

# Quality Meat Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

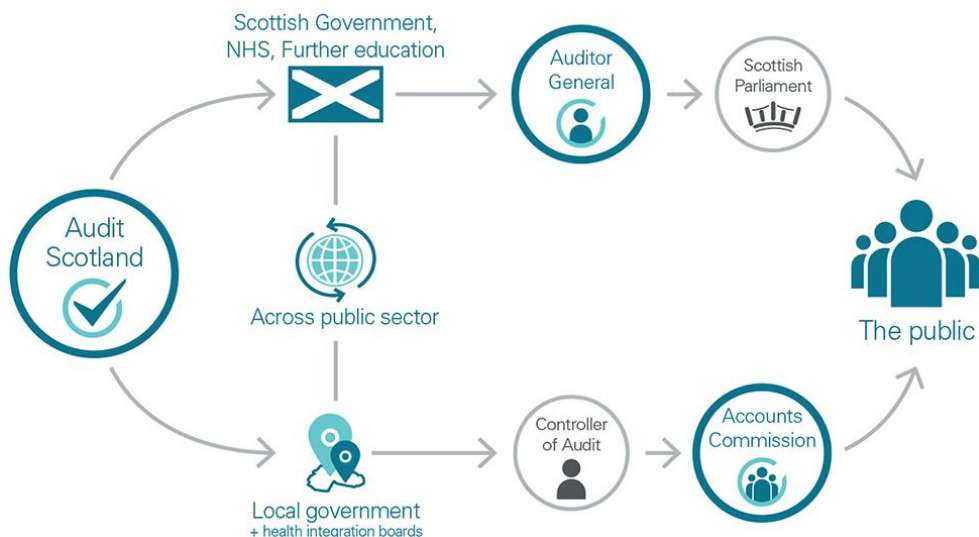
Prepared for Quality Meat Scotland and the Auditor General for Scotland

6 June 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2017/18 financial statements

- 1** In our opinion, Quality Meat Scotland's financial statements give a true and fair view of the financial position and were properly prepared. The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 2** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.
- 3** We have issued an unqualified independent auditor's report on Quality Meat Scotland's annual report and accounts for 2017/18.

## Financial sustainability

- 4** There are no significant concerns about the overall financial position of Quality Meat Scotland but it faces uncertainty and financial challenges in the medium to long term.
- 5** Quality Meat Scotland reported a deficit of £74,500 in 2017/18. For 2018/19 Quality Meat Scotland has budgeted for a deficit of £150,000 which will be met from reserves.

## Governance Statement

- 6** We concluded that the disclosures in the governance statement were appropriate and complete.

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# Introduction

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**1.** This report is a summary of our findings arising from the 2017/18 audit of the Quality Meat Scotland (QMS).

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit & Risk Management Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the financial sustainability and appropriateness of disclosures in the governance statement

**3.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:

- financial sustainability,
- financial management,
- governance and transparency, and
- value for money.

**4.** The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

**5.** As highlighted in our 2017/18 Annual Audit Plan, due to the relative size and scale of the functions delivered by QMS, we applied the small body provisions of the Code to the 2017/18 audit of the QMS.

**6.** QMS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. QMS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**7.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and [the Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.

**8.** As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

**9.** The weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**11.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £10,610 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**12.** Our aim is to add value to QMS by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the QMS promote improved standards of financial planning, better management and decision making.

**13.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**14.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

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# Part 1

## Audit of 2017/18 financial statements

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### Main judgements

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**QMS's 2017/18 financial statements give a true and fair view and were properly prepared.**

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**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.**

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**We have issued an unqualified independent auditor's report on QMS's annual report and accounts for 2017/18.**

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### Audit opinions on the annual report and accounts

**15.** The annual report and accounts for the year ended 31 March 2018 were approved by the board of QMS on 6 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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QMS'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.

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### Submission of annual report and accounts for audit

**16.** We received the unaudited financial statements on 30 April 2018 in line with our agreed audit timetable.

**17.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risk of material misstatement

**18.** [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

## Materiality

**19.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**20.** We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they should be reduced, although this did not significantly impact upon our audit approach. These are summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018.	£58,598
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£29,299
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£1,000

Source: Audit Scotland

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## How we evaluate misstatements

**21.** There were no material adjustments to the unaudited financial statements arising from our audit.

### Significant findings from the audit (ISA 260)

**22.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.

### Other findings

**23.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.



## Follow up of prior year recommendations

**24.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**25.** In total, 3 agreed actions were raised in 2016/17. Of these:

- 1 has been fully implemented
- 1 has not been actioned
- 1 action remains relevant and is therefore ongoing.

**26.** Overall the QMS has made good progress in implementing these actions. For those actions not yet implemented or ongoing, revised responses and timescales have been agreed with management in [Appendix 1](#).

# Part 2

## Financial sustainability and governance statement



### Main judgements

**There are no significant concerns about the overall financial position of QMS but it faces uncertainty and financial challenges in the medium to long term.**

**QMS reported a deficit of £74,500 in 2017/18. For 2018/19 QMS has budgeted for a deficit of £150,000 which will be met from reserves.**

**We concluded that the information in the governance statement for 2017/18 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.**

### Financial performance in 2017/18

**27.** The main financial objective for QMS is to ensure that the financial outturn for the year is within the budget approved by board members. QMS has reported a deficit of £74,500 compared with an approved budgeted deficit of £165,690 in 2017/18. The deficit was less than budget due in part to areas of planned activity being funded through the repatriation of levy (ring-fenced fund).

### 2017/18 financial position

**28.** The Statement of Financial Position summarises what is owned and owed by the Quality Meat Scotland. The statement of changes in taxpayers' equity shows how the movement during the year on a body's reserve balance and how much has arisen from the application of revenues and how much through changes over time in the value of physical assets.

**29.** The financial statements show that QMS has net assets of £1.349 million, mainly representing net current assets. This is a reduction of £75,000 from the previous year.

### Financial planning

**30.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**31.** QMS is funded largely by a statutory red meat levy, paid by all farmers and processing companies in the Scottish red meat industry. Additional income is received from various public sector grants and from the membership fees paid by over 10,000 businesses that belong to the voluntary QMD Consumer Assurance Schemes.

**Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.**

**32.** In February 2018 the board approved a budgeted deficit for 2018/19 of £150,000 which will be financed through the use of reserves. The budget assumed a 3% increase in income from the 2017/18 expected outturn and forecasts a total income of £5.979 million.

**33.** The 2018/19 budget highlights a challenging position, reflecting the impact of financial pressures. Obtaining grant income will be difficult against a backdrop of tight public sector budgets. Uncertainty about the implications of Brexit, including how it will affect agricultural support, migrant labour and international trade, may impact future income levels and costs.

**34.** In addition, QMS continues to lose out on around £1 million of levy as a result of livestock being slaughtered outwith Scotland. Consequently, during 2017/18 the red meat levy bodies in England, Scotland and Wales announced a major programme of joint activities to be paid for by a ring-fenced fund of £2 million of Agriculture and Horticulture Development Board levies (AHDB).

**35.** Our 2016/17 Annual Audit Report recommended that regular and effective monitoring of QMS's 2017/18 budgeted deficit was essential to ensure that the budget gap remained manageable (see [Appendix 1](#)). In light of the budgeted deficit for 2018/19, we have again raised this an issue in this report.



### Recommendation 1

**Regular and effective monitoring of the 2018/19 budget will be required to ensure that the budget gap remains manageable.**

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## Governance statement

**36.** Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

**37.** We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

## Other matters

**38.** The new General Data Protection Regulation (GDPR) became effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non-compliance with the GDPR would result in financial penalties for organisations. During 2017/18 QMS commissioned an external consultant to carry out an audit of QMS's compliance with GDPR. The audit report was issued in May 2018 and provided a list of action points to be addressed by QMS. As a result, QMS produced an action plan and our review of the action plan identified that good progress has been made in completing the required actions.

**39.** Cyber security has become an increasingly important issue given the recent cyber-attacks on public sector bodies. During 2017/18 QMS has installed a new IT system and are working with an external provider with the aim to achieve their Cyber Resilience Certificate. Successful cyber-attacks can result in significant disruption, loss of data and reputational damage.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial sustainability</b></p> <p>QMS faces significant financial challenges due to the uncertainty of the implications of Brexit. Obtaining grant income will be difficult against a backdrop of tight public sector budgets. For 2018/19 QMS are forecasting a deficit of £0.150 million.</p> <p><b>Risk</b></p> <p>Future reductions in income and increases in cost will increase the budget gap, requiring further use of reserves.</p>	<p>Regular and effective monitoring of the 2018/19 budget will be required to ensure that the budget gap remains manageable.</p> <p><a href="#">Paragraph 35</a></p>	<p>Monthly financial reports are prepared for review by the Chief Executive. These reports are also on the agenda for discussion at board meetings. In addition, regular meetings are held with Senior Managers to review their individual budgets and identify any areas of issue.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: Ongoing process.</p>

### Follow up of prior year recommendations

b/f	<p><b>1. Financial sustainability</b></p> <p>QMS faces significant financial challenges due to the uncertainty of the implications of Brexit. Obtaining grant income will be difficult against a backdrop of tight public sector budgets. For 2017/18 QMS are forecasting a deficit of £0.166 million.</p> <p><b>Risk</b></p> <p>Future reductions in income and increases in cost will increase the budget gap, requiring further use of reserves.</p>	<p>Regular and effective monitoring of the 2017/18 budget will be required to ensure that the budget gap remains manageable.</p>	<p>Ongoing.</p> <p>Raised again as an issue above due to budgeted deficit in 2018/19.</p>
b/f	<p><b>2. Senior staff departures</b></p>	<p>Adequate hand over procedures and appropriate</p>	<p>Fully implemented.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Two senior and experienced staff members are leaving QMS in the near future.</p> <p><b>Risk</b></p> <p>Difficulty in recruiting staff with the appropriate skills and experience could impact QMS's ability to deliver its objectives.</p>	<p>training for the new employees will be required to ensure a smooth transition and no adverse effect on the activities of QMS.</p>	<p>Handovers were completed successfully by the agreed date of end of July 2017.</p>
b/f	<p><b>3. Board minutes</b></p> <p>The most recent board minutes available on the website were those of the November 2015 board meeting.</p> <p><b>Risk</b></p> <p>The absence of recent minutes impacts on QMS's transparency and openness.</p>	<p>Board minutes should be promptly available on QMS's website.</p>	<p>Not Actioned.</p> <p>The QMS website is currently being updated to address this issue.</p> <p>Responsible officer: Executive Assistant</p> <p>Agreed date: End June 2018.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>QMS receives significant income from a number of sources. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>We did not identify any issues to report to you as a result of our work.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>We did not identify any issues to report to you as a result of our work.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>4 Financial sustainability</b></p> <p>QMS has forecast a deficit of £0.166 million in 2017/18. Further reductions in income and increases in cost will</p>	<p>Monitoring of monthly financial reports.</p> <p>Review of risk register.</p>	<p>QMS made an operating deficit of £74,500 compared against a budgeted deficit of £165,690.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>increase the budget gap and require further use of reserves.</p>		<p>The approved budgeted deficit for 2018/19 is £150,000, to be financed by the use of reserves.</p> <p>Raised as a risk in Action Plan at <a href="#">Appendix 1</a> above.</p>
<p><b>5 Information and cyber security</b></p> <p>Cyber security has become an increasingly important issue given the recent cyber-attacks on public sector bodies. QMS is in the initial stages of assessing cyber security risks involved and considering the policies and procedures required. Successful cyber-attacks can result in significant disruption, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non-compliance with the GDPR may result in financial penalties to QMS.</p>	<p>Monitor and review progress made by QMS with regard to addressing cyber security.</p> <p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p>	<p>During 2017/18 QMS has reviewed its IT and cyber security arrangements with the help of its IT service provider.</p> <p>During 2017/18 QMS commissioned an external consultant to carry out an audit of QMS's compliance with GDPR. The audit report was issued in May 2018 and provided a list of action points to be addressed by QMS. As a result, QMS produced an action plan and our review of the action plan identified that good progress has been made in completing the required actions.</p>

# Appendix 3

## Summary of national performance reports 2017/18



		Apr	
		May	
Common Agricultural Policy Futures programme: further update		<b>Jun</b>	Scotland's colleges 2017
		Jul	NHS workforce planning
Self-directed support: 2017 progress report		<b>Aug</b>	
Equal pay in Scottish councils		<b>Sept</b>	
Transport Scotland's ferry services		<b>Oct</b>	NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		<b>Nov</b>	
		Dec	
		Jan	
Early learning and childcare		<b>Feb</b>	
Managing the implementation of the Scotland Acts		<b>Mar</b>	



# Quality Meat Scotland

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