

# Quality Meat Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Quality Meat Scotland and the Auditor General for Scotland

1 July 2022

# Contents

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Key messages	3
Introduction	4
Part 1. Audit of 2021/22 annual report and accounts	7
Part 2. Financial sustainability and governance	12
Appendix 1. Action plan 2021/22	16
Appendix 2. Summary of 2021/22 national performance reports and briefing papers	18

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# Key messages

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## 2021/22 annual report and accounts

- 1 Quality Meat Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 Expenditure and income were 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 2021/22.

## Financial sustainability

- 5 There are no significant concerns about the overall financial position of Quality Meat Scotland but it faces uncertainty and financial challenges in the medium to long term, specifically in relation to the uncertainty relating to EU withdrawal and Covid-19 recovery.
- 6 Quality Meat Scotland reported a surplus of £115,000 in 2021/22. For 2022/23 Quality Meat Scotland has budgeted for a deficit of £77,000.

## Governance

- 7 We concluded that the information in the governance statement for 2021/22 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 2021/22 audit of Quality Meat Scotland.
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the March 2022 meeting of the Audit and Risk Management Committee. This report comprises the findings from:
  - an audit of the Quality Meat Scotland's annual report and accounts
  - our consideration of financial sustainability.

## Adding value through the audit

3. We add value to Quality Meat Scotland through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports and good practice guides
  - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
4. We aim to help Quality Meat Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. Quality Meat Scotland 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. Quality Meat Scotland 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](#) (the Code) 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. Additionally, we conclude on the appropriateness and

effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**9.** The [Code of Audit Practice 2016](#) 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 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

**10.** This report raises matters from our audit. 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.

**11.** 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.

## Auditor Independence

**12.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £11,460 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to Quality Meat Scotland 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.

## Audit appointment from 2022/23

**15.** The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**16.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will remain the appointed auditor for Quality Meat Scotland.

**17.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**18.** We would like to thank Board members, Audit and Risk Management Committee members, and officers for their co-operation and assistance over the last six years.

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# Part 1. Audit of 2021/22 annual report and accounts

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

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## Main judgements

Quality Meat Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were 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.

We have issued an unqualified independent auditor's report on Quality Meat Scotland's annual report and accounts for 2021/22.

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## Our audit opinions on the annual report and accounts are unmodified

**19.** The annual report and accounts for the year ended 31 March 2022 were approved by the Board on 1 July 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

## The unaudited annual report and accounts were submitted for audit in line with the agreed timetable

**20.** We received the unaudited annual report and accounts on 2 May 2022 in line with the agreed audit timetable. The annual report and accounts submitted for

audit were of a good standard as were supporting working papers. The physical limitations on access to records and systems meant that our staff had to conduct the audit remotely and Quality Meat Scotland staff also faced similar constraints.

## Overall materiality is £135,000

**21.** Our initial assessment of materiality for the annual report and accounts is undertaken during the planning phase of the audit. On receipt of the unaudited annual report and accounts, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£135,000
Performance materiality	£101,000
Reporting threshold	£7,000

Source: Audit Scotland

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## We have no significant findings to report on the annual report and accounts

**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. We have no issues to report from the audit.

### Qualitative aspects of the audit

**23.** 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 2021/22 accounting practices. We have one finding to report in this area.

**24.** All public bodies were required to make adequate preparations for the introduction of the new accounting standard IFRS 16 Leases in 2022/23 (deferred from 2021/22 due to the Covid-19 pandemic). At the time of our audit, Quality Meat Scotland is still awaiting guidance from its sponsor body the Scottish Government to help ensure it is adequately prepared to comply with IFRS 16 leases.

## Recommendation 1

Quality Meat Scotland should engage early with its sponsor body at the Scottish Government to ensure that it is in a position to quantify the impact of IFRS 16 in the 2022/23 annual accounts.

**25.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 2

### Significant risks of material misstatement to the financial statements in the 2021/22 Annual Audit Plan

Significant risk of material misstatement	Audit response to risk	Results and conclusions
<p><b>1. Management override of controls</b></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>We carried out detailed testing of journal entries with a focus on significant risk areas, including year-end entries.</p> <p>We evaluated any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals.</p>	<p><b>Results:</b> Our audit procedures did not identify evidence of management override of controls.</p> <p><b>Conclusion:</b> Satisfactory.</p>
<p><b>2. Fraud in revenue recognition</b></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 accordance with</p>	<p>We performed analytical procedures on income streams.</p> <p>We carried out detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p><b>Results:</b> We did not identify any issues as a result of our audit work.</p> <p><b>Conclusion:</b> Satisfactory.</p>

Significant risk of material misstatement	Audit response to risk	Results and conclusions
ISA(UK)240, there is an inherent risk of fraud.		
<p><b>3. 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.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>We performed analytical procedures on expenditure streams.</p> <p>We carried out detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p><b>Results:</b> We did not identify any issues as a result of our audit work.</p> <p><b>Conclusion:</b> Satisfactory.</p>

Source: Audit Scotland

## Other matters identified from our work on the annual report and accounts

**26.** There were no material adjustments to the unaudited annual accounts. There were two adjustments below our materiality reporting threshold and one adjustment above this threshold.

**27.** There was a £16,000 adjustment in relation to an error of accounting double-entry. This related to levy income receivable that had been added in error to cash and cash equivalent balances at 31 March 2022. To correct this error, this balance was removed from cash and cash equivalents and added to trade receivables in the Statement of Financial Position. The net effect of this adjustment on reserves was nil.

**28.** There was another adjustment of £4,000 in relation to an error of omission. This related to operating costs incurred that were not reflected in the accounts. To correct this omission, this amount was added to expenditure in the Statement of Comprehensive Net Expenditure and to payables in the Statement of Financial Position. This had the effect of increasing the deficit and reducing reserves by this amount.

**29.** We also identified a total of £22,000 of capital expenditure on the development of the new financial ledger system that had been incorrectly classified as tangible assets in use (computer equipment) as at 31 March 2022. To correct this, the capital expenditure was reclassified as intangible assets under construction.

**30.** Our audit also 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

**31.** We followed up on actions agreed in our [2020/21 Annual Audit Report](#), to assess what progress on implementation had been made. Details of the follow up are included in [Appendix 1](#).

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# Part 2. Financial sustainability and governance

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services. Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making.

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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 Covid-19 recovery.

QMS reported a surplus of £115,000 in 2021/22. For 2022/23 QMS has budgeted for a deficit of £77,000.

We concluded that the information in the governance statement for 2021/22 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

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## Audit work has addressed the wider audit dimension risks identified in our Annual Audit Plan

**32.** [Exhibit 3](#) (overleaf) sets out the wider audit dimension risks (as set out in the [Code of Audit Practice 2016](#)) that we identified in our 2021/22 audit together with a summary of the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from our work.

## Exhibit 3

### Wider audit dimension risks

Audit risk	Audit response to risk	Results and conclusions
<p><b>Financial sustainability</b></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>We reviewed the monthly financial monitoring reports.</p> <p>We reviewed the risk register.</p>	<p><b>Results:</b> We concluded that financial management arrangements are appropriate.</p> <p>Quality Meat Scotland has reported a surplus of £115,000 compared with an approved budgeted break-even position in 2021/22.</p> <p>Quality Meat Scotland has budgeted for a deficit of £77,000 in 2022/23, with both income and expenditure forecast to increase on expected outturn for 2021/22.</p> <p><b>Conclusion:</b> Satisfactory. Regular and effective monitoring of the 2022/23 budget will be required to ensure that the financial position remains manageable.</p>

Source: Audit Scotland

## Financial performance in 2021/22

**33.** The main financial objective for Quality Meat Scotland is to ensure that the financial outturn for the year is within the budget approved by Board members. Quality Meat Scotland has reported a surplus of £115,500 compared with an approved budgeted break-even position in 2021/22. The surplus was more than budget due largely to an increase in income from statutory red meat levy of over £1 million on 2020/21 levels.

## Financial position in 2021/22

**34.** The Statement of Financial Position summarises what is owned and owed by Quality Meat Scotland. The statement of changes in reserves shows the movement during the year on a Quality Meat Scotland'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.

**35.** The financial statements show that Quality Meat Scotland has net assets of £1.274 million, mainly representing net current assets. This is an increase of £115,500 from the previous year.

## Financial planning

**36.** 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.

**37.** Quality Meat Scotland 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 Quality Meat Scotland Consumer Assurance Schemes.

**38.** In February 2022 the Board approved a budgeted deficit of £77,000 for 2022/23. The budget assumed a 3% increase in income from the 2021/22 expected outturn and forecasts a total income of £7 million.

**39.** Our 2020/21 Annual Audit Report recommended that regular and effective monitoring of Quality Meat Scotland's 2021/22 budget position was essential to ensure that any budget gaps remained manageable (see [Appendix 1](#)).

**40.** Given the continuing challenges for public sector bodies around the uncertainty of key income sources such as grants for 2022/23 and beyond, we have again raised this an issue in this report.

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## Recommendation 2

Regular and effective monitoring of the 2022/23 budget will be required to ensure that the budgeted position remains manageable.

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## Governance Statement

**41.** 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.

**42.** 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.

## National performance audit reports and briefing papers

**43.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports and briefing papers published in 2021/22.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. IFRS 16 Leases</b></p> <p>All public bodies were required to make adequate preparations for the introduction of the new accounting standard IFRS 16 leases in 2022/23 (deferred from 2021/22 due to the Covid-19 pandemic). At the time of our audit, Quality Meat Scotland is still awaiting guidance from its sponsor body the Scottish Government to help ensure they are adequately prepared to comply with IFRS 16 leases.</p> <p><b>Risk</b></p> <p>The 2022/23 financial accounts will be misstated for leases.</p>	<p>Quality Meat Scotland should engage early with its sponsor body the Scottish Government to ensure that it is in a position to quantify the impact of IFRS 16 in the 2022/23 annual accounts.</p> <p><a href="#">Paragraph 24</a></p>	<p>QMS will contact sponsor body the Scottish Government to resolve.</p> <p>Responsible officer: Head of Corporate Services</p> <p>Agreed date: FY 2022/23</p>
<p><b>2. Financial sustainability</b></p> <p>Quality Meat Scotland faces significant financial challenges due to the uncertainty of the implications of Brexit and Covid-19 recovery on the meat industry and wider economy. Obtaining grant income will be difficult against a backdrop of tight public sector budgets. For 2022/23 Quality Meat</p>	<p>Regular and effective monitoring of the 2022/23 budget will be required to ensure that the financial position remains manageable.</p> <p><a href="#">Paragraph 40</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>

Issue/risk	Recommendation	Agreed management action/timing
<p>Scotland is forecasting a deficit of £77,000.</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>Agreed date: Ongoing process.</p>

### Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Financial sustainability</b></p> <p>Quality Meat Scotland 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><b>Ongoing</b></p> <p>Raised again as an issue at Action Plan Point 2 above.</p>

# Appendix 2. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# Quality Meat Scotland

## 2021/22 Annual Audit Report

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](http://www.audit-scotland.gov.uk/accessibility)



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