

Crofting Commission

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Crofting Commission and the Auditor General for Scotland
August 2024

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Key messages

2023/24 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2** Key risks arising from the audit of the Crofting Commission annual report and accounts in my Annual Audit Plan were presented to the Audit and Finance Committee in January 2024. There are no significant matters from that work to draw to the attention of the Board.
- 3** The unaudited annual accounts were provided within the agreed timescale and were of a good standard.

Wider scope

- 4** Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. The Commission continues to update their medium-term financial planning to reflect latest financial information.
- 5** The Crofting Commission continues to have effective and appropriate governance arrangements in place to continue to deliver services.
- 6** The Crofting Commission has appropriate arrangements in place for securing Best Value. Arrangements could further be strengthened by incorporating an annual self-assessment in the Commission's governance procedures as a point of good practice.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of the Crofting Commission. The scope of the audit was set out in an Annual Audit Plan presented to the 24 January 2024 meeting of the Audit and Finance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the Crofting Commission's annual report and accounts
- conclusions on financial sustainability as required by the [Code of Audit Practice](#).

2. This report is addressed to the Crofting Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. I, Brian Battison have been appointed by the Auditor General as auditor of the Crofting Commission for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment.

4. My team and I would like to thank board members, audit committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. The Crofting Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Crofting Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) and supplementary guidance and International Standards on Auditing in the UK (ISAs).

7. The weaknesses or risks identified in this report are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £23,730 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to the Crofting Commission by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Key risks arising from the audit of the Crofting Commission accounts in our Annual Audit Plan were presented to the Audit and Finance Committee in January 2024. There are no significant matters from that work to the attention of the Board.

The unaudited annual accounts were provided within the agreed timescale and were of a good standard.

Audit opinions on the annual report and are unmodified

11. The Audit and Finance Committee considered the annual report and accounts for the Crofting Commission for the year ended 31 March 2024 on 24 July 2024 and recommended these statements for Board approval on 21 August 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed on receipt of the annual report and accounts as £84,000

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£84,000
Performance materiality	£63,000
Reporting threshold	£4,000

14. The overall materiality threshold was set with reference to gross expenditure, which I judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting no misstatements identified in the prior year.

16. It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under ISA (UK) 260, I communicate significant findings from the audit to the Audit and Finance Committee including my view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

19. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>Pension Information</p> <p>MyCSP is the agency which administers the Civil Service Pension schemes. For 2023/24 there has been an exceptional delay in MyCSP providing remuneration information relating to civil service pensions needed for the Remuneration and Staff Report.</p> <p>The issue has impacted across the public sector.</p>	<p>On 18 June 2024 the Crofting Commission received confirmation from the Scottish Government that 2023/24 Pension Disclosure figures would be provided by 31 August 2024.</p> <p>The Scottish Government advised that His Majesty's Treasury had agreed that departments who planned to publish their accounts before this date should not include 2023/24 pensions information in them.</p> <p>On 12 June 2024 the 2023/24 Government FReM (Financial Reporting Manual) was republished. The updated sections removed the requirement to disclose pension information where waiting for it could cause a delay in the planned laying of the accounts.</p> <p>The 2023/24 Annual Report and Accounts were planned to be signed on 21 August 2024 and there is consequently a risk that waiting for the pension information would cause a delay.</p> <p>We are satisfied that pension disclosures included in Crofting Commission's Remuneration and Staff Report are consistent with updated guidance and comply with the FReM.</p>

Audit work responded to the risks of material misstatement identified in the annual report and accounts

20. My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Identified Significant risks of material misstatement in the annual report and accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • We have assessed the design of key controls over journal processing and confirmed controls operated as expected. • Enquiries made of relevant individuals about inappropriate or unusual activity relating to processing of journal entries and other adjustments. No issues were identified. • A sample of journal entries processed were reviewed and no issues were identified. The journals testing covered entries at year end and post-closing, with focus on risk areas. The need to test journal entries and other adjustments throughout the year was considered. • There were no significant transactions identified from our audit testing which were outside the normal course of business. • We have assessed the controls in place for identifying and disclosing related party relationships and transactions in the financial statements and judged these to be adequate. • We reviewed management's estimates and accounting policies, including comparison to the prior year with no issues were identified. • We tested a sample of expenditure transactions around the year end and assurance was gained that these were being accounted for in the correct financial year. • We tested a sample of accruals and prepayments, and no issues were identified.

There were no identified misstatements

21. The audit identified no misstatements above the reporting threshold.

The unaudited annual report and accounts were received in line with the agreed timetable

22. The unaudited annual report and accounts were received in line with the agreed audit timetable. The unaudited annual report and accounts and the supporting working papers presented for audit were of a good standard.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. The Commission continues to update their medium-term financial planning to reflect latest financial information.

The Crofting Commission continues to have effective and appropriate governance arrangements in place to continue to deliver services.

The Crofting Commission has appropriate arrangements in place for securing Best Value. Arrangements could further be strengthened by incorporating an annual self-assessment in the Commission's governance procedures as a point of good practice.

The Crofting Commission operated within its revised budget for 2023/24

23. The main financial objective for the Crofting Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The Crofting Commission has reported an outturn of £4.184 million against its overall budget for 2023/24 of £4.235 million. The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over / (under) spend £m
Resource DEL	4.170	4.170	4.128	(0.042)
Non-cash Ring Fenced	0.065	0.065	0.056	(0.009)
Total DEL	4.235	4.235	4.184	(0.051)

Source: Crofting Commission annual report and accounts 2023/24

The medium-term financial plan has been updated to consider funding scenarios and financial pressures over the 2024-29 period

24. The Crofting Commission undertake an annual review of their 5-year medium-term financial plan, which is presented to both the Audit and Finance Committee and the Commission Board. The plan presented to the January 2024 Audit and Finance Committee confirmed a significant proportion (approximately 85)% of the Crofting Commission budget each year is related to salaries. The plan identifies that as the Scottish Government Grant-in-Aid is the only source of income, any reduction in Grant-in-Aid, or an award that does not keep pace with salary inflation would have a significant impact on the financial sustainability of the Crofting Commission and by extension the achievement of outcomes.

25. Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. The Crofting Commission continues to update their medium-term financial planning to reflect the latest financial information available.

Effective Governance and decision-making arrangements are in place

26. The Crofting Commission's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

27. Our review of the governance arrangements of an organisation includes consideration of:

- Board and committee structure and conduct
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery, and corruption.
- Openness of board and committees.
- Vision, leadership and governance
- Reporting of performance and whether this is fair, balanced, and understandable.

28. For 2023/24 we have concluded that effective governance arrangements remain in place.

IT and Cyber Security Arrangements are Adequate

29. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. As

part of our audit we consider the overall IT arrangements and cyber-security as part of our standard risk assessment procedures.

30. For 2023/24, we are content that Crofting Commission has appropriate arrangements in place with regard to cyber resilience and business continuity planning.

The Crofting Commission has appropriate arrangements in place for securing Best Value

31. Ministerial guidance for Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. For 2023/24, we are content that the Crofting Commission has appropriate arrangements in place to secure best value.

32. Although arrangements were overall considered to be appropriate, they could be further strengthened by incorporating the completion of an annual Best Value self-assessment, the results of which would be presented to the Board.

Recommendation

Arrangements for securing Best Value could be further strengthened by incorporating an annual self-assessment in the Commission's governance procedures as a point of good practice.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>Best Value Self-assessment</p> <p>Ministerial guidance for Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value.</p> <p>The Commission's arrangements for securing Best Value have been assessed as part of the 2023/24 audit and judged to be appropriate.</p> <p>An annual self-assessment will further strengthen these arrangements and be a point of good practice.</p>	<p>Arrangements for securing Best Value could be further strengthened by incorporating an annual self-assessment in the Commission's governance procedures as a point of good practice.</p> <p>Paragraph 32</p>	<p>Accepted</p> <p>This recommendation will be incorporated into the Commission's Audit & Finance Committee (AFC) annual workplan for review/comment.</p> <p>The Executive Team envisage that the January AFC meeting would be a suitable timeframe for an annual self-assessment, given the approach of a new financial year.</p> <p>Director of Corporate Services</p> <p>January 2025</p>

Crofting Commission

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk