

Police Investigations and Review Commissioner

2018/19 Annual Audit Report to the Police
Investigations and Review Commissioner and the
Auditor General for Scotland

October 2019

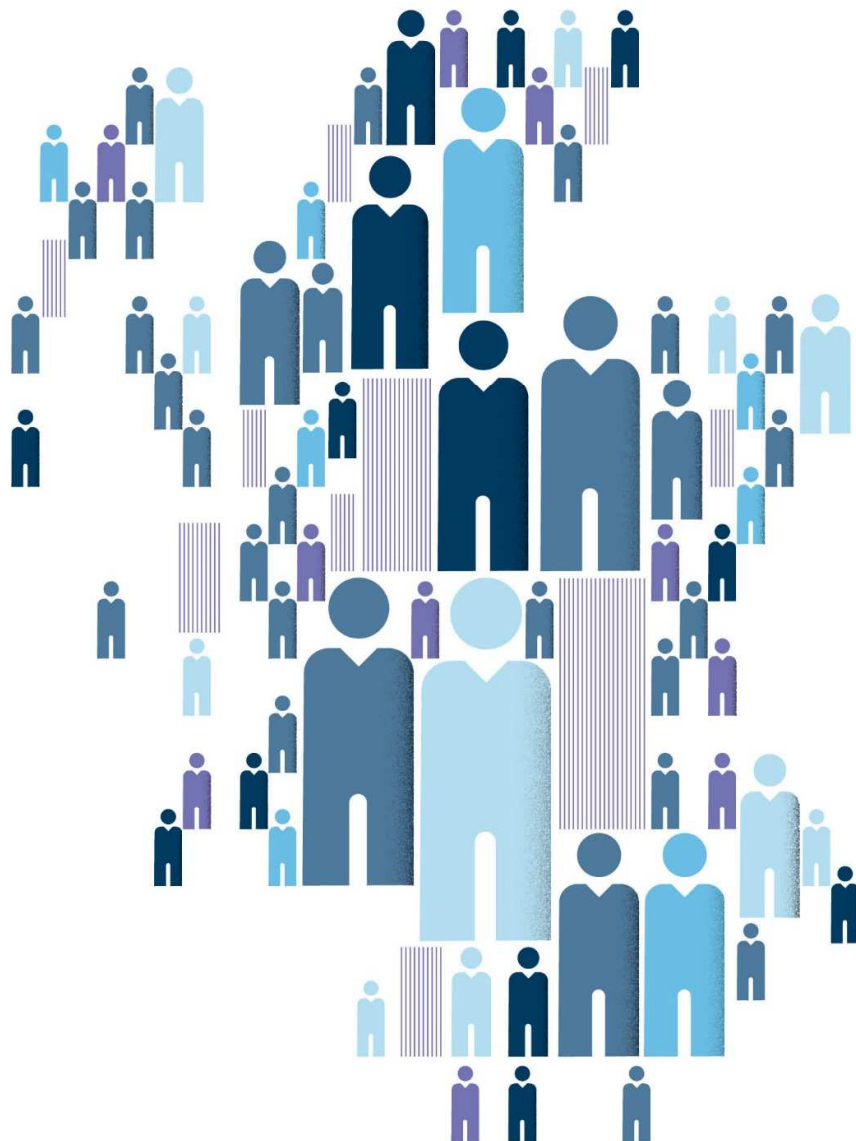




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1. Key messages





Annual report and accounts audit

We have reported within our independent auditor's report unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

The annual report and accounts and supporting schedules were of a good standard. Our thanks go to management and staff for their assistance with our work.

Wider scope audit

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 the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance statement

- We satisfied that the Governance Statement has been prepared in accordance with the directions made by the Accounts Manual and Scottish Ministers, that the content is consistent with the financial statements.
- Police Investigations and Review Commissioner (PIRC) has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in PIRC's accounting and internal control systems.



Financial sustainability

- PIRC has adequate arrangements in place for medium-term financial planning. A three-year plan has been drafted for the period 2019/20 to 2021/22. This medium-term financial plan identifies a budget shortfall of £382,420 over the period as PIRC faces flat cash settlements.
- PIRC anticipates further future increases in demand and associated pressures on expenditure as communicated in business cases submitted to Scottish Government during 2018/19. The Independent Review of Complaints Handling, Investigations and Misconduct Issues in Relation to Policing report published in June 2019 makes several recommendations, which if implemented, will result in an increase in the demand for services offered by PIRC. We will monitor the progress of the final report which is due in 2019/20.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
October 2019



2. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Police Investigation and Review Commissioner for 2018/19.

We carried out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have agreed to designate the Police Investigation & Review Commissioner as “those charged with governance”.



Introduction

1. This report summarises the findings from our 2018/19 audit of the Police Investigation & Review Commissioner (“PIRC”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to PIRC at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual report and accounts and related matters;
 - consideration of PIRC’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. PIRC is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 annual report and accounts 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 would like to thank all management and staff for their co-operation and assistance during our audit.
6. We confirm that we complied with the Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. Our clients 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.



Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
10. This report is addressed to PIRC and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. Annual report and accounts

PIRC's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.



Annual report and accounts

An unqualified audit opinion on the annual report and accounts

We reported unqualified opinions on the annual report and accounts for the year ended 31 March 2019 within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

PIRC has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

11. The annual report and accounts for the year ended 31 March 2019 were considered and approved by the Commissioner in October 2019. We report 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 that there were no matters which we are required to report by exception.

Good administrative processes were in place

13. We received the unaudited annual report and accounts and supporting papers of a good standard. Our thanks go to staff at PIRC for their assistance with our work.
14. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2019 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 2 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. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.



Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2018/19 External Audit Plan

16. We have not identified any indications of management override in the year. We have reviewed PIRC's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 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 revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

17. At the planning stage of our audit, we rebutted the risk of revenue recognition as we considered the risk not to be material to the financial statements. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan

18. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion, we carried out testing to confirm that PIRC's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.



Our application of materiality

19. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
20. Our initial assessment of materiality for the annual accounts was £64,000 based on PIRC's 2018/19 Grant-in-Aid allocation. On receipt of the draft financial statements, we re-assessed our materiality to a level of £60,000 for our final audit. This equates to approximately 1.5% of PIRC's 2018/19 gross expenditure. Operating within budget is a key target for PIRC and one of the principal considerations for the users of the financial statements when assessing financial performance.

Performance materiality

21. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
22. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the following table:

	Area risk assessment		
	High	Medium	Low
Performance materiality	24,000	30,000	42,000

23. We agreed to report all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of overall materiality and other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We would also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Audit differences

24. We are pleased to report that there were no material adjustments to the financial statements. We identified some disclosure and presentational

adjustments during our audit. These have been reflected in the final set of financial statements.

25. There were no uncorrected misstatements.

Representations

26. We have requested that a signed representation letter be presented to us at the date of signing the annual report and accounts. This letter is to be signed by the Accountable Officer.

An overview of the scope of our audit

27. The scope of our audit was detailed in our External Audit Plan, which was considered by the Commissioner in February 2019. The 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. 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.
28. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
29. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

30. During our audit we noted the following:

Other information in the annual report and accounts

31. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

The performance report

32. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an



overview of the organisation and a detailed summary of how the entity measures performance.

33. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

34. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement); a remuneration and staff report; and a parliamentary accountability report.
35. We have obtained sufficient evidence that the information provided in the remuneration and staff report is in agreement with accounting records and has been prepared in line with ministerial guidance.
36. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers' guidance. We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

Regularity

37. 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

38. As part of our audit we have followed up the agreed audit recommendations from prior years which were yet to be implemented. Detail on these recommendations is included in the action plan at Appendix 2.

Looking forward – IFRS 16 Leases

39. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability

representing the lessee's obligation to pay for that right.

40. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.

41. This will be a key area of focus for our 2019/20 audit.

Qualitative aspects of accounting practices and financial reporting

42. During our audit, we consider 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 annual accounts. The following observations have been made:



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 and in line with the Government Financial Reporting Manual.
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 are satisfied with the appropriateness of other accounting estimates and judgements used in the preparation of the financial statements.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that PIRC will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts 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 annual accounts.
The extent to which the annual accounts 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 accounts.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant financial statement 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 annual accounts disclosure.	While disclosure and presentational adjustments were made during 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 significant difficulties encountered during the audit.



4. Wider scope

Following consideration of the size, nature and risks of PIRC, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been 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 the organisation and the services that it delivers over the medium and longer term.**
-



Wider scope conclusions

Governance statement



We are satisfied that the Governance Statement has been prepared in accordance with the Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made by Scottish Ministers and that the content is consistent with the financial statements.

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

Financial sustainability



PIRC has adequate arrangements in place for medium-term financial planning. A three-year plan has been drafted for the period 2019/20 to 2021/22. This medium-term financial plan identifies a budget shortfall of £382,420 over the period as flat cash settlements.

PIRC anticipates further future increases in demand and associated pressures on expenditure as communicated in business case submitted to Scottish Government during 2018/19. The Independent Review of Complaints Handling, Investigations and Misconduct Issues in Relation to Policing report published in June 2019 makes several recommendations, which if implemented, will result in an increase in the demand for services offered by PIRC. We will monitor the progress of the final report which is due in 2019/20.

Our approach to the wider scope audit

43. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of PIRC which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
44. During our audit we also considered the following risk areas as they relate to PIRC:

- EU withdrawal;
- changing landscape of public financial management;
- dependency on key suppliers; and
- openness and transparency.

Overall, we concluded that PIRC has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal

PIRC was prepared for leaving on the original due date of 29 March 2019 and has been able to demonstrate consideration of all key risk areas. This includes a review of the workforce, relevant legislation and current dealings with the EU.

Given its small workforce, regulatory role and minimal dealings with the EU, PIRC deem the impact of EU withdrawal to be limited and a low risk to the organisation.

The three areas identified by Audit Scotland refer to workforce, funding and regulatory. Through discussions with PIRC, and our understanding of PIRC, none of the above areas represents a significant risk to ongoing operations.



Changing landscape of financial management

The Scottish Government's five-year outlook for the Scottish budget as set out in the Medium-Term Financial Strategy provides useful context for financial planning. The new budget process places greater emphasis on assessing outcomes and the impact of spending.

PIRC has prepared a medium-term financial forecast which considers PIRC's financial position incorporating and assessing various scenarios over the next three years. Further details are included from paragraph 51 below.

Dependency on key suppliers

One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions.

PIRC has two key supplier relationships with the Scottish Government, who provides IT support, as well as another IT support provider in terms of supplying IT licenses.

Openness and transparency

There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

We consider PIRC to exhibit good practice with respect to openness and transparency arrangements through the following:

- key publications including the annual report and accounts, corporate plan and business plan are available on PIRC's website;
- An up to date register of interests is available on PIRC's website for the Commissioner; and
- regular communication with stakeholders, including the publication of news stories on PIRC's website.



Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made by Scottish Ministers and is consistent with the financial statements.

45. We are satisfied that the Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made by Scottish Ministers.
46. The Accountable Officer has confirmed that in their opinion, the control arrangements are appropriate and effective, and no significant issues have been identified.
47. From our audit work performed we concluded that PIRC has appropriate systems in place to record,

process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in PIRC's accounting and internal control systems.

48. PIRC receives internal audit services from RSM. Audit work is assigned and discussed with the Audit and Accountability Committee, with several audits carried out in the financial year. No high-level recommendations were raised.
49. In our 2017/18 annual report on the audit we recommended that PIRC is sufficiently engaged with Internal Audit to ensure the programme of work is effectively planned. We can confirm that the Accountable Officer was involved in the development of the 2019/20 internal audit plan. Written confirmation was provided by Internal Audit that PIRC had been considered during the risk-based planning process and that PIRC was not assessed as needing any internal audit coverage in 2019/20.



Financial sustainability

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.

in which they should be delivered.

Significant audit risk

50. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability

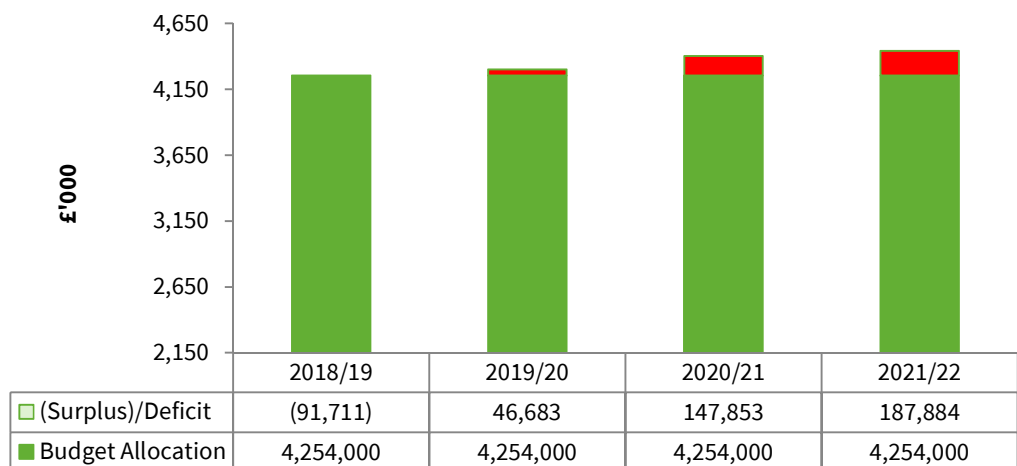
Demand for PIRC's services continues to increase. Management forecast that this increase is set to continue and at current funding levels, PIRC would not be able to meet the predicted increase in demand. PIRC has presented a business case to its sponsor department within the Scottish Government for £2million of additional recurring funding to bridge the forecast gap in resources going forward.

In addition, there are two post legislative reviews of the Police and Fire Reform (Scotland) Act 2012 which are currently ongoing. These reviews have the potential to alter the scope and nature of PIRC's operations. Whilst any potential legislative change would only have long term implications, any changes in the interpretation of the current legislation would affect short to medium term financial planning.

Excerpt from the 2018/19 External Audit Plan

51. PIRC has adequate arrangements in place for medium term financial planning. A three-year plan has been drafted for the period 2019/20 to 2021/22.
52. In our 2017/18 Annual Audit Report we noted that the three-year financial plan indicated a funding shortfall in the final year but did not identify a plan for how this will be met. The budget has been revised in 2018/19 and operational savings have been identified. Assuming a flat rate budget of £4,254,000 PIRC is forecasting an overall shortfall of funding for the three-year financial plan of £382,420, illustrated below in exhibit 3.

Exhibit 3: Projected shortfall for the three years to 2021/22



Source: Long Term Financial Plan 2019/20 - 2021/22 (PIRC)

53. The purpose of this financial plan is to forecast where the future of the PIRC lies, how this translates into financial pressures and also how these financial pressures link with the strategic plan of the organisation. The financial plan considers and highlights the expected increase in staff costs. Staff costs are expected to rise due to incremental and cost of living increases and



the expected increases in staffing requirements due to the forecast rise in demand for referrals and investigations.

54. Within the three-year financial plan, PIRC has also undertaken scenario analysis of future possible scenarios with each scenario identifying clear assumptions taken to demonstrate a different financial position.

PIRC's financial performance in 2018/19

55. The main financial objective for PIRC is to ensure the financial outturn for the year is within the budget allocated by Scottish Government. The agreed grant in aid for 2018/19 was £4,254,000.
56. PIRC had a total cash drawdown figure of £4,162,289. This resulted in a 2% underspend against budget of £91,711, as shown in exhibit 4. PIRC met its financial objective for the year. This underspend resulted from lower expenditure on staff costs than budgeted due to delays in new staff filling positions (a consequence of the lengthy vetting process).

Exhibit 4: PIRC's 2018/19 financial performance

Budget vs Actual Expenditure	
Resource DEL Budget	£4,254,000
Actual Expenditure	£4,162,289
(Deficit)/surplus for the year	£91,711

Source: PIRCS's Annual report and accounts 2018/19

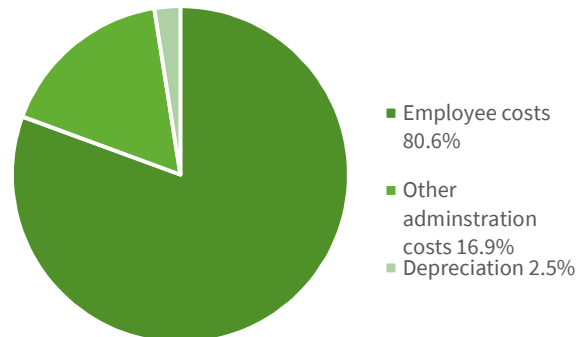
2019/20 budget

57. The Scottish Government Draft Budget 2019/20 was published on Wednesday 12 December 2018. A flat cash settlement was announced for PIRC of £4,254,000 Departmental Expenditure Limit (DEL). At the time the medium-term financial plan was developed, PIRC forecast a 1% funding gap of £46,683 for 2019/20 (see exhibit 3). This forecast has been subsequently revised, and a balanced budget has been set for 2019/20. Savings have been made in staff costs as a result of leavers and vacancy management.
58. Funding from Scottish Government is PIRC's only source of income. Unlike PIRC, some other public sector bodies can generate income from income

generating activities (for example charge fees for services). Therefore PIRC is limited to managing its financial position through reducing expenditure or requesting increased funding from Scottish Government.

59. In 2018/19 employee costs accounted for roughly 80.6% of expenditure as shown in exhibit 5. The remaining 19.4% relates to depreciation and other administration costs. PIRC's employee costs account for a significant majority of its expenditure and are forecast to increase to 85% of PIRC's overall expenditure in 2019/20.

Exhibit 5: 2018/19 Expenditure



Source: PIRCS's Annual report and accounts 2018/19

60. Employer pension contributions are likely to increase significantly in 2019/20. This is a direct result of changes announced by the UK Government as part of the scheme of valuations for public sector pensions and the government has committed to meeting some of these costs.
61. The lift of the public sector pay cap has continued to result in additional cost pressures. Disclosure Scotland has incorporated Scottish Government core pay policy 2019/20 into the 2019/20 budget:
- 3% uplift for current salary below £36,500;
 - 2% uplift for £36,500 to £80,000; and
 - £1,600 above £80,000.



Looking forward

62. PIRC is funded by Scottish Government, through cash drawdowns. Moving forward, PIRC are requesting an increase in their funding allocation, due to the expected increase in demand for their services.
63. In 2018/19 PIRC was provided with a budgetary uplift of £1,068,000 to meet the sustained increase in demand experienced by PIRC in 2016 and 2017. This has enabled PIRC to recruit additional staff into the Investigation and Corporate Services Teams in where there has been increased demand.
64. PIRC is forecasting further future increases in demand. Due to this expected increased demand, PIRC drafted a business case to the Scottish Government.
65. The business case is presented in a historical context, evidencing the facts of prior year case referrals and how this increased in the 2017/18 period, and based this upon their Full Time Equivalent employees. PIRC identified their immediate requirements in terms of the number of resource necessary and the attached cost of this. The proposal requests 47% increase (£2million) in funding.
66. The Independent Review of Complaints Handling, Investigations and Misconduct Issues in Relation to Policing report was published in June 2019. The review was carried out by Dame Elish Angiolini, on behalf of the Justice Committee. The report included several recommendations, which if implemented, will result in an increase in the demand for services offered by PIRC. This is however a preliminary report with the final report coming out next year, and realistically changes will not be made in the next financial year. We will monitor the progress of the final report which is due in 2019/20.



5. Appendices





Appendix 1: Respective responsibilities of PIRC and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Commissioner, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FRM) issued by HM Treasury and the accounts directions issued by Scottish Minister under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

In preparing the annual report and accounts, the Commissioner, as Accountable Officer is 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 Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts 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 Commissioner 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:

- they give a true and fair view in accordance with the Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made thereunder by the Scottish Ministers of the state of PIRC's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FRM ;
- they have been prepared in accordance with the requirements of the Police, Public Order and Criminal Justice (Scotland) Act 2006 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 Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Police, Public Order and Criminal Justice (Scotland) Act 2006 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 Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions made thereunder by the Scottish Ministers.

We are also required to report, 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.



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 of Audit Practice 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.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we 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

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Commissioner or senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 2: Follow up of prior year recommendations

Of the two recommendations raised within our previous annual audit reports and which had yet to be implemented, we noted that one has been implemented and the target completion date for the other has not yet passed. Details are given below.

1. Asset classification

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>PIRC's fixed asset register should be reviewed and revised to ensure consistency in the classification of assets. 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>All fixed asset expenditure will be reviewed as part of the PIRC' year-end process.</p> <p>Due Date: March 2019</p>
Current status	Audit update	Management response
Complete	From our audit work performed, we undertook testing over the classification of assets and identified no misclassification of assets.	N/A



2. Medium Term Financial Planning

Initial rating	Issue & recommendation	Management comments
Grade 3	<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 liaise 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>A three-year financial plan has been drafted. This will be finalised in conjunction with the strategic plan and submitted to Scottish Government.</p> <p>Due date: March 2019</p>
Current status	Audit update	Management response
Complete	Through our work carried out surrounding Financial Sustainability, we identified PIRC has a financial plan covering a three-year period, 2019-22.	N/A



3. Governance and Assurance Framework

Initial rating	Issue & recommendation	Management comments
Grade 2	<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>A meeting has been held by the Sponsor Team in this regard with the final process being agreed and expected to be signed off imminently.</p> <p>Due date: March 2019</p>
Current status	Audit update	Management response
Complete	The Governance and Accountability Framework Document for PIR was finalised in February 2019.	N/A

