Quality Meat Scotland

2019/20 Annual Audit Report

Prepared for Quality Meat Scotland and the Auditor General for Scotland

June 2020

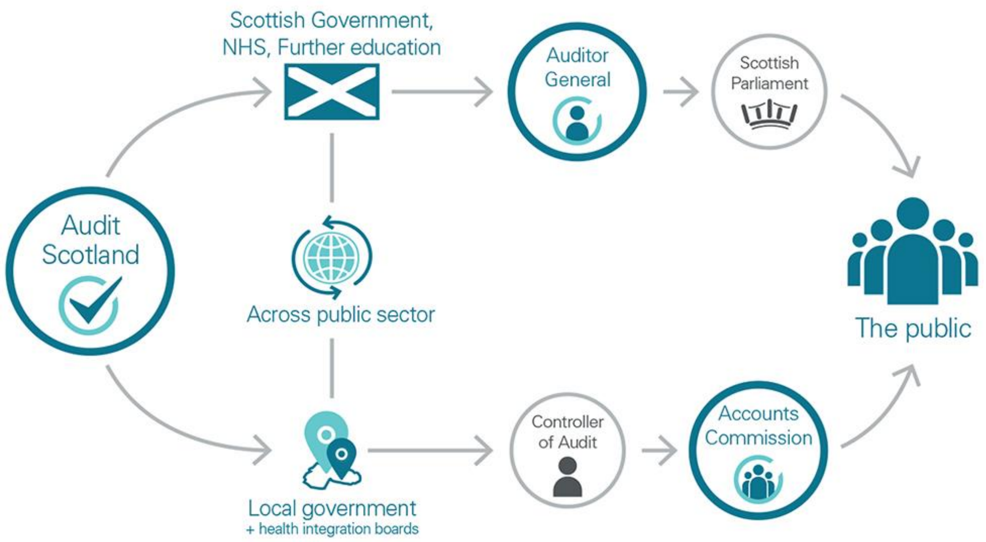
Who we are

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

2019/20 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 We have issued an unqualified independent auditor's report on Quality Meat Scotland's annual report and accounts for 2019/20.

Financial sustainability

5 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 EU withdrawal and COVID-19.

6 QMS reported a deficit of £107,500 in 2019/20. For 2020/21 QMS has budgeted for a deficit of £240,000 which will be met from reserves.

Governance Statement

7 We concluded that the information in the governance statement for 2019/20 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 2019/20 audit of Quality Meat Scotland (QMS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2020 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 2019/20 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 2019/20 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 2019/20 audit fee of £10,960 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 2019/20 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.

COVID-19 had an impact on the ability of QMS to deliver annual report and accounts to the agreed timetable, and on the general delivery of the audit.

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 2020 were approved by the Board on 25 April 2020. 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.

15. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were affected by the COVID-19 outbreak. Examples included:

- A proportion of journals are kept in QMS's office and so we were not able to subject these to testing
- Testing the completeness and existence of assets could not be carried-out due to there being no phyiscal access to the QMS office.

- Some of the documentation we requested to support our income testing of consumer membership fees could not be reviewed because it was exclusively held in hard copy in the QMS office.

16. However, we did not consider these to be material to our audit opinions and have not modified our opinion.

The accounting framework was changed due to the COVID-19 pandemic

17. After the unaudited annual report had been submitted, revisions were made to the accounting framework as a result of COVID-19 whereby streamlined requirements for the performance report narrative were introduced. As a result, the annual report and accounts did not reflect these revised provisions. These revisions had no impact on our audit opinion.

Submission of annual report and accounts for audit

18. The agreed timetable set out in our Annual Audit Plan for receiving the unaudited annual report and accounts was 4 May 2019. We received the unaudited annual accounts on 4 May 2019 in line with our agreed audit timetable. We received the unaudited annual report on 15 May, which was not in accordance with our agreed timetable. QMS was unable to deliver to the agreed timetable due to the need to respond to COVID-19. The physical limitations on access to records and systems meant that our staff had to conduct the audit remotely and QMS finance staff also faced similar constraints.

Risks of material misstatement

19. 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.

20. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

Materiality

21. 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.

22. 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.

23. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 1
Materiality values

Overall materiality	£64,000
Performance materiality	£32,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2019/20

Significant findings from the audit (ISA 260)

24. 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.

25. There were no significant findings from the audit.

Qualitative aspects of the audit

26. We are required to report any significant findings around the qualificative aspects (accounting policies, accounting estimates/judgements, significant annual accounts disclosures, impact of uncertainties, etc) of the 2019/20 accounting practices. We have one finding to report in this area.

27. All public bodies were required to report in their 2019/20 accounting policies on their degree of preparedness for the introduction of the new accounting standard IFRS 16 leases in 2021/22, and to quantify the likely impact on their financial accounts of this new standard. In preparation for this disclosure, all bodies were required to submit a return to the Scottish Government to estimate the likely impact. QMS did not receive this return from Scottish Government, and consequently have been unable to quantify the likely impact of IFRS 16 in their accounting policies for 2019/20.

Recommendation 1

QMS should engage early with its sponsor body at the Scottish Government to ensure that they are in a positon to quantify the impact of IFRS 16 in the 2021/22 annual accounts.

How we evaluate misstatements

28. There were no material adjustments to the unaudited annual accounts. There were two adjustments below our materiality threshold and above our reporting threshold.

29. There was a £6,000 adjustment in relation to an error of omission. This related to bank interest that had been earned as at 31 March 2020 but had not been reflected in the accounts in this or previous years. To correct this omission, this balance was added to accrued interest receivable (Deposits and Advances) and deferred income (Payables) in the Statement of Financial Position. The net effect of this adjustment on reserves was nil.

30. There was another adjustment of £3,000 in relation to an error of omission. This related to board fees incurred that were not reflected in the accounts. To correct this omission, this amount was added to expenditure in the Statement of Expenditure and to payables in the Statement of Financial Position. This had the effect of increasing the deficit and reducing reserves by this amount.

31. 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.

32. 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

33. There was one action agreed in the 2018/19 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 and transparency

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 and the ongoing and uncertainties stemming from COVID-19.

QMS reported a deficit of £107,500 in 2019/20. For 2020/21 QMS has budgeted for a deficit of £240,000 which will be met from reserves.

We concluded that the information in the governance statement for 2019/20 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 2019/20

34. 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 £107,500 compared with an approved budgeted deficit of £250,000 in 2019/20. The deficit was less than budget due in part to areas of planned activity being funded through the repatriation of levy (ring-fenced fund).

2019/20 financial position

35. 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.

36. The financial statements show that QMS has net assets of £1.217 million, mainly representing net current assets. This is a reduction of £107,500 from the previous year.

Financial planning

37. 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.

38. 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 QMS Consumer Assurance Schemes.

39. In February 2020 the board approved a budgeted deficit for 2020/21 of £240,000 which will be financed through the use of reserves. The budget assumed a 10% decrease in income from the 2019/20 expected outturn and forecasts a total income of £5.749 million.

40. The 2020/21 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. Covid-19 occurred late in the financial year, and there is a significant degree of uncertainty currently around how this will impact on the finances of QMS in 2020/21 and beyond.

41. In addition, QMS continues to lose out on around £1.5 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 current year £0.222m 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.

42. Our 2018/19 Annual Audit Report recommended that regular and effective monitoring of QMS's 2019/20 budgeted deficit was essential to ensure that the budget gap remained manageable (see Appendix 1). In light of the budgeted deficit for 2020/21, we have again raised this an issue in this report.

Recommendation 2

Regular and effective monitoring of the 2020/21 budget will be required to ensure that the budget gap remains manageable.

Governance statement

43. 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.

44. We identified some omissions from the unaudited governance statement. Once these were included, 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.

Systems of Internal Control

45. We assessed the key financial systems of QMS as part of our annual interim audit and identified one area where controls could be strengthened.

46. There are currently no formal reconciliations carried-out routinely for either the accounts payable or payroll systems to the general ledger system. Therefore, there is a risk that any discrepancies will not be picked-up until the year-end when the final accounts are being prepared. During our final accounts audit we identified some minor discrepancies between the payroll system and the ledger that would have been picked up earlier by adequate reconciliations (no discrepancies were identified between the ledger and the payables system). There is value in adding a routine check to both systems, to ensure any discrepancies be identified as and when they occur throughout the year.

Recommendation 3

Regular reconciliations between the general ledger and the two key feeder systems of payroll and accounts payable should be introduced to ensure any discrepancies between the systems are identified in a timely manner.

Appendix 1

Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**IFRS 16** All public bodies were required to report in their 2019/20 accounting policies on their degree of preparedness for the introduction of the new accounting standard IFRS 16 leases in 2021/22, and to quantify the likely impact on their financial accounts of this new standard. In preparation for this disclosure, all bodies were required to submit a return to the Scottish Government to estimate the likely impact. QMS did not receive this return from Scottish Government, and consequently have been unable to quantify the likely impact of IFRS 16 in their accounting policies for 2019/20. **Risk** The 2021/22 will be misstated for leases.	QMS should engage early with their sponsor body the Scottish Government to ensure that they are in a positon to quantify the impact of IFRS 16 in the 2021/22 annual accounts. Paragraph 27	QMS will contact sponsor body the Scottish Government to resolve. Responsible officer: Head of Corporate Services Agreed date: FY 2020/21
2	**Financial sustainability** QMS faces significant financial challenges due to the uncertainty of the implications of Brexit and Covid-19 on the meat industry and wider economy. Obtaining grant income will be difficult against a backdrop of tight public sector budgets. For 2020/21 QMS are forecasting a deficit of £0.240 million. **Risk** Future reductions in income and increases in costs will increase the budget gap,	Regular and effective monitoring of the 2020/21 budget will be required to ensure that the budget gap remains manageable. Paragraph 42	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. Responsible officer: Chief Executive Agreed date: Ongoing process.

No.	Issue/risk	Recommendation	Agreed management action/timing
	requiring further use of reserves.		
3	**Reconciliations of key financial systems** There are currently no formal reconciliations carried-out routinely for either the accounts payable or payroll systems to the general ledger system. **Risk** Discrepancies will not be picked-up until the year-end when the final accounts are being prepared.	Regular reconciliations between the general ledger and the two key feeder systems of payroll and accounts payable should be introduced. Paragraph 46	Regular reconciliations are currently undertaken but not formally documented. A more formal system of monthly reconciliations will be undertaken from now on. Responsible officer: Head of Corporate Services Agreed date: FY 2020/21
Follow up of prior year recommendations			
4	**Untaken annual leave payment** 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. **Risk** Lack of governance shown in the payment of untaken annual	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.	**Complete** The employee handbook was updated to incorporate a statement where QMS reserve the right to pay accrued holidays in exceptional circumstances. The update was approved by the Remuneration Committee in June 2019.

No.	Issue/risk	Recommendation	Agreed management action/timing
	leave as terms and conditions do not currently allow this.		
2	**Financial sustainability** 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 QMS are forecasting a deficit of £0.250 million. **Risk** Future reductions in income and increases in cost will increase the budget gap, requiring further use of reserves.	Regular and effective monitoring of the 2019/20 budget will be required to ensure that the budget gap remains manageable.	**In progress** Raised again as an issue above due to budgeted deficit in 2020/21.
3	**Dependency on key suppliers** QMS does not currently recognise the risk of dependency on key suppliers on their risk register. **Risk** QMS may be financially exposed should one of their key suppliers cease to trade.	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.	**Complete** QMS have acknowledged the risk of key suppliers and it has been added to 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.

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		
1 Risk of material misstatement caused by management override of controls Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Our audit procedures did not uncover evidence of management override of controls.
2 Risk of material misstatement caused by fraud in income recognition. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. Quality Meat Scotland receives a significant amount of income from several sources. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.	Sound system of internal controls in place. Regular budget monitoring reports. Set rates for the Statutory Red Meat Levy.	We did not identify any issues to report to you as a result of our work.
3 Risk of material misstatement caused by fraud in expenditure As most public-sector bodies are net expenditure	Sound system of internal controls in place. Regular budget monitoring reports.	We did not identify any issues to report to you as a result of our work.

	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.		
	Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
4	**Financial sustainability** The 2019/20 budget for Quality Meat Scotland was agreed on 21 February 2019 and had a forecast deficit of £0.250 million. However, the most recent financial report for the 8 months to 30th November 2019 forecasts a £0.059 million surplus. Income from grants is one of the most volatile sources of income for Quality Meat Scotland: in 2017/18 this was £0.458 million; in 2018/19 £0.870 million; and the most recent financial report forecasts £0.652 million for 2019/20 compared to a budgeted figure of £0.387 million. Uncertainty around both the impact of EU withdrawal on the economy and the future level of already constrained public sector budgets is likely to add further uncertainty to the level of future income from grants as well as other income sources. Furthermore changes in consumer diets, anti-meat initiatives and the implications of meat production on climate change could have a negative effect on income for QMS in future years.	Regular budget monitoring reports. Volatility/loss of income is recognised as a risk in the risk register which is updated regularly. The potential impact of EU withdrawal on grant income and wider income streams is also recognised in the risk register. Advertising campaigns are currently underway, focusing on the role of red meat in a healthy balanced diet.	QMS made an operating deficit of £99,200 compared against a budgeted deficit of £250,000. The approved budgeted deficit for 2020/21 is £240,000, to be financed by the use of reserves. Raised as a risk in Action Plan at Appendix 1 above.

Appendix 3

Summary of national performance reports 2019/20

Quality Meat Scotland

2019/20 Annual Audit Report

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