

Police Investigations and Review Commissioner

Annual report on the 2013/14 audit



Prepared for the Police Investigations and Review Commissioner and the Auditor General for
Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key messages

2013/14

The Police and Fire Reform (Scotland) Act expanded the remit of the Police Complaints Commissioner for Scotland (PCCS) to include investigations into the most serious incidents involving the police. To reflect this change, the PCCS was renamed the Police Investigations and Review Commissioner (PIRC). 2013/14 is the first full year of operation of PIRC with these added responsibilities.

In 2013/14 we assessed the key strategic and financial risks being faced by PIRC. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit opinion on the financial statements of the PIRC for 2013/14. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers. We did however comment on the need for a quality management review in advance of providing the draft financial statements for audit review.

The cash budget approved by Scottish Ministers for 2013/14 was £2,631,000 for the operation of PIRC. The budget increased significantly from 2012/13 as a result of the expansion in role of the Commissioner. An additional budget of £224,000 was also carried forward from 2012/13 to cover the costs associated with the establishment of PIRC.

In 2013/14 the net operating costs were £2,454,000 (2012/13: £1,148,000) and capital expenditure was £118,000 (2012/13: £187,000). The resultant budget underspend was returned to the Scottish Government.

In 2013/14 PIRC had, in general, sound corporate governance structures in place. A more robust process was introduced for receiving assurances from the Directors of Investigations and Reviews. However there continues to be an anomaly in that the Director of Corporate Services provides assurance to himself in his role as Accountable Officer. To address this issue, assurances are being provided to the Commissioner.

We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

PIRC has sound arrangements for recording and managing performance in complaints handling, investigations and business operations. Internal monitoring against corporate objectives is reported regularly to the Audit and Accountability Committee using the balanced scorecard method.

Outlook

The Scottish public sector continues to experience significant financial challenges in providing expected levels of service within the agreed financial framework. However in recognition of the

increased demand for complaints handling reviews and investigation services, the 2014/15 budget for PIRC has been increased to £2,731,000. The challenge for PIRC will be to maintain service delivery at a time when the full resource demands arising from its enhanced responsibilities are uncertain.

A new Commissioner took up post in August 2014 following the retiral of the previous incumbent. During this period of change, it is essential that PIRC continues to perform effectively and meets its key business objectives.

Introduction

1. This report summarises our findings arising from the 2013/14 audit of the Police Investigations and Review Commissioner (PIRC). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks, some of which involved a high degree of judgement by management, some of which had the potential to have significant impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix A sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that PIRC understands its risks and has arrangements in place to manage these risks.
5. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of PIRC and no responsibility to any third party is accepted.
6. This report is also addressed to the Auditor General and will be published on our website after consideration by the Audit and Accountability Committee.

Financial statements

Conduct and scope of the audit

7. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan which was submitted to the Audit and Accountability Committee in February 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
8. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan.
9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report.

Audit opinion & accounting issues

10. We have given an unqualified opinion that the financial statements of the Police Investigations and Review Commissioner (PIRC) for 2013/14 give a true and fair view of the state of the body's affairs and its net operating costs for the year. The audit opinion was signed on 30 September 2014. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.
11. The working papers supplied were generally of an acceptable standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 11 July 2014.
12. PIRC is required to follow the 2013/14 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
13. We also reviewed the governance statement and concluded that it complied with Scottish Government guidance.

Significant findings (ISA260)

14. During the course of the audit we identified a number of significant issues which are discussed further below.
15. **Financial statements preparation.** The accounts were provided for audit review a week after the agreed date of 23 June 2014. In addition, the governance statement was not made available until after our onsite work had concluded. We raised a number of matters in relation to the general layout of the financial statements; for example, the remuneration report did not reflect the necessary disclosures in order to comply with the FReM and the original Statement

of Financial Position did not balance. There were a significant number of changes made to the financial statements, notes and narrative as a result of our audit review.

16. A formal financial statements preparation timetable should be prepared and followed. Officers should adhere to the key stages and allowance should be made to include a management quality review of the unaudited financial statements prior to submitting the accounts for audit in order to minimise the number of changes required.

Refer Action Plan No. 1

17. **Capital expenditure.** The FReM states that the accounting policies adopted by the reporting entity should be applied consistently in dealing with items that are considered material to the accounts. Our audit identified a number of errors and inconsistencies in the classification of capital expenditure. For example a number of IT annual software licences were capitalised in error. There were also misclassifications of some asset types. Adjustments were subsequently made to the draft financial statements.

18. While adjustments have been processed to reflect our findings and audit testing has provided evidence to the adequacy of the figures reported as capital expenditure, we have asked for assurance from the Accountable Officer that capital expenditure is properly stated. Officers should ensure that processes are introduced to ensure that expenditure is appropriately classified.

Refer Action Plan No. 2

Financial position

2013/14 Outturn

19. PIRC is funded from Grant in Aid received from Scottish Government. The organisation is required to work within its cash budget set by the Scottish Government as detailed below.

Table 1: 2013/14 Budget

	Budget (£'000)	Actual outturn (£'000)	Under spend (£'000)
Adjusted budget for 2013/14	2,631		
Budget carry forward	224		
Actual outturn (revenue)		2,454	
Actual outturn (capital)		118	
Total	2,854	2,572	282

Source: Police Investigations and Review Commissioner annual report and accounts 2013/14

Budgetary control

20. Net operating costs were £2,454,000 and capital expenditure was £118,000 during 2013/14, which was funded by grant in aid of £2,854,000. The resultant underspend was returned to the Scottish Government as part of the budget revision process.
21. PIRC has a system of budgetary control which operated throughout the year with reports being considered by the senior management team. PIRC operates within tight financial constraints with a high proportion of fixed costs e.g. staff salaries, accommodation rental and utility costs. In addition, as the required volume of investigations and complaints handling reviews is demand led there is limited flexibility in controlling the associated variable costs.

2013/14 financial position

22. The Statement of Financial Position shows a net asset position of £382,000 at 31 March 2014 (2012/13: £525,000). This reduction of £143,000 is largely reflected by a reduction in the bank balance of £319,000 and a decrease of £117,000 in trades and other payables. The change in these balances is related as less cash is being held in advance to pay for the reduced level of trade payables accrued.

Financial planning

23. The Sponsor Department has approved a budget of £2,731,000 for 2014/15. This represents an increase of 3.8% (£101,000) from the original 2013/14 budget (£2,630,000). The sponsor department has recognised the impact of increased demand for services. PIRC are in regular contact with their sponsor department to adjust and match the budget to organisational need.

Corporate governance and systems of internal control

24. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements.

Overall effectiveness

25. Corporate governance arrangements operated effectively during 2013/14. PIRC has a range of policies and procedures which govern its activities and behaviours to ensure that it complies with best practice. A review of these policies is conducted each year by the management team as part of the activities supporting the review of systems of internal control. This review forms part of the governance statement preparation and review process.

Processes and committees

26. Primary legislation established the Police Complaints Commissioner for Scotland (PCCS) as an independent Commissioner with no Board and therefore no Audit Committee. However the Commissioner established an Audit and Accountability Committee in August 2010 which acts as an advisory function to provide a challenge mechanism to officers and follows the principles set out in the Scottish Government Audit Committee handbook. This structure was continued

to PIRC. We are pleased to report the Audit and Accountability Committee met on a regular basis during 2013/14 and we consider that it operated effectively.

Accounting and internal control systems

27. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
28. Our audit work identified no material weaknesses in the accounting and internal control systems that would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
29. In their annual report for 2013/14, the PIRC's internal auditors, Baker Tilly, provided their opinion that, based on the internal audit work undertaken during the year, there were no major weaknesses in risk management, governance and control processes. Areas of Governance, Risk Management and Control were deemed to be good and there were no significant issues that required disclosure.
30. In the interests of an efficient audit approach, we also rely on assurances received from the auditor of the Scottish Government on work performed on the shared systems that operate at PIRC, which are hosted by the Scottish Government. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
31. Two central systems assurance letters, covering payroll and financial services, were provided by the auditor of the Scottish Government. The auditor was able to conclude that the controls tested, operated effectively throughout the period from 1 April 2013 to 31 March 2014. An exception was noted in relation to the controls in operation over permanent and temporary changes to payroll. Similar issues were identified by officers through the application of local controls.

Governance statement

32. The governance statement included in the financial statements provides a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period and is in accordance with Scottish Government guidance.
33. As part of the process for gaining assurance over the systems of internal control, the Accountable Officer requests confirmation of the operation of controls from the other PIRC directors. Statements of assurance were received from each director. However an anomaly continues to exist whereby the Accountable Officer who has responsibility for key systems of internal control, provides assurance to the Commissioner as opposed to the Accountable Officer. This situation arises as, under the current PIRC structure, the Director of Corporate Services is also the Accountable Officer.

Refer Action Point No. 3

34. We consider that the 2013/14 governance statement has been fairly stated and reflects management's responsibilities and processes by which the assurances on the system on internal control are obtained.

Prevention and detection of fraud and irregularity

35. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.
36. Within PIRC these arrangements include fraud and whistleblowing policies as well as a code of conduct for staff. These policies are reviewed on a regular basis and amended when necessary. There were no instances of fraud or corruption reported by PIRC in 2013/14. The arrangements in place for preventing and detecting fraud or irregularity are appropriate for the organisation.

Standards of conduct and arrangements for the prevention and detection of corruption

37. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

38. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
39. The principles of best value have been integrated into the PIRC Corporate Plan objectives and the annual Business Plan. Performance against these corporate objectives is monitored on a quarterly basis through Business Plan updates presented to the Audit and Accountability Committee.

Performance

40. No statutory performance targets are in place for PIRC. However, internal monitoring against corporate objectives operated throughout the year using the balanced scorecard method. These objectives are derived from the legislation that set up PIRC and the Scottish Government's National Performance Outcomes. The Audit and Accountability Committee receive regular performance updates which highlight the organisation's position against 25 key measures split over 4 main areas.

Outlook

41. As noted in the annual report, the Commissioner, Professor John McNeill, who had been in post since August 2009, retired in August 2014. A new Police Investigations and Review Commissioner took up post in August 2014 following a brief period of overlap. This period of overlap should help to contribute to consistency and continuity in the operations of PIRC.
42. Ensuring that PIRC performs effectively and meets its key business objectives during this period of change within the continuing financial constraints will be the main challenge going forward. PIRC needs to ensure that its management and governance structures are operating effectively to monitor and scrutinise performance effectively.

Acknowledgements

43. We would like to express our thanks to the staff of Police Investigations and Review Commissioner for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: key audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

	Audit Risk	Assurance procedure
1.	<p>Year end cash balance. As at 31 March 2013, the cash balance was £582,000. The drawing down of cash in advance is contrary to the FReM and there is a risk that it may not represent value for money.</p>	<p>The closing balance was subject to detailed audit review as part of our final accounts audit. We are satisfied that the balance as at 31 March is more closely aligned to the level of expenditure committed but not yet paid and there remains only £6,000 unallocated at the year end.</p>
2.	<p>Assurance arrangements. Governance arrangements should be reviewed and revised to ensure that the Accountable Officer can obtain the necessary assurances on the maintenance and review of internal control systems.</p> <p>There is a risk that corporate governance procedures are ineffective and the Accountable Officer is unable to sign the accounts.</p>	<p>We discussed the proposed arrangements with the Accountable Officer during the year and assessed the procedures as part of our work on the governance statement. The Directors of Investigations and Reviews provide assurances to the Accountable Officer. However an anomaly continues to exist in relation to the assurances provided by the Director of Corporate Services who is also the Accountable Officer. In an attempt to address this anomaly, the Director of Corporate Services provides assurance directly to the Commissioner. We continue to discuss alternative approaches to receiving assurances with the Accountable Officer.</p>
3.	<p>Performance monitoring. Performance measures do not reflect all corporate/business objectives (for example, the addition of the investigations function). In the absence of relevant performance measures, there is a risk that slippage in quality of service provided could go unchecked which could have an adverse effect on the reputation of PIRC.</p>	<p>All Corporate Objective 'Key Milestones/Measures of Success' now have corresponding performance measures.</p>

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
1	16	<p>Financial statements preparation</p> <p>Draft financial statements were not provided in accordance with planned dates. In addition the accounts were incomplete. Management review of the accounts was not completed in advance of providing the draft accounts to audit.</p> <p>Risk</p> <p>A qualified opinion is given on the financial statements due to the absence of evidence. The audit is delayed due to the absence of management review.</p> <p>Recommendation</p> <p>Officers should adhere to the key dates and allowance made to include a management quality review of the unaudited financial statements prior to submitting the accounts for audit.</p>	<p>A timetable will be agreed in March 2015 with all parties (including SG and Auditors) for the preparation of our accounts and management review to ensure that they are in order by the agreed date.</p>	Director of Corporate Services	March 2015
2	18	<p>Capital expenditure</p> <p>There were a number of inconsistencies in the classification of capital and revenue expenditure.</p>	<p>This matter reflects a couple of mis-posted items which have been rectified during the audit process. PIRC will review</p>	Finance Officer	August 2014

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
		<p>Risk</p> <p>There is risk that the financial statements are misstated.</p> <p>Recommendation</p> <p>Officers should ensure that processes are introduced to ensure that only appropriate items are capitalised in accordance with the FReM definition.</p>	<p>their finance procedures to ensure that all invoices greater than £1k in value are discussed with the Director of Corporate Services and classification to be agreed at this stage.</p> <p>The decision will be recorded on the PIRC purchase order form.</p>		
3	33	<p>Assurance arrangements.</p> <p>There continues to be an anomaly in that the Director of Corporate Services provides assurances on the effectiveness of the system of internal control to himself, as Accountable Officer.</p> <p>Risk</p> <p>There is a risk that corporate governance procedures are ineffective.</p> <p>Recommendation</p> <p>Discussions should be held with the Commissioner and Sponsor Department to highlight this anomaly and to consider alternative action.</p>	<p>Director of Corporate Services will be discussing this issue with the new Commissioner and options will be discussed at the Audit and Accountability Committee.</p>	Director of Corporate Services	December 2015