

Quality Meat Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Quality Meat Scotland
February 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Quality Meat Scotland. The main elements of our work include:

- understanding the business of Quality Meat Scotland and the associated risks which could impact on the financial statements
- an audit of Quality Meat Scotland's financial statements, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to Quality Meat Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Quality Meat Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and Quality Meat Scotland

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Quality Meat Scotland. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

8. In doing this, we aim to support improvement and accountability.

Quality Meat Scotland responsibilities

9. Quality Meat Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. Also, Quality Meat Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Quality Meat Scotland are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Quality Meat Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£153,000
Performance materiality – 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 assessed performance materiality at 75% of planning materiality.	£115,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£8,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Quality Meat Scotland, its major transaction streams, key systems of internal control and risk

management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries with a focus on significant risk areas, including year-end entries. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income & expenditure and accruals.
<p>2. Risk of material misstatement caused by fraud in revenue recognition</p> <p>As set out in ISA(UK)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.</p> <p>Quality Meat Scotland receives a significant amount of income from several sources. The extent and complexity of income means that, in</p>	<p>Sound system of internal controls in place.</p> <p>Regular budget monitoring reports.</p> <p>Set rates for the Statutory Red Meat Levy.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

Significant risk of material misstatement	Sources of assurance	Planned audit response
accordance with ISA(UK)240, there is an inherent risk of fraud.		
<p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements</p>	<p>Sound system of internal controls in place.</p> <p>Regular budget monitoring reports.</p>	<ul style="list-style-type: none"> Analytical procedures on expenditure streams. Detailed testing of expenditure transactions focusing on the areas of greatest risk.

Source: Audit Scotland

Audit risk assessment process

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions

16. 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 accountability and value for money.

17. 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. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2021/22 audit of Quality Meat Scotland.

Audit dimension risks

18. We have identified audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The most recent financial report forecasts a surplus of £0.033 million at the 31 March 2022. However, the current financial environment presents a risk to Quality Meat Scotland with sources of income being volatile and subject to changes year on year.</p> <p>Specifically, income from grants is one of the most volatile sources of income for Quality Meat Scotland. In 2019/20 this was £0.586 million and in 2020/21 it was £0.346 million. The most recent financial report forecasts £0.136 million of grant income will be received in 2021/22.</p> <p>There is also increased financial uncertainty in 2022 and beyond relating ongoing impact of Covid-19, post EU Withdrawal trading arrangements, and industry downsizing.</p>	<p>Regular budget monitoring reports.</p> <p>Volatility/loss of income is recognised as a risk in the risk register which is updated regularly.</p>	<ul style="list-style-type: none"> Monitoring of monthly financial reports. Review of risk register.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

19. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 4, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

20. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

21. We will provide an independent auditor's report to Quality Meat Scotland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 4

2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	25 February 2022	9 March 2022
Independent Auditor's Report	28 June 2022	28 June 2022
Annual Audit Report	22 June 2022	28 June 2022

Source: Audit Scotland

Timetable



22. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

23. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22

is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

24. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	2 May2022
Latest date for final clearance meeting with Head of Corporate Services	20 May2022
Issue of Letter of Representation and proposed Independent Auditor's Report	22 June 2022
Agreement of audited and unsigned annual report and accounts	22 June 2022
Issue of Annual Audit Report to those charged with governance.	22 June 2022
Signed Independent Auditor's Report	29 June 2022

Source: Audit Scotland

Audit fee

25. The proposed audit fee for the 2021/22 audit of Quality Meat Scotland is £11,460 (2020/21: £11,240). In determining the audit fee, we have taken account of the risk exposure of the Quality Meat Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package by 2 May 2022.

26. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

27. Internal audit is provided by TIAA Limited. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

28. We will report any significant findings to management on a timely basis.

29. As in prior years, we plan to undertake a direct substantive testing approach to the audit of the 2021/22 annual report and accounts. Therefore, we do not require to place formal reliance on the work of internal audit for the audit of the annual report and accounts. However, we will review the internal audit reports produced during the financial year and presented to the Audit and Risk Management Committee.

Independence and objectivity

30. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

31. The engagement lead (i.e. appointed auditor) for Quality Meat Scotland is Peter Lindsay, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Quality Meat Scotland.

Quality control

32. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Quality Meat Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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