



Scott-Moncrieff
business advisers and accountants

Police Investigations and Review Commissioner

2016/17 Annual Audit Report to the Police
Investigations and Review Commissioner and
the Auditor General for Scotland

October 2017

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Summary

Financial statements

The Police Investigations and Review Commissioner (PIRC) approved the annual report and accounts for the year ended 31 March 2017 on 19 October 2017. We reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We also reported that there were no matters that we were required to report on by exception.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Governance Statement; and
- Consideration of the financial sustainability of PIRC and the services that it delivers over the medium and longer term

- A £124,000 surplus was reported in 2016/17 against a revenue budget of £3.186 million (excluding non-cash depreciation costs).
- No capital expenditure has been incurred during the year.
- A balanced budget has been set for 2017/18. PIRC has a revenue budget of £3.186 million for 2017/18, representing no movement on the 2016/17 allocation.
- PIRC has undergone a management restructure during the year in order to reduce the number of senior management and redirect funds where needed to support increased demand levels.

Our conclusions are set out below:

Governance statement

- We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.
- PIRC has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in PIRC's accounting and internal control systems.

Financial sustainability

- Overall, PIRC has effective arrangements in place for financial planning and monitoring.
- PIRC has set a balanced budget for 2017/18. As at August 2017 spend was below the phased budget forecast by £0.51million.
- In order to lessen the senior management burden and redirect funds to areas of greatest need the PIRC management structure has changed in 2016/17.
- PIRC has a rolling three year strategic plan in place but no formally documented medium term financial plan.
- PIRC has submitted a proposal to the Scottish Government for increased funding in 2017/18 in order to meet increased demand levels.

Conclusion

This report concludes our audit for 2016/17. We performed our audit in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
October 2017

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Introduction

Introduction

1. This report summarises our findings from our 2016/17 audit of the Police Investigations and Review Commissioner (“PIRC”).
2. We outlined the scope of our audit in our external audit plan, which we presented to the Audit and Assurance Committee(AAC) in March 2017. The core elements of our audit work in 2016/17 have been:
 - an audit of PIRC’s 2016/17 annual report and accounts; and
 - consideration of PIRC’s arrangements for securing financial sustainability.
3. PIRC is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We discussed and agreed the content of this report with the Director of Operations. We would like to thank all management and staff for their co-operation and assistance during our audit.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help PIRC assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to PIRC through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice.

In this way, we aim to help PIRC promote improved standards of governance, better management and decision making and more effective use of resources.

7. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.
8. This report is addressed to both the PIRC and the Auditor General for Scotland and will be published on Audit Scotland’s website. www.audit-scotland.gov.uk.

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Financial statements

Financial statements

Introduction

9. PIRC's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. We outline the respective responsibilities of PIRC and the auditor in relation to the financial statements in Appendix 2.
10. In this section we summarise the issues arising from our audit of the 2016/17 financial statements.

Overall conclusion

Unqualified audit opinions

11. The financial statements for the year ended 31 March 2017 were approved by PIRC on 19 October 2017. We have reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity; and
 - an unqualified opinion on other prescribed matters.
12. We are also satisfied there are no matters which we are required to report by exception.

Administrative processes were in place

13. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to all staff for their assistance.
14. Arrangements are in place to enable the annual report and accounts to be submitted to the Auditor General for Scotland prior to the 31 October 2017 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in exhibit 1 below.

Exhibit 1 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that PIRC could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Extract from the External Audit Plan presented to AAC



16. The PIRC does not undertake any income generating activities. Grant in Aid funding from the Scottish Government is the only source of income. We do not believe the risk of fraud in revenue recognition is therefore applicable to the annual accounts and have therefore rebutted this risk.

Exhibit 1 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

2. Management Override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

Extract from the External Audit Plan 2016/17 presented to AAC



- 17.** We have not identified any indications of management override in the year. We have reviewed the PIRC's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.

Our application of materiality

- 18.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
- 19.** Our initial assessment of materiality for the financial statements was £45,000. This assessment was revised to £47,700 following receipt of the draft financial statements. Our assessment of materiality equates to approximately 1.5% of PIRC's net operating expenditure. Achieving a breakeven position is a key target for PIRC and one of the principal considerations for the users of the financial statements when assessing financial performance.
- 20.** We set a level of performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement

Area risk assessment	Weighting	Performance materiality
High	40%	£19,080
Medium	50%	£23,850
Low	70%	£33,390

- 21.** We agreed to report any misstatements identified through our audit that fall into one of the following categories:
 - All material corrected misstatements;
 - Uncorrected misstatements over £2,250; and
 - Misstatements below £2,250 that we believe warrant reporting on qualitative grounds.

Audit differences

- 22.** We are pleased to report that there were no material adjustments to the draft financial statements. We identified some minor disclosure and presentational adjustments that have been reflected in the final financial statements.

Accountable Officer representations

23. We have requested that a signed representation letter be presented to us at the date of signing the financial statements. This letter is to be signed by the Accountable Officer on behalf of PIRC.

An overview of the scope of our audit

24. We detailed the scope of our audit in our External Audit Plan. We presented the plan to the AAC in March 2017. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to PIRC. This ensures that our audit focuses on the areas of highest risk.
25. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
26. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
27. The audit team completed tailored audit procedures, including those designed to address significant risks. The audit manager and audit partner reviewed the results. In performing our work, we have applied the concept of materiality.

Systems of internal control

28. PIRC has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in PIRC's accounting and internal control systems.

Internal audit

29. PIRC's internal audit function is provided by the RSM Tenon. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the governance statement.

Governance statement

30. We are satisfied that the Governance Statement complies with the Scottish Ministers'

guidance and that the content is consistent with the financial statements.

Remuneration report

31. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.
32. As part of a management restructuring in 2016/17 PIRC considered which of the roles within the organisation met the definition of a Director as outlined in the FReM. On this basis, some individuals that were included in the 2015/16 report have not been included in 2016/17. The PIRC have included a narrative disclosure to this effect within the Remuneration Report in order to increase transparency for users of the accounts.

Performance report

33. We are satisfied that the Performance Report is consistent with the financial statements and has been prepared in line with Scottish Ministers' guidance.

Regularity

34. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Follow up of prior year recommendations

35. As part of our audit, we have followed up on the recommendations raised by the previous external auditors in 2015/16. The table below indicates that seven recommendations were raised and six have been implemented. Further detail on these recommendations and the one that remains ongoing is included in the action plan at Appendix 1.

Number of recommendations raised in 2015/16	Complete
7	6

Qualitative aspects of accounting practices and financial reporting

36. We have considered the qualitative aspects of the financial reporting process, including items

that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the

financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate to PIRC.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We consider the accounting estimates and judgements used by management in preparing the financial statements to be appropriate. The principal area of estimate and judgement is asset depreciation rates.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any financial statements disclosures to bring to your attention.	There are no financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered during the audit.

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Financial sustainability

Financial sustainability

37. Financial sustainability looks forward to the medium and longer term to consider whether PIRC is planning effectively to continue to deliver its services or the way in which they should be delivered.

2016/17 outturn position

38. The main financial objective for PIRC is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.

39. PIRC reported a £124,000 surplus (excluding non-cash costs) against its resource budget. A further non-cash expense of £0.118million in depreciation and internal accountancy fees was incurred resulting in an overall surplus position of £0.006million.

	Target £'000	Actual £'000	Under/(over) spend £'000
Cash	3,186	3,062	124
Non-cash	0	118	(118)
Total	3,186	3,180	6

Budgetary control

40. The PIRC received an increase of £0.455million to their allocation in 2016/17. This enabled PIRC to meet the additional rental costs of leasing extra office space in Hamilton House (£0.055million) and to enable PIRC to take on addition fixed term staff for the conduct of reviews, investigations and corporate services (£0.4million).

41. The Grant-in-Aid allocation is to meet the PIRC's cash requirement only. The non-cash expenditure is met by Scottish Government Ring-fenced Departmental Expenditure Limit (DEL). The Cash underspend of £0.124million represents only 3% of the allocated total indicating that the PIRC is utilising funds appropriately and within set limits.

achieving a balanced financial plan to remain within their annual allocation.

43. PIRC has a revenue budget of £3.186 million for 2017/18 and no capital allocation.

44. The PIRC has set a balanced budget for 2017/18 which includes non-cash costs of £0.118million for the depreciation of non-current assets and internal accountancy fees.

45. As at August 2017 current spend was £0.051million under the phased budget of £1.269million.

46. PIRC has presented a business case to the Scottish Government in order to secure additional funding for 2017/18. This additional resourcing has been identified as a recurring cost based on an increase in the level of complex cases being referred to PIRC by the Crown Office and Procurator Fiscal Service. An agreement has yet to be reached.

Looking ahead

2017/18 budget

42. As funding from the Scottish Government is PIRC's only source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the focus for PIRC is

Future Pressures

47. The increase in demand for PIRC services seen in 2015/16 has continued into 2016/17 with the volume and complexity of

investigations rising in addition to numbers of complaint handing reviews also increasing.

48. To address increasing demands and ensure delivery of statutory responsibilities going forward, the PIRC has a rolling Strategic Plan in place covering a three-year period. Whilst management liaise closely with the sponsor department within the Scottish Government regarding medium term financial plans these are not formally documented.

Action plan point 1

49. Without any medium to long term financial plans there is a risk that the cost of achieving the PIRC's corporate objectives is not fully understood and that resources are unable to keep up with increased demand. This was raised as a recommendation by Audit Scotland in the PIRC 2015/16 Annual Audit report. We will follow up on this recommendation as appropriate. See Appendix 1 for full details.

Management restructure

50. In order to lessen the senior management burden and redirect funds to areas of greatest need the structure of the PIRC has changed in 2016/17. The PIRC now comprises of the Executive Team made of the Commissioner and the Director of Operations and the Heads of Department Group consisting of three department heads.
51. Initiated in stages from September 2016, the revised management structure has reduced the senior management complement by 1.4 full time equivalent post and seen cost savings through reductions in pay bandings.
52. The PIRC has informed their sponsor department within the Scottish Government of these changes. A revised copy of the Governance and Accountability Framework document has been sent to the Scottish Government and is pending approval.

Action plan point 2

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Appendices

Appendix 1: Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. The action plan details the officer responsible for implementing the recommendation and an implementation date. PIRC should assess the recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvement in management arrangements. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the AAC in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Committee attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Recommendations from 2016/17

Action plan point	Issue & Recommendation	Management Comments
Medium term financial planning	<p>Observation</p> <p>Due to the annual allocation of Grant-In Aid, PIRC prepare financial plans on an annual basis along with the Business planning cycle. Management do however liaises closely with the sponsor department on a quarterly basis and consider medium term financial implications of decisions made.</p> <p>No medium term financial plans are formally documented to evidence the considerations being made. There is a risk that some of this information isn't acted on appropriately.</p> <p>Recommendation</p> <p>We recommend that PIRC formally document medium term financial plans.</p>	<p>The organisation presently extends budget forecasting beyond 1 year but in future will document medium financial plans on the basis of a 3 year cycle.</p> <p>Action owner: Laura Duguid Finance manager</p> <p>Due Date: 30 November 2017</p>
Rating		
Grade 3		
Paragraph ref		
47		

Action plan point	Issue & Recommendation	Management Comments
Governance and assurance framework	<p>Observation</p> <p>PIRC have engaged with the Scottish Government in altering the wording of the Governance and assurance framework document to reflect the new management structure. No correspondence has been received back from the Scottish Government to date.</p> <p>There is a risk that roles and responsibilities are not accurately included within the document.</p> <p>Recommendation</p> <p>We recommend that PIRC continue to follow up with the Scottish Government in relation to this.</p>	<p>This recommendation is accepted and will be progressed.</p> <p>Action owner: John Mitchell Director of Operations</p> <p>Due Date: 30 November 2017</p>
Rating		
Grade 2		
Paragraph ref		
50		

Follow up of recommendations from 2015/16 (as reported by Audit Scotland)

Issue & Recommendation	Management Comments	2016/2017 update
<p>Asset classification</p> <p>PIRC's fixed asset register should be reviewed and revised to ensure consistency in the classification of assets.</p> <p>There is a risk that assets are not properly classified and therefore depreciation charges are not applied appropriately over the estimated lives of the assets.</p> <p>Recommendation</p> <p>PIRC should review its FAR to ensure that all assets are classified appropriately.</p>	<p>PIRC should review its FAR to ensure that all assets are classified appropriately.</p> <p>Action owner: Laura Duguid Due Date: March 2018</p>	<p>We identified a minor error in the classification of website costs during the year. These were incorrectly classified as non-current assets rather than intangible</p> <p>Management update:</p> <p>An exercise is being undertaken to ensure that such costs in the future are classified as non-tangible.</p>

Closed recommendations from 2015/16 (as reported by Audit Scotland)

Issue & Recommendation	Management Comments	2016/2017 update
<p>Annual report narrative.</p> <p>A number of presentational and disclosure amendments were identified as part of the audit process.</p> <p>There is a risk that PIRC's 2016/17 financial statements do not reflect FReM requirements. The audit is delayed due to the absence of an effective management review.</p> <p>Recommendation</p> <p>Management should ensure a quality review process is implemented and that all relevant technical guidance is appropriately considered and applied to the draft annual report and accounts presented to audit.</p>	<p>Accepted. We have discussed this issue and it will be incorporated in to the year end plan. We shall review the guidance issued and this will be discussed with the Accountable Officer.</p> <p>Action owner: John Mitchell</p> <p>Due Date: 31 March 2017</p>	<p>Management update:</p> <p>Technical requirements of the FReM were considered in preparing the draft Annual report for 2016/17.</p> <p>Audit update:</p> <p>Agreed.</p> <p>Closed</p>

Issue & Recommendation	Management Comments	2016/2017 update
<p>Financial planning</p> <p>The strategic plan is not aligned to the financial plans of the organisation.</p> <p>There is a risk that the costs of achieving the corporate objectives are unknown leading to their non-achievement.</p> <p>Recommendation</p> <p>Corporate and financial plans should be aligned and should cover the medium to longer term.</p>	<p>Our budget through grant in aid is approved on an annual basis making longer term planning more difficult. We have our 3 year Strategic Plan and our Business Plans move us in the direction of our strategic objectives. As such our financial plans are more aligned to our business plan following single year planning cycles.</p> <p>Action owner: John Mitchell</p> <p>Due Date: 31 March 2017</p>	<p>Management update:</p> <p>PIRC continue to be provided with a Grant in Aid budget set annually. As a result budget planning is considered and reported in the annual business plan. The increased demand and limited resources continue to be a challenge to longer term 3 Year Strategic Planning. The organisation is at present initiating longer term forecasting of budget needs which will inform the next Strategic Plan for the period 2019-21.</p> <p>Audit update:</p> <p>PIRC make medium term financial considerations alongside the annual planning process and have quarterly meetings with the sponsor department of the Scottish Government. These Financial plans are however not formally documented.</p> <p>Superseded</p>

Issue & Recommendation	Management Comments	2016/2017 update
<p>Staff resources</p> <p>There was a significant increase (37%) in flexi hours accrued by staff in 2015/16, compared to 2014/15. Untaken annual leave days accrued at year end also increased. This may be indicative of underlying issues with staff wellbeing.</p> <p>Staff concerns regarding job security may increase due to the impact of any restructuring.</p> <p>There is a risk that the level of hours worked by staff, together with untaken annual leave, may not be sustainable going forward. Staff well-being is adversely affected by the proposed restructuring.</p> <p>Recommendation</p> <p>Management should continue to review whether the current workforce arrangements are fit for purpose. Management should ensure staff wellbeing is maintained through effective communication to staff about any forthcoming changes as a result of the structural review.</p>	<p>Management will continue to monitor staff leave and flexi accumulations. Action has been taken to mitigate this issue through the increase in our staffing level to cope with work demands. Recruitment is currently in-hand. Management will monitor the implementation of the Structural Changes.</p> <p>Action owner: John Mitchell</p> <p>Due Date: Ongoing</p>	<p>Management update:</p> <p>The demand profile continues to increase bringing more work to the organisation. A further business case for additional resource was prepared and provided to the Scottish Government in June 2017 and updated in August 2017. Flexi/TOIL and annual leave balances are reviewed weekly by Heads of Department and presented monthly at the Heads of Department Group meeting.</p> <p>Audit update:</p> <p>Rising demand for PIRC's services continues to put a strain on staff resources however this is being closely monitored and reported on. See recommendation raised regarding documentation of financial plans.</p> <p>Closed</p>

Issue & Recommendation	Management Comments	2016/2017 update
<p>Effective scrutiny</p> <p>We noted that some papers (management accounts) were presented on the day of the AAC. Members did not have the opportunity to fully review the financial information in advance.</p> <p>There is a risk that effective scrutiny is impacted.</p> <p>Recommendation</p> <p>All paper and reports should be provided in advance before all Senior Management Team and AAC meetings.</p>	<p>Accepted</p> <p>Action owner: John Mitchell</p> <p>Due Date: September 2016</p>	<p>Management update:</p> <p>Papers are supplied at least 7 days prior to AAC.</p> <p>Audit update:</p> <p>All papers have been issued within 7 days of AAC meetings.</p> <p>Closed</p>

Issue & Recommendation	Management Comments	2016/2017 update
<p>Business Continuity Planning</p> <p>The plan is in draft and overdue for finalisation and review.</p> <p>There is a risk that PIRC do not have effective business continuity arrangements in place for staff to follow.</p> <p>Recommendation</p> <p>PIRC should finalise the plan as soon as possible and circulate to all staff.</p>	<p>As acknowledged the structural changes taking place within PIRC have a marked impact on our Business Continuity Plan. This is currently subject to review by SMT.</p> <p>Action owner: John Mitchell</p> <p>Due Date: November 2016</p>	<p>Management update:</p> <p>Business Continuity Plan was refreshed in January 2017 and was audited during the internal audit by RSM carried out in April 2017. The Business Continuity Plan received 'Reasonable Assurance'. A Business Continuity Group Meets quarterly and Terms of Reference have been agreed.</p> <p>Audit update:</p> <p>Plan has now how been finalised.</p> <p>Closed</p>

Issue & Recommendation	Management Comments	2016/2017 update
<p>Register of interests</p> <p>PIRC do not currently record all senior officers' or AAC members' interests on their Register.</p> <p>There is a risk that relevant political and financial interests of officers and AAC members are not transparent to the public.</p> <p>Recommendation</p> <p>In order to avoid conflicts of interest and maintain openness, senior officers and AAC members should be asked to disclose all interests that may have any relevance to their duties and responsibilities. Following the implementation of the staff restructure, the roles of staff should be reviewed to ensure appropriate disclosures of interest.</p>	<p>As discussed, the AAC members disclose their interests before each meeting; this is captured in the minute and published on our website. All senior officers who attend SMT and as such are involved in the decision making process disclose their interests and the register is published on our website. This will be kept under review.</p> <p>We shall review the relevance and adequacy of senior officers' disclosures following the implementation of the staff restructure.</p> <p>Action owner: John Mitchell</p> <p>Due Date: December 2016</p>	<p>Management update:</p> <p>Each member of the Executive Team and all Heads of Department provide assurance around conflicts of interest. The details are included in the PIRC Register of Interests. Conflict of Interest is a standing item on the Audit and Accountability Committee agenda.</p> <p>Audit update:</p> <p>Register of interests now published on the PIRC website and includes all required personnel.</p> <p>Closed</p>

Appendix 2: Respective responsibilities of the Accountable Officer and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the PIRC and the Director of Operations, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury and the accounts directions issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000. In preparing the annual report and accounts, the PIRC and the Director of Operations, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the 2016/17 FRoM have not been followed where the effect of the departure is material;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that PIRC will continue to operate; and
- ensure the regularity of expenditure and income.

The Director of Operations is also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of PIRC'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 FRoM;

- have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- 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;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- 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 Public Finance and Accountability (Scotland) Act 2000 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 Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the PIRC. As part of our annual audit we will consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and PIRC or senior management that may reasonably be thought to bear on our objectivity and independence.



Scott-Moncrieff
business advisers and accountants