



**Scott-Moncrieff**  
business advisers and accountants

# **Police Investigations and Review Commissioner**

External Audit Plan  
2016/17

**March 2017**

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# Introduction

# Introduction

1. This document summarises the work plan for our 2016/17 external audit of the Police Investigations and Review Commissioner (“the PIRC”).
2. The core elements of our work include:
  - an audit of the PIRC’s 2016/17 annual accounts, including a review of the governance statement;
  - an assessment of the PIRC’s arrangements as they relate to financial sustainability, financial management, governance and transparency and value for money; and
  - any other work requested by Audit Scotland.

## Audit appointment

3. The Auditor General for Scotland is the Scottish Parliament’s watchdog for ensuring propriety and value for money in the spending of public monies. The Auditor General for Scotland is responsible for securing the audit of the Scottish Government and most public bodies including NHS bodies in Scotland.
4. Audit Scotland is an independent statutory body that provides the Auditor General for Scotland with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of the PIRC for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
  - the responsibilities of Scott-Moncrieff as external auditors;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs, timetable and fee; and

- background to Scott-Moncrieff and the audit team.

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the 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 the PIRC promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.

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# Responsibilities of Scott-Moncrieff

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## Code of Audit Practice

8. The Code of Audit Practice prepared by Audit Scotland and approved by the Auditor General for Scotland, sets out the ways in which auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. It is a condition of our appointment that we follow this Code.

## Auditor responsibilities

9. 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 annual accounts and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and ‘value for money’.
10. Our main responsibilities under the Code of Audit Practice are summarised in Exhibit 1.

## Public Audit in Scotland

11. Public Audit in Scotland<sup>1</sup> sets out four areas of focus, to set a common framework for all the audit work conducted for the Auditor General for Scotland and the Accounts PIRC:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money.

12. These areas of focus feature prominently in the Code of Audit Practice which came into force during the 2016/17 audits. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body. During our 2016/17 audit, we

Exhibit 1: Extract from the Code of Audit Practice

Audit area	Scope
<b>Financial sustainability</b>	Financial sustainability looks arrangements for the medium (two to five years) and the longer term (over five years). Consideration will be given as to whether the PIRC is planning effectively in order to continue to deliver its services in the way they should be delivered.
<b>Financial management</b>	Financial management is concerned with financial management, sound budgetary processes and whether the control environment and internal controls are operating effectively.
<b>Governance and transparency</b>	Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
<b>Value for money</b>	Value for money is concerned with using resources effectively and continually improving services.

will, where appropriate, consider how the PIRC is performing in these areas.

<sup>1</sup> [http://www.audit-scotland.gov.uk/docs/corp/2015/as\\_150511\\_public\\_audit\\_scotland.pdf](http://www.audit-scotland.gov.uk/docs/corp/2015/as_150511_public_audit_scotland.pdf)

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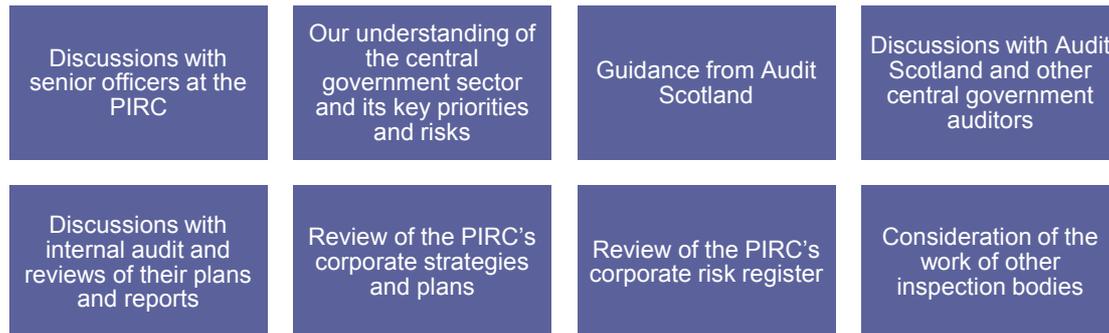
# Audit Strategy

# Audit strategy

## Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the PIRC. This

ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



14. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

## Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the PIRC that these communications will be through the Audit and Accountability Committee.

## Professional standards and guidance

16. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB). In particular, we comply with the APB's *Practice Note 10 on the Audit of Annual accounts of Public Sector Bodies in the United Kingdom (revised)*.

## Internal audit

17. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the PIRC's total audit resource. To achieve this, we aim to place reliance on the work of internal audit wherever possible. The PIRC's internal audit service is provided by Baker Tilly.
18. Prior to placing reliance on the work of internal audit, we are required by auditing standards to review aspects of the internal audit function to ensure they are in compliance with the Public Sector Internal Audit Standards. This review is performed in accordance with the Code of Audit Practice and International Standard on Auditing (ISA) 610 – *Using the work of internal auditors*.

## Other inspection bodies

19. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Through enquiry of management as part of our initial planning discussions, we have not identified any other inspection work planned for 2016/17 which is directly relevant to our work, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2016/17 and update our plans as necessary.

## Partnership working with Audit Scotland

- 20.** Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
- 21.** Audit Scotland issues general and sector specific planning guidance summarising all of the areas we are expected to cover as well as facilitating regular sector meetings where central government auditors discuss key issues arising during the audit year. We have applied the planning guidance in developing this external audit plan. We will use the sector meetings to help identify the key issues that may impact on our audit of the PIRC.
- 22.** Audit Scotland undertakes national reviews on issues affecting central government organisations. Our role as local auditors is to review the PIRC's arrangements for taking action on any issues reported in the national reports which may have a local impact. We plan to assess the extent to which the PIRC uses the national reports as a means to help improve performance at the local level.

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# Annual accounts

# Annual accounts

23. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the PIRC's annual accounts.

## Approach to audit of annual accounts

24. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

25. We focus our work on the areas of highest risk in all aspects of our work, including our audit of the annual accounts. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### Audit of the annual accounts

26. During our audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on the risk assessment.

27. Our audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Government Financial Reporting Manual (the 2016/17 FReM).

28. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

29. Our opinion on the truth and fairness of the annual accounts and the regularity of transactions will be set out in our independent auditor's report which will be included within the annual accounts.

## Materiality

30. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

31. Our initial assessment of materiality for the annual accounts is £45,000, approximately 1.5% of the PIRC's Grant in Aid funding allocation. We will review our assessment of materiality throughout our audit.

32. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£18,000
Medium	50%	£22,500
Low	70%	£31,500

33. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 2% of the overall materiality figure (i.e. over £900); and

- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Accountability Committee if our assessment changes significantly during the audit.

## Key audit risks in the annual accounts

34. Auditing standards require that we inform the Audit Committee of our assessment of the risk

### 1. Revenue Recognition

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



35. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. We will however continue to review this position throughout the audit.

### 2. Management override

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



36. In response to this risk we will review the PIRC's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

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# Wider scope audit

# Wider scope audit

## Introduction

- 37. The Code of Audit Practice (the Code) frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we are required to consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money.
- 38. The Code does however recognise that the full application of its requirements may be impractical or inappropriate due to the nature or size of the organisation. As such our planned work should be risk based and proportionate.
- 39. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is 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.
- 40. During the audit planning process we have considered the PIRC's self-evaluation arrangements as they relate to these four dimensions. From review of this information, along with discussions with the PIRC, we have concluded that our audit work on the wider scope will be restricted to the two areas noted above; appropriateness of the disclosures in the governance statement and financial sustainability (Exhibit 3).

### Exhibit 3 - Wider scope audit

Financial sustainability	Our audit approach
<p>The PIRC is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>	<p>During our 2016/17 audit we will consider the PIRC's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the PIRC's operations and use of resources.</p>

## Governance statement

The PIRC is responsible for ensuring appropriate disclosures are made in the Governance Statement. These should cover the period to when the financial statements are authorised for issue and should consider:

- Any other governance issues arising during the year;
- The governance framework within which the PIRC operates and its effectiveness; and
- Any other disclosures deemed necessary.

## Our audit approach

There is a risk that the appropriate disclosures are not made in the Governance Statement.

During our 2016/17 audit we will consider the appropriateness of disclosures made in the Governance Statement.



# Audit outputs, timetable and fees

# Audit outputs, timetable and fees

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	December 2016
Independent Auditor's Report	2 page report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	September 2017
Annual Report to the PIRC and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work on the use of resources, annual accounts and governance arrangements.	September 2017

## Audit outputs

41. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet the September 2017 Audit and Accountability Committee and certification deadlines.
42. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body. The auditor remuneration element of the total fee can be increased by up to 10% without Audit Scotland approval, based on the risks and expected additional work required. Any proposed increases above 10% must be approved by Audit Scotland.

44. Audit Scotland has set an expected fee for the PIRC of £11,990. We have not applied any uplift to this fee based on our assessment of the risks and priorities facing the PIRC. A breakdown of the proposed fee is shown in the table below:

## Audit fee

43. Audit Scotland has completed a review of funding and fee setting arrangements and as a result has revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has

	2016/17
Auditor remuneration	£9,240
Pooled costs	£2,270
Performance audit and best value	-
Audit support costs	£480
<b>Total fee</b>	<b>£11,990</b>

- a contribution towards Audit Scotland's costs.

**46.** We assume receipt of the draft accounts and working papers before our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

### Audit timetable

**45.** The audit fee covers:

- the 2016/17 audit work and outputs described in this plan;
- attendance at all Audit and Accountability Committee meetings;
- access to advice and information on relevant audit issues; and

**47.** The dates for our interim and final audits have been discussed with the Finance Manager. A summary timetable, including audit outputs, is set out below:



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## Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

## Extensive public sector audit experience

We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE

colleges. We also provide services to charities, schools, as well as private and public limited companies.

We have been external auditors within the public sector for at least fifty years, initially in local government. We have worked with central government organisations for over 30 years and, together with our Moore Stephens network partners, are one of the largest providers of Internal and external audit and related services to the sector.

## Your audit team



Nick Bennett  
Audit Partner  
nick.bennett@scott-moncrieff.com

Nick has over 20 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.



Rachael Blenkinsop  
Assistant Manager  
rachael.blenkinsop@scott-moncrieff.com

Rachael has been part of our public sector external audit team since she started with the Firm and works closely with Nick on the audit of financial statements and governance arrangements for our public sector external audit appointments.

## Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. 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 and the PIRC, or its senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the PIRC and Scott-Moncrieff.

## Internal audit

It is the responsibility of the PIRC to establish adequate internal audit arrangements. The audit fee is agreed on the basis that a satisfactory internal audit function exists on which we will be able to place reliance.

We will liaise with internal audit to ensure an efficient audit process. However, an additional fee may be charged if reliance cannot be placed on the work of internal audit due to deficiencies in the scope or quality of internal audit work.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant PIRC staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit (i.e. 31 July). We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the PIRC's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the PIRC during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Accountable Officer.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

As stated within the Code of Audit Practice, management should prepare an action plan summarising their response to the recommendations in the reports. The action plan should include target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet September 2017 Audit and Accountability Committee reporting deadline.

## Agreement of terms

We shall be grateful if the PIRC's Audit and Accountability Committee would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants