



Quality Meat Scotland

Report on the 2008-09 Audit

18 June 2009

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1 Executive Summary

Introduction

We have audited the financial statements of Quality Meat Scotland (QMS) for the 2008-09 financial year and examined aspects of performance and governance arrangements. This report sets out our key findings.

Financial Statements

We intend to give an unqualified opinion on both the financial statements of QMS for 2008-09 and on the regularity of transactions undertaken during the financial year.

The draft financial statements and supporting working papers were presented for audit on 18 May 2009 and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

The key issue highlighted during the audit related to the accounting treatment for the pension provision, the classification on cash held on deposit and the potential to hedge against potential losses on foreign currency transactions. All audit issues have now been resolved.

Governance

Overall, we found that QMS governance arrangements are operating well. The Board, Audit Committee and Management Team monitor organisational risk, financial performance and progress against the Strategic and Operational Plans regularly throughout the year. The Scottish Government issued a handbook on Audit Committees in the public sector during the year. QMS complies with this revised guidance in all material respects but a formal assessment of compliance has yet to be completed.

Performance

QMS has not yet adopted formal arrangements for demonstrating how it achieves best value, economy, efficiency and effectiveness in its operations, but does set, monitor and report against a range of performance targets each year.

The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with QMS and incorporates the Management Team's response to audit recommendations. The report includes some specific recommendations to strengthen internal controls. It is the responsibility of QMS to decide the extent of the internal control system appropriate to the organisation.

Acknowledgements

We would like to take this opportunity to thank QMS staff who have been involved in the audit for their assistance and co-operation. This report is part of a continuing dialogue between the QMS and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in QMS's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

2 Financial Statements

Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers, on the state of affairs of Quality Meat Scotland as at 31 March 2009 and of the net expenditure, recognised gains and losses and cash flows for the year then ended
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made there under by the Scottish Ministers
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

We are able to conclude that QMS's financial statements give a true and fair view of the financial position for the period from 1 April 2008 to 31 March 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance. We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

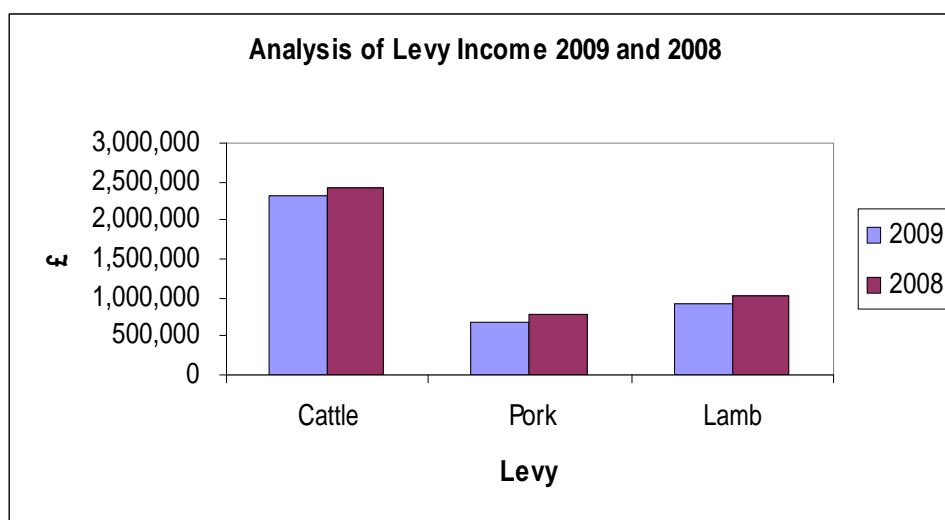
Financial Performance

During the year, QMS incurred resource expenditure of £6.5 million and received £6.2 million in levies, assurance income and grants.

Quality Meat Scotland's income is mainly derived from the statutory levy which is jointly paid by the producer (farmer) and slaughterer, and is raised on all cattle, sheep and pigs slaughtered in Scotland or exported live. However, income is also received in the form of "assurance scheme fees" which relate to the membership income received from farmers, abattoirs, feed companies, hauliers etc, and grant income from mainly the Scottish Government, Scottish Enterprise and the Rural Payments Agency.

The majority of levy income is from cattle. In terms of the overall split of the income, this appears to be relatively consistent across both 2009 and 2008, as illustrated in Figure 1. There has however been a fall in all income streams during the year. We understand that the levy is very much dependent on the needs of the overall butcher market linked to demand for meat products. For 2008-09, levy income was below budget by £212,000. This was primarily as a result of a fire at a major abattoir which resulted in the lamb being sent to England to be slaughtered, therefore QMS could no longer claim the levy, a circumstance out with the control of QMS.

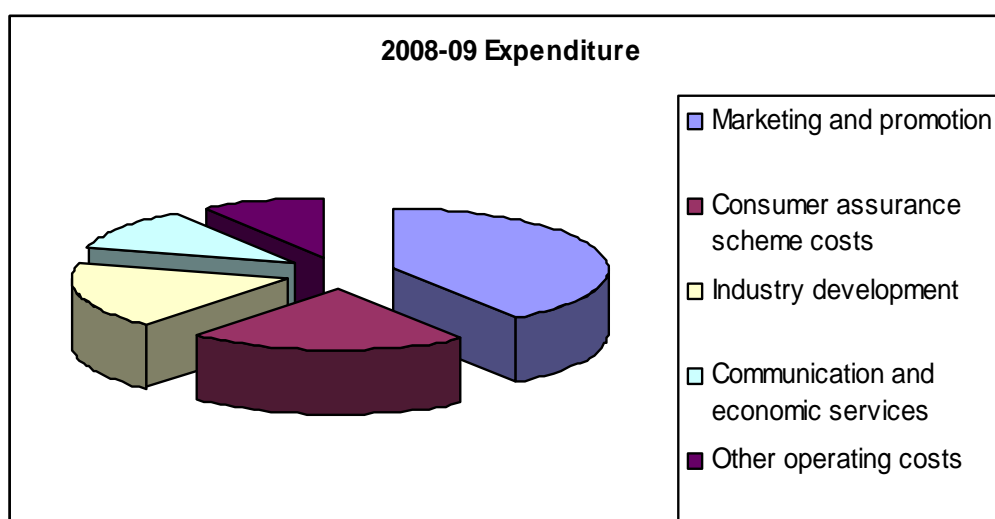
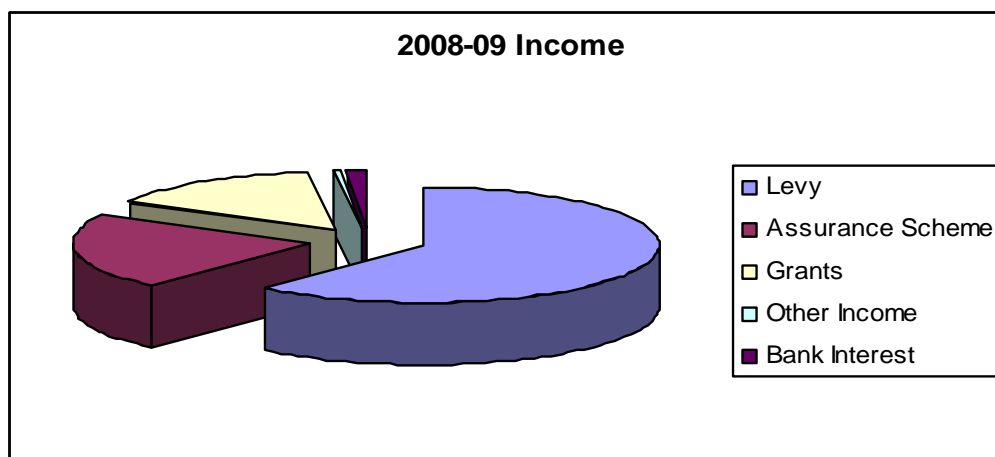
Figure 1 - Analysis of QMS's levy income



Marketing and promotion are the main areas of QMS expenditure and account for 41% of total costs during the year. Other areas of expenditure are consumer assurance scheme costs (21%), industry development costs (18%), communication and economic services (11%) and other operating costs (9%).

A more detailed analysis of QMS's 2008-09 income and expenditure is shown in figure 2 below:

Figure 2 - Analysis of QMS's income and expenditure



Very little capital expenditure was incurred in the year (£1,838) to add to existing computer equipment and fixtures and fittings. The depreciation charge totalled £4,923.

Audit issues:

Pension provision

There is a pension provision totalling £100,000 included in the financial statements in respect of a part time employee who is a member of the Meat and Livestock Commission Pension Scheme which is a defined benefit scheme. This provision exists as a result of the transfer of QMS 2000 Limited to a Non Departmental Public Body, whereby the liability arose under the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2008.

We understand that negotiations are underway regarding the potential pension liability and an application has been submitted to the Pension Regulator to suspend the Trustees power to enforce the withdrawal of the debt. At present, no outcome has been determined therefore we agree that the provision should remain in the financial statements.

We note, however, that the calculation of the pension liability is not based on an actuarial evaluation and may not, therefore, reflect the actual liability due under existing arrangements. QMS should consider obtaining further advice on this matter during the 2009-10 financial year.

Action Plan Point 1

Cash held on deposit

From our audit testing we identified that QMS has cash held on deposit for the period to 22 September 2009 totalling £1,000,000 with the Bank of Scotland.

As this cash is not readily accessible we have recommended that this is disclosed separately in the balance sheet, with no further detailed disclosure being required.

Action Plan Point 2

We are not aware of the organisation having a counter party limits policy in place in order to reduce risk in relation to treasury management.

Action Plan Point 3

Foreign currency transactions

QMS receive grants designated in foreign currencies (mainly euros) and received a grant during the year totalling €41,000 from Scottish Development International. As part of our audit, we considered whether there were potential accounting implications for QMS should exchange rate gains and losses emerge from grant transactions.

Following discussions with the finance team, we are satisfied that any exchange rate gain or loss is not directly attributable to QMS as all expenditure and grant income is designated in British pounds.

Fixed asset register

During our audit of fixed assets, we identified that the fixed asset register did not agree to the balances held in the trial balance.

We are aware that the value of the variances is immaterial however we recommend that the trial balance and fixed asset register are reconciled on a monthly basis to ensure any balancing items are investigated and resolved.

Action Plan Point 4

ISA 260: Communication of Audit Matters to Those Charged with Governance

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report.

3 Governance

Introduction

Sound corporate governance is central to demonstrating Best Value, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users
- performing effectively in clearly defined functions and roles
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour
- taking informed, transparent decisions and managing risk
- developing the capacity and capability of the governing body to be effective
- engaging stakeholders and making accountability real.

Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that the Statement complies with Scottish Government guidance, that the processes put in place by the Accountable Officer (the Chief Executive) to obtain assurances on systems of internal control are adequate, and that the contents of the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion from our 2008-09 audit

Overall, we found that QMS's governance arrangements operate well. The Board, Audit Committee and Management Team meetings are used to monitor the organisational risk register, financial performance and progress against the operational plan.

The Audit Committee has not yet reviewed its performance in accordance with the guidelines issued by the Scottish Government, however, our audit confirms that Audit Committee arrangements comply with this guidance in all material respects.

Action Plan Point 5

Budgetary Control

We found that QMS has sound arrangements in place for budgetary control. Spend against budget is closely monitored at Management Team Meetings. The financial reports prepared monitor committed spend as well as the bank balances at each month end. QMS identified early in the financial year that there would be a reduction in the budgeted levy income. A decision was taken to maintain the original budgeted spend leading to an overspend position reported in the accounts which is in line with expectations.

4 Performance

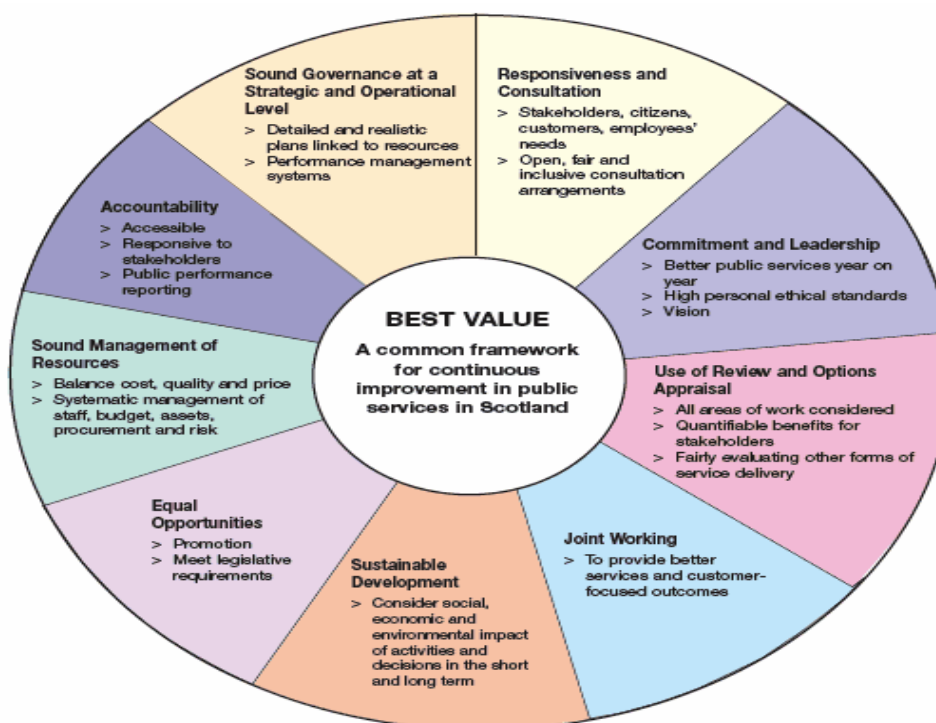
Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

As Accountable Officer, the Chief Executive has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers "to ensure arrangements are in place to secure Best Value."

Best value

Figure 2 - Nine Characteristics of Best Value



QMS has not yet adopted formal arrangements for ensuring it achieves best value, economy, efficiency and effectiveness in its operations, but does set, monitor and report against a range of performance targets each year. *[We intend to comment on KPIs outcomes once information has been finalised.]*

Action Plan Point 6

Grant Thornton UK LLP

18 June 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Pension liability					
1	The pension provision included in the financial statements is not based on an actuarial valuation and may not therefore reflect the actual liability due under existing arrangements.	Medium	Further advice on this matter should be obtained during the 2009-10 financial year.	Agreed	March 2010
Cash held on deposit					
2	Cash held on deposit for 12 months, is included in the 'cash at bank and in hand' in the financial statements.	Low	Cash held on deposit for 12 months should be disclosed separately on the balance sheet in the financial statements.	Agreed	Implemented

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
3	The organisation does not have a counter party limits policy in place in order to reduce risk in relation to treasury management	Medium	The organisation should have a policy in place to determine how treasury management risk can be minimised through the use of counter party limits.	Board approved proposal to split strategic cash reserves between two financial institutions..	October 2009
Classification of fixed assets					
4	The fixed asset register does not reconcile to the trial balance. We note however that this variance is immaterial in monetary terms.	Low	The trial balance and fixed asset register should be reconciled on a monthly basis to ensure there are no variances. Should any variances be identified, these should be investigated and resolved on a timely basis.	Agreed to reconcile as required.	August 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Audit Committee Handbook review					
5	The Audit Committee has not yet reviewed its performance in accordance with the guidelines issued by the Scottish Government.	Medium	The Audit Committee should ensure that their Handbook is updated to comply with the guidelines issued.	Agreed to review terms of reference and to look at further during internal audit on governance which is scheduled for January 2010.	March 2010
Review against Best Value guidelines					
6	QMS has not yet adopted formal arrangements for ensuring it achieves best value, economy, efficiency and effectiveness in its operations.	Medium	QMS should perform a review of its arrangement against best value guidelines and report on these.	Agreed	March 2010

Appendix B- Communication of audit matters to those charged with governance

ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity's financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity's financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Key Messages
A: Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • we are independently appointed by Audit Scotland; • we comply with the Auditing Practices Board's Ethical Standards; and • we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.

Appendix B- Communication of audit matters to those charged with governance

Ref	Key Messages
B: Approach to the audit	<p>Our approach to the audit was set out in our 2008-09 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; • we have been able to place appropriate reliance on the key accounting systems operating at QMS office for final accounts audit purposes only
C: Accounting policies and practices	<p>We consider that QMS has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FReM).</p> <p>The CEO has considered and confirmed the organisation remains a going concern. The CEO is asked to confirm this through the Letter of Representation.</p>
D: Material risks and exposures	<p>The CEO has considered and confirmed that his office has no material risks and exposures which should be reflected in the financial statements. The CEO is asked to confirm this in the Letter of Representation.</p>
E: Audit adjustments and unadjusted errors	<p>We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. These are outlined below. There were no material errors that were not adjusted in the financial statements.</p>

Appendix B- Communication of audit matters to those charged with governance

Accounting Issues:

Summary of adjusted audit differences

This is a summary of audit differences processed by QMS during the course of our audit.

	Income & Expenditure account		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £
Adjustments affecting reported results				
Over accrued income	10,935			(10,935)
Additional mileage accrual	419			(419)
Additional accruals and reversal of accruals/accrued grants		(9,268)	9,268	

The overall effect of the above adjustments was to increase the loss for the year by £2,086.

There were no unadjusted errors identified during the course of the audit.