

# Crofting Commission

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for the Crofting Commission  
February 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Crofting Commission. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- understanding the business of the Crofting Commission and the associated risks which could impact on the financial statements
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Corporate Governance Report and the Remuneration Report and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of the Crofting Commission for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to the Crofting Commission through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the

Crofting Commission promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Finance Committee and actively participate in discussions.

## Respective responsibilities of the auditor and the Crofting Commission

6. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Crofting Commission. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the Crofting Commission. In doing this, we aim to support improvement and accountability.

### Crofting Commission responsibilities

9. The Crofting Commission is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The Crofting Commission also has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

# Financial statements audit planning

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2022/23 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Crofting Commission are set below.

## Exhibit 1

### 2022/23 Materiality levels for the Crofting Commission

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. We have set this at 2% of gross expenditure based on the latest financial information for 2022/23.	£75,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£56,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£4,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of the Crofting Commission, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, a review of committee minutes and a review of supporting information.

**14.** Audit risk assessment is an iterative and dynamic process. Our assessment of audit risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

**15.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (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"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Consider the need to test journal entries and other adjustments during the period.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

**16.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as the only significant income stream, relating to grant-in-aid from the Scottish Government, is clearly communicated and can be readily agreed to third party confirmations. We have therefore concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

**17.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk as the main expenditure streams of the Crofting Commission can be readily forecast based on a predictable pattern of spend and comprise a high volume of low value items, for example, staff costs. This limits the opportunities to manipulate the way expenditure is recognised.

**18.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

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# Wider Scope and Best Value

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## Introduction

**19.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**20.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error, and other irregularities
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years)
- **Vision, leadership, and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the Crofting Commission. We also consider the effectiveness of the governance arrangements to support delivery
- **Use of resources to improve outcomes** – we will consider how the Crofting Commission demonstrates economy, efficiency and effectiveness using financial and other resources.

## Wider scope risks

**21.** We have not identified any wider scope audit risks in relation to the areas set out above for the Crofting Commission during 2022/23.

**22.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

## Climate Change

**23.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions



by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**24.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the Crofting Commission's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### **Cyber Security**

**25.** 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. Recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the Crofting Commission's arrangements for managing and mitigating cyber security risks.

### **Duty of Best Value**

**26.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Crofting Commission.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**27.** Audit reporting is the visible output for the annual audit. All outputs as detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**28.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**29.** We will provide an independent auditor's report to the Crofting Commission, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Crofting Commission and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**30.** [Exhibit 3](#) outlines the target dates for our audit outputs.

## Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Finance Committee Date
Annual Audit Plan	31 March 2023	26 April 2023
Independent Auditor's Report	31 October 2023	tbc
Annual Audit Report	31 October 2023	tbc

Source: Audit Scotland



## Timetable

**31.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**32.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of audit quality.

**33.** We intend to take a fully remote working approach to the 2022/23 audit. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

#### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	By 30 June 2023
Latest date for final clearance meeting with the Accountable Officer	By 30 September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	By 31 October 2023
Agreement of audited and unsigned annual report and accounts	By 31 October 2023
Issue of Annual Audit Report to those charged with governance.	By 31 October 2023
Signed Independent Auditor's Report	By 31 October 2023

Source: Audit Scotland

#### Audit fee

**34.** In determining the audit fee, we have taken account of the risk exposure of the Crofting Commission and the planned management assurances in place. The proposed audit fee for 2022/23 is £22,380.

**35.** Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**36.** In setting the fee for 2022/23 we have assumed that the Crofting Commission has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**38.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**39.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**40.** The engagement lead (i.e., appointed auditor) for the Crofting Commission is Mark Laird, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Crofting Commission.

## Audit Quality

**41.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

**42.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC(UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**43.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM(UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**44.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality, and ethical standards and the [Code of Audit Practice](#) (and [supplementary guidance](#)) issued by Audit Scotland and approved

by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants in England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**45.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

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# Appendix 1. Your audit team

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**46.** The audit team involved in the audit of the Crofting Commission have significant experience in public sector audit.

**Mark Laird**  
Senior Audit Manager  
mlaird@audit-scotland.gov.uk

Mark has over 12 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Brian Battison**  
Audit Manager  
bbattison@audit-scotland.gov.uk

Brian has considerable experience in planning and delivering audits. He will manage the team and work alongside the Senior Audit Manager to deliver the audit.

**47.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Crofting Commission

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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