



**CROFTING COMMISSION
COIMISEAN NA CROITEARACHD**



Crofting Commission

Annual Report & Accounts
2016-2017

Annual Report 2016-2017

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 fifth Annual Report and Accounts of the Crofting Commission covering the year 2016 -2017.

Yours sincerely



Rod Mackenzie, Convener



Bill Barron, Chief Executive

SG/2017/105



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Performance Report Overview

Foreword from the Chief Executive and Convener of the Crofting Commission



Bill Barron



Rod Mackenzie

2016-17 was a difficult year for the Crofting Commission. During 2015 it had received a few shareholder complaints about some grazings committees, and the Commission intervened to try to uphold the law and encourage good practice. However, the Commission's response to these cases was considered by many to be heavy-handed, and the ensuing public criticism and controversy led to divisions within the Board itself. For a time the Board lost the cohesiveness required of all Non-Departmental Public Bodies in Scotland.

This was a very challenging time for all the Commissioners and staff. By the Autumn of 2016, the media focus on the Board's difficulties had overshadowed the original issues about grazings committees. In this context, the Cabinet Secretary asked Scott-Moncrieff to conduct a review into our Governance, which culminated in their report of

February 2017. See Significant Governance Issues on Page 33.

We believe that the resilience shown by the organisation during this period reflects very well on the basic structures of the Commission and on its staff. To their credit, both Commissioners and staff continued to discharge their regulatory and other responsibilities throughout this time in a professional and timely manner. The Commission's constitution, procedures and systems also held up well, with the deficiencies outlined in the Scott-Moncrieff report very much the exception rather than the rule. An action plan has now been put in place to ensure the points in the report are addressed and a high standard of governance is maintained within the organisation. This reflects the high priority given by the organisation to Risk Management.



In other respects, 2016-17 was a year of steady progress. We continued to enjoy strong relationships with crofting stakeholder groups and the Scottish Government, engaging with them in discussions about the future of crofting policy and legislation. The new Croft Information System was further modified and improved, and regulatory staff became adept in its use. Alongside this, the Board extended its delegation of decision-making to officers and the result of both these actions led to improvements in our efficiency of processing casework. The Board is now working towards the delegation of all except controversial or contested cases. We also conducted the annual crofting census and launched the quinquennial grazing census.

Our key activities and achievements over the last year, and how they contribute to the 'Scotland Performs' National Outcomes, are detailed on page 8. The key risks to the organisation are set out within the Governance Statement on pages 27 to 33.

Late in 2016 we conducted a number of public roadshows around the crofting counties, to

highlight the work of the Commission and to generate interest in serving as a Commissioner. These roadshows set the scene for the 2017 Crofting Elections, keenly contested in most areas, which resulted in 6 new elected Commissioners, to join the newly reappointed or appointed commissioners David Campbell, Malcolm Mathieson and James Scott. The current 9 commissioners met for the first time as a Board on 29 March 2017, and among other things, expressed a strong desire for more open and transparent communication between the Commission and crofters.

With 8 new Commissioners joining the Board between January and March, 2017 provides the opportunity for us to reconsider our priorities and objectives, and we look forward to further improving our regulation of crofting and continuing to promote the interests of crofting.



Bill Barron
Chief Executive



Rod Mackenzie
Convener



Who we are and what we do

The Crofting Commission is a Non-Departmental Public Body (NDPB) which operates on a day-to-day basis independently of the government, but for which Scottish Ministers are ultimately responsible.

The Crofting Commission comprises of six Commissioners elected from geographic areas in the crofting counties, and three Commissioners appointed by the Scottish Government. The Commission is supported by a staff of some 57, led by a Chief Executive who is appointed by Scottish Ministers.

The Crofting Commission's principal function is regulating crofting, re-organising crofting, promoting the interest of crofting, keeping under review matters relating to crofting and other such functions conferred on it by or under the Crofting (Scotland) Act 1993 (the Act).

In exercising our functions we must have regard to the desirability of supporting population retention and the impact of changes to the overall area of

land held in crofting tenure on the sustainability of crofting.

The Act also places a duty on the Commission to investigate breaches of duty by tenants and owner-occupier crofters.

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 has developed corporate values which 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. They are therefore also integral to how we will address these priorities.



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 2016-17

Budget Performance 2016-17

The Scottish Government allocated the Crofting Commission a budget (known as Departmental Expenditure Limit or DEL) of £2.489M (£2.589M 2015-16) to cover cash expenditure of £2.447M (£2.547M 2015-16) to fund staff, other operating costs, capital and £0.042M (£0.042M 2015-16) for non-cash costs such as depreciation and amortisation.

The Crofting Commission operated within its cash allocation for 2016-17 by drawing down £2.437M (£2.540M 2015-16) of the £2.447M (£2.547M 2015-16) allocation.

In September 2016 an additional budget of £0.025M was awarded to the Crofting Commission, ring-fenced solely for the purpose of resourcing the delivery of the electoral roll for the 2017 Crofting Elections. There was no necessity to draw down on any of this amount due to the administrative efficiencies arising from the new Croft Information System.

The depreciation and amortisation charge in the 2016-17 accounts is £0.082M (£0.075M 2015-16), which exceeds the allocation of £0.042M (£0.042M 2015-16) by £0.040M (£0.033M 2015-16). The Scottish Government has confirmed that this budget allocation will be reviewed for future years.

The Crofting Reform (Scotland) Act 2010 introduced a number of new duties and functions. Other income of £0.229M (£0.371M 2015-16) is pressure funding secured by the Chief Executive 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.



Going concern statement

The Board and Accountable Officer have considered the budget and associated grant in aid allocation for 2017-18 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 the 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.



Focus of our work

National Outcomes

Our corporate outcomes are aligned to bring about delivery of the Scottish Government's National Outcomes contained in the Scottish Government Economic Strategy. We directly contribute to five of the National Outcomes. The delivery of the outcomes will secure the future of crofting, its people and its communities and reinforce the value and public benefit of this unique system of land tenure.



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

2016-17 was the final year of our three year Corporate Plan, with a new 5 year Plan to be published for 2017-2022.

Our Corporate Outcomes



Outcome 1

All crofts are occupied, well managed and 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 2016 – 2017 our Business Plan identified various key milestones we want to achieve to help us work towards delivery of our Corporate Outcomes.

<p>Outcome One All crofts are occupied, well managed and cultivated or put to alternative suitable purposeful use</p>	<p>Crofting Duties We revised the process for where the Commission takes on responsibility for letting of crofts and took the first steps to implement the revised procedure and streamline the process. We also started discussions with private landlords about working with them to address any residency or occupancy issues on their estates.</p> <p>Crofting Census The third crofting census was issued with a deadline of 31 March 2017.</p>
<p>Outcome Two All common grazings are regulated and shared management practices are the norm</p>	<p>Grazings Census We launched the first Grazings Census in March 2017.</p> <p>Grazings Regulations We worked with stakeholders throughout the year towards the preparation of new template Grazings Regulations and accompanying guidance to help clarify the role of Grazings Committees and establish best practice ways of operating.</p>
<p>Outcome Three We have effective crofting legislation that is modern, relevant and aligned with the needs of crofting communities and long term National objectives</p>	<p>Crofting Elections We worked with Scottish Government and Comhairle nan Eilean Siar to support the second Crofting Elections, providing information as required and preparing the Electoral Roll.</p> <p>Crofting Legislation We continued to work with the Crofting Stakeholder Forum in advancing the work done on the five priorities for Crofting which will help inform the preparation of any new legislation. We also participated in sessions at the Rural Economy and Connectivity Committee (RECC) on Crofting and workshops run by Scottish Government regarding the new Bill.</p>
<p>Outcome Four Crofting is regulated in a fair, efficient and effective way</p>	<p>Process Improvement We continued our review of Regulatory processes to ensure that they are fully compliant with current legislation and as efficient as possible within that.</p> <p>Delegated Decision Making We continued the rollout of delegation of regulatory decision making to officers.</p> <p>Records Management We agreed our Corporate Retention policies and started the implementation of new Records Management procedures.</p> <p>Corporate Development We developed the initial stages of a Corporate Development approach aimed at ensuring we have a high performing workforce.</p>

Our Priorities	Outcome Measures	Status
System and Process review	A reduction in turnaround times to reach a decision on regulatory applications for registered crofts.	
CORPORATE OUTCOMES: ONE, TWO & FOUR	A reduction of 45% in turnaround times for croft registration applications	
	A reduction of 4% in the number of upheld complaints made to the Commission	
	A 10% increase in the number of hits on the Grazings Regulations page on our website	
	A reduction in the number of general inquiries being handled by staff	
Improve our evidence base	A 25% reduction in the processing time for completing census returns	
CORPORATE OUTCOMES: ONE, TWO & THREE	Work with Scottish Ministers to reduce vacant crofts	
	Reduce the number of vacant crofts where the Commission has terminated the tenancy	
Change the way we work	A reduction in the cost of file storage	
CORPORATE OUTCOMES: ONE, TWO & THREE	A reduction in the number of late Freedom of Information responses	
	Increase in overall staff satisfaction	
	A decrease in levels of staff absence through sickness	
	Establish average turnaround time to fill vacant posts	

Key:

Achieved



Improved



Maintained



Not achieved

There has been significant preparatory work done towards the Outcome measures that are shown as "Maintained" this year. We would therefore expect to see results of this reflected in 2017-18.

Key Issues and Risks

Risk management is embedded throughout the Commission to facilitate the timely identification and mitigation of risks to the achievement of business objectives. The Risk Register is reviewed by the Audit and Finance Committee, then reported to the Board. See Governance Statement page 30.

How we do it

Inform Scottish Government

The Crofting Commission has a responsibility to keep under general review all matters relating to crofts and crofting conditions.

To this end we respond to consultations relevant to crofting and land use, which this year included the:

- Response to Caithness and Sutherland Local Development Plan
- Response to West Highlands and Islands Local Development Plan
- Response to Scoping a Strategic Vision for the Uplands; Scottish Natural Heritage, October 2016
- Submission to Scottish Parliament Rural Environment & Connectivity Committee – Review of Priorities for Crofting Law Reform
- Future of Forestry in Scotland Consultation

This year also saw the issue of the third Crofting Census. The Crofting Commission has a legislative duty under the Crofting Reform (Scotland) Act 2010 (the Act) to give notice to crofters to make an annual declaration on the state of their croft and if they are complying with their duties, through the Crofting Census. Read more on page 15.

The Act also imposed new requirements on grazings committees to report every five years on the condition of their common grazings, the condition of every croft of tenant and owner-occupier crofters sharing in the grazings and on any other matter affecting the common grazings or crofting in any township associated with the grazings. The first common grazings census was launched this year.

Both the crofting and common grazings census will help to establish a clear picture of the current state of crofting and enable the Commission to build up the evidence base for the value of crofting. With the information provided, the Commission will be able to better understand and raise issues facing the future of crofting.

Greening

The Scottish Government has ambitious carbon reduction targets for the public sector and the Commission, although a small organisation in comparison to some, has been involved. This year's greening report highlights the Crofting Commission's need to establish green policies and embed them within the culture of the organisation. It is worth noting that as we are tenants within Great Glen House, Scottish Natural Heritage carry responsibility for the building; thus the Commission is only able to address internal factors such as resource usage, travel and awareness.

Whilst we have a fair amount of work to do to establish Green issues into the everyday activities of the Commission, there are a number of resource usage reduction initiatives possible due to the introduction of the Croft Information System (CIS) and other technological improvements undertaken such as the use of iPad's, which has shown great savings in both paper usage and costs.

Awareness projects have been ongoing for some time and will continue over the coming year. The Commissions' involvement in Scottish Climate Week last September was a great success and saw the Commission working in partnership with SNH, Paths for All, Bòrd na Gàidhlig, TNT Logistics, Robertsons, PCS Trade union and Cantraybridge College, which highlighted environmental areas common to all. The Commission will continue to develop its environmental policies to help tackle climate change and be a greener organisation.

Community and Charity

The Crofting Commission recognises the benefits that community and charity work by staff can bring to the wider community. We support those who wish to undertake community or charity activities and commend our staff for their individual efforts. Staff are also able to participate in a 'give as you earn' scheme and donate a proportion of their salaries to charities of their choice. Staff raised approximately £800 this year for charities chosen by them.

Change the way we work

Delegated Decision Making

Last year we changed the way we administer straightforward cases and moved to a model of devolved decision making. This year the Commission extended its delegation of decision-making to officers to include:

- Exchange of crofts or parts of crofts
- Enlargement of crofts
- Letting of vacant crofts by a landlord or owner-occupier crofter
- Decrofting part of a croft
- Decrofting whole croft (where it relates to a residual house site)
- Apportionment
- Use of common grazings for other purpose
- Extension, or variation of condition, for absence from the croft

Prior to the end of the reporting year the Commission also agreed the following functions would be delegated in 2017/18, once parameters for delegation had been agreed:

- Division by a tenant
- Division by an owner-occupier crofter
- Division by an executor of a deceased crofter – dividing to create two or more new crofts
- Letting proposal by a landlord
- Letting proposal by an owner-occupier crofter
- Part croft letting by a landlord
- Part croft letting by an owner-occupier crofter
- Use of common grazings for forestry purposes
- Review of apportionment.

Over 600 cases have been considered under the delegated decision making process and the Commission is working towards the delegation of all except controversial or contested cases.

Croft Information System (CIS)

CIS continued to be developed during the year to further streamline our processes. One of the next stages will be to introduce online applications for our regulatory processes.

The development of an online version of the Register of Crofts is progressing well. This will enable the public to have direct access to the information we hold, and we aim to have this in place during next year.

Assessors

The Commission currently has a network of 84 Assessors across the Highlands & Islands who were appointed in 2012. Their 5-year period of office provides the Crofting Commission with a valued link with crofting communities. Commissioners met with Assessors in their local area in conjunction with the Crofting Roadshows.

The role of Assessor has changed over time. Although they are no longer asked for comments in individual cases, Assessors represent a valuable resource and can help the Commission understand local concerns. There is potential to use the network to provide information on things such as the use of better quality land in crofting communities, demand for crofts in particular areas and activity in crofting communities.

The Commission decided to extend the present Assessors term and a new panel will be recruited in Spring 2018.

Our Partners

The Commission is dedicated to working with other crofting stakeholders to secure the future of crofting.

Crofting Register

The Crofting Register is maintained by the Registers of Scotland (RoS). Since 2013 registration in the Crofting Register became compulsory on the occurrence of certain events. The Register is map-based and provides a definitive record of the extent of, and interest in, land within crofting tenure. In addition to showing the boundaries of croft land, common grazings, and land held runrig, the Register also contains information on the tenant, owner-occupier crofter and/or the landlord of the registered croft.

In the first instance, an application for croft registration is made to the Commission, where we check the information contained in the registration application against the information we hold in the Commission's Register of Crofts. We work closely with RoS to progress registration applications and promote the Register.

1,300 crofts and 34 common grazings were registered between April 2016 and March 2017.

Vision for Crofting

The Crofting Stakeholder Forum (CSF) was established in 2014 by the Scottish Government at the request of stakeholders. Its purpose is to consider crofting stakeholder interests and how crofting interfaces with Scottish Government crofting policy. The Forum has representatives from a range of organisations who have an interest in crofting.

The Forum identified a number of priorities to help secure the future of crofting: simplification of crofting legislation, support for new entrants, an increase in affordable housing, crofting development and financial incentives. The

Commission continues to work with the Forum to advance the work done on these five priorities for crofting which will help inform the preparation of any new legislation.

The Commission also established a Common Grazings Working Group. Members include SCF, NFUS, SAC and Assessors. The aim of the group, is to devise a new template for common grazings regulations and associated guidance. These have been revised along the lines of what the Crofters (Scotland) Act 1993 states must be included within common grazings regulations. Before finalising the regulations and recommending them to the Commission, the Working Group conducted a public consultation, ended on 31 May 2017.

Scottish Government Rural Affairs, Forestry and Environment (RAFE) Delivery Board

Our Chief Executive, Bill Barron, attends the RAFE Board which brings together the Scottish Government and leaders of public agencies in the field of rural affairs, forestry and environment. The Board considers both strategy and delivery issues, including the possible impacts of Brexit, and action to reduce emissions of greenhouse gases.

Scottish Parliament Cross Party Group on Crofting (CPG)

Commission representatives regularly attend the Cross Party Group on Crofting, at which a broad range of crofting issues are discussed by MSPs, crofters and crofting organisations. Topics considered by the CPG in 2016-17 included the options for changes to crofting legislation, the challenges facing new crofters, and the governance of the Commission.



Rural Economy and Connectivity Committee (RECC)

The RECC Committee scrutinises policy proposals relating to rural affairs, transport and connectivity. The Committee engages with a wide range of stakeholders, taking comprehensive evidence from “on the frontline” and applies authoritative, expert, effective and influential scrutiny to policy, forming a view and making recommendations.

To help address some of the challenges facing crofters the Committee undertook a review of priorities for crofting law reform in October last year, where they heard evidence from crofting stakeholders, including the Commission. Their Report was published in March 2017 and will form a key component of the development and shaping of future crofting legislation.

Crofting Elections

In March 2017, the second Crofting Elections were held to elect 6 new Commissioners to the Crofting Commission. In the lead up to the elections we worked with Scottish Government and Comhairle nan Eilean Siar to promote the election, providing information as required and preparing the Electoral Roll.

Crofting Roadshows

The Commission held a number of Roadshows in conjunction with the Scottish Crofting Federation, National Farmers Union Scotland, Registers of Scotland and the Scottish Agricultural College Consultancy during the latter part of 2016. The main purpose of the 2016 Roadshows was to highlight the crofting elections and other key crofting issues.

Active Crofts

The Commission promotes the residency of crofts, to support population retention, and good land management through cultivation and maintenance of croft land.

Register of Crofts (ROC)

The Commission maintains its own ROC which holds information on the name, location, rent and extent of each croft, the tenant, the landlord and any rights held in a common grazings. If a croft is purchased and any associated common grazing shares remain held in tenancy, the shares are “deemed” to be a croft in their own right and have a separate entry in the ROC as a croft.

As a result of the 2016 crofting census returns over 5000 updates were made to the RoC.

Residency and Land Use

Both tenant and owner-occupier crofters have a duty to comply with the statutory duty to:

- Be resident on, or within 32 kilometres of their croft
- Not to misuse or neglect the croft
- Cultivate and maintain the croft.

If the failure to comply with any of these duties is reported to the Commission by a member of the crofting community, a grazing committee or an Assessor, we are obliged to investigate.

This year, five cases related to breaches of residency and misuse and neglect were reported to the Commission. The Commission is also in the process of looking to let the tenancies of 11 crofts where a request for letting proposals from owner – occupier crofters who were not compliant with their residency duty, or landlords of a vacant croft, were not submitted within the timescale specified by the Commission.

The crofting census has made crofters more aware of their statutory duties and highlighted the options that are available to them in order to rectify their situation.

Demographics (Taken from the Commission’s ROC)



Average age of a crofter

0-20 years old	0.23%
21-40 years old	10.94%
41-60 years old	39.83%
61-80 years old	39.36%
81+ years old	9.64%

Number of crofts recorded in the Commissions' Register of Crofts

	Argyll & Bute	Highland	Comhairle nan Eilean Siar	North Ayrshire	Orkney	Shetland	Totals
Tenanted	458	6263	6072		64	2041	14898
Owned	342	3605	224	1	390	1106	5668
							20566

Crofting Census

Crofters are legally obliged to complete and return the Crofting Census to the Commission.

There was a 76% return rate of the census forms issued in 2016, with 17,471 forms being issued and 13,315 forms returned. This showed a 3% increase from 2015.

Self – Regulation

The Commission encourages crofters to understand their responsibilities and self-regulate so they can choose what happens to their crofts if they are not complying with their Duties.

The Commission and our network of Assessors can provide advice to crofters on the options available to them.

Of those who returned their census form:



85%

stated that they are resident on their croft



82%

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



76%

stated that they did not neglect or misuse their croft

Regulated Common Grazings

The Communal use and shared management of common grazings assist in building strong communities within the crofting counties. This management also ensures the grazings are properly utilized and therefore avoids grazing's becoming neglected or underused.

As a shared asset it is a huge benefit to have a properly constituted grazing committee which is the most effective way to safeguard the future of common grazing land, through the promotion of effective management and maintenance. In addition, the committee can be a valuable source of knowledge about crofting in the area.

The Crofting Reform (Scotland) Act 2010 inserted a new Section 49A into the Crofters (Scotland) Act 1993 requiring grazing committees to report

every five years on the condition of their common grazings, the condition of every croft of tenant and owner-occupier crofters sharing in the grazings and on any other matter affecting the common grazings or crofting in any township associated with the grazings. The Commission has created a template to assist grazings committees to fulfil their obligation to complete the common grazing census, which is available on our website: www.crofting.scotland.gov.uk/common-grazings-census

	Committees in Office	Number of Common Grazings
Argyll & Bute	16	60
Highland	266	538
Comhairle nan Eilean Siar	190	295
Orkney	1	9
Shetland	48	168
Total	521	1,071

Common Grazings – Apportionment Applications

Received	Approved	Refused
48	21	0

“It is a huge benefit to have a properly constituted Grazing Committee which is the most effective way to safeguard the future of common grazing land.”





Case study: Shetland

Lewis Garrick has recently been assigned 4 crofts in Sandness, Shetland by his father. 26 year old Lewis has already got a wealth of experience, having previously participated in gatherings, lambing, clipping and preparing stock for market. As a qualified mechanic he maintains all the machinery on the croft and when required helps out other crofters, within and outwith the community.

Lewis's father, Peter, said, "I am now physically less able to work the crofts but at the same time wanted to keep them in the family as they have been in the family for generations before me, so I decided it was time to hand them over to my son, Lewis."

"To me it's important the younger and future generations are encouraged to carry on in the Shetland traditions of maintaining family crofts, generating new ideas and planning for the future. Lewis has worked alongside me and his grandfather on the crofts since he was a boy and I know he will keep them in good order."

On getting the crofts Lewis said, "I want to continue running and maintaining the family crofts and our flock of sheep. I am fortunate as my father and grandfather have always encouraged me to get involved and have handed down a wealth of knowledge



to me on both maintaining the crofts and the health and wellbeing of livestock.

I help out other crofters whenever I can, whether it's mending a tractor or helping with livestock and I wholeheartedly agree with what my father said that it's important that young

people who are interested are encouraged into crofting and farming. They are the ones who will be sustaining and promoting the systems and methods in the future. I was fortunate that Dad has passed the crofts onto me at an early stage and I'm looking forward to now being a crofter in my own right."

“I was fortunate that Dad has passed the crofts onto me at an early stage and I'm looking forward to now being a crofter in my own right.”

Fair, efficient and effective regulator

Our principal function is regulating crofting and the processing of regulatory applications accounts for the majority of the work undertaken by the Commission. It is important that this is done in a fair, efficient and effective manner that is fully compliant with crofting legislation.

Application Type	Received	Approved	Refused
Assignment	313	259	1
Bequest	129	24	0
Intestate Succession	93	20	1
Consent to be absent	28	17	1
Decrofting – House Site & Garden Ground	188	152	0
Decrofting – Part Croft	290	229	2
Decrofting – Whole Croft	30	11	3
Division	43	27	0
Letting	41	35	0
New Croft created under section 3(a) of the Crofters (Scotland) Act 1993	0	0	0
Short Term Lease	31	28	0
Sublet	111	89	0
Totals	1,297	891	8

The number of applications received will differ from the number of applications decided over the year for a variety of reasons, including withdrawn and invalid applications and applications that have been received but a decision has not yet been taken.

The Commission directed one hearing during the year.

Appeals to the Scottish Land Court (SLC)

There were six appeals to the Scottish Land Court against decisions made by the Commission.

- One has progressed to a hearing
- Two were mutually disposed of
- One was conceded by the Commission
- One was withdrawn by the applicant

- One was dismissed by the SLC on the basis that the Court did not have the jurisdiction to hear the appeal.

In addition, the SLC issued orders confirming the Commission's decision to refuse an application to decroft land at North Ballachulish for a housing development and to decroft five whole crofts in Shetland. The SLC findings showed the Commission had exercised its discretion reasonably in the circumstances of these cases.



Bill Barron
Chief Executive and Accountable Officer
16 August 2017



Case study: Shetland

Caroline Maddison had not lived on her croft 2 Ordale in Unst, Shetland for many years. When she was completing her Crofting Census form Caroline realised that she was not complying with her Duties as a crofter, in particular the duty to be resident on, or within 32km, of her croft.

Although the croft had been used by a local crofter for grazing, the sublet approved by the Commission, had ended. Caroline realised that something needed to be done to rectify the situation and looked into the options available to her. She decided that the best solution for her, as she was settled in Lerwick and had no plans to return to live in Unst, was to assign the croft tenancy to somebody local who would make full use of the croft and comply with the duties of a crofter.

Caroline applied to the Crofting Commission to assign the tenancy to a neighbour of the croft, Cameron Ferguson. Cameron had a wealth of experience from working on his wife's croft for a number of years. He is an active member of the crofting community and is currently the Clerk for the Ordale Common Grazings.

Caroline said, "I have known Cameron for a long time and have seen how he has learned to work on the croft and become very confident and experienced, particularly with sheep. He is highly thought of in Unst and is very willing



to help others. Therefore, I felt very happy about asking him if he would be willing to take on the croft at 2 Ordale and was delighted when he confirmed he would."

Cameron added, "since taking on the tenancy of the croft I have run it in conjunction with No. 5 Ordale utilising the land for better stock management

and a slight increase in sheep numbers. I will be looking to renew rundown fencing and possibly some drainage over the next year to improve the land condition. Both my sons assist me with any croft work required and are quite experienced stock handlers. I would like to thank Caroline for this tenancy and her work in making the transfer so easy."

“Both my sons assist me with any croft work required and are quite experienced stock handlers.”

Case study: Skye

Fearann Eilean Iarmain applied to the Commission to decroft the vacant croft Harapul, Strath, Isle of Skye. The reason for the application was to sell the land to Lochalsh & Skye Housing Association for construction of affordable housing.

The land was allocated for housing in the West Highland & Islands Local Plan and the Housing Association had secured an offer of grant from the Scottish Government to assist with the purchase.

This application met all the criteria in the Crofting Commission Policy Plan;

- **Wider interests;** The land has not been cultivated for a number of years and granting the application will allow the creation of affordable housing in a rural community where housing is scarce.
- **Public interest;** Affordable housing will help support population retention and as the land has been fallow for a number of years will have no significant impact on the overall area of croft land.
- **Sustainable development;** the creation of housing will aid employment opportunities and the avoidance of dereliction of land



- **Access;** although access is currently limited to a rough track this could be upgraded.

There were no buildings on the croft and it does not share in the common grazings.

This decrofting application is a good example of what can be achieved when all parties work together to accomplish a result that will benefit the community. In this case, providing social

housing in a rural community where housing is scarce, helps young people to remain in the community. Fearann Eilean Iarmain, ensuring their application met the Commission's policy plan, Skye & Lochalsh Housing, supported the application and had funding in place to progress the project subject to Commission approval of the land being removed from crofting.



CROFTING COMMISSION
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Accountability Report 2016-17

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Directors' Report

Board of Commissioners



Malcolm Mathieson

– appointed by Scottish Ministers on 1 January 2017. Malcolm is an accountant by

profession and partner in a hill farm in Lochaber.



James Scott

– appointed by Scottish Ministers on 1 February 2017. James lives on the outskirts of Inverness and

runs a business, focussing on training and assessing skills in rural businesses.



David Campbell

– reappointed by Scottish Ministers on 1 April 2017. David lives near Evanton and represents the

interest of landlords of crofts.

These appointments will be for three years and were complimented by the election of a further six Commissioners on 17 March 2017.



Billy Neilson

–Elected, Billy was born into a farming family and has been a crofter in Taynuilt, Argyll for many years.

He was previously a development officer for the Croft Entrant Scheme and as an Assessor to the Commission sat on the Reference group, steering the 2010 Act through Parliament and as an invitee to the Crofting Cross Party Group.



Rod Mackenzie

– Elected, Rod lives and works his croft near Beauly. He was an auctioneer and still acts as

an auctioneer on a seasonal basis for Shetland Livestock Marketing Group. Rod has also been involved with the Black Isle Farmers Society as Secretary and organiser of the Black Isle Show for the past 12 years.



Mairi Mackenzie

– Elected, Mairi was born and brought up in Inverbroom near Ullapool and now runs crofts

at Loggie, Lochbroom.

These six elected Commissioners will sit on the Crofting Commission Board for the next 5 years.



Iain MacIver

–Elected, Iain has been involved in crofting on the Isle of Lewis all his life, both as an active crofter and Factor

to the Stornoway Trust.



Andy Holt

– Elected, Andy has been a crofter on the Island of Papa Stour, Shetland for the last 44 years.



Cyril Annal

– Elected, Cyril has been a crofter and farmer in South Ronaldsay, Orkney for the last 50 years, as well

as having served as a local authority councillor and community councillor. Cyril was also an Assessor to the Crofting Commission for 7 years.

Full details of the Commissioners' Register of Interests can be found on our website www.crofting.scotland.gov.uk/meet-the-commissioners

Board of Commissioners from April 2016 to 17 March 2017

Photograph Left to right:
William Swann, David Campbell,
Marina Dennis, Murdo MacLennan,
I G Macdonald, Colin Kennedy,
Arnie Pirie, Kathleen Sinclair



Senior Management Team



Bill Barron, Chief Executive Officer and Accountable Officer from 24 October 2016

Overall responsibility for strategy, operations, finance and management of the Crofting Commission. Ensures the Board of Commissioners receive accurate information and objective advice.



Donna Smith, Deputy CEO & Head of Operations

Leads on operational performance for the organisation with a focus on Corporate Planning, Performance Management, Corporate Development and overall responsibility for the IS strategy.



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.



Jane Thomas, Head of Corporate and Customer Services

Responsibility for communications and customer services for internal and external customers, including complaints and Freedom of Information requests. Lead officer for Equality & Diversity, Training and Standards Officer.



Joseph Kerr, Head of Regulation

Responsible for the overall management of the regulatory teams, which includes residence and land use and croft registration.



Catriona Maclean Chief Executive Officer and Accountable Officer to 23 October 2016.

Subsequently promoted to Deputy Director of Food, Drink and Rural Communities Division in the Scottish Government.



David Findlay, Solicitor

Provides the Crofting Commission with legal advice and deals with litigation involving the Commission.

Financial Analysis

On an income and expenditure accounting basis the financial outcome for the year on normal business activities reports a deficit of £49,000 (Surplus £152,000 2015-16). This deficit/ (surplus) 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's expenditure exceeded the Grant-in-Aid drawn down by £4,000 (£15,000 underspend 2015-16), which was funded from cash reserves.

Total operating expenditure for 2016-17 was £2.715M compared with £2.759M in 2015-16. This decrease of £44,000, is mainly due to the reduction in the Crofting Commission's accommodation costs of £35,000. This arose as a result of Her Majesty's Revenue and Customs now treating the Memorandum of Terms of Understanding agreement between the Crofting Commission and Scottish National Heritage as

exempt from Value Added Tax. Other notable reductions were recorded within Communication costs of £11,000, Commissioner Travel and Subsistence costs of £11,000, offset against an increase in Training costs of £12,000.

Expenditure on staff costs for year 2016-17 was £2.034M (£2.035M 2015-16). The net variance of £1,000 represents an increase in staff salaries and associated costs of £128,000 and reductions in temporary staff and Board member remuneration of £122,000 and £7,000 respectively. The reduction in Board member remuneration is due to the temporary agreement to increase Commissioner hours in 2015-16 expiring in January 2016 as delegated decision making was introduced for specific regulatory functions.

Depreciation and amortisation is £7,000 higher in 2016-17 as this represents the first full year of amortisation of the Croft Information System.

Summary of Deficit/(Surplus) for the year	2016-17 £000	2015-16 £000
Total Operating Expenditure	2,715	2,759
Grant-in-Aid Drawn Down	(2,437)	(2,540)
Other Income	(229)	(371)
Deficit/(Surplus)	49	(152)
Reconciliation of operational expenditure on an accrual basis to Grant-in-Aid drawn down	2016-17 £000	2015-16 £000
Deficit/(Surplus)	49	(152)
Exclude non-cash :		
Depreciation and Amortisation	(82)	(75)
Working capital adjustments involving:		
Debtors	24	(5)
Creditors	(5)	92
Investing activities	21	121
Cash expenditure in (excess)/underspend of Grant-in-Aid drawn down	(4)	15
Movement on Registers of Scotland dedicated bank account	(3)	4
Net Cash (Decrease)/Increase	(7)	19

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 34) and note 1.5 (Page 50) to these accounts.

Freedom of Information requests

The Crofting Commission received 74 requests quoting the Freedom of Information Act during year 2016-17 (64, 2015-16). 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 2017, the Crofting Commission paid 96.6% of its invoices within these terms (96.5% in 2015-16).

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 27 complaints (21 Frontline and 6 Investigations) during the year 2016-17 (40: comprising 19 Frontline and 21 Investigations during 2015-16). Full details of our complaints statistics can be reviewed on our website <http://www.crofting.scotland.gov.uk/complaints>

Non Audit Fees

The Auditor General for Scotland has appointed Deloitte LLP as auditor. Details of the audit fee for the year to 31 March 2017 are disclosed in note 3 (Page 52) to the accounts. Deloitte LLP 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 the Chief Executive of the Crofting Commission as Accountable Officer.

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 Memorandum to Accountable Officers for Parts of the Scottish Administration issued by Scottish Ministers.

Disclosure of Information to the Auditor

As Accountable Officer, as far as I am aware, there is no relevant audit information of which the Crofting Commission's auditor is unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the Crofting Commission's auditor is 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 2016-17

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, six of whom are elected by registered crofters, and three appointed by the Scottish Government. The Convener is selected from within the Board by the Cabinet Secretary for the Rural Economy and Connectivity.

Crofting Elections are held every five years to elect six members from their crofting constituencies to the Commission's Board. The second election of the Crofting Commission was held on 17 March 2017. This resulted in six new Commissioners' being appointed, and it is anticipated that they will serve from the date elected until the next elections in 2022.

The Cabinet Secretary for the Rural Economy and Connectivity, Fergus Ewing MSP, announced the three year appointment of Malcolm Mathieson (from 1 January 2017) and James Scott (from 1 February 2017) as Commissioners to the Board. He also announced the three year reappointment of David Campbell as a Commissioner from 1 April 2017. Malcolm Mathieson brings expertise in finance and governance to the Board.

More information on the Commissioners can be found on pages 22 and 23.

The role of the Board is to provide strategic leadership for the organisation, setting the policy direction and taking responsibility for the more significant or contested casework decisions. Commissioners set out their policy position by submitting a Policy Plan to the Scottish Ministers. They also oversee the work of the organisation and the Chief Executive is accountable to them for its performance.

During the year the Board undertook a number of key activities:-

- Refined and expanded the scheme of delegation of casework to officials, including setting parameters for when cases must be referred to Commissioners;
- Secured from officials clearer data on reasons for delays to cases, and called for such delays to be minimised whenever this was within the Commission's control;

- Promoted the work of the Crofting Commission at Roadshows across the crofting counties; and
- Gave evidence (through the Convener and senior officials) to the Scottish Parliament's Rural Economy and Connectivity Committee, about changes needed to crofting legislation.

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. This commitment will be sustained by the development and launch of a five year training and support programme that coincided with the March 2017 Crofting Elections.

The Board's terms of reference can be obtained from the Commissions website www.crofting.scotland.gov.uk

Audit and Finance Committee

A minimum of 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.

Commissioners during 2016-17

Commissioner	Method of Appointment	Attendance at Board Meetings during 2016-17
Colin Kennedy (Convener)* ¹	Elected	11/11*
Ian George Macdonald* ¹ (Vice Convener)	Elected	11/11*
Arnie Pirie* ¹	Elected	9/11*
Kathleen Sinclair* ¹	Elected	9/11*
Murdo MacLennan* ¹	Elected	8/11*
Mairi Mackenzie* ²	Elected	1/1*
Rod Mackenzie* ²	Elected	1/1*
Andy Holt* ²	Elected	1/1*
Cyril Annal* ²	Elected	1/1*
Iain MacIver* ²	Elected	1/1*
Billy Neilson* ²	Elected	1/1*
Marina Dennis* ¹	Appointed by Cabinet Secretary	10/11*
William Swann* ³	Appointed by Cabinet Secretary	1/2*
David Campbell* ⁴	Appointed by Cabinet Secretary	12/12*
Malcolm Mathieson* ⁵	Appointed by Cabinet Secretary	2/2*
James Scott* ⁶	Appointed by Cabinet Secretary	2/2*

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

*¹ = Term in Office ceased with effect from the second election of the Crofting Commission held on 17 March 2017.

*² = Elected to the Crofting Commission on a 5 year term with effect from 17 March 2017.

*³ = Resigned with effect from 2 June 2016.

*⁴ = 3 year re-appointment by the Scottish Government from 1 April 2017.

*⁵ = 3 year appointment by the Scottish Government from 1 January 2017.

*⁶ = 3 year appointment by the Scottish Government from 1 February 2017.

Audit & Finance Committee Members during 2016-17

Commissioner	Audit & Finance Committee Position	Attendance at Committee Meetings during 2016-17
Colin Kennedy	Chair	0/5*
William Swann* ²	Vice Chair	1/1*
Murdo MacLennan* ³	Vice Chair	4/4*
Kathleen Sinclair	Member	4/5*
David Campbell	Member	4/5*
Malcolm Mathieson* ¹	Vice Chair	0/0*
Rod Mackenzie* ¹	Member	0/0*

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

*1 = Appointments confirmed at Board Meeting 29 March 2017

*2 = Resigned with effect from 2 June 2016

*3 = Appointed as Vice Chair at Board Meeting 22 June 2016

The 2010 Act requirement for the Convener to chair the Committee “if present” at its meetings conflicts with 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 normally 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.

During 2016/17 The Audit and Finance Committee carried out a self-assessment based on the Scottish Government’s “On Board” checklist. The findings of this self-assessment demonstrated that good practice principals were adhered to in all areas of the Committee’s activities.

The Audit and Finance Committee terms of reference can be obtained from the Commission’s website www.crofting.scotland.gov.uk

Complaints Quality Assurance Committee

Three Commissioners were appointed by the Board to serve on the Complaints Quality Assurance Committee. This Committee met four times during the reporting year.

Complaint statistic information relating to 2016/17 can be found on page 25.

Complaints Quality Assurance Committee Members during 2016-17

Commissioner	Complaints Committee Position	Attendance at Committee Meetings during 2016-17
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

The Board regards complaints handling as a governance issue, linked to risk and compliance. It was agreed that from 19 April 2017 the most appropriate avenue to report on performance would be via the Audit & Finance Committee, and relayed to the Board as part of the Audit & Finance report, which is in line with the approach taken by other similar public sector bodies.

The Convener of the Crofting Commission

The Convener is responsible to the Scottish Ministers on behalf of the Crofting Commission for ensuring that the 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. At a Commission meeting held on 29 September 2016, the other six Board Members unanimously passed a motion requesting the Convener to resign forthwith. The Convener did not consent to this motion and continued in office for the remainder of his term, which ended on 17 March 2017.

Following the 17 March 2017 crofting elections, the Cabinet Secretary for the Rural Economy and Connectivity, Fergus Ewing MSP, announced the appointment of Commissioner, Rod Mackenzie as Convener of the Crofting Commission with effect from 20 June 2017.

Senior Management Team 2016-17

- Bill Barron (Chief Executive & Accountable Officer from 24 October 2016)
- Catriona Maclean (Chief Executive & Accountable Officer to 23 October 2016)
- Donna Smith (Deputy Chief Executive & Head of Operations)
- David Findlay (Commission Solicitor)
- Jane Thomas (Head of Corporate & Customer Services)
- John Toal (Head of Corporate Policy)
- Joseph Kerr (Head of Regulation)

More information on the Senior Management Team can be found on page 23.

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 as a standing item by both the Senior Management Team and the Audit and Finance Committee. 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 risks for the year to 31 March 2017 were of a reputational nature:

- 1) Arising as a result of a Commissioner(s) not accepting the collective decision of the Board and then making known publicly their dissent to the decision.
- 2) Mr Colin Kennedy issuing statements to the press criticising the Cabinet Secretary, the Commission's Chief Executive Officer and the Officials of the Commission.
- 3) Possible threat of legal action against the Commission and /or Commissioners' by Mr Colin Kennedy.

In order to mitigate the above risks the Code of Conduct for Members of Devolved Public Bodies was in place, supported by media protocol. Non-Department Public Body specific training materials were provided, including the offer of "On Board*" training.

* A guide for board members' of public bodies in Scotland.

As a result of the disagreements within the Board, the November 2016 meeting was cancelled, but in all other respects Board business continued as normal, with casework and policy decisions discharged by Commissioners throughout this period.

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 2017 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:

- 1) 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;
- 2) 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);
- 3) Comments made by external audit in their management letter and other reports;
- 4) 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;
- 5) 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
- 6) 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:

- Extension of the list of functions included within the programme of delegated decision making for specific regulatory functions. This has resulted in the majority of regulatory functions being delegated to officials, allowing the Board to move away from routine regulatory casework and focus upon strategic and leadership matters. More information can be found on page 11.

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 Scottish Government Governance Review report (See Significant Governance Issues below) noted a concern regarding the process surrounding the withdrawal of a previously declared interest. The Commissioner for Ethical Standards in Public Life in Scotland confirmed actions taken by the Commission's Standards Officer in relation to a complaint were correct.

External Audit

The Auditor General for Scotland has appointed Deloitte LLP as the Commission's external auditor for the five year period from 1 April 2016.

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 Core Financial Systems, Risk Management and Governance, and a Follow-Up Review of previous audit recommendations.

The internal audit findings are presented in the individual reports issued during the year to the Senior Management Team 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.

The findings of the Core Financial Systems review concluded that Crofting Commission has good controls in place over income and receivables, the financial ledger and non-current assets. One relatively minor area for improvement was identified.

The Risk Management and Governance Policies review reported areas of sound practice, including clearly documented committee terms of reference and a detailed risk register with risks linked to the Commission's Business Objectives. Areas identified for improvement were formally documenting the Commission's risk appetite, the risk management policy to provide description of the grading used to categorise the risk within the risk register and, no recent dedicated risk management training had been provided to staff, Audit and Finance Committee and Board members. All of the above recommendations for improvement have subsequently been addressed.

Each year the Internal Audit provider issues an annual report which includes an opinion on the system of internal control. The opinion for year 2016/17 is that *"In our opinion, the Crofting Commission has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives, the management of key risks, and the overall control environment. This is subject to the ongoing process of continuous improvement on the specific, targeted issues identified in our audit reports. In addition, although there are established governance processes and procedures in place, detailed work commissioned by Scottish Government led us to identify wider and significant issues in relation to aspects of governance within the Commission. An improvement plan had been developed and is being implemented in relation to these matters. We recommend these governance matters are appropriately disclosed in the 2016/17 governance statement."*

The Crofting Commission has disclosed these governance matters within the 'Significant Governance Issues' section of this statement.

Best Value

In 2015/16 Scott-Moncrieff completed a high level review of the activities the Crofting Commission delivered against each of the Best Value themes set out by the Scottish Government. The Audit & Finance Committee continued to monitor progress throughout 2016/17, with the majority of recommendations being comprehensively addressed.

Significant Governance Issues

During 2016-17 the Cabinet Secretary for the Rural Economy and Connectivity Fergus Ewing commissioned a review by Scott-Moncrieff, the internal audit services provider to the Crofting Commission, on the governance arrangements in place at the Commission. The report arising from this review was published on 10 February 2017. The report highlighted a number of governance issues, as well as making recommendations on the actions required to address them. I have prepared and issued an action plan on how the recommendations in the report are to be progressed. It is anticipated that the recommendations, once in place, will improve the corporate governance framework.

I am working to ensure that governance arrangements in place are robust and effective. The governance issues raised in the above report mainly relate to three contentious common grazing cases culminating at the Board meeting held at Brora on 29 September 2016. At this meeting governance issues arose which are not representative of the work we do in the normal course of the Commission's business where we endeavour to achieve best practice.

A copy of Scott-Moncrieff's report can be viewed at www.gov.scot/Topics/farmingrural/Rural/crofting-policy/GovernanceReview. The Crofting Commission's response can be viewed at www.crofting.scotland.gov.uk/userfiles/file/Act_and_Policy/Crofting-Commission-Governance-Action-Plan.pdf

The Crofting Commission's internal and external auditors will have an opportunity to assess progress against the action plan at the quarterly Audit & Finance Committee meetings.

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.
- Bringing together a substantially new Board, and clarifying their priorities, policies and ways of working.
- Ensuring individual Commissioner skills and development requirements are identified and supported with Board-wide and individual training programmes.
- Managing a volume of cases contested in the Scottish Land Court, including a significant number of challenges to first registration of a croft or a common grazings.

Personal Data Security

There were no known incidents of personal data breaches in 2016-17 (2015-16: Nil).

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 Elected Board Members appointments are for five years commencing 17 March 2017. Board Members who have been appointed by the Cabinet Secretary for the Rural Economy and Connectivity are on three year terms, and the appointment dates can be viewed within the Board Remuneration Report on page 35.

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:

	2016-17 £	2015-16 £
Commissioners who held office during 2016/17		
Colin Kennedy*,*6 (Convener from 24 June 2015)	22,275	21,759
Susan Walker (Convener to 8 May 2015) (Full year equivalent)	- (20,575)	4,202 (20,371)
Ian George Macdonald*,*6	10,410	11,207
Kathleen Sinclair*,*6	10,410	11,207
Marina Dennis*,*6	10,410	11,207
Murdo MacLennan*,*6	10,410	11,207
David Campbell*,*6,*7	10,410	11,207
Arnie Pirie*, *5,*6	9,685	7,216
Malcolm Mathieson*4	2,268	-
William Swann*1,*6	1,795	11,207
James Scott *3	1,452	-
Andrew Holt*2	726	-
Cyril Annal*2	726	-
Rod Mackenzie*2,8	726	-
Billy Neilson*2	726	-
Mairi Mackenzie*2	726	-
Iain MacIver*2	726	-
(Full year equivalent)	(8,710)	(8,623)

* Position cease with effect from 17 March 2017

*1 Resigned with effect from 2 June 2016

*2 Elected Commissioner role commenced from 17 March 2017

*3 3 year appointment by the Scottish Government from 1 February 2017.

*4 3 year appointment by the Scottish Government from 1 January 2017.

*5 Commissioner was on reduced hours.

*6 Remunerated more than the full year equivalent due to vacant post salaries being shared equally between Commissioners for absorbing additional duties.

*7 3 year re-appointment by the Scottish Government from 1 April 2017.

*8 Appointed as Convener by the Scottish Government from 20 June 2017.

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	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£000	£000	£000	£000	£000	£000
Chief Executive						
Bill Barron	30-35	–	3	–	30-35	–
Full-year equivalent	65-70	–	–	–	65-70	–
Catriona Maclean	35-40	65-70	20	39	55-60	100-105
Full-year equivalent	65-70	–	–	–	65-70	–
Senior Management Team						
David Findlay	55-60	55-60	23	22	80-85	75-80
Donna Smith	50-55	45-50	0	0	50-55	45-50
Jane Thomas	40-45	40-45	10	13	50-55	55-60
Joseph Kerr	40-45	35-40	29	25	70-75	60-65
John Toal	40-45	35-40	15	23	55-60	60-65

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 2016-17 (2015-16: Nil).

Bonuses

There were no bonuses within 2016-17 (2015-16: 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 2016-17 was £65k-£70k (2015/16 £65k-70k). This was 2.7 times (2015/16 2.8) the median remuneration of the workforce which was £24,833 (2015/16 £24,146).

In 2016-17 Nil (2015/16 Nil) employees received remuneration in excess of the Chief Executive. Remuneration ranged from £17,242 to £58,694 (2015/16 £16,842 to £55,928).

Pension Benefits

	Accrued pension at pension age as at 31/03/17 and related lump sum		Real increase in pension and related lump sum at pension age		CETV at 31/03/17	CETV at 31/03/16	Real increase in CETV as funded by employer
	£000		£000		£000	£000	£000
	Pension	Lump sum	Pension	Lump sum			
Chief Executive							
Bill Barron	25-30	85-90	0-2.5	0-2.5	631	624	2
Catriona Maclean	20-25	65-70	0-2.5	2.5-5	462	439	17
Other senior staff							
David Findlay	0-5	0	0-2.5	0	25	13	8
Jane Thomas	5-10	0	0-2.5	0	199	180	10
John Toal	5-10	25-30	0-2.5	0-2.5	224	199	15
Joseph Kerr	10-15	40-45	0-2.5	2.5-5	299	260	27
Donna Smith	Partnership pension. Employer's contribution for the year 5-10						

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

Unaudited

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 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: 3 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 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 8% and 14.75% (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 0.5% of pensionable salary 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 2016-17 £000	Total 2015-16 £000
Salaries	1,340	94	–	1,434	1,354
Social security costs	127	4	–	131	98
Other pension costs	271	–	12*	283	275
Temporary staff	–	–	186	186	308
Total	1,738	98	198	2,034	2,035

	2016-17 £000	2015-16 £000
* Pensions paid to former Commissioners under “other pension costs”	12	12

There were no off-payroll arrangements for staff during 2016-17.

Unaudited

Average number of full time equivalent persons employed

	2016-17		2015-16	
	Permanently employed staff	Others	Permanently employed staff	Others
Directly employed	48.75	–	47.33	–
Temporary staff	–	5.5	–	8.3
Staff engaged on capital projects	–	–	1.38	0.42
Total	48.75	5.5	48.71	8.72

Gender Note

	Males	Females	Males	Females
	31 March 2017	31 March 2017	31 March 2016	31 March 2016
Commissioners	8	1	6	2
Chief Executive*	1	–	–	1
Employees	18	37	17	44

* 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 as at 31 March 2017 (including agency) not full time equivalents

Sickness Absence

Sickness absence during the year to 31 March 2017 was 611 days (2015-16 – 461 days), representing 5.5% (2015-16: 4.1%) of the total number of available days. This equates to an average number of days sickness per member of staff of 12.4 days (2015-16: 9.3 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/civil partnership status, age, race, ethnic origin, sexual orientation, disability, religion or belief, working pattern, employment status, gender identity (transgender), maternity or paternity status, 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.

Audited

Parliamentary Accountability Disclosures

Losses and special payments

There were no losses or special payments made during the year 2016-17 (2015-16: Nil).

Gifts and Charitable Donations

There were no gifts or charitable donations made during the year 2016-17 (2015-16: Nil).

Remote Contingent Liabilities

At 31 March 2017 there were no remote contingent liabilities to report.



Bill Barron

Chief Executive and Accountable Officer
16 August 2017

Independent Auditor's Report

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

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 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Crofting Commission for the year ended 31 March 2017 under the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and 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 notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and 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 2017 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 2016/17 FReM; and
- have been prepared in accordance with the requirements of the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal

control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the

information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to 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 us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

We are required by the Auditor General for Scotland to express an opinion on the following matters.

In our opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

In our opinion, based on the work undertaken in the course of the audit

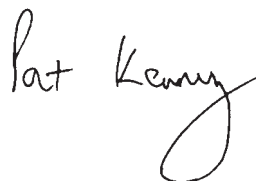
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Crofters (Scotland) Act 1993 as amended by the Crofting Reform (Scotland) Act 2007 and the Crofting Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street
Glasgow
G1 3BX
16 August 2017



**CROFTING COMMISSION
COIMISEAN NA CROITEARACHD**

Financial Statements 2016-17

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Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Other operating income	2	(229)	(371)
Total operating income		(229)	(371)
Staff costs	Staff Report page 40	2,034	2,035
Depreciation and Amortisation	3,4,5	82	75
Other operating expenditure	3	599	649
Total operating expenditure		2,715	2,759
Net operating expenditure		2,486	2,388

The notes on pages 50 to 56 form part of these accounts

Statement of Financial Position

as at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets:			
Information Technology Equipment	4	23	42
Intangible assets (Software)	5	126	168
Total non-current assets		149	210
Current assets			
Trade and other receivables	6	58	34
Cash and cash equivalents	7	93	100
Total current assets		151	134
Total assets		300	344
Current liabilities			
Trade and other payables	8	111	86
Other liabilities	8	72	79
Provisions	9	3	16
Total current liabilities		186	181
Total assets less current liabilities		114	163
Total assets less total liabilities		114	163
Taxpayers' equity			
General fund		114	163



Bill Barron
 Chief Executive and Accountable Officer
 Date 16 August 2017

The Accountable Officer authorised these financial statements for issue on 16 August 2017

The notes on pages 50 to 56 form part of these accounts

Statement of Cash Flows

for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Net operating expenditure		(2,486)	(2,388)
Adjustment for non-cash transactions			
Depreciation and Amortisation	3,4,5	82	75
Movements in working capital			
(increase)/decrease in trade and other receivables	6	(24)	5
Increase/(decrease) in trade and other payables & provisions	8,9	5	(92)
Net cash outflow from operating activities		(2,423)	(2,400)
Cash flows from investing activities			
Purchase of information technology equipment	4	(15)	(14)
Purchase of intangible assets	5	(6)	(107)
Net cash flow from investing activities		(21)	(121)
Total cash outflows		(2,444)	(2,521)
Cash flows from financing activities			
Grant-in-Aid		2,437	2,540
Net (decrease)/increase in cash and cash equivalents		(7)	19
Cash & cash equivalents at the beginning of the period		100	81
Cash & cash equivalents at the end of the period		93	100

The notes on pages 50 to 56 form part of these accounts

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2017

	£000
Balance at 1 April 2016	163
Grant-in-Aid	2,437
	2,600
Comprehensive net expenditure for the year	(2,486)
Balance at 31 March 2017	114
Balance at 1 April 2015	11
Grant-in-Aid	2,540
Total recognised expenditure for 2015-16	2,551
Comprehensive net expenditure for the year	(2,388)
Balance at 31 March 2016	163

The notes on pages 50 to 56 form part of these accounts

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM) issued by HM Treasury and the Accounts Direction (page 57) issued by Scottish Ministers.

The (FReM) 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.

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

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.

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 has 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 Principal Civil Service Pension Scheme (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 2017 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 2017 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 with the bank and on hand. Cash with the government banking service includes an account in the name of the Crofting Commission solely holding monies collected, as well as cheques received but not yet lodged, on behalf of the Registers of Scotland.

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 Adoption of New and Revised Standards

At the date of authorisation of these financial statements, the following Standard and Interpretation which has not been applied in these financial statements was in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9, Financial Instruments (2014) (effective 1 January 2018)

The Crofting Commission does not expect that the adoption of the Standard and Interpretation detailed above will have a material impact on the financial statements of the Crofting Commission in future periods.

The following amendments to IFRS', issued by the International Accounting Standards Board, that are mandatorily effective in the current year have been considered and adopted by the Crofting Commission:

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements 2012-2014 Cycle
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 7 – Disclosure Initiative
- Disclosure Initiative (Amendments to IAS 7) – effective for annual periods on or after 1 January 2017.

1.13 Critical Accounting Judgements and Key Sources of Estimation

In the application of the Crofting Commission's accounting policies as described in Note 1, the Board are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying

assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The Commissioners do not consider there are any critical judgements or sources of estimation uncertainty requiring disclosure beyond application of the policies above.

2. Other Income

All other income receivable by the Crofting Commission that is not part of Grant-in-Aid is recognised in the year in which it is receivable.

	2017 £000	2016 £000
Scottish Government Pressure Funding	229	371
Total	229	371

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.

3. Other operating expenditure

	2017 £000	2016 £000
Accommodation expenses	163	198
Information systems & telecommunications	80	88
Training	43	31
Communication	60	71
Regulatory advertising expenses	39	44
Assessors' conference & travel expenses	4	5
Travel & subsistence – staff	22	20
Travel & subsistence – Commissioners	32	43
Legal fees	14	12
External Auditor's remuneration	17	15
Internal Auditor's remuneration	7	9
Other running costs	118	113
	599	649
<u>Non-cash items</u>		
Depreciation	34	39
Amortisation	48	36
	681	724

4. Information Technology Equipment

£000

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

Cost

1 April 2016	220
Additions	15
Disposals	(28)
31 March 2017	207

Depreciation

1 April 2016	(178)
Charged in year	(34)
Disposals	28
31 March 2017	(184)

Net book value at

31 March 2016	42
31 March 2017	23

5. Intangible assets – Software

	£000
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
Cost	
1 April 2016	847
Additions	6
Disposals	(184)
31 March 2017	669
Amortisation	
1 April 2016	(679)
Charged in year	(48)
Disposals	184
31 March 2017	(543)
Net book value at	
31 March 2016	168
31 March 2017	126

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:

	2017 £000	2016 £000
Receivables	25	0
Prepayments	33	34
Total	58	34

7. Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April 2016	100	81
Net change in cash & cash equivalents	(7)	19
Balance at 31 March 2017	93	100

The following balances at 31 March were held with the Government Banking Service and cash in hand	93*	100
Balance at 31 March 2017	93	100

* The £93k consists of £21k Crofting Commission cash reserves and £72k of funds collected on behalf of Registers of Scotland. The previous year's £100k consisted of £21k Crofting Commission and £79k of Registers of Scotland monies.

8. Trade payables and other current liabilities

Amounts falling due within one year:

	2017 £000	2016 £000
Accruals	111	86
Other liabilities	72	79
Total	183	165

9. Provisions

	2016-17 £000
Opening Balance 1 April 2016	16
Expenditure in the year charged against the provision	13
Closing balance at 31 March 2017	3

The provision represents estimated legal expenses 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 £11,200.

As this potential obligation will only be confirmed by future decisions of the Courts which are outwith the Crofting Commissions control, this has been disclosed as a contingent liability.

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 transactions during the year. Financial transactions with the Directorate comprised Grant-in-Aid of £2,437,293 as disclosed in the Changes in Taxpayers Equity statement and other income of £229,246 (note 2, page 52).

The Crofting Commission occupies premises shared with and provided by Scottish Natural Heritage. Financial expenditure in the year with SNH totalled £208,725.

12. Financial instruments

Financial assets and financial liabilities are recognised when the Crofting Commission becomes party to the contractual provision of the instrument. All financial assets and liabilities are initially measured at transaction price (including transaction costs). The Crofting Commission only have financial assets and liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value.

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 (FRM) 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



