



# Police Investigations and Review Commissioner

2015/16 Annual audit  
report to the Police  
Investigations and Review  
Commissioner and the  
Auditor General for  
Scotland

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Helen Russell, Senior Audit Manager, Audit Scotland is the appointed external auditor of the Police Investigations and Review Commissioner **Police Investigations and Review Commissioner** for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Police Investigations and Review Commissioner and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Working papers were of a good standard and officers provided good support.
- With the exception of two minor monetary misstatements, all other misstatements, presentation and disclosure issues identified during the audit process were corrected by management.

## Financial Position

- The Police Investigation and Review Commissioner's (PIRC's) revised budget for 2015/16 was £3.031m. This included £300,000 of additional funding provided by the Sponsor Department for additional accommodation costs, and exceptional operational costs incurred as a result of complex investigatory work.
- PIRC's total expenditure in 2015/16 was £3.091m, resulting in an overspend of £60,000 against budget. This overspend was approved by the Sponsor Department.
- PIRC achieved its 1% annual efficiency savings target in 2015/16.

## Governance & accountability

- PIRC has sound and well-established governance arrangements in place, with an Audit and Accountability Committee meeting on a regular basis.
- There is an effective internal audit function and robust anti-fraud arrangements are in place.
- PIRC has sound arrangements for recording and managing performance in complaints handling, investigation cases and corporate activity. Performance measures against corporate objectives are reported regularly to the Audit and Accountability Committee.
- The impact of the staff restructure should be monitored to ensure minimal impact on staff wellbeing.

## Outlook

- The Investigations Team continue to face challenging service demands due to the variety and complexity of cases referred from the Crown Office and Procurator Fiscal Service (COPFS). The impact on staff capacity and wellbeing should be assessed as a result of any increased workload.
- The challenge for PIRC continues to be maintaining service delivery at a time when their full resource demands, which are largely demand led, continue to fluctuate.
- PIRC should ensure effective budget monitoring processes are in place to operate within their funding allocation. PIRC should continue to work closely with its Sponsor Department to discuss funding requirements.
- The Director of Corporate Services and Accountable Officer left the organisation on 31 August. The Director of Reviews left in March 2016. With only one member of the original management team remaining, it is essential that sound leadership is demonstrated to ensure continuing achievement of objectives. We are aware that the Director of Investigations has been appointed as the Accountable Officer with effect from 1 September 2016.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Police Investigations and Review Commissioner (PIRC).
2. The management of PIRC is responsible for:
  - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
  - ensuring the regularity of transactions, by putting in place systems of internal control
  - maintaining proper accounting records
  - publishing with their financial statements a performance report, an accountability report which includes the annual governance statement and a remuneration and staff report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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 with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address 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 "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that PIRC understands its risks and has arrangements in place to manage them. The Audit and Accountability Committee (AAC) should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of PIRC will be Scott Moncrieff. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

## Audit opinions

<b>Financial Statements</b>	<ul style="list-style-type: none"><li>• The 2015/16 financial statements give a true and fair view of the state of the body's affairs and of its net operating costs for the year.</li><li>• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 Financial Reporting Manual (FReM) and the requirements of the Police, Public Order and Criminal Justice (Scotland) Act 2006 and directions.</li></ul>
<b>Regularity</b>	<ul style="list-style-type: none"><li>• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.</li></ul>
<b>Other prescribed matters</b>	<ul style="list-style-type: none"><li>• The part of the remuneration and staff report to be audited has been properly prepared in accordance with the requirements of the 2015/16 FReM and the Police, Public Order and Criminal Justice (Scotland) Act 2006.</li><li>• The information given in the Performance and Accountability Reports is consistent with the financial statements.</li></ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 17 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 11 July 2016.

## Overview of the scope of the audit of the financial statements

11. 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 presented to the Audit and Accountability Committee on 9 February 2016.
12. 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 any non-audit related services. The 2015/16 agreed fee for the audit was £13,200 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

14. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £28,600 (1% of gross expenditure of £2.858m).
18. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £20,000 (i.e. 70% of materiality). We report all misstatements identified which are greater than £600.

## Evaluation of misstatements

19. All material misstatements identified during the audit have been amended in the financial statements. Two minor misstatements have not been amended, which result in expenditure being overstated by £830. These are not considered material to our audit.

## Significant findings from the audit

20. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. A number of presentational and monetary adjustments were identified with the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.
22. We identified the following issue, which in our view, requires to be communicated to you in accordance with ISA 260.

23. **Annual report narrative.** In both our 2013/14 and 2014/15 final reports we referred to the need to complete a management quality review in advance of the accounts being provided to audit. Management agreed to undertake this detailed review. We provided management with a targeted FReM disclosure checklist together with our more detailed notes for guidance in advance of the audit commencing.
24. It was therefore disappointing to note that we identified a number of matters which required amendment to ensure compliance with new FReM guidance. In particular, issues were raised in relation to the new accountability report which incorporates the remuneration and staff report.
25. We have therefore again recommended that management implement a thorough review process to ensure that all technical guidance is appropriately considered and applied to the draft annual report and accounts.

**Refer Action Plan no. 1**

## Future accounting and auditing developments

### Code of Audit Practice

26. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors.

27. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, from 2016/17, Annual Audit Plans and other significant audit outputs will be put on the Audit Scotland website for all audited bodies. This is irrespective of whether the body meets in public or makes external audit reports publicly available.

# Financial management and sustainability

## 2015/16 Financial Outturn

28. PIRC, as an executive non-departmental public body (NDPB) of the Scottish Government, receives all of its funding directly from the Scottish Government.
29. The main financial objective for PIRC is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.
30. PIRC's original budget for 2015/16 was set at £2.731m which was the same as 2014/15. This was revised in-year to £3.031m to cover additional capital costs for new accommodation, exceptional operational costs due to increased service demands and redevelopment of the website. However, a year end overspend of £60,000 was recorded against the revised budget, as set out in table 1.

Table 1: 2015/16 Budget v Expenditure

	Budget (Resource DEL) (£000)	Actual outturn (£000)	Under/(over) spend (£000)
Net operating costs (revenue)	3,031	2,854	177
Capital expenditure	-	237	(237)
<b>Total</b>	<b>3,031</b>	<b>3,091</b>	<b>(60)</b>

31. This overspend was due to increased operating costs incurred in relation to the very high-profile cases reviewed during 2015/16. The financial position and resultant overspend were agreed with the sponsor department.
32. We have discussed with management the need to monitor both the cash and non cash expenditure separately against their allocated budget to ensure a break even position at year end is achieved.
33. Net operating costs were £2,854,000 (2014/15: £2,604,000) representing an increase of 10%. Similar to prior years, staff costs accounted for the majority (approx. 78%) of PIRC's expenditure in 2015/16. The increase in operational costs was a result of increased

expenditure relating to complex investigation cases and staff vacancies being filled. Capital expenditure in 2015/16 was £237,000 (2014/15: £10,000). Capital expenditure in 2015/16 reflects the costs to fit out PIRC's new office accommodation.

## Capital accounting

34. The Statement of Financial Position shows a net asset position of £511,000 at 31 March 2016 (2014/15: £332,000). This increase is mainly due to the purchase of fixtures and fittings in relation to PIRC's new accommodation.
35. We raised a matter arising in relation to the application of the accounting policy for depreciation. The accounting policy refers to a full year's depreciation being charged in the year the asset comes into use. However the depreciation charged in respect of the accommodation costs originally reflected only one month, which was contrary to the accounting policy. Upon further investigation, it was agreed that the expenditure more correctly referred to the new accommodation, the benefit of which was not realised until April 2016. Therefore these assets will now be recognised as operational in 2016/17 and will be depreciated accordingly. An addition to PIRC's accounting policies was required to reflect the accounting treatment of assets under construction.
36. Our audit included a review of the fixed asset register (FAR) maintained by PIRC. We found that the classifications used for assets could be applied more consistently from year to year. We have therefore recommended that PIRC should review its FAR and

ensure all assets are classified appropriately and depreciated accordingly over their estimated useful lives.

**Refer Action Plan no. 2**

37. Overall, the financial position of PIRC remains relatively stable with the organisation continuing to be funded annually by the Scottish Government and having a net excess of total assets over total liabilities. 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.

## Financial Planning

38. As funding from the Scottish Government is PIRC's 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 main focus for PIRC is achieving a balanced financial plan to remain within their annual allocation.
39. PIRC's strategic plan covers a three year period from 2016-2019. This sets out PIRC's objectives over this period covering its three departments of Investigations, Reviews and Corporate Services.
40. We reported last year that there was no linkage of the strategic plan objectives to future financial plans. Management agreed that the next iteration of the strategic plan would be revised to refer to PIRC's financial plans. However, the financial impact of achieving

objectives has still not been assessed within the latest strategic plan. Therefore there remains a risk that the costs of achieving the corporate objectives are unclear leading to their non-achievement. We acknowledge that PIRC's funding is approved on an annual basis making longer term planning challenging.

**Refer Action Plan no. 3**

## Financial management

41. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the officer responsible for finance has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - audit committee members provide a good level of challenge and question significant variances.
42. Based on our accumulated knowledge, our attendance at the Audit and Accountability Committee and from review of associated papers, we conclude that PIRC has effective financial management arrangements in place. However, areas of improvement regarding budget monitoring should be considered, as outlined above.

## 2015/16 budget

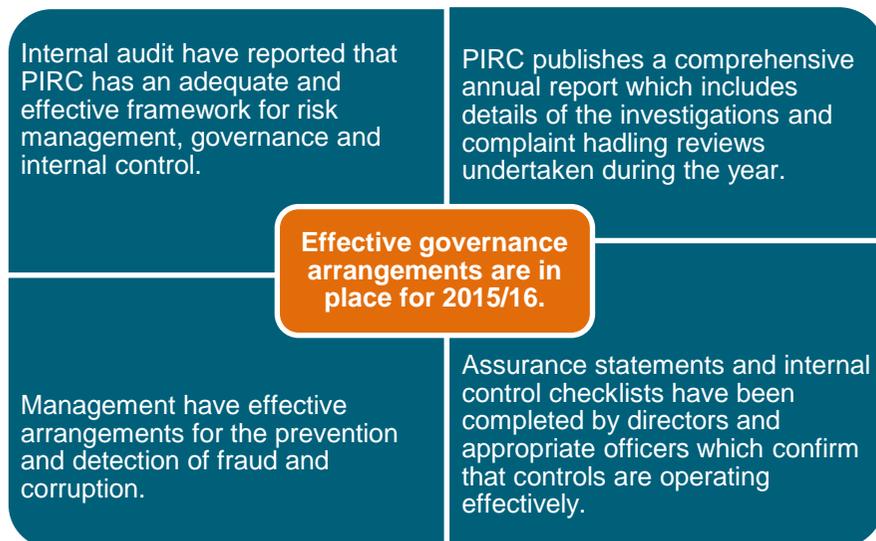
43. PIRC's allocated budget for 2016/17 is £3.186m which represents an increase of 5% compared to the 2015/16 budget.

## Sustainability

44. **Staff resources.** Our audit noted that the level of untaken holiday leave, which includes flexitime, had risen significantly again this year compared to 2014/15 (by 71 days for annual leave and 37% increase in flexi hours accrued). We reported a similar issue last year. We are aware that PIRC has been involved in a number of high profile, complex cases which will have contributed to this increase. These cases, together with the achievement of performance targets, may impact on staff well being.
45. There is a risk that the level of untaken annual leave and the level of hours worked by staff will continue to rise which may not be sustainable going forward. Management should continue to review the hours worked by staff to ensure services are delivered without detriment to PIRC staff.

**Refer Action Plan no. 4**

# Governance and transparency



## Corporate governance

46. Primary legislation established the predecessor of PIRC, the Police Complaints Commissioner for Scotland as an independent Commissioner with no Board. As PIRC does not have a board, governance of the organisation is provided by the Commissioner and Senior Management Team (SMT). It also has an Audit and Accountability Committee (AAC) as required by PIRC's governance

and accountability framework, which has been agreed with the Scottish Government.

47. In March 2016, following on from the resignation of the Director of Reviews, there was a change in management structure from three directors to two. The Director of Reviews post was replaced with an interim Head of Reviews and it is intended that that the post will be filled permanently going forwards. This change was due to the implementation of the recommendations from the independent structural review which was undertaken during the year. The Head of Reviews is a member of the Senior Management Team along with the Commissioner and the Directors of Investigations and Corporate Services. The Director of Corporate Services left the organisation on 31 August 2016: this will leave only the Commissioner and one member of the existing SMT. We have recently been advised that the Director of Investigations has been appointed as the new Director of Operations and Accountable Officer with effect from 1 September 2016.
48. The Director of Corporate Services, as Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of PIRC and for monitoring the adequacy of these arrangements.
49. 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.

50. 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. Assurance is also provided by the corporate finance officers who have responsibility for the day to day finance activities. These confirmations provide an additional layer of assurance to the Director of Corporate Services who, under the current PIRC structure in 2015/16, is also the Accountable Officer.
51. We consider that the 2015/16 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.
52. The AAC meets quarterly and considers all internal and external audit reports and hold officers to account. From our attendance at these meetings, we consider members provide a good level of scrutiny to PIRC officers and auditors, and report that the committee operated effectively in 2015/16.
53. However, we noted that at the latest AAC meeting (May 2016) that members were not presented with all papers in advance of the meeting; these were only presented on the day. There can be an impact on effective scrutiny if members have minimal time in advance to review the information. Full papers should be provided in advance of each AAC to ensure members can adequately fulfil their review and scrutiny role.

**Refer Action Plan no. 5**

54. We also note that PIRC's business continuity plan remains in draft and has been since July 2015. Officers have advised that the finalisation of the plan is linked to recommendations raised in the structural review, as reporting lines and management personnel continue to change. This plan was due for review at the start of 2016. There is a risk that PIRC do not have effective business continuity arrangements in place for staff to follow while the plan remains in draft.

**Refer Action Plan no. 6**

55. As a consequence of the Director of Corporate Services and Accountable Officer leaving the organisation prior to the AAC meeting on 6 September, it has been agreed that he will return to authorise the accounts for issue thereafter.
56. The PIRC re-structure will continue in 2016/17. Restructuring can lead to staff feeling insecure. It is therefore essential that PIRC ensure staff wellbeing is maintained through effective communication to staff.

**Refer Action Plan no. 4**

57. We can however conclude that PIRC has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

58. PIRC publishes a comprehensive annual report which includes details of investigations and complaint handling reviews undertaken. The financial statements also include relevant information in relation

to performance and achievement of operational and financial targets.

- 59. A range of other information, for example corporate and business plans and Audit and Accountability meeting minutes are available for public review on the website.
- 60. PIRC also maintain a Register of Interests on its website which records interests of the Senior Management Team. As the Audit and Accountability Committee also acts as PIRC's main oversight group, it would be good practice for members to follow guidance on declaring interests as set out in the Scottish Public Finance Manual (SPFM).

#### **Refer Action Plan no. 7**

- 61. Overall we concluded that PIRC largely complies with the principles of openness and transparency.

## **Internal control**

- 62. 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.
- 63. We are not aware of any material weaknesses in the accounting and internal control systems which could adversely affect the organisation's ability to record, process, summarise and report

financial and other relevant data so as to result in a material misstatement in the financial statements.

## **Internal audit**

- 64. RSM Tenon, PIRC's internal auditors, were reappointed in March 2015 for a further 4 years, until March 2019. The tender process involved consultation and agreement from AAC members, in accordance with PIRC's governance and accountability framework.
- 65. In their annual report for 2015/16, internal audit provided their opinion that based on the internal audit work undertaken during the year; PIRC has an adequate and effective framework for risk management, governance and internal control. No high risk recommendations were made during 2015/16 and all recommendations made were accepted by management and appropriate actions were agreed.
- 66. In the interests of an efficient audit approach, we 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.
- 67. Two central systems assurance letters, covering financial services and payroll, 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 2015 to 31 March 2016. Exceptions to this were noted as being controls

over payroll amendments, travel claim form authorisation and the checking of travel management and expense claims which did not operate effectively throughout the period.

68. Payroll amendments are processed centrally by the Scottish Government payroll team. For the issues relating to travel claims and expenses, based on our previous work and that of internal audit, we do not consider there to be a material impact to PIRC.

## Arrangements for the prevention and detection of fraud

69. 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.
70. Within PIRC these arrangements include fraud prevention 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 2015/16.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

71. 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. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within PIRC.

## Performance

72. 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 3 corporate objectives.

## National performance audit reports

73. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued as outlined in [Appendix III](#).

74. A summary of the reports we consider may be of direct interest to the Commissioner is provided annually. We presented a summary of these reports to the Audit and Accountability Committee in May 2016. PIRC should ensure these national reports are considered by management.

## Outlook

75. Ensuring that PIRC performs effectively and meets its key corporate objectives, whilst service demand increases together with the imposition of financial constraints, will be the main challenge ahead.
76. Significant changes to PIRC's management structure are currently taking place. During this period, PIRC needs to ensure that its management and governance structures are operating effectively to monitor and scrutinise performance robustly.

# Appendix I: Significant audit risks

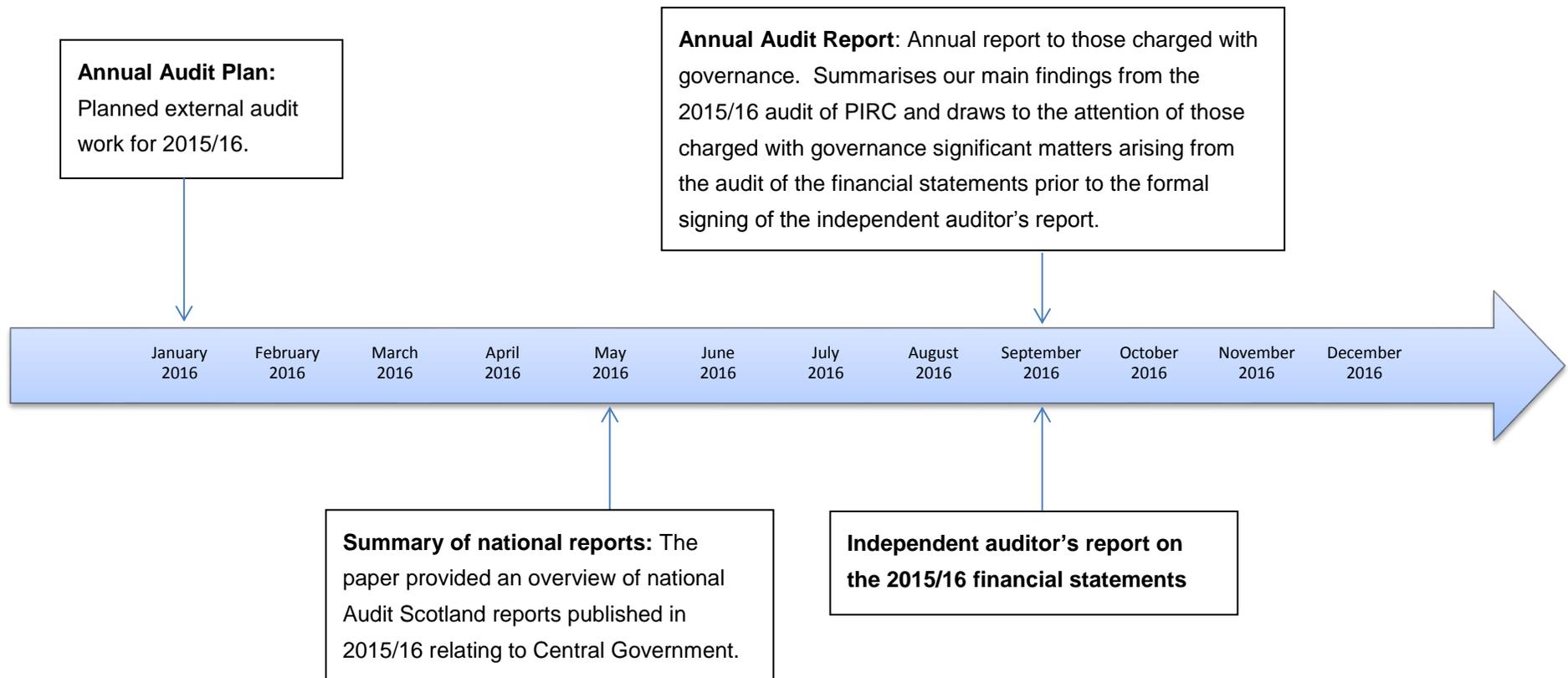
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Fraud risk: management override of controls</b></p> <p>There is a risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• We conducted detailed testing of journal entries.</li> <li>• We reviewed accounting estimates used to compile the financial statements.</li> <li>• We considered whether there were any significant transactions that are outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>• Substantive testing of journal entries was satisfactory.</li> <li>• Accounting estimates and policies adopted by PIRC were deemed to be appropriate. Policies regarding fixed assets were amended, in line with IAS 8, to better reflect the reality of PIRC’s circumstances.</li> <li>• From review of working papers and files, there were no significant transactions processed in 2015/16 which we considered to be outside the normal course of business for PIRC.</li> </ul>

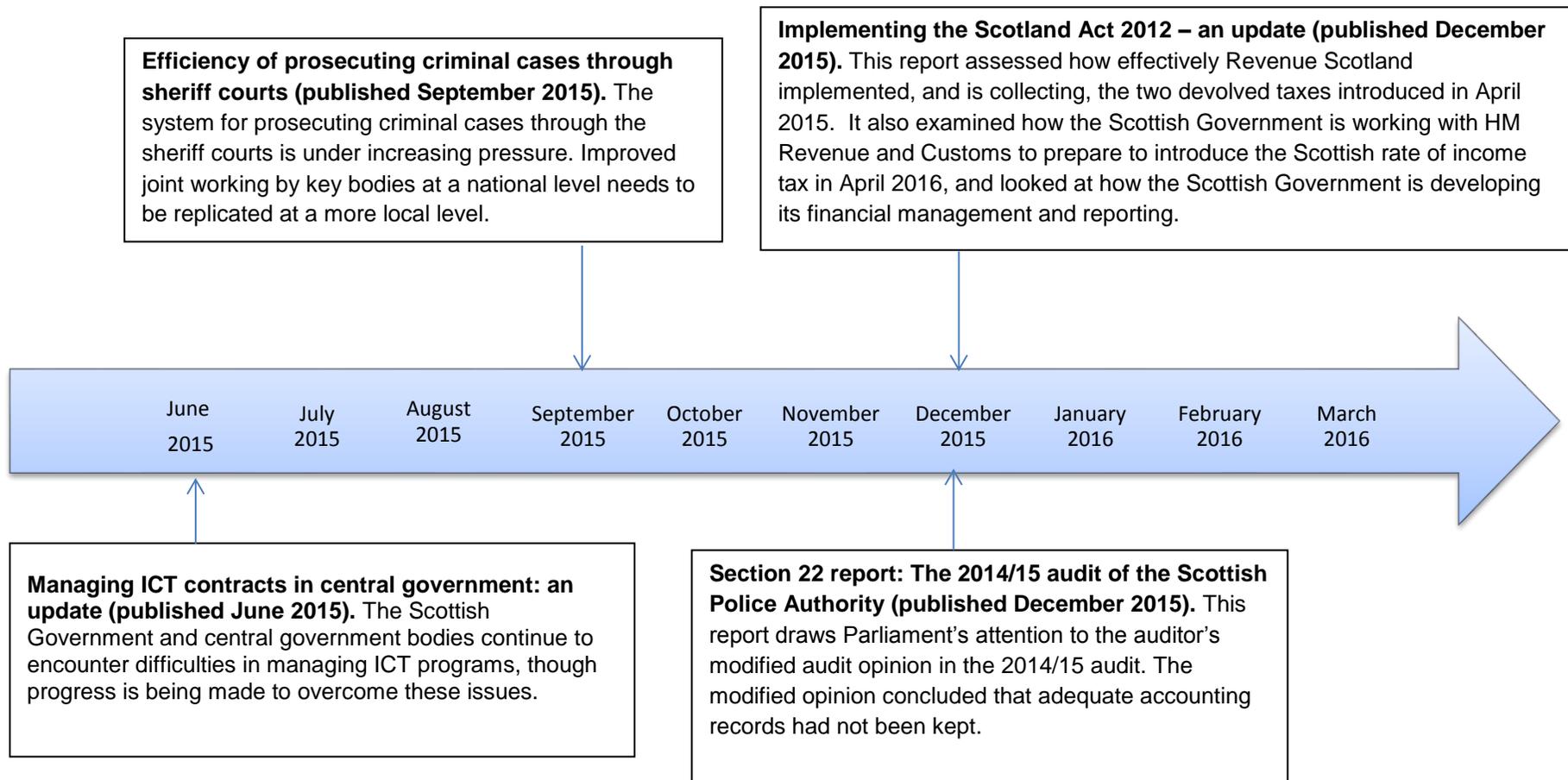
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Annual report preparation</b></p> <p>There is a risk that the performance and accountability reports included within the draft annual accounts will be misstated, which could lead to the audit being delayed, or at worst, the accounts being qualified.</p>	<ul style="list-style-type: none"> <li>• Agreed a financial statements completion timetable.</li> <li>• Maintained close contact with officers in the lead up to the audit of the financial statements and provided a summary of new technical guidance.</li> <li>• Reviewed the draft financial statements to ensure all presentations and disclosures were complete and comply with FReM guidance.</li> </ul>	<ul style="list-style-type: none"> <li>• The draft financial statements and working papers were provided to audit in accordance with the agreed timetable.</li> <li>• Management were provided with the 2015/16 FReM disclosure checklists and technical guidance to assist with their preparation of the annual report and accounts, prior to our site visit.</li> <li>• We identified a number of matters arising in relation to disclosures in the annual report sections and remuneration and staff report. This required several amendments to be made to ensure compliance with FReM guidance.</li> </ul>
<p><b>Financial sustainability</b></p> <p>There is a risk that PIRC do not have the required level of funding in place to maintain their delivery of services and to achieve their performance targets.</p>	<ul style="list-style-type: none"> <li>• Reviewed management accounts presented to the AAC to monitor budget pressures.</li> <li>• Reviewed grant in aid draw downs and correspondence with the Sponsor Department as part of our financial statement audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Additional funding was provided by the Sponsor Department to cover planned developments.</li> <li>• PIRC's funding is not split into cash and non-cash allocations. The year end overspend has been agreed by the Sponsor Department.</li> <li>• PIRC should monitor separately the cash and non cash expenditure against their allocated budget.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<b>Wider Dimension Risks</b>		
<p><b>Financial planning</b></p> <p>There is a risk that PIRC are unaware of the financial impact of achieving their corporate objectives.</p>	<ul style="list-style-type: none"> <li>Reviewed PIRC’s strategic plan and other business plans to identify if financial implications are considered where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Financial implications of achieving corporate objectives are not detailed in the Strategic Plan 2016-2019. Financial information is however reported separately to the Sponsor Department and via monthly management accounts.</li> </ul>
<p><b>Workforce capacity</b></p> <p>There is a risk that PIRC’s additional workload could be detrimental to staff wellbeing and resource levels are insufficient to sustain effective delivery of services.</p>	<ul style="list-style-type: none"> <li>Reviewed monthly management accounts to monitor budget pressures relating to staff costs.</li> <li>Reviewed performance reports presented to AAC to identify potential issues relating to staff wellbeing.</li> <li>Reviewed management’s actions to implement effective workforce plans and to review their staffing structure.</li> </ul>	<ul style="list-style-type: none"> <li>While staff attendance and sickness absence levels are stable, PIRC’s year end performance report highlights that the flexi balance and untaken annual leave have continued to increase this year. This may affect staff wellbeing if additional hours continue to be worked.</li> <li>We are aware that PIRC are currently recruiting across its services to ensure staff capacity is able to cope with the demands.</li> </ul>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

Action point	Issue/risk/recommendation	Management action / response	Responsible officer / target date
1.	<p><b>Annual report narrative.</b> A number of presentational and disclosure amendments were identified as part of the audit process.</p> <p><b>Risk.</b> 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><b>Recommendation.</b> 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>	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.	John Mitchell 31 March 2017
2.	<p><b>Asset classification.</b> PIRC's fixed asset register should be reviewed and revised to ensure consistency in the classification of assets.</p> <p><b>Risk.</b> Assets are not properly classified and therefore depreciation charges are not applied appropriately over the estimated lives of the assets.</p> <p><b>Recommendation.</b> PIRC should review its FAR to ensure that all assets are classified appropriately.</p>	Accepted. PIRC has reviewed the Finance Manual and made changes reflecting the classification of assets as 'under construction'. This will be kept under review.	Laura Duguid September 2016

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3.	<p><b>Financial planning.</b> The strategic plan is not aligned to the financial plans of the organisation.</p> <p><b>Risk.</b> The costs of achieving the corporate objectives are unknown leading to their non-achievement.</p> <p><b>Recommendation.</b> 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>John Mitchell 31 March 2017</p>

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4.	<p><b>Staff resources.</b> 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 well being. Staff concerns regarding job security may increase due to the impact of any restructuring.</p> <p><b>Risk.</b> 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><b>Recommendation.</b> 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>John Mitchell Ongoing</p>

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5.	<p><b>Effective scrutiny.</b> 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><b>Risk.</b> There is a risk that effective scrutiny is impacted.</p> <p><b>Recommendation.</b> All paper and reports should be provided in advance before all Senior Management Team and AAC meetings.</p>	Accepted	John Mitchell September 2016
6.	<p><b>Business Continuity Plan.</b> The plan is in draft and overdue for finalisation and review.</p> <p><b>Risk.</b> There is a risk that PIRC do not have effective business continuity arrangements in place for staff to follow.</p> <p><b>Recommendation.</b> PIRC should finalise the plan as soon as possible and circulate to all staff.</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.	John Mitchell November 2016

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7.	<p><b>Register of interests.</b> PIRC do not currently record all senior officers' or AAC members' interests on their Register.</p> <p><b>Risk.</b> Relevant political and financial interests of officers and AAC members are not transparent to the public.</p> <p><b>Recommendation.</b> 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>	John Mitchell December 2016