CROFTING COMMISSION
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Crofting Commission

Report to the Audit and Finance Committee and the Auditor General for Scotland on the 2019/20 audit

Issued on 4 August for the meeting on 12 August 2020

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 and Finance Committee ('the Committee') of the Crofting Commission ('the Commission') for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by Commission staff in preparing the Annual Report and Accounts and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for reporting as well as the audit, and management confirmed their desire to work to the original timetable. While the shift to remote working placed pressure on the original timetable for reporting and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

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 Officers' 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 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 11.

The Commission met its financial targets for 2019/20. We identified one misstatement, as set out on page 45. We also identified a disclosure deficiency in relation to contingent asset and contingent liability disclosures, as set out on page 46.

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 2020.

Conclusion on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the Commission at this stage.

Financial sustainability – The Commission is an example of good practice in demonstrating how resources are used to deliver outcomes, and how the outcomes delivered locally contribute to the National Outcomes.

The Commission has achieved short-term financial balance and is expected to do so in 2020/21 following the announcement of an additional £325k in funding from the Scottish Government. The medium-term position of the Commission remains challenging, with action required to ensure that the Commission is financially sustainable. Without effective action, the Commission will be unable to achieve a breakeven position by 2022/23.

We welcome the development of a Medium-Term Financial Plan (‘MTFP’) and improvements to the Workforce Plan, and have recommended and will monitor further improvements to these.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

***Financial management* –** The Commission has effective financial management processes in place. We welcome improvements in the year in relation to the budget setting process and the understanding of financial implications of decisions. We remain of the view, as expressed in 2018/19, that the Commission should consider giving finance a more strategic role in the organisation to help to address some of the issues identified in relation to financial sustainability, financial management and value for money.

***Governance and transparency* –** We welcome the Commission's focus on continuous improvement in relation to openness and transparency, and in particular welcome the ongoing improvements in stakeholder engagement. The Commission has effective governance arrangements in place, with a strong focus on self assessment.

The process through which the CEO was seconded to the Scottish Government in April 2020 strained relationships between the Board, SMT and the Sponsor Division. The Commission should ensure that lessons are learned to avoid similar issues recurring in future.

We are concerned by responses to recent staff surveys and the delay between the surveys and management taking action. In our opinion, the Board should take a more active role in monitoring actions in this area.

We consider that, given the sizeable minority of staff who responded to surveys expressing that they had been bullied or harassed at work – significantly in excess of comparable bodies – the Commission should engage an independent review to identify and help to address the underlying issues.

***Value for money* –** The Commission's performance improved substantially in 2019/20, with complaints received decreasing by 51% in the year. The achievement of KPIs increased from 29% to 71%. While we welcome these improvements, we recommended that the Commission prepare a clear and concise annual improvement report to the Board, consolidating the improvements made in the year and identifying areas where improvements were planned but not made, and where further improvements are required. This will help the Commission to continue its journey of continuous improvement.

Our detailed findings are included on pages 20 – 39 of this report.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the Commission as part of our Sector Developments on pages 41 and 42 of this report.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included as an Appendix on pages 47 to 54 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

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

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which is open to anyone to join.

Pat Kenny
Audit Director

Financial statements audit

Quality indicators

Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements	Mature	The Commission identified key accounting judgements in a timely manner, and discussed these with audit in advance of the year-end audit work being carried out.
Adherence to deliverables timetable	Mature	The Commission provided information in accordance with the agreed timeline. While there were some delays in relation to information sought in relation to the wider scope audit work, we understand that this was due to the COVID-19 outbreak.
Access to finance team and other key personnel	Mature	We appreciate the level of engagement we received from the finance team, the CEO, the wider SMT and the Board throughout our audit work.
Quality and accuracy of management accounting papers	Mature	The working papers prepared by the Crofting Commission are of a commendable standard.
Quality and timing of Committee papers	Mature	The Commission prepares and publishes high quality Committee papers in a timely manner ahead of Committee meetings. We are satisfied that the timelines agreed for audit reporting were reasonable.
Quality of draft Annual Report and Accounts	Mature	We did not identify any instances of non compliance with the Government Financial Reporting Manual ('FReM'). We identified numerous areas of good practice, including a clear description of critical accounting judgements and key estimates; an exemplar demonstration of how the Commission links resources used with outcomes achieved; clear links to the National Performance Framework; and commendable use of graphics, pictures, signposting and cross-referencing throughout the Annual Report and Accounts.

! Lagging ! Developing Mature

Quality indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading	Reason
Response to control deficiencies identified	Mature	We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors	Mature	While we identified one misstatement in excess of our reporting threshold (page 45) and a disclosure deficiency (page 46), the former was an immaterial classification error and the latter a judgmental area which the Commission engaged with audit early on.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment
In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping
Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings
As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We have not identified any issues in relation to the internal control environment as a result of our work.

Determine materiality
When planning our audit we set our materiality at £56k based on forecast gross expenditure. Our final materiality is in line with this. Our performance materiality has been determined to be £47k and we report to you in this paper all misstatements above £2.8k.

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas
We draw to the Committee's attention our conclusions on the significant audit risks. In particular, the Committee must satisfy themselves that management's judgements are appropriate.

Our audit report
Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the expenditure resource limits	✓	✓	D+I	Satisfactory	●	Satisfactory	12
Management override of controls	✓	✓	D+I	Satisfactory	●	Satisfactory	13

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 – Operating within the expenditure resource limits

Risk identified

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

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that the Commission could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risks was therefore pinpointed to the completeness of accruals, existence of prepayments made by management at the year end and the completeness invoices processed around the year end as this is the area where there is scope to manipulate the final results.

Key judgements

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

Deloitte response

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;
- obtaining independent confirmation of the resource limits allocated to the Commission by the Scottish Government;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

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

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

We identified a factual misstatement of £2k in relation to the classification of payables and accruals, as set out on page 45, which was corrected by management. The total misstatement (factual and extrapolated) was £4k. We are satisfied with the correction of the factual error only, given that the residual error is below our reporting threshold.

In our audit, we identified an expense claim submitted by a Commissioner relating to expenses which had accumulated over a number of years. In line with the Commission's policy, expense claims should be submitted in a timely manner in order to ensure that expenditure is captured within the year to which it relates, and to avoid an unforeseen accumulation of expense claims in future years. Whilst this is technically a prior period error, the amount is immaterial and no prior period adjustment is required.

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 Board's controls for specific transactions.

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 overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood and regular discussions were held with the Board and Scottish Government; 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.

We have used Spotlight 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 and judgements (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud, as set out in detail on page 14.

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 focusing on the areas of greatest judgement and value, including:

- Contingent liabilities and provisions
- Accruals

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

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

We have not identified any significant bias in the key estimates and judgements made by management. We identified one disclosure deficiency in relation to contingent assets and liabilities due to an incorrect interpretation of accounting standards, as set out on page 46.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements

The key judgments in the financial statements includes those which we have selected to be significant audit risks around expenditure recognition. This is inherently the area in which management has the potential to use their judgement to influence the financial statements.

As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Accruals	Accruals relating to the Commission's operating activities are estimated on the basis of existing contractual obligations and goods and services received during the year.	We have assessed this estimate through the performance of detailed testing, performing sample testing at a significant risk level on potential unrecorded liabilities (payments made and invoices received around the year-end), in addition to performing analytical procedures over the balance. Based on the testing performed, we identified one error in the classification of an amount owing as a payable rather than an accrual, as set out on page 45.
Contingent Liabilities/Provisions	The Crofting Commission is aware of a small number of live or potential appeals to the Land Court and Court of Session which might, depending on the Court's decisions, lead to costs being awarded against the Crofting Commission. The likelihood of appeals and the amounts of any resulting liabilities cannot be estimated with certainty, but the overall potential liability estimated by the Crofting Commission is sufficient to require a contingent liability to be recorded.	In the draft Annual Report and Accounts, the Commission disclosed a contingent asset of £9k and a contingent liability in the region of £24k - £54k. Following our review, the Commission agreed not to disclose a contingent asset as it could not be considered 'probable' that the costs would be recovered. In addition, in line with the requirements of accounting standards to disclose the 'best estimate' of the contingent liability, and based on legal advice and professional experience, the Commission disclosed a contingent liability of £45k. A disclosure deficiency to account for these changes and the additional disclosure required on the contingent liability timing and uncertainty has been raised and corrected by management, as set out on page 46.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

We have not identified any areas of non-compliance with accounting standards or good practice in our review of the Commission's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

Significant matters discussed with management:

Throughout the audit, we have held ongoing discussions with management on the Commission's future plans. This has particularly been the case in relation to the Commission's intentions regarding the additional funding received from the Scottish Government (page 22) and the secondment of the CEO to the Scottish Government in early 2020/21 (page 34).

Other matters relevant to financial reporting:

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

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

COVID-19 outbreak

Impact on the annual report and audit

The current crisis is unprecedented in recent times. The Commission is directly exposed to the practical challenges of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and the Committee needs to consider. The Scottish Government, Audit Scotland and the Financial Reporting Council have issued guidance relating to the impacts on the Annual Report and Accounts to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on the Commission's Annual Report and Accounts	Impact on our audit
The Commission needs to consider the impact of the outbreak on the Annual Report and Accounts including: • Principal risk disclosures • Change in the funding regime for 2020/21 and beyond • Impairment of non-current assets • Allowance for expected credit losses • Going concern	COVID-19 has fundamentally changed the way we have conducted our audit this year including: • Teams are working remotely. We particularly appreciated the ongoing access we had to Commission staff despite this, and the actions the Commission took to ensure that it had access to required physical documentation. • The audit team and management at the Commission have had regular status updates to discuss progress and facilitate the flow of information. • Despite the challenges, due to the effective communication between the audit team and management, we have been able to complete the audit to the original timetable. • Consideration of impacts on the areas of the Annual Report and Accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report. • In conjunction with the Commission, we will continue to consider any developments for potential impact up to the finalisation of our work in August 2020.

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

We expect 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.

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 and Accounts 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.

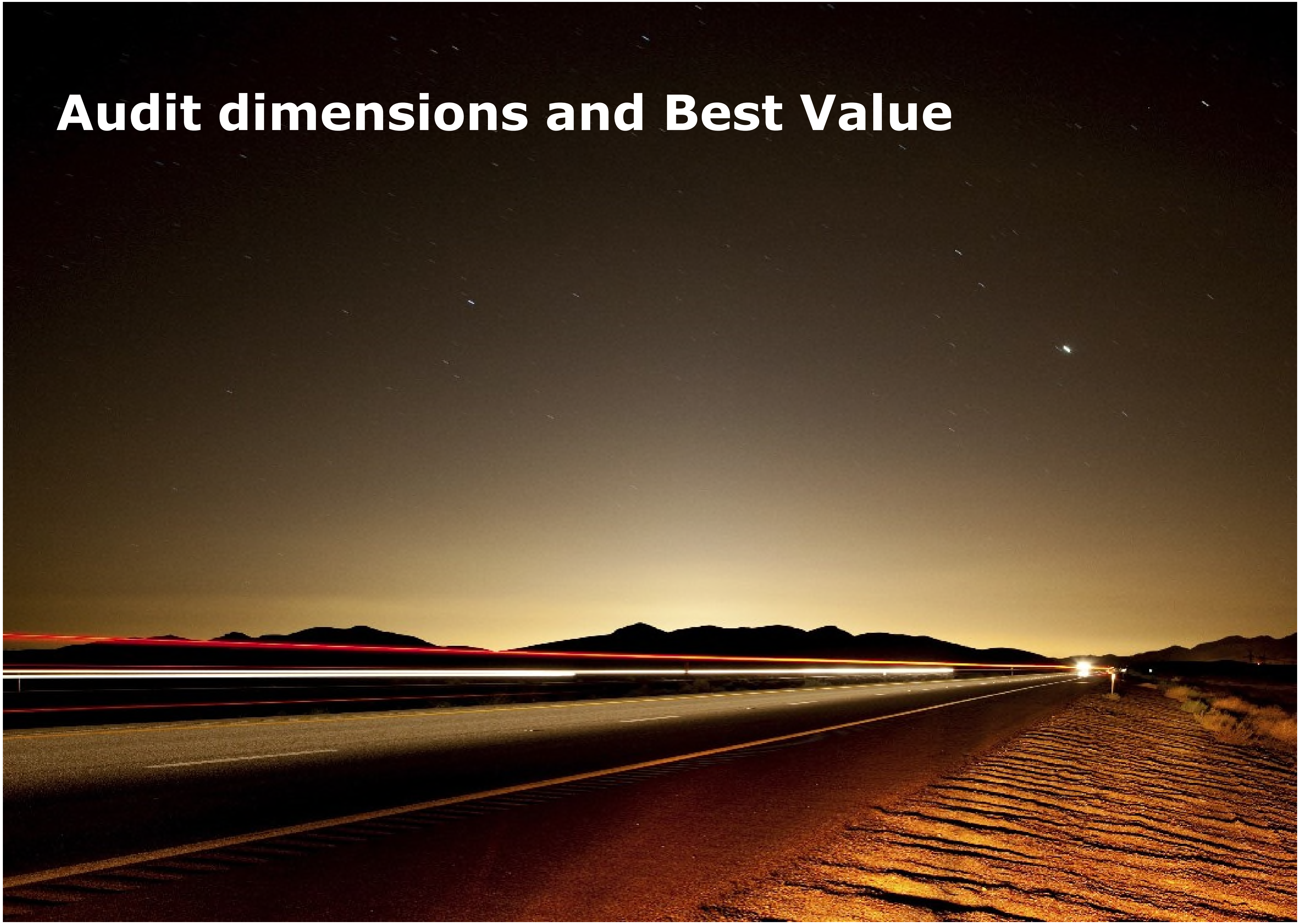
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 18.

Your Annual Report and Accounts

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 Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainties facing the Commission, and its future outlook.	We have assessed whether the Performance Report has been prepared in accordance with the accounts direction. We have not identified any areas of non-compliance with the FReM or 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. As explained on page 8, there are several areas of good practice demonstrated throughout the Performance Report, for which we commend the Commission.
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 Accounts Direction. We have not noted any exceptions. 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 audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the Accounts Direction and relevant regulation.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that the 2020/21 budget was approved by the Commission in March 2020. The Commission initially forecast an overspend of £156k (6%). The Commission noted in April 2020 that it was unclear how it would be able to make the required savings to breakeven. In July 2020, the Scottish Government announced additional funding for the Commission, which will enable it to achieve a breakeven position. Based on this, we are satisfied that the Commission is a going concern. We have assessed the Commission's financial sustainability in detail on pages 21 – 25. We have requested that management specifically disclose their considerations in relation to the additional funding from the Scottish Government and the impact of COVID-19 on the ability of the Commission to operate as a going concern in the Annual Report and Accounts. Management have now included this additional disclosure.

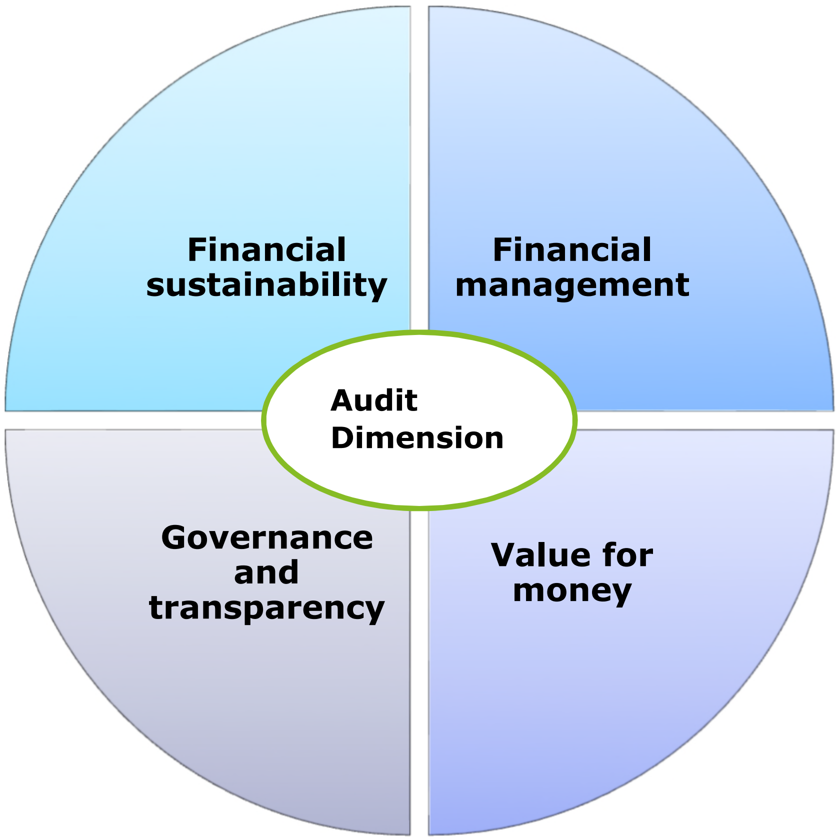
Audit dimensions and Best Value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions.



Financial sustainability

Overview and short-term position

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

Areas considered

We have provided an update for the Commission on all areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- The MTFP and associated Workforce Plan are not sufficiently robust to allow the Commission to plan for the medium to longer term.

Short-term financial balance

2018/19 Conclusion: The Commission has a history of breaking even, and did so in 2018/19.

2019/20 Update: As set out above, the Commission has a history of breaking even within small tolerable thresholds set by the Scottish Government and 2019/20 has been no different. The Commission has achieved a breakeven position through identification and monitoring of savings throughout the year. The final position of the Crofting Commission was an underspend against the budgeted allocation of £16k (0.5%).

For 2020/21, the Crofting Commission initially forecast an overspend of £156k (6%), the majority of the increase being in staff costs. This did not include any impact from COVID-19. The forecast overspend was revised down to £80k (3%) in early 2020/21 due to new information becoming available. While the Commission has historically reached a balanced position through management of staff turnover, it accepted this is unlikely to yield the necessary savings in 2020/21 due to the COVID-19 pandemic minimising the level of turnover. In the first quarter of 2020/21, the Commission has noted a significantly lower level of staff turnover than previous years.

In April 2020, the CEO noted in a report to the Board that the Commission "does not know how we will be able to manage spend within budget in 2020/21". Options were presented, including the possibility of seconding staff to the Scottish Government to yield savings in the staff budget - although this would have an impact on operational performance and be a short-term measure only. Conversely, a decision was taken not to terminate probationer posts despite the longer-term savings this would yield, due to its anticipated impact on operational performance.

As staff costs represent 79% of overall expenditure in the Commission, it is plain that this is where savings must be made. Between 2017/18 and 2019/20, the Commission has achieved a reduction in non-staff expenditure of £160k (22%). This level of cost saving is commendable and has enabled the Commission to achieve a breakeven position in recent years. However, it is clear from the 2020/21 budget and from an understanding of the Commission's business that there remain minimal, if any, savings to be made in non-staff costs and so, going forward, the Commission must look at its staffing costs.

Financial sustainability (continued)

Short-term position and medium-term financial sustainability

Short-term financial balance (continued)

In July 2020, the Scottish Government announced additional funding of £325,000 for the Commission in 2020/21. The specific details of this additional funding are currently unknown, although there is an expectation that this will be used partly to fund four additional posts in the Western Isles, and to develop the Commission's work in grazings and to enhance its Duties Team. The grade of any new posts is currently unknown, as is the extent to which the Commission will expand its work. Assuming the new posts are approximately at the same level as the median pay of the Commission - and recruited immediately - the cost in 2020/21 would be approximately £85k. This would leave £240k of the additional funding, which we are satisfied would be sufficient to offset the budgeted overspend.

2019/20 Conclusion: Based on the above, we are satisfied that the Commission can achieve short-term financial balance in 2020/21. The short-term challenges that faced the Commission in 2020/21 have been alleviated by the allocation of additional funding from the Scottish Government. The Commission should see this as a reprieve and as providing the Commission with more time to make savings against staff costs. It does not address the longer-term financial sustainability problems facing the Commission. The difficulties initially faced by the Commission in 2020/21 underline the need for effective medium-term forecasting and scenario planning to identify and manage required savings over a realistic timeframe. Our underlying concerns regarding the financial sustainability of the Commission remain, as discussed further on page 25.

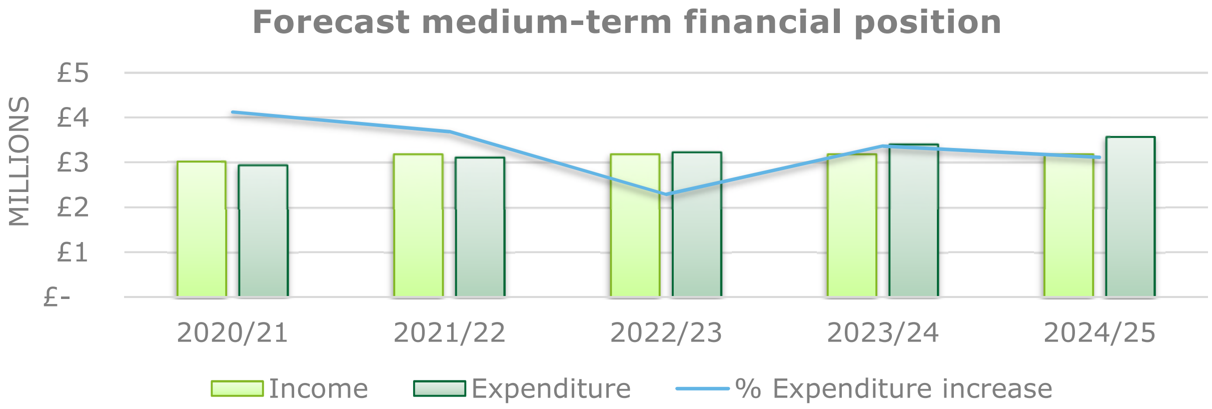
Medium-term financial sustainability

2018/19 Conclusion: The Commission is not in a financially sustainable position. The Commission does not have detailed financial planning in place beyond its one year budget. The Commission needs to develop an MTFP, updated annually, in line with best practice.

2019/20 Update: We are happy to report that the Commission has developed a MTFP in the year. We reviewed the Commission's draft MTFP and provided advice on improvements which should be made during the year (for example, on scenario planning, links with workforce planning and historical analysis). While the Commission intends to address these recommendations, it has not yet done so.

We are pleased to note that the MTFP includes links to the Scottish Government Medium-Term Financial Strategy ('MTFS'), and that the assumptions and conclusions in the Commission's MTFP are in line with the MTFS. The Scottish Government's MTFS has not been revised in the year. Given the anticipated economic climate facing both the Scottish Government due to the COVID-19 pandemic, any revisions by the Scottish Government to either the MTFS or to spending priorities should be assessed by the Commission for their potential impact on the medium-term financial situation facing the Commission.

If we assume that the Scottish Government funding of £325k will be pro-rated to account for full-year expenditure going forward, this will give the Commission total income of £3.18m. Based on the Commission's MTFP (extrapolated to include 2023/24 and 2024/25, and assuming additional spend in relation to four additional posts at the Commission's median pay due to the additional funding), the Commission will not achieve a breakeven position against that increased budget position by 2022/23 without taking action to reduce costs.



Financial sustainability (continued)

Medium-term financial sustainability, workforce planning an staffing structure

Medium-term financial sustainability (continued)

2019/20 Conclusion: Due to the lack of clarity surrounding the additional funding from the Scottish Government - the extent to which it will be recurring and the additional costs the Commission will be expected to incur - it is not possible to conclude with any certainty as to whether the Commission is currently in a financially sustainable position. Given the significant changes since the draft MTFP was prepared - both the COVID-19 pandemic and the additional funding from the Scottish Government - the MTFP needs to be significantly revised within 2020/21. We will review the revised position in our 2020/21 audit. This analysis on page 22 underlines the seriousness of the situation facing the Commission. The additional funding simply gives the Commission an additional two years to put plans in place to address the underlying situation, it does not address it. Alongside revising its MTFP, the Commission needs to develop a clear action plan as to how it will transform its operations and workforce to reach a financially sustainable position by 2022/23. Realistically, given the long lead-in times of significant changes, these actions need to begin to be implemented in 2020/21.

Workforce planning

2018/19 Conclusion: We welcomed the development of a Workforce Plan in 2018/19 and recommended improvements which could be made, including succession planning, setting out the future workforce of the Commission and how it plans to transition from its current to its future workforce.

2019/20 Update: We have reviewed the updated Workforce Plan and are pleased to note improvements in a number of areas, such as: succession planning; linking with the Corporate Plan; a detailed analysis of how the staffing structure links with the Commission's obligations, and an acknowledgement of the challenges and risks facing the Commission with regards to its workforce. The Commission has committed to developing a standalone succession plan for key posts identified in the Workforce Plan, which we will consider in our 2020/21 audit.

2019/20 Conclusion: The Commission's workforce is critical not only to its ability to deliver its services, but also to its ability to achieve financial sustainability, given that staff costs account for 79% of the Commission's costs. Given this, we would expect stronger links between the MTFP and the Workforce Plan, and vice versa. Currently, the MTFP makes only a passing reference to the Workforce Plan and does not set out in any detail changes which are likely to be required. The Workforce Plan makes no reference to the MTFP and similarly does not set out what the Commission expects its future workforce needs to be and how it plans to manage the change from its current workforce to its future workforce. The plans usefulness, therefore, is limited to addressing current workforce issues and not for addressing the financial sustainability issues facing the Commission.

Similar to the MTFP, the Workforce Plan should include scenario planning. The current section on scenario planning considers only the potential for additional posts. In order to be a useful document, the Workforce Plan needs to consider, at least, the expected situation; a reasonable worst-case situation and a reasonable best-case situation, linking in with the MTFP's scenario planning. The Commission should have detailed plans to enable it to achieve the expected situation, and have thought about its options in either a worst or best case situation at a high level.

Staffing structure

2018/19 Conclusion: The staffing structure in the Commission has not resulted from strategic long-term thinking, instead being managed on an incremental basis. Considering the staffing structure as a whole is increasingly important given issues identified in a recent staff survey on workload management.

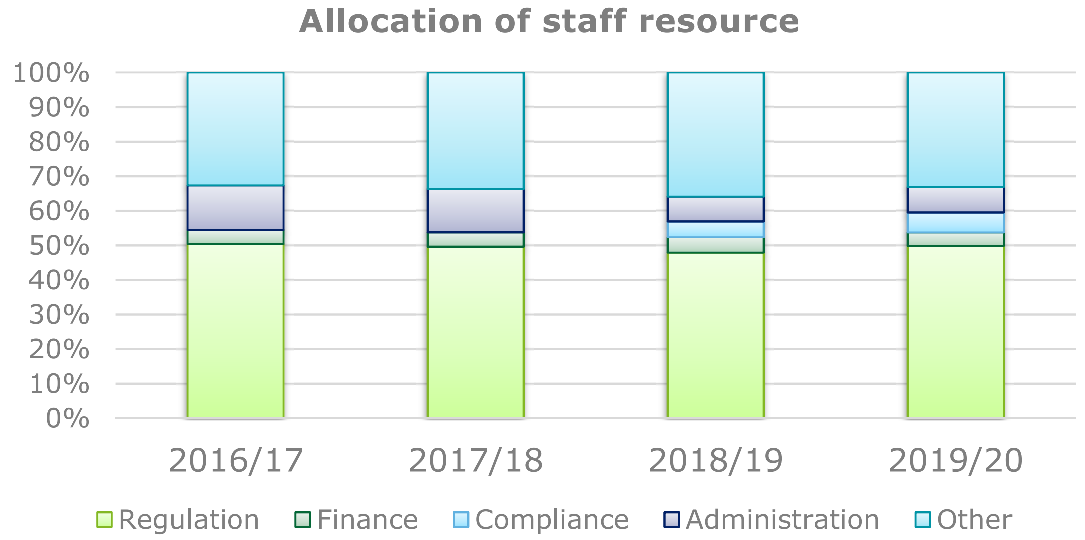
2019/20 Update: In 2019/20, there were significant changes to the SMT structure. We also note substantial movement in staff spend by area - for example, grazings and regulation have reported a 14% increase in spend, reflecting the Commission's priorities. There has been significant investment in the compliance and IS team (which is critical to the Commission's ability to perform its work) , both increasing by in excess of 30%. We are aware that employees in specific teams often undertake other responsibilities, and so these increases to individual team costs may not be entirely related to that team’s specific responsibilities.

Financial sustainability (continued)

Staffing structure, agency spend and focus on outcomes

Staffing structure (continued)

2019/20 Conclusion: The changes noted above suggest that the Commission is actively considering its workforce structure, which is welcome. However, these changes do not appear to be systematically planned and are regularly reactive. As set out in the 2018/19 report and in our review of workforce planning, the Commission should consider its current structure and anticipated future structure, and put a plan in place to manage the necessary transition over a realistic period.



Agency spend

2018/19 Conclusion: Agency costs increased to 11% of total staff costs, with agency staff making up 16% of all staff in the Commission. The reliance on agency staff is not sustainable.

2019/20 Update: Following our recommendation to monitor the agency staff spend in our 2018/19 audit, the Commission has taken the decision to make the majority of the agency staff permanent posts. This achieves the Commission's stated aim of reducing reliance on agency staff, with the overall proportion of staff costs spent on agency staff dropping from 11% in 2018/19 to 3% in 2019/20.

2019/20 Conclusion: The decision taken is cost effective in the short term, however, it does limit the Commission's flexibility in addressing the financial sustainability issues facing it over the medium term. Effective workforce planning needs to be developed to avoid the need to rely on agency staff in the future.

Focus on outcomes

2018/19 Conclusion: The Commission's Corporate Plan includes a specific section on National Outcomes, linked clearly with the Commission's outcomes. The Business Plan outcomes and the budget are linked to the Corporate Plan outcomes. We welcomed progress in 2018/19, with improvements made in response to audit recommendations in 2017/18.

2019/20 Update: As we set out in 2018/19, the Crofting Commission's Corporate Plan clearly links the outcomes which the Commission aims to achieve with the relevant National Outcomes, with this also being included in the Commission's Business Plan. In 2019/20, we have been particularly impressed with the Commission's disclosure in its Annual Report and Accounts of how it allocated its resources against the outcomes it set in its Corporate Plan, and how these outcomes link to the National Outcomes - clearly showing how the Commission is using the resources available to it to deliver improved outcomes.

2019/20 Conclusion: We consider the Crofting Commission to be an example of good practice in demonstrating how resources are used to deliver outcomes, and how the outcomes delivered locally contribute to the National Outcomes. To continue development of this good practice, we recommend that the Commission should include in both its MTFP and Workforce Plan how resources and workforce over the medium term will be aligned to priorities in both the Corporate Plan and National Performance Framework to deliver improved outcomes.

Financial sustainability (continued)

Deloitte view

Deloitte view – Financial sustainability

As discussed on page 22, the Commission achieved financial balance in 2019/20 and we are satisfied that it can achieve financial balance in 2020/21, due to the announcement of £325k of additional funding from the Scottish Government.

The position over the medium term is more difficult. Prior to the additional funding announcement from the Scottish Government, the Commission forecast that it would be unable to achieve a breakeven position by 2020/21. Following the announcement, we have considered the Commission's MTFP and based on high-level assumptions, consider that without effective action, the Commission will be unable to achieve a breakeven position from 2022/23. Given the lack of certainty surrounding the additional funding, the Commission's medium-term plans and the impact of COVID-19, it is not possible to conclude with any certainty on the financial sustainability of the Commission, although we do have concerns in that regard.

We have welcomed the development of the Commission's MTFP in the year, and improvements made to the Workforce Plan. Further improvements are required to both, including setting out scenario planning and setting out how the Commission plans to get from its current position to its target position as set out in these plans. While we are pleased that the Commission's staffing structure continues to evolve and the reduction in the use of agency staff in the year, we remain of the view that the Commission should consider its current structure and anticipated future structure, and put a plan in place to manage the necessary transition over a realistic period.

The Commission's internal strategies, performance monitoring and external reporting all place a strong emphasis on the delivery of outcomes and demonstrate a desire to show continuous improvement in the achievement of these. We consider the Crofting Commission to be an example of good practice in demonstrating how resources are used to deliver outcomes, and how the outcomes delivered locally contribute to the National Outcomes. While revising its MTFP and Workforce Plan in line with our earlier comments, the Commission include in both how its resources and workforce over the medium term will be aligned to priorities in both the Corporate Plan and National Performance Framework to deliver improved outcomes.

Financial management

Overview and financial capacity

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

Is financial management effective?

Are budget setting and monitoring processes operating effectively?

Is there sufficient financial capacity?

Financial Management

Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Commission on all areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- The budget setting process is not sufficiently robust to allow the Commission to fully understand the financial implications of decisions.

Financial capacity

2018/19 Conclusion: The Crofting Commission has a competent, effective finance function in place. We highlighted concerns surrounding the reduction in resourcing of the finance function in recent years, the lack of finance representation on the Senior Management Team ('SMT') and the treatment of finance within the Commission as a purely operational role.

2019/20 Update: From our review of the National Public Bodies Directory, 80% of Non-Departmental Public Bodies have a member of the SMT who has specific responsibility for finance. The benefits of this are set out in the Audit Scotland Best Value Toolkit on Financial Management.

In 2019/20, the Commission has not changed its practice whereby the Finance Manager is invited to attend SMT when the SMT feels it is needed.

Given the difficult financial position the Commission continues to face, the importance of understanding the financial impact of decisions across the SMT is paramount. In the 2020/21 budget, we noted that the CEO and Finance Manager discussed options for reducing operational costs, with these being agreed and then shared with the SMT to implement the savings. It was clear from the response from various members of SMT that they were unclear as to how the savings would be made, and did not fully understand the changes which were made to the budget - with communication back and forth between SMT and the Finance Manager. This is inefficient and not in line with best practice. This is another example of where having a finance representative on SMT would result in improved understanding and a more collective approach to finances being adopted.

We have noted some improvement in the involvement of finance personnel in strategic planning, including the MTFP. However, strategic planning remains primarily a matter which is dealt with by the SMT and which finance advice is sought on, but not integral to.

2019/20 Conclusion: Our view remains that a review of the benefits of having responsibility for finance being at an SMT level should be carried out, in conjunction with a review of the finance function itself. In our opinion, having a finance representative on the SMT would help to drive a cultural shift whereby finance is a key consideration that is properly understood in all operational and strategic decision making.

Financial management (continued)

Financial implications, budget setting and internal audit

Financial implications of decisions

2018/19 Conclusion: The SMT and Board need to explicitly set out, understand and accept the financial implications of decisions which will result in a variance against the budget before decisions are made. This can be achieved by having finance representation at SMT meetings, setting out the impact against the budget and MTFP in reports, and requiring offsetting savings to be identified before additional expenditure is approved.

2019/20 Update: We have not noted a change in the approach to finance personnel attending SMT in the year. However, we are aware from discussion with both the CEO and the finance function that there has been greater engagement in 2019/20 than in previous years with the CEO seeking finance input on a more regular basis.

Through review of the Board and Committee minutes, we note that that Commissioners are generally aware of the impact that decisions will have on the position against the budget and scrutinise them accordingly. Further, we have identified numerous occasions where a decision which resulted in an overspend against budget and for which the SMT has identified and assigned the appropriate savings to balance out the overspend. Despite these improvements, we were unable to find evidence that the impact that decisions will have on the funding gap identified in the budget and MTFP has been clearly presented during the decision making process, and remain of the view that this should be formalised.

2019/20 Conclusion: While we welcome the improvements made in the year, we reiterate our view regarding finance representation at SMT meetings, and the need to explicitly set out the impact of decisions against the budget position and MTFP.

Budget setting

2018/19 Conclusion: The Commission adopted an approach of "over budgeting", resulting in an unbalanced budget being approved. This approach to budgeting is not in line with good practice and should be reconsidered. The Commission needs to separately disclose in the budget paper the specific savings targets for each area (including setting out those which have been identified and those which remain to be found), enabling monitoring throughout the year.

2019/20 Update: In the 2020/21 budget, we were pleased to note improvements from the prior year, for example that the Commission had moved away from 'over budgeting' and had set out clearly what its anticipated funding gap was, building in reasonable assumptions. We noted an effective level of challenge and scrutiny from the Audit and Finance Committee.

2019/20 Conclusion: Further improvements are necessary, setting out required savings (split between those identified and those to be identified), responsible officers for achieving those savings, and 'RAG' rating the savings to clearly set out in the budget those which are the highest risk. An increased focus on medium-term financial and workforce planning will aid the Commission in this regard.

Internal audit

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

Standards of conduct for prevention and detection of fraud and error

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

Financial management (continued)

Deloitte view

Deloitte view – Financial management

The Commission has a competent and effective finance function in place. However, the Commission's approach to not having finance representation at all SMT meetings is not in line with normal practice for similar organisations. We remain of the view, as in 2018/19, that a review of the purpose, resourcing and utilisation of the finance function should be undertaken to ensure that the Commission maximises the benefits which can be obtained.

We have identified improvements in the year in the understanding of the financial implications of decision making. Further improvements are needed, and we recommend that the impact of decisions against the budget position and the MTFP is clearly set out in covering papers presented to SMT, the Committee and Board.

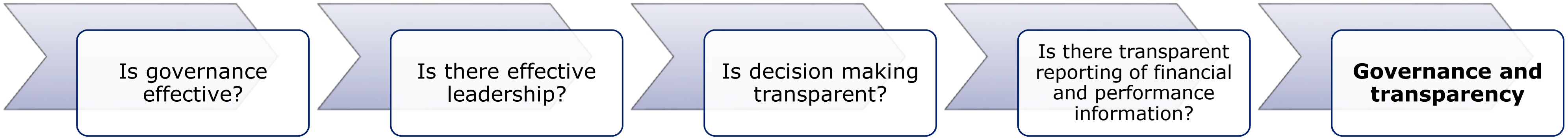
We welcome changes made to the budget setting process in 2020/21, with the Commission moving away from an 'overbudgeting' approach. The budget could be further enhanced by setting out savings required and marking those which have been identified and those which remain to be identified. The allocation of savings to responsible officers and the application of a risk rating against savings to clearly set out those which are deemed to be at higher risk of not being achieved are also recommended.

We are satisfied that the Commission has an effective internal audit function in place, and that there are appropriate standards of conduct for the prevention of detection of fraud and error.

Governance and transparency

Overview and openness 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



Areas considered

We have provided an update for the Commission on all areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risks identified were:

- The boundary between operational and strategic matters for Commissioners is not clear.
- There is a risk of inconsistent messages being given to staff due to the lack of a 'one Commission' culture.

Openness and transparency

2018/19 Conclusion: 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.

2019/20 Update: As we noted last year, the Commission demonstrates numerous areas of good practice with regards to openness and transparency. This has been improved further in 2019/20, and we are pleased to note that the Commission now regularly publishes Board papers on its website, and clearly sets out in Board papers when a private session will be held and the reason for it, with this also being clearly explained in the minutes of the meeting.

We have been impressed by the Commission's desire to improve engagement with stakeholders. We commend the Commission for developing the practice of holding an external Board meeting on an annual basis in a crofting area, increasing the use of stalls at summer shows, and working with partner organisations to improve stakeholder engagement. We also welcome the innovative approach to requesting stakeholder feedback along with the crofting census, and note that the Commission has utilised its website to communicate with crofters on the impact of COVID-19 on the operations of the Commission.

2019/20 Conclusion: Based on the above, we are satisfied that the Commission continues to see openness and transparency as a journey, and has the ability and desire to seek continuous improvement in this area.

Governance and transparency (continued)

Effectiveness of governance arrangements

Effectiveness of governance arrangements

2018/19 Conclusion: We note that there is generally a good level of challenge and scrutiny demonstrated. The Commission has good arrangements in place for carrying out self-assessments of its governance arrangements. We are also pleased to note that the Commission regularly keeps it governance arrangements under review and proactively identifies areas for improvement. We identified a number of areas for improvement, including: an improved understanding of the operational and strategic split in responsibilities; the need for a dedicated training plan for Commissioners, and the need for appraisals of Commissioners to be carried out by the Convener.

2019/20 Update: We are pleased to note that the Commission continues to carry out and act on the results of self-assessments for both the Committee and the Board. We particularly commend the Commission on the 100% response rate it has achieved in both 2018/19 and 2019/20 to the self-assessments.

As stated in 2018/19, we are generally satisfied with the level of scrutiny, challenge and transparency with regards to decision making, finances and performance. In 2019/20, we noted an improvement in perceptions across the Commission regarding both the Board and SMT respecting their respective roles and responsibilities.

In 2018/19, we recommended that a specific training plan for the Board be developed, linking in with the personal development goals of the Commissioners. We are aware that the Board undertook a development day in June 2019. However, there remains no training plan in place, nor any links between training planned and the appraisals of Commissioners.

Following our recommendation, we were pleased to note that the Convener had committed to carrying out appraisals in early 2020/21 in respect of the 2019/20 year.

In response to the COVID-19 pandemic, the Commission moved to holding virtual Committee and Board meetings, formally adopting changes to its governance documents to enable this, ensuring that effective governance arrangements continued to operate.

2019/20 Conclusion: We note that the results of the Board self-assessment are initially considered by the Committee. We welcome this additional layer of scrutiny and consider that it enhances the Commission's response to the self-assessment exercise. From attendance at Committee meetings in 2018/19 and review of the minutes of the meeting in 2019/20 where the self-assessments were considered, we noted an effective and healthy level of discussion on the results of the self-assessment exercise.

	2018/19	2019/20
Response rate	100%	100%
Positive responses	87%	91%
“Don’t know” responses	9%	4%

From review of the Board and Committee self-assessments, we did not identify any areas of concern. We welcome the improved rate of positive responses on the Board self-assessment and we have been impressed by the Commission's proactive focus on continued improvement, with the Commission agreeing to take actions to further reduce the rate of "don't know" responses.

As the COVID-19 pandemic took hold, the Commissioners undertook a far more active role in operational matters (such as responding to phone calls and dealing with physical mail which was sent to the Commission). While this approach is not appropriate in the long term, we are satisfied that in the circumstances it was an appropriate response and evidenced a positive team culture.

From April to June 2020, the CEO was seconded to the Scottish Government to help with the COVID-19 response (discussed further on page 34) and during this time there was a noticeable increase in the level of challenge by the Board of the SMT. However, we are pleased that this challenge did not cross over into the Commission becoming involved in operational matters - instead, it focused on seeking assurance and information on those matters from SMT and not accepting assurances where the Board felt they were insufficient.

Governance and transparency (continued)

Effectiveness of governance arrangements and leadership

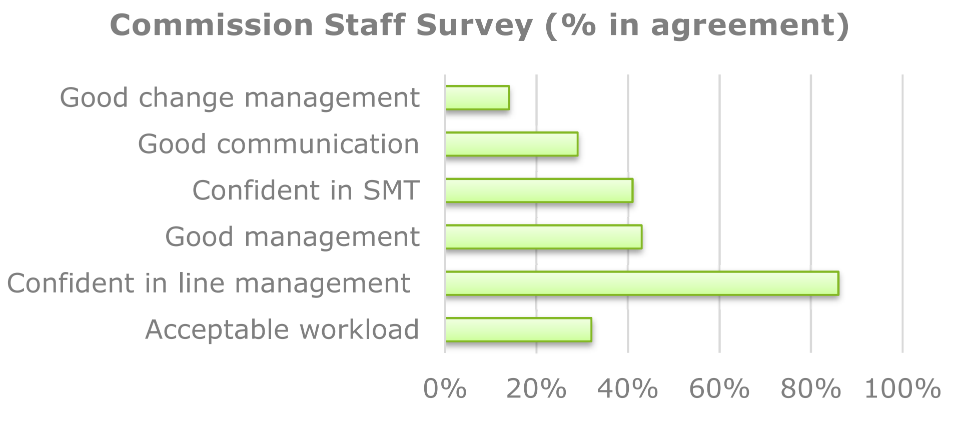
Effectiveness of governance arrangements (continued)

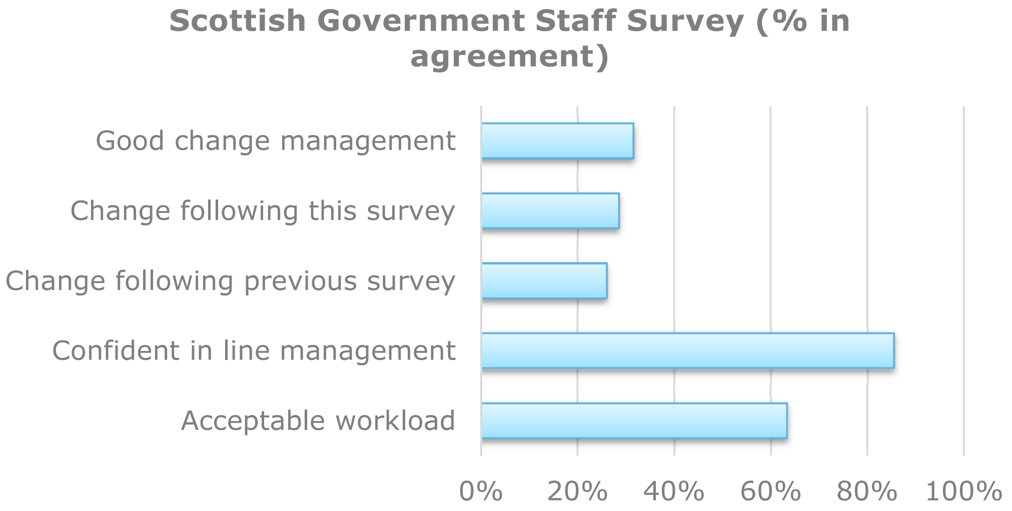
Our recommendation in relation to the development of a dedicated training plan for Commissioners was not actioned in the year and remains in place. While we welcome appraisals being carried out for Commissioners in 2019/20, it is not clear what action, if any, has been taken as a result of these appraisals and we remain of the view that these appraisals should be used to inform future training needs and to identify strengths and areas of good practice which could be shared wider across the Board. To enable this, the Convener and Commissioners need to share the relevant information with management.

Leadership

2018/19 Conclusion: We are confident that management at the Commission are competent, dedicated and demonstrate a clear interest in the work of the Commission. We identified areas for improvement in relation to change management, communication and performance management.

2019/20 Update: A staff survey carried out in April 2019 highlighted a number of concerns, as explained in our 2018/19 audit. Some key findings from the 2018/19 staff survey are shown below:





A separate survey of Commission staff was carried out by the Scottish Government later in 2019. While not directly comparable, we note some key findings here.

These scores are significantly worse than the Scottish Government average. Despite this, the Commission has a dedicated workforce - 90% noted that they have no immediate or short-term desire to leave (which is in line with the Scottish Government average.) This means that the Commission still has an opportunity to effectively engage with its workforce to effect changes that will make a meaningful difference to their perceptions of the Commission.

Following the April 2019 staff survey, an action plan was produced. However, this was not completed and shared with staff until December 2019. In December 2019, SMT also considered the Sturrock Review and any lessons which could be applied to the Commission.

This action plan was followed up in January 2020 with an in-person update being provided by the CEO to staff on fairness at work, bullying and harassment, actions being taken following the staff survey and future plans. These actions are all welcome.

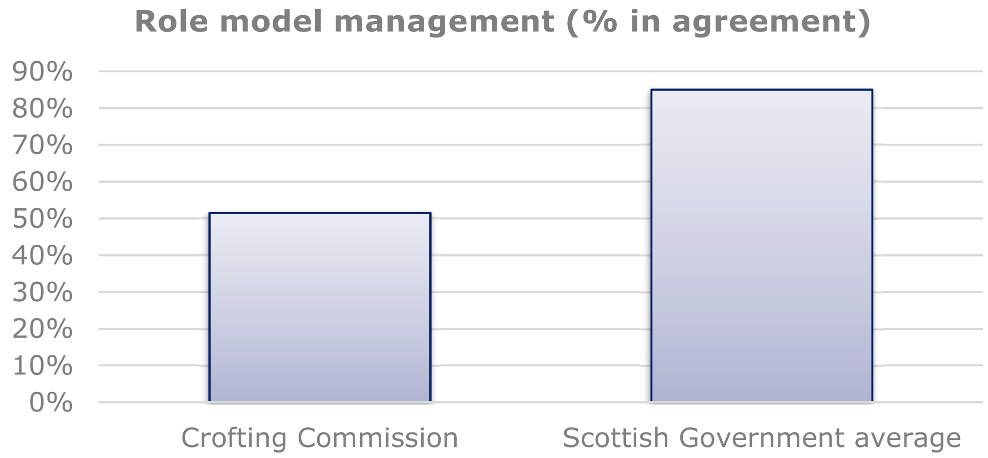
Governance and transparency (continued)

Leadership

Leadership (continued)

A follow-up staff survey (to be comparable with the survey in April 2019) was due to be carried out in early 2020/21. Due to the COVID-19 pandemic, management took a decision not to perform such a survey.

Similar to 2018/19, we were unable to identify evidence demonstrating a consistent and effective use of performance appraisals at an SMT level. During our follow up work, we noted through discussion with the CEO that no framework has been put in place setting out the behaviours and attributes the Commission expects its managers to demonstrate, enabling the measurement of performance against these. In the Scottish Government staff survey in 2019, 52% of staff felt that managers role model the behaviours set out in the Civil Service Leadership Statement, which is 34% less than the Scottish Government average.



In light of concerns raised in the staff survey and following discussion with the SMT, in 2018/19 we recommended that the SMT receive training on change management, performance management, and addressing poor performance. From review of the training spend in 2019/20, we have not identified any training provided to the SMT on these areas. In our review of information on this point, we identified that the Commission does not have a mechanism for capturing all training carried out internally or online, does not systematically assess the effectiveness of training provided (with feedback not regularly collected), and has no system in place to capture an analysis of training provided.

Through meetings with staff and the SMT we have noted improvements with how teams within the Commission work together, however there are still improvements to be made regarding change management and performance management. As per our discussions with the SMT only a small improvement has been in regards to change management so far and we were not provided with evidence of appraisals being carried out for the SMT in the year.

2019/20 Conclusion: The length of time between the staff survey and communication with staff regarding actions being taken - over nine months - was excessive and from our discussions with staff and review of the Scottish Government survey, had a negative impact on staff perception of how management are responding to their concerns.

While we understand the decision not to perform a follow-up staff survey in early 2020/21, we feel it is regrettable and a survey to assess staff opinion in the current situation would be beneficial to the Commission. We are pleased to note that a follow-up staff survey is being carried out in August 2020. Given the significance of the issues raised, and the importance of the Commission's workforce to its operations, there needs to be a stronger focus on proactive engagement with staff, prioritising remedying legitimate staff concerns raised in the survey, performing root-cause analysis of the issues raised and implementing appropriate and effective changes. In our opinion, it would be both appropriate and provide assurance to staff if the Board scrutinised management's action plan in response to staff surveys and received reporting throughout the year on progress being made.

Given the issues identified in relation to performance management, we reiterate our view on the importance of effectively using the appraisal process, ensuring it is applied consistently to measure performance against agreed behaviours.

We consider the issues regarding the provision and monitoring of training set out on page 31 to be noticeable weaknesses in the systems in place at the Commission that undermine the ability of the Commission to effectively allocate its training budget to drive continuous improvement. The Commission should develop systems to capture all training provided, systematically collect feedback and analyse the effectiveness and value of training based on this.

Governance and transparency (continued)

Embedding a positive culture

Embedding a positive culture

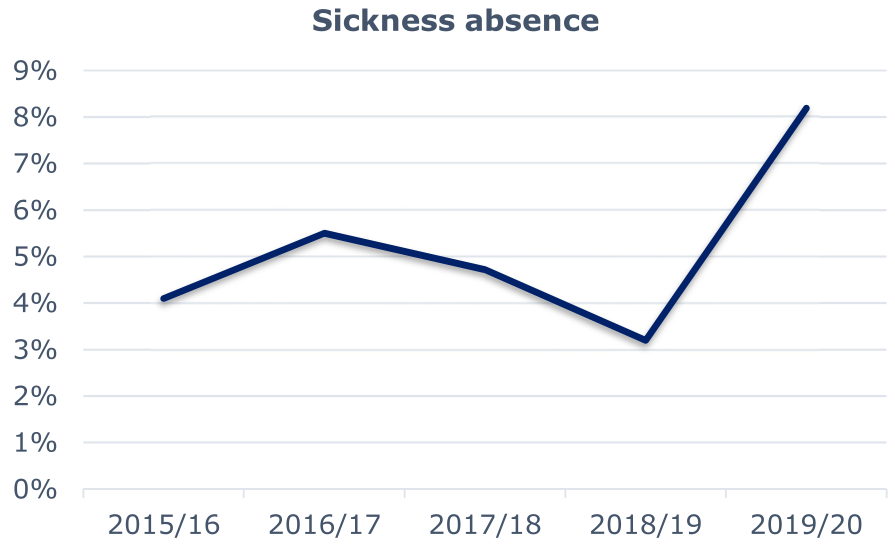
2018/19 Conclusion: 12% of staff felt that they had personally experienced bullying in the previous six months. We noted that the Commission should ensure that there is an independent person with whom staff can raise concerns, review the Sturrock Review and ensure that management are specifically assessed against attributes and behaviours considered acceptable by the Commission.

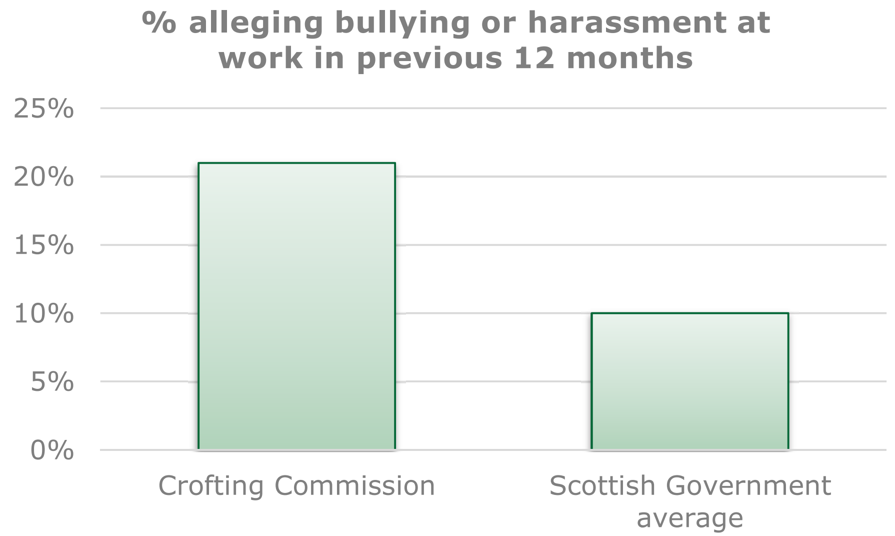
2019/20 Update: While not directly comparable, a separate survey carried out by the Scottish Government in 2019 found that 21% of Commission staff noted that they had personally experienced bullying or harassment at work in the previous 12 months. This is 10% higher than the Scottish Government average.

We analysed the sickness absence data for the Commission, noting that the level of absence has increased from a historical average of 4.4% to 8.2% in 2019/20, with this being more than double the Scottish Government average. From discussion with the SMT, we noted that while much of this was thought to be coincidental, there was an acceptance that work-related stress had been a contributor in a small number of cases.

As set out on page 31, we welcome the actions taken by the SMT in reviewing the Sturrock Review, developing an action plan in response to the staff survey and communicating with staff in relation to fairness at work, bullying and harassment. We welcome the CEO highlighting to staff the individuals they can report inappropriate behaviour to - the CEO, line managers, the Scottish Government or a Trade Union representative.

2019/20 Conclusion: Further work needs to be carried out to address the sizeable minority of staff who feel that they have personally been bullied or subject to harassment in work. Given the potential seriousness of the impact on the Commission - both reputationally and through increased sickness absence - we are of the view that an independent review should be commissioned to meet with staff to identify themes in behaviour that are considered by staff to be bullying or harassment, with these being shared with the Board and actions put in place to address these. From review of the action plan following the staff survey, and based on the staff surveys, discussion with staff and SMT, we do not believe that there is currently an understanding of the underlying issues or that an internal review would provide the necessary insight to address them.





Governance and transparency (continued)

CEO secondment to Scottish Government

CEO secondment to Scottish Government

In April 2020, the CEO was seconded to the Scottish Government to help with the national COVID-19 response. The CEO retained the Accountable Officer role, however the SMT took on additional responsibilities in his absence. This secondment occurred following discussion between the Scottish Government Director of Rural Policy (who has responsibility for the Sponsor Division) and the CEO, who agreed to the proposal after discussion with the SMT and Convener. There was no consultation with the full Board before the decision was taken. The CEO was seconded for 6.5 weeks, and the Board expressed repeated and continued frustration and concern during meetings (with this being communicated to SMT, the CEO and Sponsor Division) regarding the lack of communication and absence of the CEO during a period of significant uncertainty for the Commission.

From discussion with the CEO and Head of Compliance, attendance at Committee meetings and review of Committee and Board minutes, it is clear that this situation strained the relationship between the Board, SMT and the Sponsor Division. It is also evident that there was a lack of understanding of whether the Board was required to be, or should have been, consulted. Given the significance of not having the CEO in post during an unprecedented and turbulent time for the Commission, it is unusual that neither the CEO nor the Convener ensured that the Board had been appropriately consulted and effective interim arrangements providing clarity on leadership had been agreed with them.

Despite the risks identified as a result of this, we did note from attendance at meetings and review of minutes, in addition to discussion with the CEO and SMT, that the secondment of the CEO presented an opportunity for the SMT to assume additional responsibilities and provide collective leadership in the absence of the CEO. We consider that the skills obtained by the SMT as a result of this, as well as the wider skills obtained by the CEO from his secondment, will stand the Commission in good stead in future years.

We accept that it was an unprecedented situation and that there was a need to make important and difficult decisions at short notice. In our opinion, there was no deliberate attempt to circumvent the Board's oversight role. However, the situation does highlight that lessons can be learned to improve communication with the Board, in addition to improving understanding of and respect for the roles and responsibilities of the CEO, Board and Sponsor Division.

Governance and transparency (continued)

Deloitte view

Deloitte view – Governance and transparency

We have been impressed by the Commission's desire to improve engagement with stakeholders and the use of innovative practices to effect this engagement. We are pleased to note that the Commission has utilised its website to communicate with crofters on the impact of COVID-19 on the operations of the Commission. It is clear that the Commission continues to see openness and transparency as a journey, and has the ability and desire to seek continuous improvement in this area.

The Commission has strong governance and scrutiny arrangements in place, with a strong focus on self-assessment and a desire to demonstrate continuous improvement. We have noted effective scrutiny of management performance on operational matters during the year, and were pleased to note that annual appraisals of Commissioners were completed in 2019/20. While not recommended as a long-term solution, the Commissioners' response to help with phone calls and physical mail in response to the COVID-19 pandemic was an appropriate response which evidenced a positive team culture.

Our recommendation in relation to the development of a dedicated training plan for Commissioners was not actioned in the year and remains in place.

We are satisfied that the Commission has competent and dedicated leadership. However, management were slow to respond to the findings of the April 2019 staff survey, and in our opinion, the Board needs to play a more active role in the monitoring of management actions to address the concerns identified in successive staff surveys, ensuring that these are appropriately prioritised.

We are concerned by the sizeable minority of staff who feel that they have personally been bullied or subject to harassment in work. We believe that an independent review should be commissioned to identify the underlying issues and make recommendations for improvement.

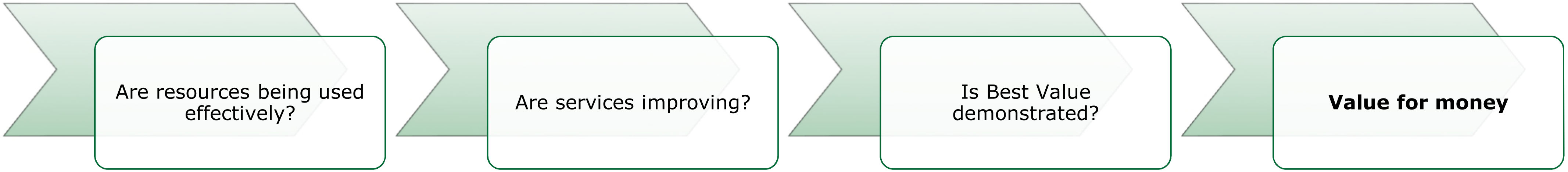
We have identified issues regarding the provision and monitoring of training, which undermine the ability of the Commission to effectively allocate its training budget to drive continuous improvement. The Commission should put systems in place to ensure that it is capturing this key data to enable it to understand the effectiveness of training provided.

The secondment of the CEO from the Commission to the Scottish Government in April 2020 strained relationships between the Board, SMT and Sponsor Division. We accept that it was an unprecedented situation and that there was a need to make important and difficult decisions at short notice. The Commission should ensure that lessons are learned to improve communication with the Board, in addition to improving understanding of and respect for the roles and responsibilities of the CEO, Board and Sponsor Division.

Value for money

Overview, demonstrating value for money and focus on improvement

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



Areas considered

We have provided an update for the Commission on all areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- In the absence of agreed actions and clear business cases to underpin decision making, the Commission's performance could decline further.

Demonstrating value for money

2018/19 Conclusion: We have concerns about the ability of the Commission to demonstrate that it is achieving value for money. There is a general lack of use of business cases to underpin and justify decisions. The Commission needs to improve the understanding of the impact of decisions and document an assessment of whether proposed decisions demonstrate value for money.

2019/20 Update: As we reported in 2018/19, the Commission does not make regular use of business cases to underpin decision making. We have been informed that there has been an increased use of business cases in decision making, however, we have been unable to see sufficient evidence of this. In the current year, important decisions - such as converting agency staff to permanent positions, deciding not to terminate probationary positions, considering the secondment of staff to the Scottish Government and seconding the CEO to the Scottish Government - were all made without documenting considerations of the options available, the impacts of each option and how to address any issues posed by the option chosen. Important decisions continue to be made on an apparent reactive basis without fully considering the impact, with justification from a value for money perspective remaining an afterthought.

2019/20 Conclusion: We reiterate our view that the Commission should utilise business cases as a standardised process in decision making. To aid with establishing a culture of fully understanding the wider impacts of decisions made, we consider that it would be beneficial for papers presented to SMT, the Committee and the Board to have an 'impact' section included in covering papers, covering the impact of the recommended decision across the Commission (e.g. the impact for service users; the workforce; organisational risk; legal compliance; finance, etc.) We welcome the SMT considering how further improvements can be made in this area at a meeting in early August 2020.

Focus on improvement

2018/19 Conclusion: The level of KPIs achieved in 2018/19 fell to 29% from 63% in 2017/18. Complaints against the Commission increased by 120% in the year. The Commission should develop a clear and concise, organisation wide improvement plan which is made available to staff and the Board, with regular updates provided. The Commission needs to move from a reactionary position to proactively identifying areas for improvement and addressing those areas before they risk damage to the Commission, its staff or the communities it serves.

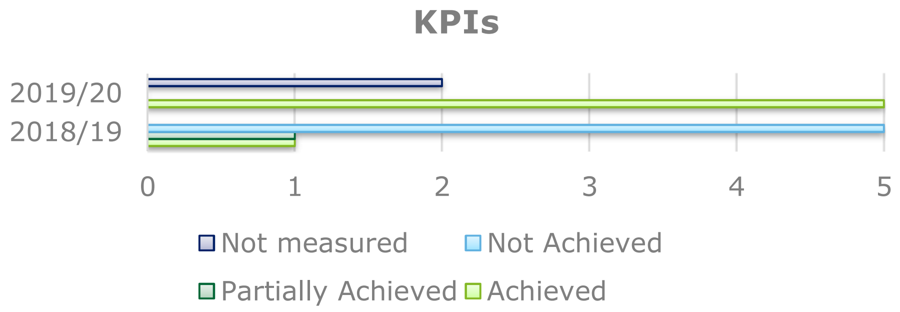
Value for money (continued)

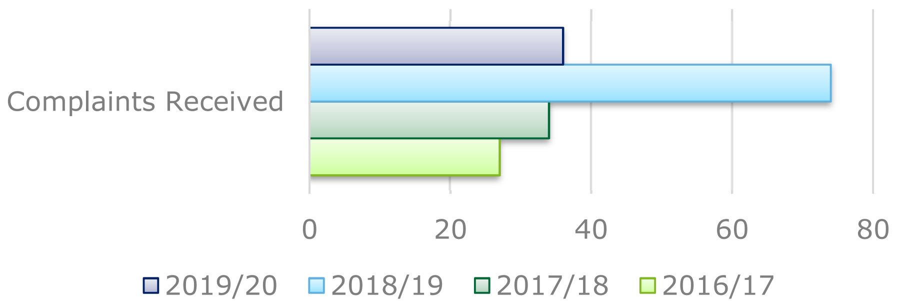
Focus on improvement and alternative models of delivery

Focus on improvement (continued)

2019/20 Update: In 2019/20, the achievement of KPIs increased from 29% to 71%. Complaints against the Commission declined by over half (dropping from 74 in 2018/19 to 36 in 2019/20). These are significant improvements which we welcome and commend the Commission on. Given that a comparable follow-up staff survey has not been carried out in the year to assess changes from the survey carried out in April 2019, we have been unable to assess performance in this area.

2019/20 Conclusion: We welcome the improvements made in the year. In our view, the Commission should prepare a clear and concise annual improvement report for the Board, consolidating and setting out the various improvement actions undertaken at the Commission in the year, to enable the Board to obtain assurance about the Commission's delivery of continuous improvement.





Alternative models of delivery

2018/19 Conclusion: In 2018/19, the Commission experienced a significant backlog of regulatory casework, resulting in unmanageable pressure on staff, an increase in complaints against the Commission, unease amongst Commissioners, and concerns raised by the Sponsor Division, Scottish Government and Scottish Parliament. The root causes of the backlog could have been mitigated through the effective use of workforce planning, providing training to additional staff on regulation, and through a review of the structure of the Commission's regulatory team.

2019/20 Update: As set out on page 23, we welcome the improvements in workforce planning made in the year. Following our recommendation in 2018/19, we welcome that regulatory training has been provided to new staff across the Commission, with the Commission noting that this will provide "excellent support to our operational teams now and for the future." In addition to this, we welcome the piloting of a 'pooled working' programme in January 2020, moving away from the traditional geographic approach adopted by the Commission, to fairly allocate work across the regulatory team. We will monitor the effectiveness of this pooled working approach in our 2020/21 audit.

2019/20 Conclusion: The Commission has noted (at SMT, Committee and Board level) an impact on the productivity and efficiency of systems in light of the COVID-19 pandemic. Significant concerns were raised at all levels about the ability of the Commission to continue to deliver its services in this situation. While we have not noted a significant decline in performance, we consider that this is likely to be as a result of a reduction in demand for services from crofters. We concur with the assessment of SMT and the Board that there remains a risk to the Commission should demand from crofters return to historical levels before the Commission can resume its normal business operations. Given the unprecedented nature of the situation, we consider that effective communication with stakeholders will be pivotal to addressing any issues which do arise.

The Commission should consider its response to the COVID-19 pandemic, including the effectiveness of changes made to models of service delivery, to identify if lessons learned can be applied to transform service delivery and improve the Commission's sustainability for future years.

Value for money (continued)

Deloitte view

Deloitte view – Value for money

As reported in 2018/19, we again found that the Commission does not make regular use of business cases to underpin decision making. We reiterate our view that the Commission should utilise business cases as a standardised process in decision making. To aid with establishing a culture of fully understanding the wider impacts of decisions made, we consider that it would be beneficial for papers presented to SMT, the Committee and the Board to have an 'impact' section included in covering papers.

Performance at the Commission improved markedly in 2019/20, with complaints received declining by 51% and KPIs achieved increasing from 29% to 71%. To support a focus on continuous improvement, we recommend that the Commission prepare a clear and concise annual improvement report for the Board, consolidating and setting out the various improvement actions undertaken at the Commission in the year, to enable the Board to obtain assurance about the Commission’s achievement of continuous improvement during the year.

The Commission has noted an impact on the productivity and efficiency of systems in light of the COVID-19 pandemic. While we have not noted a significant decline in performance, we consider that this is likely to be as a result of a reduction in demand for services from crofters. Should demand from crofters return to historical levels before the Commission can resume its normal business operations, there is a risk that the Commission’s performance will decline. The Commission should consider its response to the COVID-19 pandemic, including the effectiveness of changes made to models of service delivery, to identify if lessons learned can be applied to transform service delivery and improve the Commission’s sustainability for future years.

Best Value

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure ***Best Value (BV).***

The duty of Best Value, as set out in the SPFM

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.

The SPFM sets out nine characteristics of Best Value which public bodies are expected to demonstrate. The refreshed guidance issued by the Scottish Government in 2011 focused on five generic themes and two cross-cutting themes, which now define the expectations placed on Accountable Officers by the duty of Best Value.

Five themes:
1. Vision and Leadership
2. Effective Partnerships
3. Governance and Accountability
4. Use of Resources
5. Performance Management

Cross-cutting themes:
1. Equality
2. Sustainability

BV arrangements

The Crofting Commission has a number of arrangements in place to secure Best Value. This is evidenced through the Commission's performance monitoring arrangements.

As noted elsewhere within this report, the Commission has an established governance framework and dedicated leadership, although we have noted areas for improvement in relation to leadership, as set out on page 31. We have welcomed the culture of continuous improvement, as evidenced from the work being done on improving openness and transparency, clarity of reporting against outcomes, and self-assessments.

The Commission recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium- to longer-term financial sustainability.

Deloitte view – Best Value

The Commission has sufficient arrangements in place to secure Best Value with a focus on continuous improvement. The Commission has a clear understanding of areas which require further development.

Sector developments

Sector developments

Responding to COVID-19

As part of our "added value" to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been unchartered territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic's likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast

2. Governments could be left with higher debt after a shock to the public finances

3. Debates around inequality and globalisation are renewed

4. Lines have blurred between organisations and sectors

5. The lockdown has accelerated collaborative technologies

6. Civil society has been rebooted and citizen behaviour may change

7. The legacy that still needs to be captured

Read the full article at:

https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:** Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.

- **Exit timelines**: This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:
https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html

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

- Results of our work on key audit judgements and our observations on the quality of your Annual Report and Accounts.
- Our internal control observations.
- 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 Commission.

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

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

The scope of our work

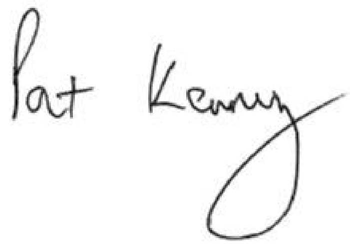
Our observations are developed in the context of our audit of the financial statements.

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

Use of this report

This report has been prepared for the Commission, as a body, and we therefore accept responsibility to the Commission 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, CPFA

For and on behalf of Deloitte LLP

Glasgow | 4 August 2020

Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) SoCNE £m	Debit/ (credit) in SoFP £m	Debit/ (credit) prior year SoCTE£m	If applicable, control deficiency identified
Accruals and payables reclassification	[1]	-	-	-	-
Total		**-**	**-**	**-**	-

[1] During our testing of invoices received after the year-end, we noted that an invoice totalling £2,037 which was received in April 2020 (but relating to 2019/20) was classified as a trade payable. As this invoice was received after the year-end, it should have been classified as an accrual. While the factual error is below our clearly trivial threshold of £2,800, when extrapolated, the error is £4,080. Management have corrected for the factual error of £2,037, and we are satisfied with this approach given that the residual error of £2,053 is below our clearly trivial threshold. There is no impact on the net position in the Statement of Financial Position and no impact on the final position reported in the Statement of Comprehensive Net Expenditure.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
The Commission noted a contingent asset in its Annual Report and Accounts of £7,500 plus VAT, should the Court of Session dismiss an appeal against the Commission and should the Commission recover its own legal costs. Following discussion, the Commission accepted that this scenario did not meet the probability requirement to recognise a contingent asset and it was agreed to exclude a contingent asset disclosure from the final Annual Report and Accounts. The Commission noted a contingent liability in the region of £20,000 - £45,000, plus VAT. In line with accounting standards, we requested that the Commission determine the 'best estimate' of the contingent liability and disclose this amount, as opposed to a range. We also requested that the Commission include additional disclosure on the uncertainties surrounding the timing and amount of any liability, and the potential for reimbursement from the Scottish Government for any amounts which the Commission is found to be liable for.	IAS 37: - The estimate of any provision, contingent asset or contingent liability needs to be a single point estimate. - The anticipated timing and amount of costs, and uncertainties around these, should be disclosed. - Any possibility of reimbursement for costs incurred should be disclosed. - Contingent assets should only be disclosed if their recovery is probable.	This disclosure is considered qualitatively material given that it relates to compliance with accounting standards, is a key regulatory focus area, and is susceptible to both under and overestimation.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*Financial sustainability*	Alongside revising its MTFP, the Commission should develop a clear action plan as to how it will transform its operations and workforce to reach a financially sustainable position by 2022/23. (For further details see page 23.)	A draft action plan will be developed and presented to the AFC in January, taking account of the financial and budgetary information that should be available by December. Further analysis will be presented to AFC by April, linked with the recommendation below.	CEO	April 2021	High
2	*Financial sustainability*	The Commission should consider its current staffing structure and anticipated future structure, and put a plan in place to manage the necessary transition over a realistic period, including scenario planning, and clear links between the MTFP and Workforce Plan. (For further details see page 23.)	Forward projections of budgets and staffing will take account of the implementation of and expanded promotional role, and the conclusions will be included in a revised version of the Workforce Plan and MTFP, and presented to AFC in April 2021.	CEO	April 2021	High
3	*Financial management*	A review of the benefits of having responsibility for finance being at an SMT level should be carried out, in conjunction with a review of the finance function itself. (For further details see page 26.)	We will review the alternatives by December, with a view to making changes now or in future. In the meantime, with immediate effect, the Finance Manager will be invited to all SMT meetings.	CEO	December 2020	High

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
4	*Governance and transparency*	An independent review should be commissioned to meet with staff to identify themes in behaviour that are considered by staff to be bullying or harassment, with these being shared with the Board and actions put in place to address these. (For further details see page 33.)	We will commission an independent review of bullying and harassment following the results of our August 2020 staff survey.	Head of Operations and Workforce	December 2020	High
5	*Governance and transparency*	The Board should scrutinise management's action plan in response to staff surveys and receive reporting throughout the year on progress being made. (For further details see page 32.)	Updates of the staff survey action plans, and reports on progress, will be presented to the AFC on a six-monthly basis.	Head of Operations and Workforce	November 2020	Medium
6	*Governance and transparency*	The Commission should develop systems to capture all training provided, systematically collect feedback and analyse the effectiveness and value of training based on this. (For further details see page 32.)	We will continue to encourage all staff to use the existing systems, in particular the Scottish Government's framework for personal development plans (PDPs). Information on training provided to Commission staff will be collated and reviewed by SMT, at least annually.	Head of Digital and Improvement	Jan 2021	Medium

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
7	*Value for money*	The Commission should prepare a clear and concise annual improvement report, consolidating and setting out the various improvement actions undertaken at the Commission in the year, to enable the Board to obtain assurance about the Commission's delivery of continuous improvement. (For further details see page 37.)	We will present a report on improvements made during each calendar year to AFC and the Board each January/February. Plans for future improvements will be included in the Business Plan for each year.	Head of Digital and Improvement	Jan 2021	Medium
8	*Financial sustainability*	To continue development of the Commission's good practice in demonstrating a focus on outcomes, the Commission should include in both its MTFP and Workforce Plan how resources and workforce over the medium term will be aligned to priorities in both the Corporate Plan and National Performance Framework to deliver improved outcomes. (For further details see page 24.)	We will include an analysis of how we contribute to the National Performance Framework in our next revisions of the Workforce Plan and MTFP.	CEO	April 2021	Low
9	*Financial management*	The Commission should continue to improve its budget, setting out required savings (split between those identified and those to be identified), responsible officers for achieving those savings, and 'RAG' rating the savings to clearly set out in the budget those which are the highest risk. (For further details see page 27.)	We will analyse required savings in this way whenever necessary in future Commission budgets.	Finance Manager	January 2021	Low

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
10	*Governance and transparency*	The Commission should develop a dedicated training plan for Commissioners. This should be informed by appraisals carried out by the Convener and training needs identified during the year. (For further details see page 30.)	Staff will develop a Commissioner training plan in liaison with Commissioners and the Convener.	Head of Compliance and Board Support	October 2020	Low

Action plan (continued)

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report in relation to the wider scope areas and are pleased to note that six of the total 13 recommendations made have been fully implemented, with a further three partially implemented. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work and provide an update in our 2020/21 report to the Committee.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
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	*Partially implemented:* The MTFP has been developed, but improvements in lien with best practice (e.g. scenario planning) remain outstanding. **Updated management response:** The Commission intends to update the MTFP in August in light of new information and will capture the recommended improvements. **Updated target date:** August 2020
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	*Partially implemented:* The Commission approved its Workforce Plan in January 2020. However, it does not include some key elements we would expect, as set out across. We will monitor progress against this recommendation in line with our updated recommendation on page 47.

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
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	*Not implemented:* The Commission noted its intention to carry out a review of the finance function in reporting to the Committee, but did not do so. We will monitor progress in this area against our updated recommendation on page 47.
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	*Not implemented:* No progress in this areas has been noted as yet. **Updated management response:** No specific progress as yet. However, this issue has been flagged up in the Commission's Action Plan from the Spring 2019 Staff Survey, with the following commitment: "There are training modules on line management available within Civil Service Learning. This will be flagged up to all managers, and SMT will consider which elements of this training should be mandatory for some, and also what monitoring would be appropriate to ensure that standards are levelled up." **Updated target date:** March 2021

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
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	*Not implemented:* No progress in this area has been noted as yet. **Updated management response:** No action has been taken as yet. However, the Commission remains committed to considering whether there are training needs for the SMT as a group. **Updated target date:** March 2021
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	*Not implemented:* The Commission has not addressed the actions set out across. **Updated management response:** A rationale for why the Finance Manager attends SMT only when necessary, has been circulated to the Committee. Other aspects are yet to be taken forward. **Updated target date:** March 2021

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
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	*Partially implemented:* The Commission has developed a business case template for use in decision making, but its use is not yet fully embedded. **Updated management response:** A 'Change of Process/Business Case Template' has been introduced which is straight forward to adapt dependent upon circumstances and will provide a clear audit trail regards the SMT decision making process. The Commission will continue to work to fully embed its use. **Updated target date:** March 2021

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As 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 Commission.

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

Audit work performed:

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

During course of our audit, we have had discussions with management and those charged with governance regarding fraud, fraud risk factors and controls in place to prevent and detect fraud.

In addition, we have reviewed management’s own documented procedures regarding fraud and error in the financial statements, in particular the Anti-Fraud Policy

Concerns:

We have not identified any concerns from the work noted above and our audit procedures.

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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Commission and and our objectivity is not compromised.
Fees	The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £17,910, as analysed below: £ Auditor remuneration 14,240 Audit Scotland fixed charges: Pooled costs 2,960 Audit support costs 710 **Total fee 17,910** No non-audit services fees have been charged for the period.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Commission'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 have no other relationships with the Commission, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

	£
Auditor remuneration	14,240
Audit Scotland fixed charges:	
Pooled costs	2,960
Audit support costs	710
Total fee	**17,910**

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required *(100% of Deloitte files – limited improvement)*
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements *(100% of Deloitte internal reviews graded as no improvement required)*
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.

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