

# Quality Meat Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland

4 June 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 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 account's direction.
- 4 We have issued an unqualified independent auditor's report on Quality Meat Scotland's annual report and accounts for 2020/21.

## 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 £58,200 in 2020/21. For 2021/22 QMS has budgeted for a break-even position.

## Governance Statement

- 7 We concluded that the information in the governance statement for 2020/21 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of Quality Meat Scotland (QMS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 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 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 and good practice guides
- providing clear and focused 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.

6. 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 supplementary guidance and International Standards on Auditing in the UK.

**8.** 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.

**9.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**10.** 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.

**11.** As highlighted in our 2020/21 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 2020/21 audit.

**12.** 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.

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

**14.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £11,240, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** This report is addressed to QMS 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) in due course.

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

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance in the use of those resources.

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## Main judgements

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.

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## Audit opinions on the annual report and accounts

**17.** The annual report and accounts for the year ended 31 March 2021 were approved by the Board on 4 June 2021. As reported in the independent auditor's report:

- 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 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

**18.** We received the unaudited annual report and accounts on 3 May 2021 in line with our agreed audit timetable. 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 2020/21 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.

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£65,000
Performance materiality	£33,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2020/21

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## 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 qualitative aspects (accounting policies, accounting estimates/judgements, significant annual accounts disclosures, impact of uncertainties, etc) of the 2020/21 accounting practices. We have no findings to report in this area.

## How we evaluate misstatements

**27.** There were no misstatements identified in the annual accounts.

**28.** 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.

## Follow up of prior year recommendations

**29.** There was one action agreed in the 2019/20 AAR which remains relevant and therefore ongoing. For ongoing actions, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).



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## 2. Financial sustainability and governance and transparency

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

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### 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 £58,200 in 2020/21. For 2021/22 QMS has budgeted for a break-even position.

We concluded that the information in the governance statement for 2020/21 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

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### Financial performance in 2020/21

**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 £58,200 compared with an approved budgeted deficit of £240,000 in 2020/21. The deficit was less than budget due in part to savings made due to restrictions on activity imposed by the Covid-19 outbreak.

### 2020/21 Financial position

**31.** The Statement of Financial Position summarises what is owned and owed by 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 £1.159 million, mainly representing net current assets. This is a reduction of £58,200 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 QMS Consumer Assurance Schemes.

**35.** In December 2020 the board approved a budgeted break-even position for 2021/22. The budget assumed a 9% decrease in income from the 2020/21 expected outturn and forecasts a total income of £6.7 million.

**36.** The 2021/22 budget suggests a considerably less challenging position than in previous budgets and reflects a key assumption that the long term solution to levy repatriation takes place as planned on 1st April 2021 resulting in budgeted additional levy income of around £1.3 million.

**37.** Our 2019/20 Annual Audit Report recommended that regular and effective monitoring of QMS's 2020/21 budgeted deficit was essential to ensure that the budget gap remained manageable (see [Appendix 1](#)).

**38.** Given the continuing challenges for public sector bodies around the uncertainty of key income sources such as grants for 2021/22 and beyond, we have again raised this an issue in this report.

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## Recommendation 1

Regular and effective monitoring of the 2021/22 budget will be required to ensure that the budget gap remains manageable.

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## 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.

## Systems of Internal Control

**41.** We assessed the key financial systems of QMS as part of our annual interim audit and found the key controls to be in operation.

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Financial sustainability</b></p> <p>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 2021/22 QMS are forecasting a break-even position.</p> <p><b>Risk</b></p> <p>Future reductions in income and increases in costs will increase the budget gap, requiring further use of reserves.</p>	<p>Regular and effective monitoring of the 2021/22 budget will be required to ensure that the financial position remains manageable.</p> <p><a href="#">Paragraph 37.</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

Issue/risk	Recommendation	Agreed management action/timing
<p><b>2. IFRS 16</b></p> <p>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</p>	<p>QMS should engage early with their sponsor body the Scottish Government to ensure that they are in a position to quantify the impact of IFRS 16 in the 2021/22 annual accounts.</p>	<p><b>Deferred</b></p> <p>This requirement has since been deferred until the 2022/23 financial year and therefore no actions were required of public bodies in 2020/21.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>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.</p> <p><b>Risk</b></p> <p>The 2021/22 financial accounts will be misstated for leases.</p>		
<p><b>3. Financial sustainability</b></p> <p>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.</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 2020/21 budget will be required to ensure that the budget gap remains manageable.</p>	<p><b>Ongoing</b></p> <p>Raised again as an issue at Action Plan Point 1 above.</p>
<p><b>4. Reconciliations of key financial systems</b></p> <p>There are currently no formal reconciliations carried-out routinely for either the</p>	<p>Regular reconciliations between the general ledger and the two key feeder systems of payroll and</p>	<p><b>Complete</b></p> <p>Regular, formal reconciliations are now in place for these systems.</p>

Issue/risk	Recommendation	Agreed management action/timing
accounts payable or payroll systems to the general ledger system.	accounts payable should be introduced.	
<b>Risk</b> Discrepancies will not be picked-up until the year-end when the final accounts are being prepared.		

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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 to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our audit procedures did not identify evidence of management override of controls.</p>
<p><b>2. Risk of material misstatement caused by fraud in income recognition</b></p> <p>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.</p> <p>Quality Meat Scotland receives a significant amount of income from several sources. The extent and</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>	<p>We did not identify any issues as a result of our work.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>		
<p><b>3. Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure 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.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</li> </ul>	<p>We did not identify any issues as a result of our work.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>4. Financial Sustainability</b></p> <p>In February 2020 the Board approved a forecast deficit of £0.240 million for 2020/21 which would be financed through the use of reserves. The most recent financial report for the 10 months to 31 January 2021 now forecasts a £0.129 million surplus at 31 March 2021.</p> <p>Specifically, income from grants is one of the most volatile sources of income for Quality Meat Scotland. In 2018/19 this was £0.870 million and in 2019/20 this was £0.586 million. The most recent financial report forecasts £0.132 million for 2020/21 compared to a budgeted figure of £0.165 million.</p>	<ul style="list-style-type: none"> <li>Monitoring of monthly financial reports.</li> <li>Review of risk register.</li> </ul>	<p>QMS made an operating deficit of £58,200 compared against a budgeted deficit of £240,000.</p> <p>The Board have approved a break-even position for 2020/21.</p> <p>See Action Plan Point 1 at <a href="#">Appendix 1</a> above.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is increased financial uncertainty in 2021 and beyond relating to the impact of Covid-19 and EU withdrawal. Obtaining grant funding in the medium to long term may become increasingly difficult against a backdrop of tight public sector budgets.</p>		
<p><b>5. Governance and Transparency</b></p> <p>The Board papers and minutes should be accessible to the general public. Although the minutes are attached on the Quality Meat Scotland website, they are not easily found. To increase openness and transparency, both the papers and minutes should be attached on an area of the website that is more accessible.</p>	<ul style="list-style-type: none"> <li>Reviewed accessibility of papers and minutes on QMS website during final accounts audit.</li> </ul>	<p>Papers and minutes were found to be accessible.</p>



# Quality Meat Scotland

## 2020/21 Annual Audit Report

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