



Police Investigations and Review Commissioner

2021/22 Annual Audit Report to the Police Investigations and Review Commissioner and the Auditor General for Scotland

October 2022



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Key messages



This report concludes our audit of the Police Investigations and Review Commissioner ('PIRC') for 2021/22.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified and there are no matters which we are required to report by exception.
Key findings on audit risks and other matters	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>PIRC had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
Audit adjustments	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. No such adjustments were identified.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements. See appendix 2 for details of these adjustments.</p>
Accounting systems and internal controls	<p>We have applied our risk-based methodology to your audit. This approach requires us to document, evaluate and assess the PIRC's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses were noted however one significant and three other deficiencies were identified. See appendix 3 for details.</p>

Wider scope audit

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

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance Statement

We are satisfied that the governance statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.

PIRC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in PIRC's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.

Auditor judgement



No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives



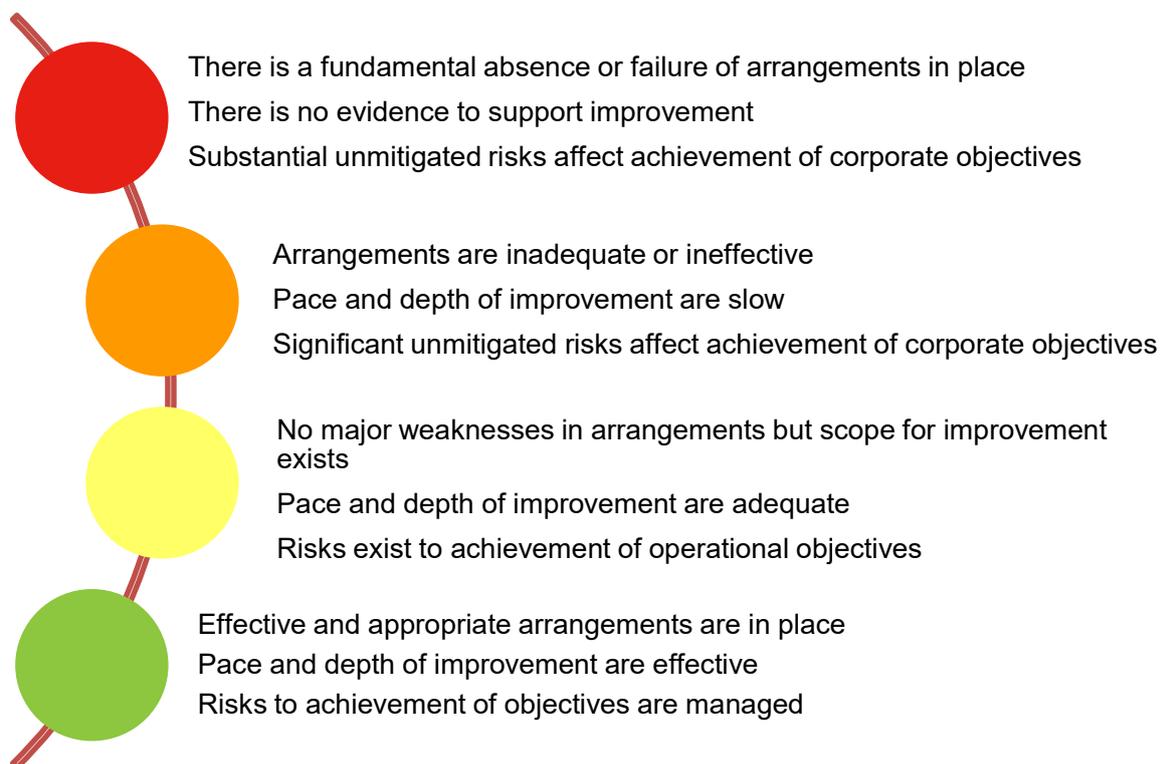
Financial Sustainability

The decision was taken by PIRC to delay the publication of their Strategic Plan and Business Plan 2022-23 due to the anticipated impact of legislative changes following the public consultation on Lady Elish Angiolini's Recommendations. Though this decision appears appropriate given the high degree of uncertainty surrounding the nature and scope of PIRC's future activities, there is an argument that formal scenario planning could help ensure that effective and appropriate arrangements are in place for financial sustainability.

PIRC has secured an increased funding allocation for 2022-23 from the Scottish Government to cover the expanded remit resulting from Lady Elish's report. Management are in regular communication with the Scottish Government and have stated that any further expansion of PIRC's responsibilities will likely require additional funding.

Definition

We have used the following grading structure to provide an overall assessment of the arrangements in place as they relate to the dimensions of the wider scope audit (i.e. financial sustainability).



Introduction

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We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence

Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Commissioner at the outset of our audit. The core elements of our work include:
 - an audit of the 2021/22 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)



Responsibilities

2. PIRC is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting on or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to PIRC through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help PIRC promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Financial statements audit

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.

Overall conclusion

11. The annual report and accounts are due to be considered by the Commissioner in October 2022.
12. We intend to issue unqualified opinions in our independent auditor's report, subject to the completion of outstanding areas of testing which are outlined on page 4.
13. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at PIRC for their assistance with our work.
14. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2022 deadline.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	<p>We intend to issue an unqualified audit opinion on the 2021/22 financial statements.</p>
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise PIRC's functions.</p> <p>Our wider scope audit work considers the financial sustainability of PIRC.</p>	<p>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.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that, subject to the completion of outstanding testing:</p> <ul style="list-style-type: none"> • the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers. • the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

Matters reported by exception	We are required to report on whether: <ul style="list-style-type: none">adequate accounting records have not been kept; orthe financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; orwe have not received all the information and explanations we require for our audit.	We have no matters to report.
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An overview of the scope of our audit

significant accounting systems, substantive procedures and detailed analytical procedures.

15. The scope of our audit was detailed in our External Audit Plan, which was presented to the Commissioner in April 2022. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to PIRC. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
16. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
17. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the

Significant risk areas

18. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
19. The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. 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 described below.

Significant risk areas

1. Management override

Significant risk description

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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override PIRC's controls for specific transactions.

Audit procedures

- Review of PIRC's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

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.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from Scottish Government due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- Evaluate the significant revenue streams and review the controls in place over accounting for revenue.
- Consideration of PIRC's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Key observations

We have gained reasonable assurance on the completeness and occurrence of income, and we are satisfied that it is fairly stated in the financial statements.

We revisited our conclusion to rebut the risk of revenue recognition in relation to Scottish Government funding throughout the audit and our conclusion remained the same.

3. Expenditure recognition

Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure (payroll is subject to separate tailored testing).
- Consideration of PIRC's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Other risk factors

Other impacts of COVID-19 on the financial statements

20. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Timescales / administrative processes	In Scotland, the administrative deadline for the submission of audited accounts of central government is usually 30 September but this has been extended by one months to 31 October. The legislative deadline for laying accounts in the Scottish Parliament remains 31 December.	PIRC is on target to meet the extended deadline. We have worked closely with management throughout the audit to put us in the best position to adhere to this timetable.

Estimates and judgements

21. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
22. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to depreciation rates, provisions for legal obligations, and accruals. We have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

Materiality

23. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its

omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to PIRC and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
25. Our initial assessment of materiality for PIRC's financial statements was £80,000. On receipt of the unaudited financial statements, we reassessed materiality and found it to still be appropriate. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£80,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£60,000



75%

Work performed to capture individual errors at this level

Trivial threshold

£4,000



5%

All errors greater than this level are reported

Materiality

Our assessment is made with reference to PIRC’s net operating expenditure. Achieving a breakeven position is a key target for PIRC and one of the principal considerations for the users of the financial statements when assessing financial performance.

Our assessment of materiality equates to approximately 1.5% of PIRC’s gross expenditure as disclosed in the 2021/22 unaudited annual accounts.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We 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 at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds overall materiality.

Trivial misstatements

Clearly trivial matters are those that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

- 26. We are pleased to report that there were no adjustments to the financial statements.
- 27. We identified disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

Internal controls

- 28. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to PIRC. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate and received on a timely basis.

Follow up of prior year recommendations

- 29. As part of our audit we have followed up on the outstanding audit recommendation from prior years and concluded that this remains work in progress. Detail on this recommendation is included in the action plan at Appendix 4.

Audit Scotland, the appointed auditor to the Scottish Government, shares with us their findings on work carried out on those systems.

- 31. The Scottish Government has progressed with the action plan developed in prior years to address identified improvements to the payroll function. However, improvements to payroll controls, including review of changes to payroll data, remain to be fully implemented. We have completed sufficient substantive testing to gain assurance that the Commission's payroll costs are free from material

Shared systems and functions

- 30. PIRC uses Scottish Government payroll services and accounting systems (SEAS). On an annual basis,

misstatements in the financial statements.

Other communications

Accounting policies, presentation and disclosures

32. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by PIRC.
33. The accounting policies, which are disclosed in the annual accounts, are in line with the FReM and are considered appropriate.
34. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
35. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

36. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
37. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

38. As part of our standard audit testing, we have reviewed the laws and regulations impacting PIRC. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

39. We will present the final letter of representation to the Commissioner to sign at the same time as the financial statements are approved.

Related parties

40. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

41. At the time of this report, we are yet to receive a bank confirmation from Natwest. All other confirmations have been received.

Wider scope

Following consideration of the size, nature and risks of PIRC, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
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Wider scope conclusions



Governance Statement

We are satisfied that the governance statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.

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

Auditor judgement No major weaknesses in arrangements but scope for improvement exists



Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives



Financial Sustainability

The decision was taken by PIRC to delay the publication of their Strategic Plan and Business Plan 2022-23 due to the anticipated impact of legislative changes following the public consultation on Lady Elish Angiolini's Recommendations. Though this decision appears appropriate given the high degree of uncertainty surrounding the nature and scope of PIRC's future activities, there is an argument that formal scenario planning could help ensure that effective and appropriate arrangements are in place for financial sustainability.

PIRC has secured an increased funding allocation for 2022-23 from the Scottish Government to cover the expanded remit resulting from Lady Elish's report. Management are in regular communication with the Scottish Government and have stated that any further expansion of PIRC's responsibilities will likely require additional funding.

Our approach to the wider scope audit

42. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of PIRC which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
43. During our audit we also considered the arrangements in place relating to the best value theme of fairness and equality.
44. Overall, we concluded that PIRC has appropriate arrangements in place in respect of these areas as noted below.

Fairness and equality

Accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. This includes arrangements relating to the best value theme of fairness and equality.

PIRC completes an Equalities Impact Assessment for every change made to policies or processes. These changes, and the associated impact on fairness and equality, are reviewed by the Staff Representatives Group and are approved by the Senior Management Team.

Additionally, PIRC look to promote equality as an employer by incorporating diversity questions in the interview process and by including equality objectives in each employee's annual Performance Review.



Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with directions made by Scottish Ministers and is consistent with the financial statements.

45. We are satisfied that the Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with directions made by Scottish Ministers.
46. From our audit work we have concluded that PIRC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in PIRC's accounting and internal control systems.
47. The Commissioner has confirmed that in her opinion, the control arrangements are appropriate and effective and no significant issues have been identified.

Governance arrangements during COVID-19

48. With national lockdown announced on 23 March 2020, all PIRC activity moved to being delivered remotely. Staff returned to the office during the period and now work on a hybrid basis.
49. Governance arrangements have continued as normal throughout this period. PIRC assessed the level of risk arising from any potential impact of the pandemic to be low.
50. The accounting and internal control system has continued to operate effectively during remote working, with no significant changes in controls.
51. The Commissioner has continued to receive and consider all standing items in 2021/22 including regular budget monitoring reports, performance information and updates on ongoing activity. We are satisfied that the Commissioner received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making

System of internal control

52. We have evaluated PIRC's key financial systems and internal controls to determine whether they are adequate to safeguard public assets, and prevent and detect fraud, error and irregularity. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
53. We did not identify any significant weaknesses in PIRC's accounting and internal control systems during our audit.

Internal audit

54. An effective internal audit service is an important element of an entity's overall governance arrangement. PIRC's internal audit service is provided by RSM.
55. Given the scale of PIRC's operations and the assessed low level of risk, internal audit a small number of high-level reviews each year.
56. Audits of Business Continuity Planning, IT Healthcheck, and Trainee Programme were carried out in the period with no material risks identified.
57. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and to make the most efficient use of PIRC's total audit resource.

Prevention and detection of fraud and irregularity

58. We found PIRC's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We do note, however that the planned review of the Fraud Prevention Policy is now overdue.
59. The Commissioner would be notified of any incidences of fraud or security breaches by the relevant team member. Issues arising and preventative actions are discussed at monthly team meetings.



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.

Significant audit risk

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

Financial sustainability

Demand for PIRC's services has continued to increase with little evidence to suggest that this will change in the near future. In response to this, the Scottish Government has increased PIRC's grant for 2022-23 by £350k to help it meet its statutory functions.

The scope and nature of PIRC's operations continue to change following the publication of Lady Elish Angiolini's Independent Police Complaints Review in November 2020. Like many other government bodies, PIRC is required to act on the recommendations outlined in the report.

The public inquiry following the death of Sheku Bayoh is ongoing, in addition to the civil cases brought against PIRC. Management have retained counsel for the purposes of the legal case but have informed the Scottish Government that the legal fees cannot be covered by the current budget.

Noted in the 2021/22 External Audit Plan

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61. Our detailed findings on the PIRC's financial framework for achieving long term financial sustainability are set out below.

Future financial plans

62. PIRC is funded by the Scottish Government through cash drawdowns.
63. As noted previously, PIRC have received an increase in their funding allocation for 2022-23 and will continue to seek additional funding if the scope of their operations is increased further.
64. PIRC are currently forecasting an overspend in each of the next 3 years. Aside from delaying recruitment (which would prove problematic in meeting its statutory functions), PIRC is somewhat limited in terms of savings opportunities.

Resource Spending Review

65. In May 2022, the Scottish Government published its Resource Spending Review which covers the period from 2022/23 to 2026/27. Covering both revenue and capital, this outlines the broad priorities and spending plans for the medium term which will be used to

inform annual budget negotiations and allocations.

66. PIRC remains in close contact with the Scottish Government as part of their quarterly Sponsorship Meetings. Although PIRC are yet to complete detailed budgeting and forecasts (given the uncertainty surrounding their future remit), they are aware of the review and will discuss viable options with the Scottish Government as and when there is greater clarity regarding future operations.

PIRC's financial performance in 2021/22

67. The main financial objective for PIRC is to ensure the financial outturn for the year is within the budget allocated by the Scottish Government. The agreed grant in aid for 2021/22 was £5,474k. PIRC drew down £5,158k reporting a total spend of £5,303k. Therefore, PIRC met its financial objective for 2021/22.

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Appendix 1: Respective responsibilities of PIRC and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Board and the auditor and are detailed below.

PIRC responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	PIRC responsibilities
Corporate governance	<p>The Accountable Officer is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.</p>
Financial statements.	<p>PIRC has responsibility for:</p> <ul style="list-style-type: none">• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;• maintaining proper accounting records; and• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of PIRC. <p>PIRC is responsible for communicating relevant information to users about the entity and its financial performance, including providing adequate</p>

Area	PIRC responsibilities
	<p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>PIRC is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. PIRC is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>PIRC is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

Wider scope of audit

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

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

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

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

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The total fees charged to PIRC for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Police Investigations and Review Commissioner (Auditor remuneration)	13,280	12,890
Total audit	13,280	12,890
Non-audit services	-	-
Total fees	13,280	12,890

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to PIRC.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at PIRC since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Adjusted differences

No	Detail	Assets Dr / (Cr)	Liabilities Dr / (Cr)	Reserves Dr / (Cr)	SoCNE Dr / (Cr)
1.	Reallocation of the March 2022 pension liability to PCSPS Pension Contr.	-	-	-	-
2.	Reallocation of lease incentives from non-current to current payables	-	-	-	-
Net impact on (income) / expenditure per audited accounts					-

Disclosure amendments

No	Detail
1.	Amendments to the Related Parties disclosure in line with Audit Scotland guidance.
2.	Amendments to the Fair Pay disclosure in line with Audit Scotland guidance.
3.	Amendments to the IFRS 16 disclosure in line with Audit Scotland guidance.

Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit. The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

1. Expenditure

Significant deficiency

Observation	It was noted that receipts could not be provided for a sample of expenses incurred in the period.
Implication	Without a sufficient audit trail, we were unable to gain suitable assurances over the nature of these expenses.
Recommendation	Management should implement a process for retaining all receipts and invoices received, both from suppliers and from employees submitted as part of expense claims.
Management response	Noted, there is a process in place to seek authorisation from staff and management if receipts cannot be provided.

2. Fixed Asset Register Depreciation Calculations

Other deficiency

Observation	It was noted that the fixed asset register contains 9 items with a negative net book value totalling £118.
Implication	Although the total of the negative net book values is highly trivial, there is a risk that an accumulation of these errors could result in fixed assets being understated.
Recommendation	Management should look to understand how these errors have occurred in the system and put controls in place to ensure there are no similar errors in future.
Management response	We will review the fixed asset register and ensure formulas are correct.

3. Fixed Asset Register Reconciliation

Other deficiency

Observation	An allocation error was noted in IT equipment (between cost and accumulated depreciation) when reconciling the fixed asset register to the trial balance.
Implication	Although the allocation error has no impact on the total net book value of IT equipment, a similar error in future could result in an inaccurate disclosure.
Recommendation	Management should look to understand how these errors have occurred in the system and put controls in place to ensure there are no similar errors in future.
Management response	Noted, checks will be done to ensure no further errors occur.

4. Fraud Prevention Policy

Other deficiency

Observation	It was noted that the formal review of the Fraud Prevention Policy in August 2021 did not go ahead as planned. The review is now overdue.
Implication	The policy may not be fit for purpose and may not accurately reflect the risks facing PIRC in respect of fraud.
Recommendation	Management should look to complete all reviews by the set deadlines.
Management response	Noted, a policy review is planned for November 2022.

Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years. This recommendation has now been actioned.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Other deficiency

Accounting Systems – action raised in 2020/21

Observation	It was noted that the current system was unable to run a report of all journals posted within the year.
Implication	As a result, we are unable to test for completeness of journals in the period.
Recommendation	Contact IT support to obtain a method of extracting a complete listing of all journals from the system.
Current year observation	Full listing of all journals provided to the audit team this year.



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