



**CROFTING COMMISSION
COIMISEAN NA CROITEARACHD**



Crofting Commission

Annual Report & Accounts
2015-2016

Annual Report 2015-2016

Laid before the Scottish Parliament in pursuance of Section 2B and Schedule 1, paragraph 19 of the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 and the Crofting (Amendment) (Scotland) Act 2013.

To the Right Honourable Nicola Sturgeon
Her Majesty's First Minister

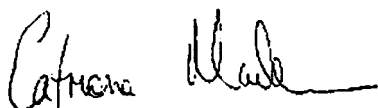
Dear First Minister

We have the honour to present the fourth Annual Report and Accounts of the Crofting Commission covering the year 2015-16.

Yours sincerely



Colin Kennedy, Convener



Catriona Maclean, Chief Executive

SG/2016/113



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Performance Report

Overview

Foreword from the Convener and Chief Executive of the Crofting Commission



This year has seen a renewed emphasis by Commissioners and staff in effectively regulating crofting. Considerable progress has been made on the four outcomes, as outlined in our corporate plan, of encouraging the active use of crofts, regulation of common grazings, modern legislation and effective and fair regulation.

Our key achievements and activity over the last year and how they are aligned with, and contribute to, 'Scotland Performs' National Outcomes are detailed in page 12.

We have continued to focus on changing the way we

operate to ensure we are providing the best possible service to crofters. A number of key milestones have been achieved, including the rolling out of the Croft Information System in February 2016 which secured all of the Commission's historical data on the Register of Crofts and created an improved case processing system for staff. This programme of work will continue into 2016-17, streamlining processes even further.

We have continued to work with crofting stakeholders in identifying five crofting priorities which are to be the focus for partners, creating a closer alignment of our work



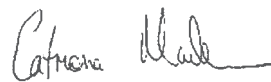
and shared objectives, with clearly defined roles in their delivery.

The second Crofting Census was issued at the end of 2015. The form was further simplified to make it as easy as possible for crofters to complete. The Census has again been positively received by crofters with a 73% return rate. We have seen an increase in regulatory activity as a result of both the 2014 and 2015 Crofting Census. Crofters are gaining a greater understanding of their duties and the options available to them to ensure they are complying with their duties.

2016-17 will see the build-up to the second Crofting Commission elections, led by the Scottish Government. We will play a part in educating crofting communities about the role of Commissioners and encouraging crofters to either stand or vote, so that the crofting system is strengthened by the Commission's unique position as the only public body in Scotland to

have a majority of Board members elected by the people it regulates.

Over the coming year we will continue to work in close collaboration with our partners on the five crofting priorities alongside a maintained focus on our four outcomes to ultimately safeguard the future of crofting.



Catriona Maclean
Chief Executive



Colin Kennedy
Convener



Review of the year

April 2015–March 2016



April 2015

New regulatory application forms and information leaflets launched to help crofters understand crofting regulation.

June 2015

Work began on updating the Register of Crofts with over 9,000 changes as a result of the 2014 Crofting Census. This was the biggest single update of the Register in over 60 years.

August 2015

The Commission had a stand at the Tartan Heart Festival at Belladrum, Ross-shire and took part in a debate on crofting.



July 2015

Commissioner I G Macdonald launched the Commission's succession planning campaign encouraging crofters to plan for the future.

September 2015

Viv Montgomery, a crofter from Newtownmore, and Donald Mackinnon an aspiring crofter from Lewis, attended the September Board meeting as part of the Board Mentoring Programme.

May 2015

Dr Aileen McLeod, Minister for Environment, Climate Change & Land Reform visited the Commission to meet with Commissioners and staff.

Watch our short video to see how you can plan for the future of your croft.



October 2015

The Crofting Commission, along with Registers of Scotland, Scottish Crofting Federation, SAC Consulting and Scottish Government's Rural Payments and Inspections Directorate hosted a series of Crofting Roadshows throughout the crofting counties.



November 2015

A standard set of common grazings regulations for grazings committees, was launched on the Commission's website.

February 2016

Roll out of the new Croft Information System securing all of the Commission's historical data on the Register of Crofts, including information on over 20,000 crofts, 62,000 cases and nearly half a million documents.

November 2015

The Commission held their Board meeting in Skye and visited crofts in Borge, meeting with crofters and Community Land Scotland to hear about the community ownership of the township.

December 2015

The Commission issued the 2015 Crofting Census.

March 2016

New website launched.



Who we are and what we do

The Crofting Commission is a Non-Departmental Public Body (NDPB) established in April 2012 in accordance with the terms of the Crofting Reform (Scotland) Act 2010 (the Act). The Commission operates on a day-to-day basis independently of the government, but is an organisation for which Scottish Ministers are ultimately responsible.

The Crofting Commission Board comprises of five Crofting Commissioners elected from geographic areas in the crofting counties, and three Commissioners appointed by the Scottish Government. The Convener was voted in to the role by a ballot of the Commissioners. The Commission is supported by a staff of 62, led by a Chief Executive.

The Crofting Commission's principal function is regulating crofting, re-organising crofting, promoting the interests of crofting and keeping under review matters relating to crofting. In exercising our functions we must have regard to the desirability of population retention.

The Act places a duty on the Commission to also investigate breaches of duty by tenants and owner-occupier crofters. We can advise the Scottish Government on matters relating to crofting and we also collaborate with other bodies for the economic development and social improvement of the crofting counties.

Our purpose

To regulate the crofting system fairly and reasonably to protect it for future generations.

Our vision

To be a guiding regulator that uses its powers to support the crofting system.

Our values

The Commission's corporate values reflect what is important to us as an organisation and are at the heart of how we strive to operate on a day to day basis.



Passion
for our work



Caring
about our
communities
and our
environment



Positive
teamwork



Commitment
to quality and
doing things
better



Learn
Educate
Innovate



Performance Analysis

Financial overview of the year

The Government Financial Reporting Manual (FReM 2015-16) issued by HM Treasury sets out the format of the annual accounts. Grant-in-Aid (“GIA”) is included in the General Reserve in the Statement of Changes in Taxpayers’ Equity rather than included in the Statement of Comprehensive Net Expenditure. All other income and expenditure is included in the Statement of Comprehensive Net Expenditure.

Financial outcome

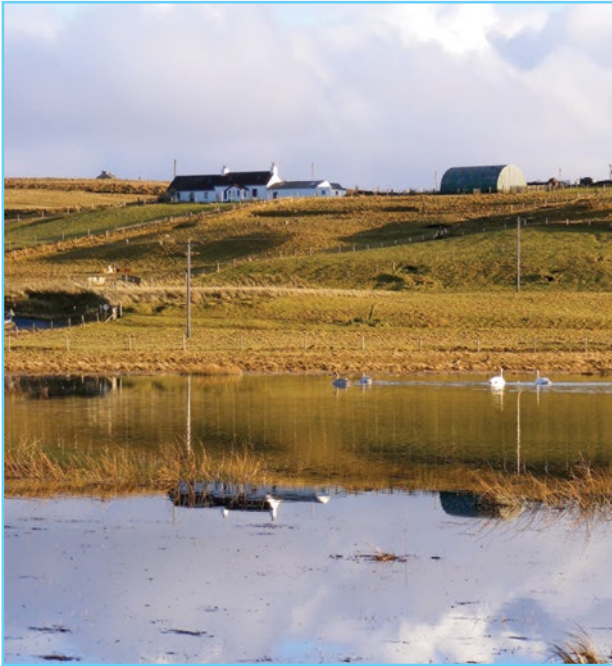
On an income and expenditure accounting basis the financial outcome for the year on normal business activities reports a surplus of (£152,000) (Deficit £134,000 2014-15). This (surplus)/deficit arises as a result of accounting adjustments, such as depreciation and working capital movements, to the financial statements that do not involve the

flow of cash. On a cash accounting basis the Crofting Commission under-spent its GIA cash allocation for 2015-16 by £15,000 (£1,000 2014-15).

The Crofting Reform (Scotland) Act 2010 introduced a number of new duties and functions. Other income of £371,000 (£183,000 2014-15) is pressure funding secured by the Chief Executive

Summary of (Surplus)/deficit for the year	2015-16 £000	2014-15 £000
Total Operating Expenditure	2,759	2,864
Grant-in-Aid	(2,540)	(2,547)
Other Income	(371)	(183)
(Surplus)/Deficit	(152)	134

Reconciliation of operational expenditure on a cash basis to Grant-in-Aid drawn down	2015-16 £000	2014-15 £000
(Surplus)/Deficit	(152)	134
Exclude non-cash:		
Depreciation and Amortisation	(75)	(102)
Working capital adjustments involving:		
Debtors	(5)	(26)
Creditors	92	(98)
Movement on bank funds due to Registers of Scotland	4	22
Investing activities	121	69
Grant-in-Aid drawn down underspend	15	1



to fund additional specified areas of expenditure, such as the delivery of the Crofting Census and processing croft registration applications on behalf of the Registers of Scotland.

Excluding provisions, other operating expenditure for 2015-16 was £649,000 compared with £760,000 in 2014-15. This decrease of £111,000 is due, in the main, to the employment of an in-house solicitor resulting in the reduction of external legal fees, local Assessors' meetings in place of a central Assessors' conference and tight budgetary control of information technology costs.

Depreciation and amortisation was £27,000 lower in 2015-16 than 2014-15 due to a reduction in the Commission's asset values.

Budget Performance 2015-16

The Scottish Government allocated the Crofting Commission a budget (known as Departmental Expenditure Limit or DEL) of £2.589m to cover cash expenditure of £2.547m (£2.515m staff and other operating costs and £0.032m capital) and £0.042m for non-cash costs such as depreciation and amortisation.

The Commission was within its cash target for 2015-16 by drawing down £2.540m of the £2.547m allocated.

The actual capital expenditure incurred during 2015-16 was £121,000 which although exceeding the allocation by £89,000, was approved in advance by the Commission Finance Authorisation Panel and Scottish Government. It is anticipated that in future years the Scottish Government will not allocate a capital allocation budget, with capital expenditure funded from resource expenditure and reported accordingly.

The depreciation and amortisation charge in the 2015-16 accounts is £75,000 which exceeds the allocation of £42,000 by £33,000. The Scottish Government acknowledges this allocation to be insufficient and it is anticipated that it will be reviewed for future years.

Going concern statement

The Board and Accountable Officer have considered the budget and associated grant in aid allocation for 2016-17 and consider that the Crofting Commission has adequate resources to continue in operational existence in the foreseeable future. The accounts are therefore prepared on a going concern basis.

Social, Community and human rights issues

In line with Scottish Government, the Crofting Commission is placing social and economic rights at the heart of our corporate plan. We have been specifically charged by the 2010 Act with:

- Supporting population retention
- Having regard to sustainability of crofting
- Collaboration with partner bodies for the social and economic wellbeing of crofting communities.

“ In line with Scottish Government, the Crofting Commission is placing social and economic rights at the heart of our corporate plan. ”



Focus of our work

We are working to achieve 4 key outcomes that respond to the challenges we must address, as well as being flexible enough to respond to new changes and opportunities.

The delivery of the outcomes will secure the future of crofting, its people and its communities, bringing about a positive transformation in the way we regulate crofting and in turn, reinforcing the value and public benefit of this uniquely Scottish system of land tenure.

The Scottish Government's purpose is to focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The Scottish Government has set out sixteen National Outcomes which describe what it wants to achieve over the next ten years. By achieving these outcomes together, we will make Scotland a better place to live and a more prosperous and successful country.

Our corporate outcomes directly contribute to 5 National Outcomes:



We live in well designed, sustainable places where we are able to access the amenities and services that we need



We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others



We value and enjoy our built or natural environment and protect it for future generations



We reduce the local and global environmental impact of our consumption and production



Our public services are high quality, efficient and responsive to local people's needs

Our Corporate Outcomes



Outcome 1

All crofts are well managed, cultivated or put to alternative suitable purposeful use



Outcome 2

All common grazings are regulated and shared management practices are the norm



Outcome 3

We have effective crofting legislation that is modern, relevant and aligned with the needs of crofting communities and long term national objectives



Outcome 4

Crofting is regulated in a fair, efficient and effective way

What we have already achieved

In our Business Plan for 2015-2016, we identified various key milestones that we wanted to achieve that would help us work towards delivery of our Corporate Outcomes and we have made significant progress with these.

Outcome One

All crofts are occupied, well managed and cultivated or put to alternative suitable purposeful use

Crofting Census



The second Crofting Census was issued during December 2015, with a return deadline of 30 March 2016. We used lessons learned from the issue of the first Census in 2014 to inform our preparation for the second one and made several improvements as a result.

Crofting Duties



We gave advice to crofters who became aware that they were not fulfilling their duties following the issue of the 2014 Crofting Census and we saw an increase in applications for Sublet, Assignment and Consent to be Absent from crofters trying to resolve their situation voluntarily.

Outcome Two

All common grazings are regulated and shared management practices are the norm

Grazings Regulations



We updated the template Grazings Regulations and made these available on the website in November 2015 for use by any committee looking to either update their regulations or introduce new ones.

Outcome Three

We have effective crofting legislation that is modern, relevant and aligned with the needs of crofting communities and long term national objectives

Crofting Stakeholder Forum



We worked with other stakeholders through the Crofting Stakeholder Forum to identify five priority areas for action which were subsequently passed on to Scottish Ministers for consideration. Work is continuing on these through the formulation of an action plan for each area.

Outcome Four

Crofting is regulated in a fair, efficient and effective way

Application Forms

We drew up new application forms in order to capture more information at the start of the process and therefore reduce the processing time.

New Business System

The new core business system, CIS, was launched in February 2016. This system is internal only and mainly caters for case processing of regulatory applications. The system will provide better auditing of processes, improved information gathering, reporting and functionality, the full impact of which we should see reflected during the coming financial year.

Delegated Decision Making

We initiated a pilot exercise in Delegated Decision Making in November 2015 for a number of functions which will empower Regulatory staff in decision making, and also involve crofters more directly in the decision making process.












Carbon Emissions

We gathered some baseline information and defined the first steps of an action plan looking at reducing our carbon emissions.

Updates to Register of Crofts

During this year, the Register of Crofts has undergone the biggest update during the last 60 years with several significant pieces of work taking place. These were the Crofting Census (9,000 croft records being checked and updated), the splitting of grazings shares where crofts had been purchased but the share remained in tenancy (3000 records) and a review of Owner-Occupier Crofter statuses to ensure full compliance with the legislation (5500 records).

We also reported to the Scottish Government on a set of high-level measures for the year:

Our Priorities	Outcome Measures	Status
REGULATION – We deliver our regulatory functions quickly, fairly and accurately	A reduction in turnaround times for the time taken to reach a decision on regulatory applications for registered crofts: Decrofting (Croft House and Garden Ground & Feu) – 50% Apportionment – 25% All others – 20%	
	A reduction of 20% in turnaround times for croft registration applications	
	A 14% reduction in the number of upheld complaints made to the Commission	
	An increase of 5% in the number of in-office grazings committees	
	A 5% reduction in the number of known unregulated grazings	
DUTIES – We ensure crofters comply with their duties to live on, or near, their crofts and to work them	15% of cases known to either have been initiated or resolved through action by the crofter for those who voluntarily informed us they were not complying with their duties	
	5% of cases known to either have been initiated or resolved through action by the crofter for those who did not return a completed census form	
REGULATION, EVIDENCE, DUTIES	15% reduction of file storage costs	
	Reduction to zero in the number of late FOI responses	
	15% decrease in levels of staff absence through sickness	
	4% reduction in staff turnover	

Key:



Achieved



Improved



Maintained



Not achieved

Key issues and risks

The Commission has embedded risk management arrangements in our governance through regular reviewing of the Risk Register by the Audit & Finance Committee which is then reported to the Board (see page 36 in the Governance Statement). There are a number of challenges and risks which the Commission has carefully monitored and managed over the last year and will continue to in 2016/17.

- Resource constraints to carry out the duties as required under the Crofting Reform (Scotland) Act 2010.
- Maintaining staffing levels to meet the resourcing requirements of our duties efficiently.
- Reputational impact to the organisation as a result of litigation on regulatory decisions.



How we do it

We are committed to continuous improvement by investing in the people and systems that will deliver the regulatory processes of the Commission. This will ensure that we are much better prepared to meet the challenges we face as an organisation and deliver improved services to the crofting communities we serve.

Inform Scottish Government

The Crofting Commission has a responsibility to keep under general review all matters relating to crofts and crofting conditions. We respond to consultations relevant to crofting and land use matters; these can include planning, environmental and housing issues.

The Crofting Commission is required to give notice to crofters to make an annual declaration on the state of their croft through the Crofting Census. This is a legislative duty which was implemented as part of the Crofting Reform (Scotland) Act 2010. Crofters are asked to provide information on whether they are complying with their duties. This year saw the second issue of the Crofting Census and the data collected is helping to establish a clear picture of the current state of crofting and build up the evidence base for the value of crofting.

Greening

The Scottish Government recognises climate change will have far reaching effects on Scotland's economy, its people and its environment. The Crofting Commission is determined to play its part in tackling climate change and be a greener organisation.

During the course of the year the Commission's Greening Plan has been implemented looking at how we can become a low carbon organisation including reducing paper usage, reducing travel and smarter use of technology. Going in to next year we hope to see the benefit of the introduction of the Crofting Information System which has opened up opportunities in reducing paper and streamlining processes.



Community and Charity

The Crofting Commission recognises the benefits that community and charity work by staff can bring to the wider community. We commend our staff for their individual efforts and we support those who wish to undertake community or charity activities. A charity was chosen this year by staff to be the focus for a range of fundraising activities. In addition staff are able to participate in a 'give as you earn' scheme and donate a proportion of their salaries to charities of their choice.

Change the way we work

Delegated Decision Making

Historically, all decisions on regulatory applications were taken by Commissioners, either by a single Commissioner, a Casework Group comprising three Commissioners or the full Board. The Commission has changed the way we administer decisions for straightforward cases and in November last year moved to a model of devolved decision making, in order to improve the service to crofters.

Over 200 decisions have been taken under delegated decision making, with 80% of those determined by officials at the first level of decision-making for the following regulatory functions:

- Assignment
- Division by executor following bequest
- Consent to be Absent
- Decrofting house site and garden ground
- Subletting
- Short term letting by owner-occupier crofters.

We are now looking to create a new way of taking decisions on more complex applications under delegation.

New application forms

During the year we launched new regulatory application forms and guidance notes for crofters.

The new application forms have more detailed questions, which relate directly to crofting legislation and the Commission's Policy Plan. The information which has to be included in the forms will assist the Commission when considering applications and reduce the processing time by limiting the requests for further information.

Croft Information System

As part of the comprehensive review and streamlining of the organisation's processes, one

of the major improvements was the introduction of the Croft Information System (CIS) in February.

The new system has secured all of the Commission's historical data on the Register of Crofts, including information on over 20,000 crofts, 62,000 cases and nearly half a million documents. CIS also created an improved case processing system for staff. The Commission will next be looking at developing an online version of the Register of Crofts, allowing the public direct access to the information held, and we aim to introduce online applications for regulatory processes as soon as we can.

Assessors

The Commission has a volunteer network of 89 Assessors throughout the crofting counties. Assessors, who live in the crofting areas, have a knowledge of crofting and act as a point of contact for crofters, and prospective crofters, who are looking for advice and guidance on crofting matters. Assessors also assist the Commission on matters related to crofting.

Following on from discussions at the 2014 Assessors Seminar, the Commission looked at the best way of refocusing the role of Assessors to effectively use this valuable resource.

Assessors will now help on assessing the health of crofting areas, giving advice on general crofting issues or particular problems. New entrants to crofting are encouraged to contact their local Assessor for help and advice.

By providing support for the Commissioner and crofters in local areas Assessors will fulfil a unique role, which is vital to the Commission and is being increasingly seen as a unique resource by stakeholders.

Our Partners

The Commission is committed to working with our crofting stakeholders to secure the future of crofting.

Vision for Crofting

The Crofting Stakeholder Forum was convened by the Scottish Government to work in conjunction with key crofting stakeholder organisations and individuals to consider issues relating to Scottish Government crofting policies and to take relevant action, as agreed, to address any issues.

The Forum, chaired by the Crofting Commission, wrote to the Crofting Minister at the end of 2015 to highlight five areas of action needed to help secure the future of crofting.

The 5 priorities identified are:

1. Simplify Crofting Legislation
2. New Entrants
3. Increase Affordable Housing
4. Development of Crofting
5. Financial Incentives

The Future of Crofting Conference held in Inverness in December 2015 and organised by the Scottish Crofting Federation, further highlighted the need for these areas to be taken forward and had a wide range of support from crofting stakeholders.

Rural Affairs, Food and Environment Delivery Board (RAFE)

The RAFE Delivery Board has been established to drive operational and cultural alignment across rural affairs, food and environment agencies in Scottish Government working towards achieving a:

- Strong sustainable economy
- Stronger and fairer Scotland
- Protecting and reforming our public services.

The Commission is a member of the RAFE Delivery Board and we are facilitating contributions to national outcomes, such as croft woodlands (carbon capture) and housing solutions (population retention), which are key activity areas for the Board in rural development.

Crofting Register

The Crofting Register is maintained by the Keeper of the Registers of Scotland. The application for croft registration is made in the first instance to the Crofting Commission and we check the information contained in the registration application against the information contained in the Commission's Register of Crofts.

The Crofting Register is map based and provides a definitive record of the extent of, and interest in, land within crofting tenure in Scotland. In addition to showing the boundaries of land, the register also contains information on the crofter and/or the landlord of the registered croft. The Commission works closely with the Registers of Scotland to help promote the Crofting Register to crofters and grazings committees and also ensure the smooth processing of applications.

Over the course of this year we have processed applications to register 1,513 crofts and 149 common grazings.

At the end of 2015-16 2,522 crofts had been added to the Crofting Register and 298 common grazings had been registered. Of the 2,522 crofts, 457 crofts were registered as part of 36 community applications, 18% of the total number of crofts.



Case study: Mull

In 2013 Liz Gibson took ownership of the 10 acre croft, Mo Dhachaidh on the Isle of Mull. Liz and her husband, Martyn, intended to grow soft fruit, vegetables, and herbs, as organically as possible with the hope of contributing to the local food economy.

They welcomed the help from Wwoofers (World Wide Opportunities on Organic Farms) over a couple of seasons and bracken was cleared by pulling, cutting and digging.

Having read an article about the success of the Wee Tea Plantation in Perthshire they got in touch with the company and in October 2014 the area cleared of bracken was planted with their first fifty *Camellia Sinensis*.

Liz said, "Unfortunately the corrugated iron windbreaks weren't up to the strength of the wind in Mull and the plants didn't survive, so I got in touch with Tam O'Braan of Wee Tea fame who came to have a look and took the original plants to see if he could revive them. Meanwhile he suggested a different spot



and closer planting to give the new plants better protection.

We decided to try hurdle fences and in 2015 only picked a few handfuls of leaves in order to get the plants properly established. The plants are now looking healthy and we look forward to picking the first flush probably in late March 2016.

Meanwhile the original plants got a new lease of life, but not by growing. Some did start to

revive but Tam had tried making what turned out to be a delicious and delicate stem tea. A new concept for us but one which made Isle of Mull "Scottish Antlers" Stem Tea hit the headlines. It was one of four Scottish Teas given by First Minister Nicola Sturgeon to President Barack Obama.

Extra interest was generated because like many crofters I have more than one job. I am a Church of Scotland minister so "More tea Vicar" was almost an inevitable headline.

Learning about the world of specialist tea is an ongoing process and we look forward to being part of it in the years to come."

“Extra interest was generated because like many crofters I have more than one job. I am a Church of Scotland minister so “More tea Vicar” was almost an inevitable headline.”



Case study: Kilvaree

Over a number of years, crofts 1, 2, 3 and 4 Kilvaree near Oban were sold or let to different people, leaving fragmented areas of land throughout the township with a complicated make-up of owners, tenants and landlords.

The Crofting Commission wanted to secure the future of the crofts by ensuring that they were all occupied and worked according to the duties of a crofter. In order to achieve this the Commission proposed a re-organisation Scheme under Section 38 of the Crofters (Scotland) Act 1993 (the Act) to establish each area of land as a separate croft in its own right and occupied by a tenant or owner-occupier crofter.

In terms of the Act, the Commission can prepare a re-organisation scheme for the preservation or the better development of a crofting township. The Commission can do this of its own accord or following representation from and consultation with, the tenant of a croft, the landlord of a croft in the township or the grazings committee.

The Commission worked with all those involved in the reorganisation scheme, to establish the correct boundaries of the croft land they owned. A provisional map of the reorganisation was issued, with each croft being allocated its distinct area with details of any areas that had previously been decrofted, along with a copy entry from the Commission's Register of Crofts to confirm the status of the land. This was to ensure land had not been sold on, or a tenant had not purchased their croft and omitted to inform the Commission.

Various discussions took place to ensure everyone was in agreement with the boundaries of their respective crofts. The Commission issued a final map showing the proposed reorganisation and all of those

involved were asked to provide the new name for their croft so it could be entered in the Register of Crofts. Notice was also given to the people who bordered the township and they were given the opportunity to view the reorganisation map.

Colin Kennedy, Convener and Commissioner for the area, said, "This was the first reorganisation undertaken by the Crofting Commission and it has been invaluable as each person now has their own croft land recorded and registered to them as an individual unit with all involved agreeing the boundaries. This guarantees the security of these crofts for the future as each croft now falls under the protection of the legislation in the Crofting Act and each tenant and owner-occupier crofter must comply with the duties of a crofter."

“This guarantees the security of these crofts for the future as each croft now falls under the protection of the legislation in the Crofting Act and each tenant and owner-occupier crofter must comply with the duties of a crofter.”

Regulated Common Grazings

Shared management and productive use of the common grazings is essential for the sustainability of crofting.

We see exciting potential in common grazings and believe that this access to a shared asset, especially when combined with existing shared working practices, means that common grazings have the potential to act as a significant driver for increased partnership and co-operative development. The Commission promotes the

establishment of active grazing committees and for all common grazings to have properly constituted regulations. As part of this we created a standard set of regulations for committees and shareholders. In the coming year we will build on this, giving more detailed advice, after consultation with stakeholders.

	Number of Common Grazings	Committees in Office
Argyll & Bute	60	14
Highland	536	255
Comhairle nan Eilean Siar	295	180
Orkney	9	1
Shetland	168	46
Total	1,068	496

Common Grazings Regulatory Applications

Application type	Received	Approved	Refused
Apportionment	36	18	1

“common grazings have the potential to act as a significant driver for increased partnership and co-operative development.”





Case study: Arran

Frances Hamilton and her husband, Alastair, recently returned to live on Arran after she inherited land (1.02ha) from her father.

“This is the first croft that has been created on Arran and as such is a positive step to creating a crofting community on the island.”

Frances wanted to protect the land and has a keen interest in crofting so she decided to apply to the Commission to have the land created as a new croft which the couple could then pass on to their children. Both Frances and Alastair have a background in agriculture, with Frances's father being a farmer and her husband previously a shepherd.

In February 2010 Scottish Ministers designated Arran, Bute, Greater and Little Cumbrae and Moray as crofting areas where new

crofts can be created, with the approval of the Crofting Commission.

Frances said “We intend to stock the croft with rare breed sheep and sell any surplus produce at the local farmers market. This is the first croft to be created on Arran and we are excited to become part of the wider crofting system”

Colin Kennedy, Crofting Commission Convener, said “This is the first croft that has been created on Arran and as such is a positive step to creating a crofting community on the island.”

Effective and modern crofting legislation

There is a common understanding in the sector that crofting makes a valuable contribution to the economic and social development of Scotland but what has been missing in the past is evidence that backs that up.

Crofting Census

The Crofting Commission issued the 2015 Crofting Census in December 2015. Crofters are legally obliged to complete and return the Crofting Census, which was issued for the first time in 2014, to the Crofting Commission, before the end of the three month completion deadline which was the 31 March 2016.

There was a 73% return of the census forms with 17,596 forms issued and 12,894 returned.

Of those who returned their census form:



91.5%

stated that they are resident on their croft



94.6%

stated that they cultivate and maintain their croft, or put it to another purposeful use



94.4%

stated that they did not neglect or misuse their croft

Residency and Land Use

All crofters, both tenant and owner-occupier crofters, are required to comply with three statutory duties relating to residency and management of their crofts:

- A duty to be a resident on, or within 32 kilometres of, their croft
- A duty not to neglect their croft
- A duty to cultivate and maintain their croft or to put it to another purposeful use.

The Commission is obliged to investigate all breaches of duties reported by members of a crofting community, a grazings committee or an Assessor. Over the last year the Commission received 5 reports of potential breach of duties and, as a result, the Commission has issued 2 suspected breach of duty notices. We also progressed a number of long-standing cases where we have been contacting those we suspect have been in breach of their residency duty for a period of at least 10 years.

The issuing of both the 2014 and 2015 Crofting Census has increased crofter's awareness of the duties they must comply with. It has also highlighted the options available to crofters if they are not fulfilling their duties, to rectify their situation such as assignation, sublet and short term let. This has resulted in an upsurge of regulatory applications, with more crofters self-regulating to ensure that they are complying with their duties.

The Commission dealt with nearly 500 enquiries as a direct result of the information provided in, or submitted along with, the Crofting Census forms.

The Commission also took on the letting of three crofts. The Commission had previously terminated the tenancy of the crofts under the Section 22 legislation in the Crofting Act and the landlords had failed to provide letting proposals.

Self-regulation

The Commission wants to ensure crofters understand their responsibilities and encourages them to self-regulate. Self-regulation means crofters stay in control over what happens to their croft, choosing options, so they can contribute to the future of the croft, the township and to the whole system of crofting.



Case study: 4 Portnalong

In 2013, after investigation and following discussions with the tenant, the Crofting Commission terminated the tenancy for 4 Portnalong as the tenant was not complying with the duty to be resident on or within 32km of the croft.

After discussions with the landlord the Commission undertook the letting of the croft, located in Bracadale, Isle of Skye, which included grazings shares and membership of the North Talisker Grazings Committee and Sheep Stock Club. The Grazings Committee was informed and asked to notify anybody who might be interested in the vacancy.

Three Commissioners interviewed 4 potential tenants, who currently had no access to croft land. The tenancy was awarded to a young crofter, Cheryl McIntyre, who has significant experience working on crofts and holdings. Cheryl is keen to get involved in the Sheep Stock Club, which needs new active members and is a founding member of Scottish Crofting Federation's Young Crofters branch.



“Cheryl is keen to get involved in the Sheep Stock Club, which needs new active members and is a founding member of Scottish Crofting Federation's Young Crofters branch.”

Case study: Skye

Angus MacInnes, with the Commission's consent, sublet his croft 63 & 64 Aird Bernisdale on the Isle of Skye to his grandson, Austin Little, for a period of 15 years.

Angus said he decided to sublet the croft as "My grandson has a great interest in crofting and sheep so by subletting my croft to him it allowed Austin to follow his interests whilst also helping me to plan for the future of the croft."

Austin is 18 years old and has always had an interest in crofting. He has undertaken the Scottish Crofting Federation's Introduction to Crofting Course and a Shearing Course and has a life-time of experience in assisting his family with livestock. Austin is also the Treasurer for Skye Young Farmers. He intends to use the croft to breed sheep and for grazing. Austin said, "I'm very thankful to my seanair for subletting his crofts to me as it allows me to expand my flock and to follow my interest in the sheep and croft."



“ I’m very thankful to my seanair for subletting his crofts to me as it allows me to expand my flock and to follow my interest in the sheep and croft. ”

Fair, efficient and effective regulator

Processing regulatory applications is the largest ongoing activity in the Crofting Commission. It is therefore important to ensure that we do it in an efficient, effective and fair manner, that is fully compliant with legislation.

Regulatory applications

Total for all areas

Application Type	Received	Approved	Refused
Division	44	36	4
Bequest	86	88	
Transfer by Executor	71	80	
Decrofting – House Site & Garden Ground	151	130	
Decrofting – Part Croft	249	235	
Decrofting – Whole Croft	17	11	4
New Croft created under section 3(a) of the Crofters (Scotland) Act 1993	1		
Consent to be absent	55	35	1
Assignment	226	215	2
Short Term Lease	21	28	1
Sublet	111	99	2
Letting	40	33	

The number of applications received will differ from the number of decisions taken within the year for a variety of reasons, including withdrawn and invalid applications. Applications may also be received at the end of one year with the decision in the next year. There were 4 Hearings held over the year, 3 were directed by the Commission and one was requested by a crofter.

Case study: Commissioner's mentor potential Board members

When Commissioners spoke at the young crofters gathering held at Glencanisp, Lochinver, last year they asked if any young people would be interested in finding out more about sitting on the Board and becoming Commissioners.

Catriona Maclean, CEO of the Crofting Commission said, "We want to see a wide range of individuals on the Boards of our Public Bodies, to ensure that we represent a broad spectrum of interests and this represents a real challenge to all of us who lead public bodies. While the Board of the Commission is made up predominantly by elected members, we were keen to explore ways to support this important strategic policy and agreed to pilot a mentoring programme."

A number of young people expressed an interest and Viv Montgomery, a crofter from Newtonmore, and Donald Mackinnon, an aspiring crofter from Lewis, took part in the mentoring programme.

Both were allocated a Commissioner from their geographical area to act as a mentor. The Commissioners met with Viv and Donald and discussed the role, what it involves and the standards expected for those who take up public office. They attended the Commission's Board meeting in September 2015



and were given a tour of the office where Commission staff explained the role of each department.

Viv Montgomery, one of those who participated in the pilot said: "This was a fantastic experience. I didn't realise there was so much to being a Commissioner and I found it really exciting. I would never have thought of considering a public appointment if I hadn't taken part in the mentoring programme, but now I will. In fact I might even think about standing in the next round of Crofting Commission elections in 2017."

Catriona Maclean commented "The mentoring pilot has been a great success and we hope to give others a chance to have similar exposure and experience the work of the Board. While it might not benefit the Commission directly, given the fact most of our Board is elected, we hope that it will give these young people the confidence to apply for public appointments and this can only be of benefit to Scotland as a whole."

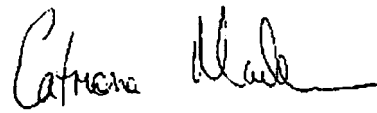
Future Focus for our Work

The Crofting Commission will continue to implement improved business systems and review our business processes to ensure that they deliver the best performance and value that is achievable.

We understand that robust evidence is essential in underpinning our strategic priorities and we will obtain quality data from the Crofting and Grazings Census which will help measure the impact of crofting and active land use. This evidence will also aid the Commission in its work to ensure that all crofters and owner-occupier crofters are fulfilling their duties by, for the first time, providing a full picture and allowing the Commission to plan how best to address those who are not, for instance, by running geographical pilots, working with estates, crofters and landlords to encourage local responsibility for addressing the key issues in their areas.

The Crofting Commission will continue to have a role in any consideration of future changes to crofting legislation, working closely with key crofting stakeholders, the Scottish Government and the Scottish Ministers, on a variety of issues to identify and prioritise any areas where change is deemed necessary.

We believe it is important to have a high performing workforce both now and in the future. We know that to achieve this, there needs to be investment in staff and in the organisational structure and systems so as to enhance the capability of the organisation. The Commission believes that this investment will result in finding new and better ways to achieve our outcomes, channelling the collective knowledge and energy of its staff to create lasting improvements in the service we provide. We also want to ensure that we keep our impact on our environment to a minimum, by working to reduce our carbon emissions.



Catriona Maclean
Chief Executive and Accountable Officer

Date 17 August 2016





Case study: Armadale Farm

Armadale Farm, winner of Thornton's Scottish Sheep Farm of the Year at Agriscot 2015, has been in Joyce Campbell's family since 1962. The farm, located in north Sutherland, is under crofting tenure and had previously been run by the Armadale soldiers who had returned from the First World War and formed the Armadale Sheep Stock Club.

Joyce's family fenced, reclaimed, drained and improved just under a thousand acres of hill land. Today Armadale carries a closed flock of 800 registered North Country Cheviot Hill ewes bred pure, 250 ewe hogg replacements, 60 tups and 25 cross Simmental/Saler cattle which are put to an Aberdeen Angus bull.

Through social media Joyce enjoys sharing an insight to their lives on the north coast and they have captured various events and moments through the year. Drones and body cameras are used to bring a whole different perspective on the gathering of sheep, the view of a ewe going through the fanks or what a collie dog's world looks like while at work. Some of the short

videos have gone viral with one receiving over four million views on Facebook.

Joyce explains "As food producers we may feel that we have been portrayed negatively in the past but with the sensible use of social media we can all tell our own stories behind what we do with the land we work. I feel if just one of the posts I put up makes a person stop and choose a leg of Scotch lamb over a leg of New Zealand lamb I have made a difference.

"I have a great passion for the crofting township in which I live and work. For me crofting keeps the lights on in houses in remote and fragile communities that quite simply

would not be there otherwise.

"It's a difficult and sometimes complicated way to make a living but also one which is extremely rewarding and fulfilling. We as crofters must become much better at selling ourselves and our stories.

"Each and everyone of us has our own story to tell. For me social media has allowed the passion and respect I have for crofting to be shared with a much wider audience. Crofting has a massive role to play in sustaining the vibrant and diverse communities in which we live. Our voices have to be heard and the importance of the social economic benefits of the crofting system must be listened to at the top level."

“...with the sensible use of social media we can all tell our own stories behind what we do with the land we work. I feel if just one of the posts I put up makes a person stop and choose a leg of Scotch lamb over a leg of New Zealand lamb I have made a difference.”



**CROFTING COMMISSION
COIMISEAN NA CROITEARACHD**

Annual Accounts 2015-16

Accountability Report

- Corporate Governance Report
 - Directors Report
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 - Governance Statement
- Remuneration report and staff report
- Parliamentary Accountability and Audit Report

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Financial Statements

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Corporate Governance Report

Directors' Report

The Board of Commissioners



Colin Kennedy
Convener and
Commissioner for the
South West Highlands.



Ian George Macdonald
Vice-Convener and
Commissioner for the
West Highlands.



Kathleen Sinclair
Commissioner for
Shetland.



Murdo MacLennan
Commissioner for the
Western Isles.



William Swann
Commissioner and Vice-
Chair on the internal Audit
and Finance Committee.



Arnold Pirie
Commissioner for
Orkney and Caithness.



Marina Dennis
Commissioner for the
East Highlands



David Campbell
Commissioner and sits
on the Board as the
landlords representative.

A Register of Commissioners interests can be viewed on the Crofting Commission's Website:
www.crofting.scotland.gov.uk

Senior Management Team



**Catriona Maclean,
Chief Executive**

Overall responsibility for operations and management of the Crofting Commission. Ensures Scottish Ministers and Commissioners receive accurate information and objective advice.



**John Toal,
Head of Policy**

Supports the Board in formulating strategic policy on a range of external and internal issues in pursuit of their operating objectives.



**Joseph Kerr,
Head of Regulation**

Responsible for the overall management of the regulatory teams. Also manages the Commission's role as a statutory consultee and provides input to Local Development Plans as and when required.



**David Findlay,
Solicitor**

Responsible for providing Commissioners and staff with legal advice on the Crofting Acts and other legislation.



**Donna Smith,
Head of Information
Systems**

Responsible for the management of IT network infrastructure and administration. Leads on the provision and reporting of statistical and geographical information. Also responsible for supporting ongoing projects introduced by the 2010 Crofting Reform Act.



**Jane Thomas,
Head of Corporate and
Customer Services**

Responsible for finance, communications and customer services for internal and external stakeholders, including complaints and Freedom of Information requests. Lead Officer for Equality & Diversity and training. Standards Officer.

Pensions

Crofting Commission staff members are eligible to be members of the Principal Civil Service Pension Scheme. Details of the scheme and details of the pension entitlements of the Crofting Commission's senior managers are given in the Remuneration Report (Page 42) and note 1.5 (Page 54) to these accounts.

Freedom of Information requests

The Crofting Commission received 64 requests quoting the Freedom of Information Act during year 2015-16 (59, 2014-15). Full details of these can be reviewed on the Scottish Information Commissioner website <https://stats.itspublicknowledge.info/> and the Crofting Commission website www.crofting.scotland.gov.uk/foi

Payment Practice Code

In line with Scottish Government policy, the Crofting Commission requires that all suppliers' invoices not in dispute are paid within 10 working days of receipt. The Crofting Commission aims to pay 100% of invoices, including disputed invoices once the dispute has been settled, on time in these terms. During the year ended 31 March 2016, the Crofting Commission paid 96.5% of its invoices within these terms (94.2% in 2014-15).

Complaints

The Crofting Commission is committed to providing high-quality customer services. We value complaints and use information from them to help us improve our services.

The Crofting Commission recorded 40 complaints (19 Frontline and 21 Investigations) during the year 2015-16 (42: comprising 28 Frontline and 14 Investigations during 2014-15). Full details of our Complaints Committee Terms of Reference, with associated guidance and complaints statistics can be reviewed on our website <http://www.crofting.scotland.gov.uk/complaints>

Personal Data Security

There were no known incidents of personal data breaches in 2015-16 (2014-15: Nil).

Non Audit Fees

The Auditor General for Scotland has appointed Audit Scotland as auditor. Details of the audit fee for the year to 31 March 2016 are disclosed in note 3 (Page 56) to the accounts. Audit Scotland were not engaged or paid for any non-audit work during the year.

Statement of Accountable Officer's Responsibilities

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and Schedule 1 paragraph 19 of the Crofters (Scotland) Act 1993 as amended, Scottish Ministers have directed the Crofting Commission to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction issued by the Scottish Ministers.

The accounts are prepared on an accruals basis and must give a true and fair view of the Crofting Commission's state of affairs at the period end and of its operating costs, recognised gains and losses and cash flows for the financial period.

In preparing the accounts, the Accountable Officer is required to:

- observe the Accounts Direction issued by Scottish Ministers including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Permanent Secretary and Principal Accountable Officer of the Scottish Government has appointed Catriona Maclean as the Accountable Officer for the Crofting Commission.

Statement by Accountable Officer

As Accountable Officer, I am responsible for the regularity and propriety of the public finances for which I am answerable, for keeping proper records and for safeguarding the Crofting Commission's assets, as set out in the Accountable Officer's Memorandum issued by Scottish Ministers.

Disclosure of Information to the Auditors

As Accountable Officer, as far as I am aware, there is no relevant audit information of which the Crofting Commission's auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the Crofting Commission's auditors are aware of the information.

Accounting Officer Confirmation on the Annual Report and Accounts

As Accountable Officer I confirm that the annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement 2015-16

Background

The Corporate Governance Statement records the stewardship of the Crofting Commission and supplements the annual accounts. This statement also draws together position statements and evidence on governance, risk management and control, to provide a coherent and consistent reporting mechanism.

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities set out in the "Accountable Officer's Memorandum".

In the discharge of my personal responsibilities I ensure organisational compliance with the Scottish Public Finance Manual (SPFM). The SPFM is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need

for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Governance Framework

The Board

The Convener leads the Board and the Chief Executive leads the executive management of the organisation.

The Board comprises up to nine Commissioners, the majority of whom are elected by registered crofters. The Commissioner selected to lead the Board is given the title Convener.

More information on the Commissioners can be found on page 32

The role of the Board is to provide strategic leadership, direction, support and guidance for the Crofting Commission and to prepare and submit a plan, setting out their policy on how they propose to exercise their functions for Scottish Ministers approval, and promote commitment to its core values, policies and objectives. The Board also has responsibility for overseeing the work of the Crofting Commission. William Swann resigned from the Board on 2 June 2016.

Commissioners during 2015-16

Commissioner	Method of Appointment	Attendance at Board Meetings during 2015-16
Colin Kennedy (Convener)	Elected	8/8*
Ian George Macdonald (Vice Convener)	Elected	8/8*
Arnie Pirie	Elected	7/8*
Kathleen Sinclair	Elected	7/8*
Murdo MacLennan	Elected	8/8*
David Campbell	Appointed by Scottish Ministers	8/8*
Marina Dennis	Appointed by Scottish Ministers	8/8*
William Swann	Appointed by Scottish Ministers	7/8*

* = Number of attendances/Number of meetings possible to attend

Audit & Finance Committee Members during 2015-16

Commissioner	Audit & Finance Committee Position	Attendance at Committee Meetings during 2015-16
Colin Kennedy	Chair	0/4*
William Swann ¹	Vice Chair	4/4*
Kathleen Sinclair	Member	4/4*
David Campbell	Member	3/4*

* = Number of attendances/Number of meetings possible to attend

1 = Murdo MacLennan was appointed as Vice Chair of the Committee with effect from 7 June 2016

The Board is supported by an Audit and Finance Committee which meet at least quarterly.

The Board is committed to high standards of corporate governance and believes that a sound governance structure engenders a successful organisation.

Audit and Finance Committee

Three Commissioners are appointed by the Board to serve on the Audit & Finance Committee. This Committee meets four times a year with additional meetings if required.

Audit and Finance Committee terms of reference can be obtained from the Commissions website www.crofting.scotland.gov.uk

The 2010 Act requirement for the Convener to chair the Committee “if present” at its meetings is in contravention of good practice guidance issued by the Scottish Government in the Scottish Public Finance Manual, the Audit Committee Handbook and On Board. In order to comply with both the 2010 Act and best practice guidance, the Commission

has appointed a Vice Chair of the Committee and the Convener does not normally attend meetings of the Committee. The Commission’s Scottish Government sponsor branch has confirmed its approval of this arrangement.

The external and internal auditors attend all Audit and Finance Committee meetings. They are given the opportunity to speak confidentially to the Committee members. The purpose of the Audit and Finance Committee is to monitor and review risk, control and corporate governance. It operates independently and reports to the Board.

Complaints Committee

Three Commissioners are appointed by the Board to serve on the Complaints Committee. This Committee meets four times a year.

Complaints Committee terms of reference can be obtained from the Commission’s website www.crofting.scotland.gov.uk

Complaint statistic information relating to 2015/16 can be found on page 34.

Complaints Committee Members during 2015-16

Commissioner	Complaints Committee Position	Attendance at Committee Meetings during 2015-16
Colin Kennedy	Chair	4/4*
I G Macdonald	Member	4/4*
David Campbell	Member	3/4*

* = Number of attendances/Number of meetings possible to attend

On 9 March 2016, the Board approved a revision to this committee's terms of reference as well as renaming it the Complaints and Quality Assurance Committee. This change allows the Committee to focus more on the lessons learnt from complaints and the subsequent action taken as a result.

The Convener of the Crofting Commission

As reported in last year's Governance Statement Susan Walker resigned as Convener from 8 May 2015. Commissioners' subsequently elected Colin Kennedy as Convener with effect from 24 June 2015. Colin Kennedy is responsible to Scottish Ministers on behalf of the Crofting Commission for ensuring Crofting Commission's, policies and actions support delivery of the statutory functions and the wider strategic policies of the Scottish Ministers and that the Crofting Commission's affairs are conducted with probity. The Convener shares with other Board Members the corporate responsibilities set out above for the Board and in particular for ensuring that the Crofting Commission fulfils the aims and objectives set by the Scottish Ministers.

Senior Management Team 2015-16

- Catriona Maclean (Chief Executive)
- David Findlay (Commission Solicitor)
- Donna Smith (Head of Information Systems)
- Jane Thomas (Head of Corporate & Customer Services)
- John Toal (Head of Policy)
- Joseph Kerr (Head of Regulation)

More information on the Senior Management Team can be found on page 33.

The Senior Management Team meets regularly and is responsible for delivering the statutory functions and strategic aims of the Crofting Commission. The Senior Management Team consists of the Chief Executive and the head of each operational area. The Senior Management Team is committed to high standards of corporate governance and strives to provide the leadership, strategic oversight and the control environment required to deliver the Crofting Commission's key aims.

Risk and Control Framework

All bodies subject to the requirements of the Scottish Public Finance Manual (SPFM) must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers.

The risk and control mechanism is based on an ongoing process designed to identify the principal risks to the achievement of the Crofting Commission's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The Crofting Commission maintains a corporate risk register which records internal and external risks and identifies the mitigating actions required to reduce the threat of these risks occurring and their impact. The Risk Management Strategy and Corporate Risk Register are regularly updated and reviewed by both the Audit and Finance Committee and Senior Management Team. Each individual risk is allocated an owner who ensures that mitigating action is carried out. The risk register is a standing item at Board meetings which follow an Audit and Finance Committee meeting.

The principal risk for the year to 31 March 2016 related to:

- The failure to successfully transfer data from the current dated IT systems to a new Croft Information System.

In order to mitigate this risk, plans were made for an early data migration, with the dual aim of testing the migration process and to safeguard as much of the information as possible. This was successfully actioned during December 2015, reducing the level of risk until the new Croft Information System was launched in February 2016. A small level of risk remains regards live legacy cases as they continue to be processed to conclusion within a dated IT system.

The Crofting Commission follows the Scottish Government policy on Information Security and

has a Senior Information Risk Owner in place to manage risk information.

The risk and control processes applied within the Crofting Commission accord with guidance given in the SPFM and have been in place for the year ended 31 March 2016 and up to the date of the approval of the annual report and accounts.

Review of Effectiveness of Internal Control and Risk Management

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control and risk management arrangements. My review is informed by:

- Letters of assurance supported by a completed internal control checklist, agreed by each head of the operating areas that the controls are working well and if applicable stating areas of concern;
- The work of internal auditors, who submit regular reports to the Crofting Commission's Audit & Finance Committee (this includes their independent and objective opinion on the adequacy and effectiveness of the Commission's systems of internal control together with recommendations for improvement);
- Comments made by Audit Scotland in their management letter and other reports;
- The annual report provided by the Vice Chair of the Audit & Finance Committee to the Board, detailing the work of that committee during the year;
- Quarterly reviews by the Audit & Finance Committee of the organisation's risk register and the work of internal audit in assessing effectiveness of risk management arrangements; and
- Letters of assurance from Scottish Natural Heritage and the Scottish Government who provide shared finance and payroll/HR services respectively to the Crofting Commission.

During the year and up to the date of signing the accounts the following governance arrangements were put in place:

- Delegated decision making for specific regulatory functions. More information can be found on page 17.

The Crofting Commission will review the system of internal control to ensure that this continues to provide assurances regarding its responsibilities under the Crofting Reform (Scotland) Act 2010.

Conflicts of Interest Procedures

The Crofting Commission operates strict and comprehensive procedures to deal with potential conflicts of interest. A register of interests, covering Commissioners, is held and updated on an annual basis. This is available for examination by any member of the public wishing to do so, and is published on the Crofting Commission's website.

Commissioners record any potential conflicts of interest at the start of every Commission meeting and absent themselves from decisions on any matters in which they have an interest. These declarations are recorded in the minutes of the meeting.

The Commission approved and adopted the Anti-Fraud Policy in December 2015 which includes a policy on Conflicts of Interest.

Internal Audit

The internal audit function is an integral part of the internal control system. The Crofting Commission's internal audit service for the financial year was provided by Scott Moncrieff, who undertook work based on an analysis of the risk to which the Crofting Commission was exposed. Reports have been produced which covered the Crofting Commission's Complaints Handling Procedure, Croft Information System Review and a Follow-up Recommendations Review. The internal audit findings, recommendations and agreed actions are presented in the individual reports issued during the year to both management and the Audit & Finance Committee. These include an opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvements, which are considered by management.

Each year the Internal Audit provider issues an annual report which includes an opinion on the system of internal control. The opinion for year 2015-2016 is that *“In our opinion the Crofting Commission has a framework of controls in place, in the areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the organisation’s objectives and the management of key risks”*.

Best Value

The internal audit service provider was commissioned to carry out a high level review of the activities the Crofting Commission is currently delivering against each of the Best Value themes set out by the Scottish Government. This review identified numerous arrangements in place which show the Crofting Commission is delivering continuous improvement against each theme. A number of areas were identified where improvements could be made, for example: linking budgets with objectives, long term workforce planning and performance reporting. The Crofting Commission has put in place arrangements to achieve the recommended improvements arising from this review.

Significant Governance Issues

All Crofting Commission staff are Scottish Government employees. As a result of a VAT audit by HMRC on the Scottish Government, HMRC has determined that the cost of staff seconded from the Scottish Government to the Crofting Commission is subject to VAT. The Commission is working closely with the Scottish Government to ensure that any future financial implications for the Commission are minimised. The Accountable

Officer is being kept updated on this issue and in turn is liaising with the Audit & Finance Committee, Internal and External Audit, and SG Sponsor Directorate to ensure that any risk is managed appropriately, including future levels of funding.

Governance Issues Going Forward

The key governance challenges going forward centre on delivery of outcomes in the context of a tight financial climate and will involve:

- Achieving delivery of the Crofting Commission statutory obligations if Scottish Government’s pressure funding was withdrawn or reduced.
- Continue the development of the new Croft Information System to improve the efficiency of regulatory case processing.
- Ensuring that the scheme of delegation enables Crofting Commission staff to operate in an efficient and effective way.
- Continued development of performance management information, including challenging performance indicators.
- Collaboration with Scottish Government regards the development of a comprehensive succession strategy for Board Members, covering both elected members and those appointed by the Minister.
- Board Members continued focus upon Crofting Commission priorities during the electoral campaign.
- The Scottish Government providing adequate resources and planning to develop a robust framework to facilitate a successful election process.
- Management of adverse publicity directed at Commissioners and the Board as a whole.

Remuneration report and staff report

Unaudited

Remuneration policy

Board Members

The Crofting Commission Board comprises up to nine Commissioners. Commissioners' remuneration is approved by Scottish Ministers and is determined according to the "Public Sector Pay Policy for Senior Appointment" (see www.scotland.gov.uk/publications for further detail). Current Board Member appointments are non-pensionable. Current Board Members appointments, unless otherwise stated, are for 5 years commencing 1 April 2012.

Staff

All permanent and fixed-term staff are Scottish Government employees and are part of the Scottish Government main collective bargaining unit for the determination of salary. Remuneration is determined by the Scottish Government and, in determining policy, account is taken of the need for pay to be set at a level which will ensure the recruitment, retention and motivation of staff. Also taken into account are the Government's policies on the Civil Service and public sector pay and the need to observe public spending controls.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

The majority of officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission may be found at www.civilservicecommission.org.uk.

Audited Board remuneration

Commissioners were due remuneration as follows:

	2015-16 £000	2014-15 £000
Commissioners in office as at 31 March 2016		
Colin Kennedy (Convener) from 24 June 2015	20-25	10-15
Susan Walker (Convener) to 8 May 2015 (Convener full year equivalent)	0-5 (20-25)	20-25
Ian George Macdonald	10-15	10-15
Kathleen Sinclair	10-15	10-15
Murdo MacLennan	10-15	10-15
William Swann	10-15	10-15
Marina Dennis	10-15	10-15
David Campbell	10-15	5-10
Arnie Pirie (Commissioner full year equivalent)	5-10 (10-15)	0-5 (10-15)

Commissioners' appointments are non-pensionable and no benefits in kind were paid or payable.

Remuneration of senior officials

The following section provides details of the remuneration and pension interests of the most senior officials of the Crofting Commission:

	Salary		Pension benefits (see note 1 below)		Total	
	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000
Chief Executive						
Catriona Maclean	65-70	60-65	39	30	100-105	90-95
Senior Management Team						
David Findlay	55-60	5-10	22	0	75-80	5-10
Full-year equivalent		50-55		0		50-55
Donna Smith	45-50	40-45	0	0	45-50	40-45
Jane Thomas	40-45	40-45	13	13	55-60	50-55
Joseph Kerr	35-40	35-40	25	20	60-65	55-60
John Toal	40-45	35-40	23	17	60-65	50-55

Pension Benefits

	Accrued pension at pension age as at 31/03/16 and related lump sum		Real increase in pension and related lump sum at pension age		CETV at 31/03/16	CETV at 31/03/15	Real increase in CETV as funded by employer
	£000		£000		£000	£000	£000
	Pension	Lump sum	Pension	Lump sum			
Chief Executive							
Catriona Maclean	20-25	65-70	0-2.5	5-7.5	439	374	33
Other senior staff							
David Findlay	0-5	0-0	0-2.5	0-0	11	2	7
Jane Thomas	5-10	0-0	0-2.5	0-0	179	154	12
John Toal	5-10	25-30	0-2.5	2.5-5	199	165	21
Joseph Kerr	10-15	35-40	0-2.5	2.5-5	260	219	22
Donna Smith	Partnership pension. Employer's contribution for the year 5-10						

Salary

Salary includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made within the year by the Crofting Commission.

Benefits in kind

There were no benefits in kind within 2015-16 (2014-15: Nil).

Bonuses

There were no bonuses within 2015-16 (2014-15: Nil).

Note 1: the value of pension benefits accrued during the year is defined as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.

Fair Pay Disclosure

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid staff member in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid staff member in the Crofting Commission in financial year 2015-16 was £65k-£70k (2014/15 £60-65k). This was 2.8 times (2014/15 2.4) the median remuneration of the workforce which was £24,146 (2014/15 £25,799).

In 2015-16 Nil (2014/15 Nil) employees received remuneration in excess of the Chief Executive. Remuneration ranged from £16,842 to £55,928 (2014/15 £16,035 to £53,918).

Unaudited

Information disclosed in the salary and pension tables above has been audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they were consistent with the financial statements.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1st April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure

quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to

contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by

a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Audited

Staff Report

Staff Costs and Numbers

	Permanent staff £000	Board Members £000	Others £000	Total 2015-16 £000	Total 2014-15 £000
Salaries	1,254	100	-	1,354	1,342
Social security costs	93	5	-	98	86
Other pension costs	263	-	12*	275	223
Temporary staff	-	-	308	308	335
Total	1,610	105	320	2,035	1,986

There were no off-payroll arrangements for staff during 2015-16. Excluded from permanent staff salaries and temporary staff others above are amounts of £52,741 and £47,040 respectively which have been capitalised as they relate to time spent developing in-house software.

	2015-16 £000	2014-15 £000
* Pensions paid to former Commissioners under "other pension costs"	12	12

Average number of persons employed

	Permanently employed staff	Others	2015-16 £000 Total	2014-15 £000 Total
Directly employed	47.33		1,610	1,532
Other		8.3	308	335
Staff engaged on capital projects	1.38	0.42	100	37
Total	48.71	8.72	2,018	1,904

Gender Note

	Males 31 March 2016	Females 31 March 2016	Males 31 March 2015	Females 31 March 2015
Commissioners	6	2	6	3
Chief Executive*		1		1
Employees	17	44	20	34

* Member of staff at senior civil service level or equivalent

Employee numbers include part time staff

The figures above are the total numbers of staff (including agency) not full time equivalents

Sickness Absence

Sickness absence during the year to 31 March 2016 was 461 days (2014-15 – 613 days), representing 4.1% (2014-15: 7.8%) of the total number of available days. This equates to an average number of days sickness per member of staff of 9.3 days (2014-15: 13.2 days).

Equal Opportunities and Diversity Policies

The Crofting Commission adopts the Scottish Government policies on equal opportunities and diversity. The policy on equal opportunity states that all staff should be treated equally irrespective of their sex, marital status, age, race, ethnic origin, sexual orientation, disability, religion or belief, working pattern, employment status, gender identity, caring responsibility or trade union membership. In line with Scottish Government policy, the Crofting Commission is specifically required to increase the diversity of staff within the organisation. The Crofting Commission undertakes to develop all staff and positively values the different perspectives and skills each brings to our work. The Crofting Commission is committed to delivering its functions in a manner that encourages equal opportunities, aims to eliminate unlawful discrimination and other conduct prohibited by equality legislation.

Parliamentary Accountability Disclosures

Losses and special payments

There were no losses or special payments made during the year 2015-16 (2014-15: Nil).

Gifts and Charitable Donations

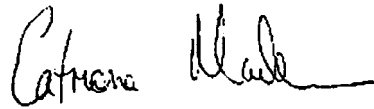
There were no gifts or charitable donations made during the year 2015-16 (2014-15: Nil).

Remote Contingent Liabilities

At 31 March 2016 there were no remote contingent liabilities to report.

Fees and Charges

There were no fees and charges made during the year 2015-16 (2014-15: Nil).



CATRIONA MACLEAN

Chief Executive and Accountable Officer

Date 17 August 2016

Independent Auditor's Report

Independent auditor's report to the members of the Crofting Commission, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Crofting Commission for the year ended 31 March 2016 under the Crofters (Scotland) Act 1993, as amended by the Crofting Reform (Scotland) Act 2010. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Crofters (Scotland) Act 1993, as amended by the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish

Ministers of the state of the body's affairs as at 31 March 2016 and of its net expenditure for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Crofters (Scotland) Act 1993, as amended by the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my 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.

Opinion on other prescribed matters

In my opinion:

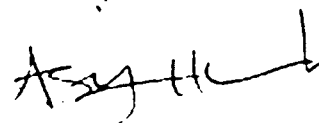
- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Crofters (Scotland) Act 1993, as amended by the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.



Asif A Haseeb
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

17 August 2016

Financial Statements 2015-16

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

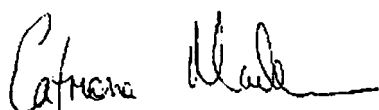
	Note	2016 £000	2015 £000
Other operating income	2	(371)	(183)
Total operating income		(371)	(183)
Staff costs	Staff Report page 46	2,035	1,986
Depreciation and Amortisation	3,4,5	75	102
Provision expense	3, 9	0	16
Other operating expenditure	3	649	760
Total operating expenditure		2,759	2,864
Net operating expenditure		2,388	2,681

The notes on pages 54 to 60 form part of these accounts

Statement of Financial Position

as at 31 March 2016

	Note	2016 £000	2015 £000
Non-current assets:			
Information Technology Equipment	4	42	67
Intangible assets (Software)	5	168	97
Total non-current assets		210	164
Current assets			
Trade and other receivables	6	34	39
Cash and cash equivalents	7	100	81
Total current assets		134	120
Total assets		344	284
Current liabilities			
Trade and other payables	8	86	182
Other liabilities	8	79	75
Provisions	9	16	16
Total current liabilities		181	273
Total assets less current liabilities		163	11
Total assets less total liabilities		163	11
Taxpayers' equity			
General fund		163	11



CATRIONA MACLEAN
Chief Executive and Accountable Officer
Date 17 August 2016

The Accountable Officer authorised these financial statements for issue on 17 August 2016

The notes on pages 54 to 60 form part of these accounts

Statement of Cash Flows

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Net operating expenditure		(2,388)	(2,681)
Adjustment for non-cash transactions			
Depreciation and Amortisation	3,4,5	75	102
Movements in working capital			
(increase)/decrease in trade and other receivables	6	5	26
Increase (decrease) in trade and other payables & provisions	8,9	(92)	98
Net cash outflow from operating activities		(2,400)	(2,455)
Cash flows from investing activities			
Purchase of information technology equipment	4	(14)	(7)
Purchase of intangible assets	5	(107)	(62)
Net cash flow from investing activities		(121)	(69)
Total cash outflows		(2,521)	(2,524)
Cash flows from financing activities			
Grant-in-Aid		2,540	2,547
Net increase/(decrease) in cash and cash equivalents		19	23
Cash & cash equivalents at the beginning of the period		81	58
Cash & cash equivalents at the end of the period		100	81

The notes on pages 54 to 60 form part of these accounts

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

	£000
Balance at 1 April 2015	11
Grant-in-Aid	2,540
	2,551
Comprehensive net expenditure for the year	(2,388)
Balance at 31 March 2016	163
Balance at 1 April 2014	145
Grant-in-Aid	2,547
Total recognised expenditure for 2014-15	2,692
Comprehensive net expenditure for the year	(2,681)
Balance at 31 March 2015	11

The notes on pages 54 to 60 form part of these accounts

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury and the Accounts Direction (page 61) issued by Scottish Ministers. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the Crofting Commission for the purposes of giving a true and fair view has been selected.

The financial statements included in this report have been prepared on a going concern basis as the Accountable Officer considers the Crofting Commission to have adequate resources to continue in operational existence for the foreseeable future.

The particular policies adopted by Crofting Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of equipment and intangible assets where material at their value to the organisation by reference to their current cost.

1.2 Equipment

Equipment represents Information technology hardware items with a cost of over £5,000. Where individual items cost less than £5,000, but where the class of asset in aggregate costs over £5,000, they

are capitalised. In particular this applies to purchase of desktop and laptop PCs, servers and associated hardware, which are depreciated over their useful economic lives, considered to be 3 years.

IT assets are carried at fair value. Depreciated historical cost has been used as a proxy for fair value for IT equipment as it is not practical to obtain valuations due to low values of this class of assets.

1.3 Intangible assets

Intangible assets include purchased software licences and internally developed software, both of which have a capitalisation threshold of £5,000. When capitalising internally generated intangible assets such as software, only directly attributable costs including staff costs and staff-related costs, are included where it is deemed that the assets will generate future economic benefit in the way of savings or improvements to the internal processes. Intangible assets are valued at cost which is used as proxy for fair value.

Where individual items cost less than £5,000, but where the class of asset in aggregate costs over £5,000, they are capitalised.

Amortisation Policy:

Internally developed software 7 years
General operating system or application programme licences 3 years.

1.4 Value Added Tax

Irrecoverable VAT is included with the relevant costs and charged to the Statement of Comprehensive Net Expenditure in the period to which it is incurred.

1.5 Employee Benefits

Short-Term Employee Benefits

Salaries and employment-related payments are recognised in the year in which the service is received from employees. The cost of annual leave and flexible working time entitlement earned

but not taken by employees at the end of the year is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following year.

Pension Costs

All current Crofting Commission staff are Scottish Government employees. Salary and pensions costs are paid directly by the Scottish Government. These costs as reported in the Crofting Commission's accounts relate to the period during which it benefits from the employee's services. This includes amounts covered by the provisions of the principal Civil Service Pension Scheme, a defined benefit scheme, which are paid by the Scottish Government to the PCSPS on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

1.6 Trade Receivables

All material amounts due as at 31 March 2016 have been brought into the Statement of Comprehensive Net Expenditure irrespective of when actual payments were received.

1.7 Trade Payables

All material amounts due as at 31 March 2016 have been brought into the Statement of Comprehensive Net Expenditure irrespective of when actual payments were made.

1.8 Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand.

1.9 Grant-in Aid

The Crofting Commission receives Grant-in-Aid from the Scottish Government to finance its net expenditure. Grant-in-Aid is credited to the general reserve in the period in which it is received. The net cost of the Crofting Commission is charged to this fund.

1.10 Provisions

The Crofting Commission provides for legal or constructive obligations that of uncertain timing or amount at the balance sheet date on the best estimate of the expenditure required to settle the obligation.

1.11 Contingent Liabilities

Contingent liabilities are recognised in respect of: possible obligations arising from past events whose existence will be confirmed by the occurrence of uncertain future events outwith the Crofting Commission's control or present obligations arising from past events where it is not likely that resources will be required to settle the obligation or it is not possible to measure it reliably.

1.12 Segmental Reporting

The Crofting Commission operates as a single organisation and does not contain components which can be defined as operating segments in terms of IFRS 8. Accordingly it is not possible to provide financial and descriptive information about the report.

2. Other Income

	2016 £000	2015 £000
Scottish Government Pressure Funding	371	183
Total	371	183

Other income (pressure funding) was paid to the Crofting Commission for the purpose of funding additional resources to carry out a number of duties and functions introduced within the 2010 Act. This includes £77,280 related to two employees who were granted permission to leave the employment of the Crofting Commission under the Scottish Government's voluntary exit scheme. This arrangement was recognised within the Crofting Commission annual accounts 2014-15, with associated payment being issued in 2015-16.

3. Other operating expenditure

	2016 £000	2015 £000
Accommodation expenses	198	204
Information systems & telecommunications	88	125
Training	31	43
Communication	71	80
Regulatory advertising expenses	44	31
Assessors' conference & travel expenses	5	35
Travel & subsistence – staff	20	20
Travel & subsistence – Commissioners	43	35
Legal fees *	12	55
External Auditor's remuneration	15	15
Internal Auditor's remuneration	9	10
Other running costs	113	123
	649	776
<u>Non-cash items</u>		
Depreciation	39	48
Amortisation	36	54
	724	878

* 2015 £55k includes provisions of £16k. Refer to note 9.

4. Information Technology Equipment

£000

Cost

1 April 2014	199
Additions	7
31 March 2015	206

Depreciation

1 April 2014	(91)
Charged in year	(48)
31 March 2015	(139)

Net book value at

31 March 2014	108
31 March 2015	67

Cost

1 April 2015	206
Additions	14
31 March 2016	220

Depreciation

1 April 2015	(139)
Charged in year	(39)
31 March 2016	(178)

Net book value at

31 March 2015	67
31 March 2016	42

5. Intangible assets – Software

	£000
Cost	
1 April 2014	677
Additions	63
31 March 2015	740
Amortisation	
1 April 2014	(589)
Charged in year	(54)
31 March 2015	(643)
Net book value at	
31 March 2014	89
31 March 2015	97
Cost	
1 April 2015	740
Additions	107
31 March 2016	847
Amortisation	
1 April 2015	(643)
Charged in year	(36)
31 March 2016	(679)
Net book value at	
31 March 2015	97
31 March 2016	168

Intangible assets comprise software used for carrying out the Crofting Commission's work.

6. Trade receivables and other current assets

Amounts falling due within one year:

	2016 £000	2015 £000
Receivables	0	0
Prepayments	34	39
Total	34	39

7. Cash and cash equivalents

	2016 £000	2015 £000
Balance at 1 April 2015	81	58
Net change in cash & cash equivalents	19	23
Balance at 31 March 2016	100	81

The following balances at 31 March were held at Commercial banks and cash in hand	100	81
Balance at 31 March 2016	100	81

8. Trade payables and other current liabilities

Amounts falling due within one year:

	2016 £000	2015 £000
Accruals	86	182
Other liabilities	79	75
Total	165	257

9. Provisions

	2015-16 £000
Opening Balance 1 April 2015	16
New provision in the year	0
Expenditure in the year charged against the provision	0
Closing balance at 31 March 2016	16

The provision represents estimated legal costs awarded against the Crofting Commission.

10. Contingent liabilities

The Courts could award against the Crofting Commission expenses incurred by plaintiffs in pursuing legal address through the courts. These costs are estimated to be approximately £26,000.

11. Related party transactions

The Crofting Commission is an NDPB sponsored by the Scottish Government and considers the following bodies to be related parties:

The Scottish Government's Rural Payments and Inspections Directorate (the Sponsor Directorate) and the Crofting Commission had significant financial and non-financial transactions during the year. Financial transactions with the Directorate comprised Grant-in-Aid of £2,540,000 as disclosed in the Changes in Taxpayers Equity statement and other income of £371,000 (note 2, page 55).

The Crofting Commission occupies premises shared with and provided by Scottish Natural Heritage. Financial transactions in the year with SNH totalled £257,567.

12. Financial instruments

For normal operating purposes the Crofting Commission holds no cash or cash-equivalent balances other than those required to pay current creditors – salaries and trade creditors. The Crofting Commission's financial assets consist solely of cash at bank.

Cash authorisation is provided by the Scottish Government to the extent that expenditure is covered by budget authority. The Crofting Commission is not therefore exposed to liquidity risks.

**THE CROFTING COMMISSION****DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in accordance with paragraph 19 of Schedule 1 to the Crofters (Scotland) Act 1993, as amended, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2013, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated 26/10/12



