
Quality Meat Scotland

Annual Report to the Board and the Auditor General for Scotland - Final

Year ended 31 March 2013



Audit Committee
Quality Meat Scotland,
Rural Centre,
West Mains, Ingliston,
Newbridge
EH28 8NZ

12 June 2013

Dear Sirs

We are pleased to provide you with our Annual Report to the Audit Committee and the Auditor General for Scotland, on the results of our external audit of Quality Meat Scotland for the year ended 31 March 2013. The main purpose of the report is to communicate the more significant matters arising from our external audit of the financial statements that we believe are relevant to those charged with governance.

We have completed our external audit work and have issued an unqualified audit opinion on the financial statements for the year ended 31 March 2013 on 12 June 2013.

Once again we offer thanks to Management and staff for their assistance with our external audit work.

Yours faithfully

PricewaterhouseCoopers LLP

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Contents

1	Introduction	
1.1	Audit status	
1.2	Audit overview and conclusions	
1.3	Findings arising from the audit	
1.4	Misstatements and significant deficiencies in internal control	
1.5	Other areas of feedback	
2	Audit Findings	
3	Communications required under ISA 260	
	Appendices	5
	Appendix 1 – Summary of corrected and uncorrected misstatements	6
	Appendix 2 – Deficiencies in internal control	7

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all matters arising and in particular we cannot be held responsible for reporting all risks in your business. This report has been prepared for and only for *Quality Meat Scotland* in accordance with the terms of our engagement letter and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

1 Introduction

We have pleasure in presenting this report relating to our audit of the financial statements of Quality Meat Scotland for the year ended 31 March 2013.

We have discussed this report with the Chief Executive and Corporate Services Manager as part of our audit process. The purpose of this report is to update the Committee on the progress of the audit and of any significant matters that have arisen during the course of our work.

1.1 Audit status

Our audit work on the draft financial statements for the year ended 31 March 2013 was carried out over a one week period commencing 29 April 2013. The audit is complete, subject to the following outstanding matters:

- receipt of bank confirmation letters;
- receipt of legal confirmation letters;
- approval of the financial statements and letter of representation; and
- completion procedures, including subsequent events review.

1.2 Audit overview and conclusions

Subject to the satisfactory resolution of the matters set out above, finalisation of the financial statements and their approval by the Audit Committee, we expect to issue an unqualified audit opinion for Quality Meat Scotland.

1.3 Findings arising from the audit

Section 2 of this report summarises the findings arising from our audit.

1.4 Misstatements and significant deficiencies in internal control

A summary of uncorrected misstatements is included in Appendix 1. A summary of control deficiencies identified is included in Appendix 2.

1.5 Other areas of feedback

Section 3 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 (revised and re-drafted) "Communication with those charged with governance".

We look forward to the opportunity to discuss the points raised in the report with you at the Audit Committee meeting on 12 June 2013.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of Quality Meat Scotland throughout our work.

2 Audit Findings

Our audit followed the approach set out in our Audit Strategy document presented to the Audit Committee in March 2013. We confirm that there has been no cause for us to vary the planned scope of our work.

We have included a summary of our findings below.

Our response to the areas of audit focus identified in the audit plan:

Risk identified/area of audit focus	Audit response
Revenue recognition Significant risk	We examined and tested the process through which management has identified and quantified any income that needs to be accrued (or deferred) at year-end. We also performed substantive testing on a sample of transactions relating to income from the Consumer Assurance schemes and grant income. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.
Consideration of fraud risk Significant risk	In accordance with our audit plan, we reviewed significant journals and examined management's accounting estimates for bias. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.

As part of our dual role in reporting to both the Audit Committee of Quality Meat Scotland and the Auditor General for Scotland we are required to provide a summary of other matters of interest. Based on the audit work performed we wish to bring to your attention the following matters:

Media attention

In the 2012/13 financial year there has been significant media attention on the meat industry related to traces of horse meat found in meat products throughout Europe. This has primarily been in relation to producers of processed meats rather than the higher quality products produced by levy payers. As a result of the public reluctance to buy ready made foods, Quality Meat Scotland levy payers have not been adversely affected by the recent press coverage.

Rationalisation of Scottish slaughtering facilities

During the 2012/13 financial year the VION/Halls plant at Broxburn closed which resulted in reduced slaughtering capacity for pigs in Scotland. Promotion activities for pork had already been committed by Quality Meat Scotland prior to the closure of the plant which meant that expenditure was unable to be reduced by the same extent as the decreased revenues. Quality Meat Scotland has taken the decision to utilise reserves to make up part of the shortfall. However, it should be noted that the shortfall is not as great as it might have been due to increased slaughtering of pigs at other plants within Scotland. Also during the 2012/13 financial year the Scotch Premier and Mathers abattoirs in Inverurie were combined creating a new business called Scotbeef Inverurie. At the end of March 2013 VION exited the red meat industry in Scotland by selling McIntosh Donald to the 2 Sisters Food Group.

3 Communications required under ISA 260

The following table contains communication required under ISA 260 “Communication with those charged with governance”.

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	We identified one uncorrected misstatement, that we believe should be brought to your attention. Details of these can be found in Appendix 1.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We have asked board members to represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year.
Significant qualitative aspects of the organisation’s accounting practices and financial reporting, management’s judgments and accounting estimates	No significant judgments or accounting estimates were required in the preparation of the financial statements.
Deficiencies in the internal control environment	The purpose of the audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. Such deficiencies in internal controls are included in Appendix 2.
Details of material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of Quality Meat Scotland to continue as a going concern.
Disagreements with management	We have not disagreed with management on any matters.
Confirmation of audit independence	We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the entity and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Governance and Performance

All Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of Best Value in the use of resources. Quality Meat Scotland is accountable both to Scottish Ministers, but also to the levy payers who fund the organisation.

Quality Meat Scotland has a well-developed approach to risk management to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis with this being considered regularly by the Board and Audit Committee.

Appendices

Appendix 1 – Summary of uncorrected misstatements

The tables below set out details of the uncorrected misstatement identified in the course of our substantive year-end audit work.

Uncorrected misstatements

A - Actual

P - Projected

No	Description of misstatement	Operating Cost Statement		Statement of Financial Position	
		Dr	Cr	Dr	Cr
1	<p>Dr Other operating costs</p> <p>Cr Trade payables and other current liabilities</p> <p><i>Being an adjustment to include the projected misstatement across the account balance for a cheque that has been incorrectly reversed as the cheque was no longer valid.</i></p> <p><i>The value of the cheque that was incorrectly reversed was £721.94 with the remaining £7,397 being the projected misstatement across the rest of the population of trade payables and other current liabilities.</i></p>	<p>£722 (A)</p> <p>£7,397 (P)</p>			<p>£722 (A)</p> <p>£7,397 (P)</p>
Total uncorrected misstatements		£8,119			£8,119

Appendix 2 – Deficiencies in internal control

The following point details our internal control recommendation based on the results of our current year audit. We have graded our recommendation according to the possible impact.

(H) High Serious matters which should be addressed as a matter of urgency

(M) Medium Areas where attention is required

(L) Low Best practice recommendations

Review of monthly journals – Low

Finding	Recommendation
The review of journals has been performed on a monthly basis. However, the reconciliation to the system trial balance for all months was not performed until year end (24 April 2013). In addition, it was noted that in two instances, the reconciliation to the system journals records was not signed and dated to indicate that the review was completed.	Journals should be fully reconciled on a monthly basis with reconciling items appropriately investigated and reviewed.
Management response	
The Corporate Services Manager will ensure that the monthly reconciliation is carried out, signed and dated, at the same time as the monthly review of journals.	

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