



Scott-Moncrieff
business advisers and accountants

Police Investigations and Review Commissioner

2017/18 Annual Audit Report to the Police
Investigations and Review Commissioner and
the Auditor General for Scotland

October 2018

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Key messages

Annual report and accounts

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

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

Key facts

- PIRC has reported a surplus of £0.003million against its final budget of £3.258million.
- A balanced budget has been set for 2018/19. PIRC has a revenue budget of £4.254 million for 2018/19, representing an uplift of £1.068million (34%) on the initial 2017/18 allocation of £3.186million.
- PIRC incurred £40,000 capital expenditure in 2017/18. Use of grant in aid funding for this purpose was agreed with the sponsor department.
- 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 are satisfied that the Governance Statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements and our understanding.
- 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.
- Appropriate assurances were provided from the accountable officer to their successor who joined the organisation in February 2018. We are satisfied that the assurances covered the whole financial year and were of the standard required to enable the accountable officer to fulfil his responsibilities.

Financial sustainability

- PIRC continues to liaise with the sponsor department regarding rising demand levels and the associated resource pressures. No formal medium to long term financial plans are in place.
- Additional funding of up to £0.1million was approved in 2017/18 following submission of a business case to the sponsor department.
- In May 2018 PIRC responded to a call from the Scottish Parliament Justice Committee for written representations regarding the post legislative review of the Police and Fire Reform (Scotland) Act 2012. The impact this review may have on the PIRCs powers, how it operates and its financial sustainability are as yet unknown. We will continue to monitor this situation.

Conclusion This report concludes our audit for 2017/18. 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 2018

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Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Police Investigations and Review Commissioner for 2017/18.

We carry 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 Investigations and Review Commissioner as “those charged with governance”.

Introduction

1. This report summarises the findings from our 2017/18 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 PIRC at the outset of our audit. The core elements of our work include:
 - an audit of the 2017/18 financial statements and related matters;
 - consideration of PIRC’s arrangements for securing financial sustainability.
 - any other work requested by Audit Scotland, for example, input into performance audit work.
3. PIRC is responsible for preparing an annual report and accounts that 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. 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 upon appropriate actions. We give each recommendation a grading to help PIRC assess their significance and prioritise the actions required.
5. 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.

Confirmation of independence

6. 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.

7. We confirm that we have complied with 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.

Adding value through the audit

8. 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.

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 both 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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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 2017/18 annual report and accounts.

Annual report and accounts

We reported unqualified opinions on the annual report and accounts for the year ended 31 March 2018 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 2018 were considered and approved by the Audit Committee on the 30th October 2018. 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 are no matters which we are required to report by exception.

Appropriate administrative processes were in place

13. We received the draft annual accounts and supporting papers of a good standard. Our thanks go to staff at PIRC for their assistance.
14. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2018 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 1 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 as a whole, 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 in Exhibit 1.

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 (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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

16. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts. PIRC receives all of its funding through grant in aid from the Scottish Government. To inform our conclusion we evaluated this revenue stream and reviewed the controls in place over revenue accounting.

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

We also carried out testing to confirm that PIRC's revenue recognition policy is appropriate and consistently applied throughout the year.

2. Risk of fraud in the recognition of expenditure

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The 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 2017/18 External Audit Plan

17. While we did not suspect any 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 annual accounts. 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.

3. 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 (UK) 240.

Excerpt from the 2017/18 External Audit Plan

18. 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 outside the normal course of business 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 these were consistent with prior years.

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 annual accounts.
20. Our initial assessment of materiality for the annual accounts was £47,000 and it remained at this level throughout our audit. This equates to approximately 1.4% of PIRC's 2017/18 gross

expenditure. Operating within budget is a key target for PIRC and one of the principal considerations for the users of the accounts when assessing financial performance.

Performance materiality

21. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected

misstatements exceed materiality for the annual accounts as a whole.

22. We set a performance (testing) materiality for each area of work 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 table below:

Area risk assessment	Weighting	Performance materiality
High	40%	£18,800
Medium	50%	£23,500
Low	70%	£32,900

23. We agreed to report all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of overall materiality (i.e. over £2,350), 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 annual accounts.

Audit differences

24. We are pleased to report that there were no material adjustments to the draft annual accounts. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of annual accounts.
25. There was one uncorrected misstatement in the annual accounts. This related to the acquisition of software licenses for £30,599 which have been incorrectly classified as tangible fixed assets within the annual accounts. Misclassification of intangible assets was also identified during our 2016/17 audit.

Prior year action point 3

26. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts.

Other matters identified during our audit

27. During the course of our audit we noted the following:

Other information in the annual report and accounts

28. “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

29. 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.
30. 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

31. 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.
32. 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.
33. 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.
34. The governance statement was prepared by the Director of Operations after having only being in post since February 2018. As part of our audit work we reviewed the assurances provided by the outgoing Director of Operations. These were deemed fit for purpose and consistent with the content of the governance statement.

Internal audit

35. An effective internal audit service is an important element of PIRC's governance arrangements. PIRC's internal audit function is delivered by RSM. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of PIRC's total audit resource.

Accounting and internal control systems

36. PIRC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in this respect.
37. As part of our audit, we have followed up on the recommendations we raised in 2016/17. Unfortunately we are unable to report that these recommendations have been sufficiently addressed to date. Further detail is included in the action plan in Appendix 2.

Related party transactions

38. In compliance with ISA 550, we are required to perform audit procedures to identify, assess and respond to the risk of material misstatement arising from related party transactions. We conducted a review in order to identify any potential undisclosed related party transactions.
39. In order to verify the completeness of the PIRC's declaration of interests, we conducted searches of all members of the senior management team via Companies House.
40. We reviewed the Audit and Accountability Committee minutes for the 2017/18 period. We did not identify any undisclosed interests.

Regularity opinion

41. 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.

Cyber Security

42. In May 2017, a number of public sector bodies across Scotland were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.

43. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018. No issues have been identified which would impact PIRC meeting the deadline. PIRC are working closely with the Scottish Government Cyber Resilience unit in the attainment of certification.
44. Cyber security is included on PIRCs risk register and progress towards Cyber Essentials Plus certification in addition to other risk mitigating actions, is discussed at each meeting of the Audit and Accountability committee.
45. We will maintain a watching brief on developments in this areas.

General Data Protection Regulations

46. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replace the Data Protection Act 1998 and as well as strengthening existing regulations, the Act has brought in new legislative duties for PIRC. The Regulations bring significant potential penalties for non-compliance.
47. PIRC used guidance issued by the Information Commissioner's Office to ensure appropriate action was taken during 2017/18. All staff attended GDPR training and PIRC published a revised data protection policy on its website in May 2018. This policy also incorporates the additional legislative requirements placed upon PIRC through being a named competent body in the Data Protection Bill. This requires PIRC to comply with the provisions of the Law Enforcement Directive.
48. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant issues at this stage.

Qualitative aspects of accounting practices and financial reporting

49. During the course of 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 annual accounts.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. 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 financial statements.	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 annual accounts 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.

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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.

Financial sustainability



PIRC demonstrates good arrangements for annual financial planning and monitoring but does not formally document medium to long term financial plans.

PIRC continues to liaise closely with the sponsor department regarding rising demand levels. Additional funding of £0.1million was approved for 2017/18 and the 2018/19 allocation has been uplifted by £1.068million.

We will continue to monitor this position throughout 2018/19.

PIRC's financial performance in 2017/18

50. The main financial objective for PIRC is to ensure the financial outturn for the year is within the budget allocated by the sponsor department of the Scottish Government. The initial grant in aid allocation for 2017/18 was £3.186million. Following a sustained increase in demand for services PIRC submitted a business case for additional funds. As a result of this the PIRC were able to draw down up to a further £0.1million resulting in a final maximum budget of £3.286Million
51. PIRC drew down £0.072million of the additional funding offer and reported a surplus of £0.003million against the £3.258million final budget. Therefore, as demonstrated by Exhibit 2 below, PIRC met its financial objective for the year.
52. The additional funds were utilised to increase the capacity of PIRC to respond to ever increasing demand for its services. Recruitment of additional staff and increased training costs were the main drivers for the £0.075million increase in expenditure on 2016/17.
53. PIRC incurred capital expenditure of £0.04million in 2017/18. Use of grant in aid funding for this purpose was approved by the sponsor department.

Exhibit 2: 2017/18 Financial performance against key targets

	Target £'000	Actual £'000	Under/(over) spend £'000
Cash	3,158	3,155	3
Non-cash	100	100	0
Total	3,258	3,255	3

Financial Planning

Indicative 2018/19 budgets

54. Grant in aid funding has been agreed as £4.254million for 2018/19 representing an uplift of £1.068million (34%) on the initial 2017/18 allocation. This was agreed with the sponsor department as part of the same business case which enabled PIRC to secure the in-year uplift of up to £0.1million in 2017/18.
55. A balanced budget is in place for 2018/19. This is monitored and reported on at each meeting of the Audit and Accountability Committee.

Post legislative review

56. The Police and Fire Reform (Scotland) Act 2012 provides the statutory framework for the PIRC. In April 2018 the Scottish Parliament Justice Committee launched its call for written representations on its post legislative review of the act.
57. PIRC submitted a response in May 2018 addressing the question of whether there are any further policy or legislative changes required to improve the effectiveness of the act.
58. In their submission the PIRC make a number of suggestions for proposed policy and legislative changes.
59. It is not yet known when the results of this review will be published and what the implications will be for PIRC in the way it operates and its financial sustainability. We will continue to monitor and report on this as part of our audit engagement.

Medium-term financial planning

60. PIRC receives its funding allocation on an annual basis and does not produce any documented financial plans covering a period of more than the current financial year.

61. Given the uncertainty around demand levels and the implications of the post legislative review, PIRC remain in close contact with the sponsor department regarding funding for future periods. In 2016/17 we raised an audit recommendation that the PIRC formally document medium-long term financial plans and projections. This has yet to be actioned

Prior year action plan point 2

Governance and accountability framework

62. In 2016/17 PIRC underwent a management restructure in order to reduce the number of senior posts and redirect funds to the provision of services.
63. The restructure necessitated a change in the Governance and Accountability framework document to ensure that it accurately reflected the new governance structure. PIRC submitted a proposed amendment to the sponsor department in July 2017.
64. In our 2016/17 annual audit report we reported on this and raised a recommendation for PIRC to follow this up until an agreed upon framework was in place.
65. At the time of writing the revised framework remains in draft form. We recommend that PIRC continue to liaise with the sponsor department on this matter.

Prior year action plan point 3

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Appendices

Appendix 1: Respective responsibilities of PIRC and the Auditor

Responsibility for the preparation of the annual accounts

It is the responsibility of the Commissioner, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the accounts directions issued by Scottish Ministers under paragraph 10, schedule 4 of the Police, Public Order and Criminal Justice (Scotland) Act 2006.

In preparing the annual report and accounts, the Director of Operations, 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 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:

- 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 the PIRC's affairs as at 31 March 2018 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 2017/18 FReM ;
- 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

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

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 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 by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts 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 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

We are required by International Standards on Auditing in the UK (ISAs (UK)) 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 Ethical Standards. 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, the Commissioner or management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

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. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual 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.

Action plan grading structure

To assist PIRC 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	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring 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.

Outstanding recommendations from previous audit reports

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
<p>1. Asset classification</p>	<p>Observation & Risk</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>Action owner: Laura Duguid (Finance manager)</p> <p>Due Date: March 2018</p> <p>An exercise is being undertaken to ensure that such costs in the future are classified as non-tangible.</p>	<p>During testing this year we noted that PIRC were yet to recognise any intangible assets within their accounts. In addition we found that the purchase of software licences in the year were incorrectly recognised as tangible fixed assets.</p> <p>Recommendation</p> <p>PIRC should review its FAR to ensure that all assets are classified appropriately.</p>
<p>Rating</p>			<p>Management comment:</p> <p>All fixed asset expenditure will be reviewed as part of the PIRC' year-end process.</p>
<p>Grade 3</p>			<p>Updated due date: 31.03.19</p>

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
2. Medium term financial planning	<p>Observation & Risk</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>Action owner: Laura Duguid (Finance manager)</p> <p>Due Date: 30 November 2017</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>The PIRC continues to experience an increase in demand for its services and as such has applied for and been granted, an uplift in funding for 2018/19. This demonstrates medium term financial planning however these plans and projects are yet to be formally documented.</p> <p>Recommendation</p> <p>PIRC should document a medium term financial plan and monitor performance against it. This should then be used to facilitate future discussions with the sponsor department regarding future financial requirements.</p> <p>Management comment:</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>Updated due date: 31.03.19</p>
Rating			
Grade 3			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
<p>3. Governance and assurance framework</p>	<p>Observation & Risk</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>Action owner: Alan Buchanan (Director of Operations)</p> <p>Due Date: 30 November 2017</p> <p>This recommendation is accepted and will be progressed.</p>	<p>A new Director of Operations was appointed as at 1 April 2018 and ownership of this recommended was handed over.</p> <p>The incoming Director of Operations continues to address this action with the sponsor department.</p> <p>Recommendation</p> <p>PIRC should continue to liaise with the sponsor department in this matter.</p> <p>Management comment:</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>Updated due date: 31.03.19</p>
<p>Rating</p>			
<p>Grade 2</p>			



Scott-Moncrieff
business advisers and accountants

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