

Quality Meat Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Quality Meat Scotland and the Auditor General for Scotland

June 2019

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

2018/19 annual report and accounts

- 1 The QMS's financial statements give a true and fair view and were properly prepared.
- 2 Expenditure and income was incurred in accordance with applicable enactments and guidance.
- 3 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.
- 4 Improvements are needed in relation to governance. Safeguards are required to ensure compliance laws and regulations.
- 5 We have issued an unqualified independent auditor's report on Quality Meat Scotland's annual report and accounts for 2018/19.

Financial sustainability

- 6 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, specifically in relation to the uncertainty relating to the EU withdrawal.
- 7 QMS reported a deficit of £24,700 in 2018/19. For 2019/20 QMS has budgeted for a deficit of £250,000 which will be met from reserves.

Governance Statement

- 8 We concluded that the information in the governance statement for 2018/19 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Introduction

1. This report summarises the findings from our 2018/19 audit of Quality Meat Scotland (QMS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2019 meeting of the Audit and Risk Management Committee. This report comprises the findings from:
 - an audit of the QMS annual report and accounts
 - our consideration of the financial sustainability and appropriateness of disclosures in the governance statement.

Adding value through the audit

3. We add value to the QMS through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
4. In so doing, we aim to help QMS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. QMS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an 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.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016 and](#) supplementary guidance and International Standards on Auditing in the UK.
7. As public-sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.
8. 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. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit.

- 9.** The weaknesses or risks identified are only those which have come to our 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 2018/19 audit fee of £10,820 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 12.** This report is addressed to the QMS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
- 13.** We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The QMS's financial statements give a true and fair view and were properly prepared.

Expenditure and income was incurred in accordance with applicable enactments and guidance.

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 relevant legislation and directions made by Scottish Ministers.

Improvements are needed in relation to governance. Safeguards are required to ensure compliance with laws and regulations.

The 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.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 6 June 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income are regular and in accordance with applicable enactments and guidance
- 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 relevant legislation and directions made by the Scottish Ministers
- we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 1 May 2019 in line with our agreed audit timetable.

16. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

18. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

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. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

21. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate, the calculated materiality is significantly different and explain any impact on the audit approach.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£58,625
Performance materiality	£29,313
Reporting threshold	£1,000

Source: Annual Audit Plan 2018/19

Significant findings from the audit (ISA 260)

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.


23. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Qualitative aspects of the audit

24. Following the audit of financial statements we have no significant findings to report around the qualitative aspects (accounting policies, accounting estimates/judgements, significant annual accounts disclosures, impact of uncertainties, etc) of the 2018/19 accounting practices.

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Untaken annual leave payment</p> <p>Approval was given by the Remuneration Committee and the Chair of the Board that three members of staff would be paid for their untaken annual leave, the value of which was £0.017m. These members of staff were unable to use the majority of their annual leave allocation due to unprecedented time spent defending the red meat industry and developing three new TV marketing campaigns. Within the QMS Employee Handbook it states that three days of annual leave may be carried over into the next holiday calendar, but must be used before 31 August or they are forfeited. Under exceptional circumstances the Chief Executive can approve more than three days to be carried forward. The employee handbook does not state that payment can be made for untaken annual leave.</p>	<p>Employee contracts of employment and the employee handbook need to be updated to reflect that payment may be made in exceptional circumstances in relation to untaken annual leave.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>

Source: Audit Scotland

How we evaluate misstatements

25. There was one material adjustment to the unaudited annual accounts to the value of £0.109 million. This related to funding received from the Agricultural and Horticultural Development Board (AHDB) from its ring fenced fund. This fund was created as a result of levies received by AHDB in relation to livestock reared in Scotland but slaughtered in England. Repatriation of this fund will be through benefit in kind where no payments will be received by QMS, however the AHDB will fund exhibitions and expenditure relating to the UK meat industry as a whole. The £0.109 million payment from the AHDB was in relation to exhibition costs that had been paid in advance by QMS, therefore the miscellaneous income reported within the unaudited annual accounts was reallocated against the expenditure incurred.

26. In addition, there was a £0.020 million adjustment in relation to a classification error. Within trade payables was a negative balance of £0.020 million. To ensure correct classification, this was removed from trade payables and disclosed as a trade receivable.

27. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

28. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Follow up of prior year recommendations

29. There was one action agreed in the 2017/18 AAR which remains relevant and therefore ongoing. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out 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, specifically in relation to the uncertainty relating to the EU withdrawal.

QMS reported a deficit of £24,700 in 2018/19. For 2019/20 QMS has budgeted for a deficit of £250,000 which will be met from reserves.

We concluded that the information in the governance statement for 2018/19 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

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.

Financial performance in 2018/19

30. 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 £24,700 compared with an approved budgeted deficit of £150,000 in 2018/19. The deficit was less than budget due in part to areas of planned activity being funded through the repatriation of levy (ring-fenced fund).

2018/19 financial position

31. 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.

32. The financial statements show that QMS has net assets of £1.324 million, mainly representing net current assets. This is a reduction of £25,000 from the previous year.

Financial planning

33. 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.

34. 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.

35. In February 2019 the board approved a budgeted deficit for 2019/20 of £250,000 which will be financed through the use of reserves. The budget assumed

a 2% decrease in income from the 2018/19 expected outturn and forecasts a total income of £5.873 million.

36. The 2019/20 budget highlights a challenging position, reflecting the impact of financial pressures. 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 has resulted in a contingency of £150,000 being budgeted for the year.

37. 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). During the year £0.110m of funds were received to offset costs already incurred, with the rest of £2m fund will be received through benefit in kind split between the 3 Levy Boards within the UK.

38. Our 2017/18 Annual Audit Report recommended that regular and effective monitoring of QMS's 2018/19 budgeted deficit was essential to ensure that the budget gap remained manageable (see [Appendix 1](#)). In light of the budgeted deficit for 2019/20, we have again raised this an issue in this report.



Recommendation 2

Regular and effective monitoring of the 2019/20 budget will be required to ensure that the budget gap remains manageable.

Governance statement

39. 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 body's system of internal control which operated in the financial year.

40. 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.

EU Withdrawal

41. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

42. QMS has included EU withdrawal on their risk register since 2016/17. The risks identified include the impact of currency fluctuations, loss of income due to a

reduction in EU exports, constitutional impact and the reduction in industry expertise due to the lack of availability of labour from the EU.

43. The risk register is a standing item reviewed at every Board meeting and in addition to this regular updates on the potential implications for QMS in relation to EU withdrawal are also provided.

44. We believe that QMS are adequately prepared for EU withdrawal based on evidence above.

Dependency on key suppliers

45. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

46. QMS does not currently recognise any dependency on key suppliers within their risk register, however a requirement of the contract is meeting key performance indicators, which are continually monitored.

47. To date they have not experienced any exposure due to the failure of a key supplier.

48. The largest supplier relates to a specialist Farm Assurance contractor with the value of the contract around £1.6 million. Given the large value of this key supplier, additional consideration should be made on the potential exposure to QMS should this supplier cease to trade.



Recommendation 3

Dependency on key suppliers should be added to the risk register to ensure oversight on the exposure to QMS.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Untaken annual leave payment</p> <p>Approval was given by the Remuneration Committee and the Chair of the Board that three members of staff would be paid for their untaken annual leave, the value of which was £0.017m. These members of staff were unable to use the majority of their annual leave allocation due to unprecedented time spent defending the red meat industry and developing three new TV marketing campaigns. Within the QMS Employee Handbook it states that three days of annual leave may be carried over into the next holiday calendar, but must be used before 31 August or they are forfeited. Under exceptional circumstances the Chief Executive can approve more than three days to be carried forward. The employee handbook does not state that payment can be made for untaken annual leave.</p> <p>Risk</p> <p>Lack of governance shown in the payment of untaken annual leave as terms and conditions do not currently allow this.</p>	<p>Employee contract terms and conditions as well as the employee handbook should be updated to include reference to payment of untaken annual leave under exceptional circumstances, should they wish to make these payments in the future.</p> <p>Exhibit 3</p>	<p>Our employee handbook has been updated to incorporate a statement where QMS reserve the right to pay accrued holidays in exceptional circumstances. This update will be presented to the Remuneration Committee on 13 June 2019.</p> <p>Agreed date: June 2019</p>
2	<p>Financial sustainability</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 2019/20</p>	<p>Regular and effective monitoring of the 2019/20 budget will be required to ensure that the budget gap remains manageable.</p> <p>Paragraph 38</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</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>QMS are forecasting a deficit of £0.250 million.</p> <p>Risk</p> <p>Future reductions in income and increases in cost will increase the budget gap, requiring further use of reserves.</p>		<p>budgets and identify any areas of issue.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: Ongoing process.</p>
3	<p>Dependency on key suppliers</p> <p>QMS does not currently recognise the risk of dependency on key suppliers on their risk register.</p> <p>Risk</p> <p>QMS may be financially exposed should one of their key suppliers cease to trade.</p>	<p>Consideration should be made on the risk of dependency on key suppliers within their risk register. This should identify the level of potential exposure to QMS.</p> <p>Paragraph 46</p>	<p>QMS have acknowledged the risk of key suppliers and it has been noted on the risk register that Acoura are a key supplier and there would be an impact on QMS if they were to enter into financial difficulty.</p> <p>Agreed date: June 2019</p>

Follow up of prior year recommendations

4	<p>Financial sustainability</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>Risk</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>Ongoing.</p> <p>Raised again as an issue above due to budgeted deficit in 2019/20.</p>
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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
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>2 Risk of fraud over income</p> <p>Quality Meat Scotland receives a significant amount of income from several sources. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Sound system of internal control in place.</p> <p>Regular budget monitoring reports.</p> <p>Set rates for the Statutory Red Meat Levy.</p>	<p>We did not identify any issues to report to you as a result of our work.</p>
<p>3 Risk of fraud over expenditure</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>Sound system of internal control in place.</p> <p>Regular budget monitoring reports.</p>	<p>We did not identify any issues to report to you as a result of our work.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 Financial sustainability</p> <p>Quality Meat Scotland has forecast a deficit of £0.141 million in 2018/19. Further reductions in income and increases in cost will increase the budget gap and require further use of reserves.</p>	<p>Regular budget monitoring reports.</p> <p>Loss of income is recognised as a risk in the risk register which is updated regularly.</p>	<p>QMS made an operating deficit of £24,700 compared against a budgeted deficit of £150,000.</p> <p>The approved budgeted deficit for 2019/20 is £250,000, to be financed by the use of reserves.</p>

Audit risk	Assurance procedure	Results and conclusions
		Raised as a risk in Action Plan at Appendix 1 above.

Appendix 3

Summary of national performance reports 2018/19

2018/19 Reports

Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

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