Quality Meat Scotland

2022/23 Annual Audit Report

AUDIT SCOTLAND

Prepared for Quality Meat Scotland and the Auditor General for Scotland

July 2023

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Audit of 2022/23 annual report and accounts

1 Audit opinions on the annual report and accounts are unmodified.

2 There is scope to improve the audit trail between key working papers, the trial balance and the unaudited accounts.

3 Key reconciliations were not completed during 2022/23 due to the introduction of the new financial management system. Differences identified in the year-end payroll and VAT reconciliations were not fully investigated and cleared as part of the annual accounts' preparation process.

4 We identified areas where the annual report and accounts submitted for audit did not comply with the requirements set out in the FReM.

5 The financial statements were amended to reflect all our audit findings and as a result expenditure decreased and net assets and reserves increased by £24,000.

Wider scope

6 QMS made a surplus of £195,000 in 2022/23 compared to a budgeted deficit of £61,000. This favourable variance arose from increased income from the statutory red meat levy (£306,000) offset by a reduction in assurance scheme fee and other income (£255,000). Underspends were achieved in salary (£15,000) and operating (£189,000) costs.

7 There are no concerns about QMS's current financial position, but it continues to face uncertainty and financial challenges resulting from reducing levy income and increasing costs.

8 Budgets are prepared and approved on an annual basis. QMS could improve its financial planning arrangements by developing a medium-term financial plan which links to the delivery of its five-year strategy.

9 Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

10 Appropriate governance arrangements are in place, but openness and transparency could be improved through the timeous publication of Board and Audit and Risk Management Committee minutes on the website.

11 QMS has an appropriate Best Value framework in place.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Quality Meat Scotland (QMS) and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

2. The scope of the audit was set out in an Annual Audit Plan presented to the March 2023 meeting of the Audit and Risk Management Committee. This Annual Audit Report includes significant matters arising from an audit of QMS's annual report and accounts, and conclusions on the financial sustainability and the appropriateness of the disclosures in the governance statement.

3. We would like to thank all Board members, management and staff, particularly those in finance, for their cooperation and assistance this year and we look forward to working together over the course of the five-year appointment.

Adding value through the audit

4. We aim to help QMS promote improved standards of governance, better management and decision making and more effective use of resources. We do this by sharing intelligence and good practice and by identifying and providing insight on significant risks and making clear recommendations for improvement.

Responsibilities and reporting

5. QMS has primary responsibility for ensuring the proper financial stewardship of its resources. This includes preparing an annual report and accounts in accordance with the accounts direction from Scottish Ministers. QMS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance and International Standards on Auditing in the UK.

7. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. The weaknesses or risks identified in this report 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.

Auditor Independence

8. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services and the 2022/23 audit fee of £14,960, as set out in our 2022/23 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship of resources.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

There is scope to improve the audit trail between key working papers, the trial balance and the unaudited accounts.

Key reconciliations were not completed during 2022/23 due to the introduction of the new financial management system. Differences identified in the year-end payroll and VAT reconciliations were not fully investigated and cleared as part of the annual accounts' preparation process.

We identified areas where the unaudited annual report and accounts did not comply with the requirements set out in the FReM.

The financial statements were amended to reflect all our audit findings and as a result expenditure decreased and net assets and reserves increased by £24,000.

Audit opinions on the annual report and accounts are unmodified

9. The Board approved the annual report and accounts for QMS for the year ended 31 March 2023 on 27 July 2023. The independent auditor's report includes the following audit opinions on the annual report and accounts:

- the financial statements give a true and fair view and are properly prepared in accordance with the financial reporting framework
- expenditure and income transactions were regular and in accordance with applicable enactments and guidance
- the audited parts of the Remuneration and Staff Report have been prepared in accordance with the relevant legislation and directions made by Scottish Ministers

- the Performance Report and Governance Statement are consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The 2022/23 annual report and accounts were certified on 27 July 2023 in line with the agreed audit timetable

10. We received the unaudited annual report and accounts on 19 May 2023 in line with the agreed audit timetable. Management provided good support to the audit team, and we were able to certify the annual report and accounts in accordance with the agreed timetable.

There is scope to improve the audit trail between key working papers, the trial balance and the unaudited accounts

11. The audit process took much longer than expected, however, due to a lack of clear audit trail between the unaudited accounts, trial balance, working papers and transactions listing from which we pick our samples for audit testing. We also encountered problems in agreeing the opening balances input to the new financial management system to last year's audited accounts, but these were subsequently resolved. Initial sample sizes for testing were higher than in previous years due to changing expectations within the audit profession for audits in which we take a fully substantive approach. In addition, audit testing identified misstatements (refer to Exhibit 3 for details) which required us to increase our sample sizes over and above our initial sample. To cope with the additional testing burden, extra staff were assigned to the audit but this created a significant volume of audit queries for QMS staff to deal with. We have arranged to meet with management to discuss how we can improve working papers and audit practices to streamline the audit process for next year.

Recommendation 1

Working papers should be reviewed to ensure that there is a clear audit trail between the annual report and accounts submitted for audit, the trial balance, transactions listings and supporting working papers.

Our audit approach and testing was informed by the overall materiality level of £135,000

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature, and it is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the audited 2021/22 annual report and accounts. These materiality values were reported in our annual audit plan.

14. On receipt of the unaudited annual report and accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and concluded that our original materiality levels remained appropriate. These materiality levels are summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£135,000
Performance materiality	£100,000
Reporting threshold	£7,000

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the low level of errors in previous years, the lack of significant estimation in the accounts and the non-complex nature of the body.

Our audit identified and addressed the risk of material misstatement to the financial statements

16. Exhibit 2 sets out the significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 2
Identified significant risk of material misstatement to the financial statements

Audit risk	Audit Response	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls 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	Tested journals at the year-end focusing on significant risk areas. Considered the need to test journal entries and other adjustments during the period. Evaluated significant transactions outside the normal course of business.	No issues were identified from our sample testing of journals (both year-end and from throughout the year). We identified one unusual transaction (payments to the previous Chief Executive) that we considered outwith the normal course of business. We reviewed these and concluded that there was no evidence of these

Audit risk	Audit Response	Results and conclusions
otherwise appear to be operating effectively.	Undertook substantive testing of income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year. Tested a sample of accruals and accrued income focussing on significant risk areas. Assessed any changes to the methods and underlying assumptions used to prepare material accounting estimates compared to the prior year. We did not make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments as none were identified from our review.	resulting from management override of control. We identified some transactions that were not accounted for in the correct financial year (see Exhibit 2, point 1) but the nature of these did not indicate management override of controls to impact the year-end position. We did not identify any material accounting estimates, unusual journal entries or other adjustments. **Conclusion:** there is no evidence of management override of controls to manipulate the financial position reported in the annual report and accounts.

17. Our 2022/23 Annual Audit Plan also identified three areas that required additional audit focus this year. The results of our testing of these areas are set out below:

- **IT risks:** revised ISA 315 requires auditors to have a greater understanding of the IT systems bodies use to prepare their financial statements and the risks that arise from the use of these systems. In our Annual Audit Plan we noted that this work was ongoing. We completed our work in this area prior to commencing our final accounts audit and did not identify any additional risks of material misstatement to the financial statements that would impact on our audit approach.

- **New financial management system:** a new financial management (Microsoft Dynamics) was implemented on 1 April 2022. We undertook an initial system review of all core financial systems and completed a walkthrough of key controls to confirm our understanding of the operation of these systems. As noted in paragraph 11, we encountered problems with agreeing opening balances and also noted that the completion of key reconciliations (e.g. monthly payroll reconciliations) lapsed during 2022/23 due to the introduction of the new financial management system. Our review of the year-end payroll, VAT and assurance scheme income (FIA) reconciliations identified that these contained unexplained differences of £4,400, £8,100 and £1,250 respectively. We did not identify any other concerns about the systems or the controls in operation.

- **IFRS 16 (Leases):** this accounting standard required to be reflected in the financial statements for the first time in 2022/23. We reviewed the arrangements for establishing the existence and extent of lease arrangements within QMS, tested the calculations of right of use assets and lease liabilities and reviewed the revised disclosures against the requirements set out in the Treasury guidance. No issues were identified except for the inclusion of prior year comparative figures which are not permitted by the guidance.

Recommendation 2

Key reconciliations should be completed regularly, and any differences investigated and cleared prior to submission of the accounts for audit.

We have significant findings to report from our audit of the annual report and accounts

18. 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. These are summarised in Exhibit 3 and in paragraphs 19 to 26 below.

Exhibit 3
Significant findings from the audit of the annual report and accounts

Issue	Resolution
1. Transactions not accounted for in the correct financial year Audit testing identified five expenditure transactions that had not been accounted for in the correct financial year, two of which were above our reporting threshold and amended by management. As a result, expenditure and trade payables were reduced by £19,000 and £13,000 respectively and trade receivables were increased by £6,000.	These two misstatements have been amended in the audited annual report and accounts. **Recommendation 3**
2. Classification of expenditure on staff costs Audit testing identified errors in the classification of expenditure on staff costs where employees had agreed to make pension contributions through salary sacrifice. As a result, salary costs in Note 4 were understated and employer pension costs were overstated by £55,000. Disclosures in the Remuneration and Staff Report were also incorrectly classified.	These misstatements have been amended in the audited annual report and accounts.

<table>
<tr><th>Issue</th><th>Resolution</th></tr>
<tr><td>3. Classification of cash flows between operating and investing activities

Capital creditors had not been correctly classified in the Cash Flow Statement. As a result, the net cash flows from operating activities were overstated and the net cash flows from investing activities were understated by £17,000.</td><td>This misstatement has been amended in the audited annual report and accounts.</td></tr>
<tr><td>4. Compliance with the Financial Reporting Manual (FReM)

We identified areas where the annual report and accounts did not comply with the requirements set out in the FReM:
• Performance Report – refer to paragraphs 19 to 21 below
• Remuneration and Staff Report - refer to paragraphs 22 to 26 below
• Parliamentary Accountability Report – this had not been included in the annual report and accounts submitted for audit.</td><td>The Performance Report and Remuneration and Staff Report have been amended in the audited annual report and accounts to reflect the minimum requirements of the FReM but there is scope for further improvement. Refer to recommendations below.</td></tr>
<tr><td>5. Related party transaction disclosures

The process undertaken to establish the related party transactions for disclosure in the accounts was not documented and so we had to undertake additional work to verify the completeness of the disclosures.

Our review identified two related party transactions that had not been disclosed within the unaudited accounts. In addition, one of the related party disclosures included in the unaudited accounts did not agree to supporting documentation.

Some register of interests returns did not detail the nature of the relationship with the organisation disclosed which made it difficult to establish how much influence there was between the related parties.</td><td>The related party transactions disclosures have been updated in the audited annual report and accounts.

Recommendation 4</td></tr>
<tr><td>6. Review and classification of levy security deposits

QMS hold £172,000 of levy security deposits paid by slaughterers. Some of the deposits date back to 2008/09. We noted that these amounts are not separately identifiable within QMS’s bank accounts and that the amounts held have not been reviewed since they were initially calculated. We also noted that the amounts were classified as current liabilities within the accounts although there is no</td><td>Levy security deposits have been reclassified as non-current liabilities in the audited annual report and accounts.

The Board has agreed to develop a policy for the review of levy security deposits. We will review progress in this area as part of our 2023/24 audit.</td></tr>
</table>

Issue	Resolution
indication that these will become payable within the next 12 months.	

Performance Report disclosures required to be updated to ensure compliance with the FReM and could be further improved

19. We audit the performance report for consistency with the rest of the financial statements. In addition, we consider the qualitative aspects of the report. The purpose of the performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It should provide a fair, balanced and understandable analysis of a body's performance.

20. Our review of the performance report noted areas that required amendment in order to meet the requirements of the Financial Reporting Manual (FReM). We discussed these with management, and they agreed to update the narrative in the audited annual report and accounts. We have concluded that the revised narrative meets the requirements of the FReM.

21. In our view, there is scope to further improve the performance report in future years. Annex 5 of the FReM gives additional guidance for narrative reporting. It refers to the use of trend analysis, balanced reporting, plain English, use of infographics and advises the preparer to go beyond the minimum requirements. Further guidance can also be found in Audit Scotland's 2019: Good practice note on improving the quality of central government performance reports.

Recommendation 5

QMS should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland's good practice note.

Remuneration and Staff Report disclosures required to be updated to ensure compliance with the FReM

22. The Remuneration and Staff Report is fundamental to demonstrating transparency and accountability. It sets out the body's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors and where relevant the link between performance and remuneration.

23. We audit the following disclosures within the Remuneration and Staff Report to ensure compliance with the FReM:

- remuneration information
- pension entitlement information
- staff report, including information on exit packages

- other disclosed information, including on compensation payments, payments to past directors and information on fair pay
- consultancy costs, if included.

24. In addition, we read the remainder of the Remuneration and Staff Report disclosures and consider whether the information is materially inconsistent with the financial statements, our wider knowledge of the audit or otherwise appears to be materially misstated.

25. Our review of the audited parts of the Remuneration and Staff Report noted the following non-compliances with the FReM:

- the previous Chief Executive's remuneration (including employer pension contributions) had not been included in the Remuneration and Staff Report although he remained in post until 11 April 2022
- the previous Chief Executive continued to be paid until 30 November, but this remuneration (£78,000) and the associated employer pension contributions (£16,000) were not included as payments to a past director in the Remuneration and Staff Report.

26. We reviewed the rationale for continuing to pay the previous Chief Executive following the appointment of his successor. As set out in the Remuneration and Staff Report, a 12 month notice period was agreed with the previous Chief Executive in November 2021 to enable sufficient time to appoint a successor and to protect commercially sensitive relationships during the handover period. Whilst this type of arrangement is unusual within the public sector, we are satisfied that appropriate advice was obtained from QMS's legal advisers and sponsor team and that the Chair and Board members were closely involved in all aspects of the decision-making process.

We undertook additional cut-off testing to provide assurance that the residual population was not at risk of material misstatement

27. Our audit did not identify any material misstatements and the total of misstatements (£38,000) did not exceed our performance materiality level. We reviewed the nature and cause of the misstatements set out in Exhibit 3 and undertook additional cut-off testing to gain assurance that the residual population was not at risk of material misstatement. This identified a further cut-off error which we have included in Exhibit 3. We are content that the untested population is not at risk of material misstatement.

There are no unadjusted misstatements to report to those charged with governance

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

29. Management agreed to amend the financial statements to reflect all our audit findings including some below our reporting threshold, and so there are no unadjusted misstatements to report to those charged with governance. The amendments made reduced expenditure and increased net assets and reserves by £24,000.

Good progress was made on prior year recommendations

30. The previous external audit team made two recommendations in the 2021/22 annual audit report. QMS made good progress in implementing these during 2022/23, with both recommendations fully implemented. Details are set out in Appendix 1.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term.

Main judgements

QMS made a surplus of £195,000 in 2022/23 compared to a budgeted deficit of £61,000. This favourable variance arose from increased income from the statutory red meat levy (£306,000) offset by a reduction in assurance scheme fee and other income (£255,000). Underspends were achieved in salary (£15,000) and operating (£189,000) costs.

There are no concerns about QMS's current financial position, but it continues to face uncertainty and financial challenges resulting from reducing levy income and increasing costs.

Budgets are prepared and approved on an annual basis. QMS could improve its financial planning arrangements by developing a medium-term financial plan which links to the delivery of its five-year strategy.

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

Appropriate governance arrangements are in place, but openness and transparency could be improved through the timeous publication of Board and Audit and Risk Management Committee minutes on the website.

QMS has an appropriate Best Value framework in place.

QMS planned to use £61,000 of reserves during 2022/23 but due to higher-than-expected levy income and savings achieved on operating costs achieved a surplus of £195,000

31. 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 surplus of £0.195 million compared with the revised approved budget deficit of £0.061 million. The surplus was more than budget due to an increase in income from statutory red meat levy of £306,000 compared to budget, offset by a reduction in assurance scheme fee and other income of £255,000. Salary costs were underspent by £15,000 and operating costs by £189,000 compared to budget.

There are no concerns about QMS's current financial position, but it continues to face uncertainty and financial challenges resulting from reducing levy income and increasing costs

32. The financial statements show that QMS had net assets of £1.5 million as at 31 March 2023, an increase of £0.2 million from the previous year. This exceeds the minimum level of reserves (£1.3 million) set by the Board in February 2023 by £0.2 million.

33. In February 2023 the Board approved a budgeted deficit of £59,000 for 2023/24 which retains reserves in excess of the minimum level approved by the Board. This budget forecasts total income of £6.9 million in 2023/24, a reduction of £108,000 (2%) from the previous year's budget. Expenditure is also forecast to be at £7 million, £126,000 (2%) less than the previous year.

34. QMS is largely funded by a statutory red meat levy paid by all farmers and processing companies in the Scottish red meat industry. There is a risk that income will continue to reduce year on year due to reductions in primary production and processing activity in Scotland. This has been included in QMS's risk register. In addition, QMS continues to face significant cost pressures due to inflation, pay pressures, and rising energy costs.

Budgets are prepared and approved on an annual basis. Financial planning arrangements could be improved by developing a medium-term financial plan which links to the delivery of the five-year strategy

35. QMS's budgets are currently prepared and approved on an annual basis. Audit Scotland recommends that public bodies develop medium term financial plans covering 3 years or more. These should set out scenario plans showing the best, worst and most likely scenarios with a clear assessment of the impact of budget assumptions on activity and residual risks. Scenario planning is particularly important when future funding levels are not known.

36. QMS has recently published a five-year strategy covering the period to 2028. The strategy includes a number of projects to transform the red meat industry to make Scotland **the** choice for premium red meat but does not include the financial implications of how this will be delivered. We would recommend that QMS consider developing a medium-term financial plan that links to its five-year strategy.

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance

37. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of QMS's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurances provided by senior staff who are responsible for the development and maintenance of the internal control framework and the Audit and Risk Management Committee.

38. Reliance is also placed on internal audit findings reported during the year, and internal audit's overall opinion that 'for the areas reviewed during the year, Quality Meat Scotland has reasonable and effective risk management, control and governance processes in place.' We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

Appropriate governance arrangements are in place

39. Our review of the minutes and papers submitted to the Board throughout the year concluded that Board papers are sufficiently detailed and comprehensive to allow for effective decision making and scrutiny of performance.

40. We regularly attend Audit and Risk Management Committee meetings and note that these are well attended. Papers are circulated in good time and members provide effective scrutiny and challenge. The Chair of the Audit and Risk Committee provides a verbal update on key issues discussed to each meeting of the Board and these updates are recorded as part of the Board minutes.

Openness and transparency could be improved

41. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant, and timely information about how the Board is taking decisions and how it is using its resources.

42. Board and Audit and Risk Management Committee minutes are available on QMS' website, however our review of the website found that the most recent Board and Audit and Risk Committee minutes available were for meetings on 24 February 2022 and 9 March 2022 respectively. Minutes are not in date order thus making them more difficult to find. We note that Board meetings are not held in public and meeting dates are not advertised on the QMS website. Agendas and supporting papers are not published.

43. While it is for each organisation to determine what papers are made available, we are of the view that, in the interests of openness and transparency, Board and sub-committee papers should be published on QMS' website unless they contain confidential or sensitive information.

Recommendation 6

QMS should review its openness and transparency arrangements and ensure that it publishes minutes of Board and Audit and Risk Management Committee meetings timeously on its website.

QMS has appropriate arrangements in place for securing Best Value

44. Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the Accountable Officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. As part of our 2022/23 audit we have undertaken a high-level review of QMS's Best Value arrangements.

45. The Chief Executive of QMS is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate Best Value. These include:

- the corporate plan and recently launched five-year strategy which sets out QMS's vision to deliver strongly for the Scottish red meat industry as it continues to build a global reputation for animal welfare, quality assurance and integrity
- an appropriate management structure, which sets out clear lines of responsibility and reporting, and robust systems used in decision-making, budgeting, procurement and risk management
- regular monitoring of performance including financial performance against budget
- appropriate governance and accountability arrangements including a systematic approach to risk management
- an established approach to partnership working with other organisations within the red meat industry
- development of a corporate sustainability policy which will help ensure sustainability is factored into future decision-making.

46. We concluded that QMS has an appropriate best value framework in place.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Discrepancies between the unaudited accounts, trial balance and supporting working papers There was a lack of clear audit trail between the unaudited accounts, trial balance, working papers and transactions listing from which we pick our samples for audit testing. We also encountered problems in agreeing the opening balances input to the new financial management system to last year's audited accounts, but these were subsequently resolved. **Risk:** figures in the unaudited accounts do not accurately reflect the underlying financial records/source documentation and the audit process cannot be completed in the planned timeframe.	Working papers should be reviewed to ensure that there is a clear audit trail between the annual report and accounts submitted for audit, the trial balance, transactions listings and other supporting working papers.	**Narrative on agreed action** Due to the migration to our new finance system during the 22/23 year, this has resulted in different reporting methods, and information being presented differently from our old system. Now we are more familiar with these setups we aim to provide additional reconciliations as to how areas of income / expenditure are grouped and calculated. **Responsible officer** Head of Corporate Services **Agreed date** 31 March 2024
2. Differences in year-end reconciliations not identified and resolved The completion of key reconciliations lapsed during 2022/23 due to the introduction of the new financial management system. Year-end payroll, VAT and assurance scheme income (FIA) reconciliations	Key reconciliations should be regularly completed, and any differences investigated and cleared prior to submission of the accounts for audit.	**Narrative on agreed action** Due to the migration to our new finance system during the 22/23 year, this has resulted in different reporting methods, and information being presented differently from our old system. Now we are more familiar with these setups we aim to provide monthly reconciliations on

Issue/risk	Recommendation	Agreed management action/timing
contained differences which had not been fully investigated and cleared. **Risk:** failure to complete regular reconciliations increases the risk that there will be unexplained differences at the year-end. Unexplained differences increase the risk that the accounts are materially misstated.		areas such as payroll and VAT. **Responsible officer** Head of Corporate Services **Agreed date** 31 March 2024
3. Cut-off issues Audit testing identified transactions that were not accounted for in the correct financial year. **Risk:** income and expenditure is recorded in the wrong financial year.	Processes should be reviewed to ensure that transactions are accounted for in the correct financial year.	**Narrative on agreed action** We will review our processes to ensure transactions are included in the correct year. **Responsible officer** Head of Corporate Services **Agreed date** 31 March 2024
4. Disclosure of related party transactions Some register of interest returns did not disclose the nature of the relationship with the organisation. In addition, there was no audit trail of checks conducted to establish related party transactions for disclosure in the accounts. **Risk:** related party disclosures and transactions could be excluded from the disclosure.	Board members and employees should be asked to provide more detail on the nature of their relationships with organisations included in their register of interest returns. The process undertaken to establish the related party transactions for disclosure in the accounts should be documented.	**Narrative on agreed action** In our 23/24 registers of interest we have asked all individuals to detail their relationship with an organisation they are declaring, this will help identify if there is an interest that needs to be declared as a related party. We have a small number of related parties, and these are usually reviewed manually. We can document this process for our 23/24 audit. **Responsible officer** Head of Corporate Services **Agreed date** New ROI to be completed – July 2023

Issue/risk	Recommendation	Agreed management action/timing
		Related party process documented – 31 March 2024
5. Improving the impact of the performance report Our review of the performance report noted areas that required amendment in order to meet the requirements of the FReM. **Risk:** QMS does not effectively communicate its performance to its stakeholders.	QMS should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland's good practice note.	**Narrative on agreed action** We will work with other NDPB AO's to review our report for the 23/24 accounts in order to include all required areas of the FReM. **Responsible officer** Chief Executive **Agreed date** 31 March 2024
6. Openness and transparency Board and Audit and Risk Management Committee minutes are available on QMS' website, however our review of the website found that the most recent Board and Audit and Risk Committee minutes available were for meetings on 24 February 2022 and 9 March 2022 respectively. Minutes are not in date order thus making them more difficult to find. We note that Board meetings are not held in public and meeting dates are not advertised on the QMS website. Agendas and supporting papers are not published. **Risk:** QMS is not open and transparent about its decision-making.	QMS should review its openness and transparency arrangements and ensure that it publishes minutes of Board and Audit and Risk Management Committee meetings timeously on its website.	**Narrative on agreed action** The new QMS website was recently launched in late June, all minutes are up to date to current board and Audit and Risk meetings, and we will add in sections for the other QMS committees additionally to increase our transparency. **Responsible officer** Executive Assistant **Agreed date** Actioned

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. IFRS 16 Leases 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. **Risk:** the 2022/23 financial accounts will be misstated for leases.	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.	**Complete** QMS engaged with its sponsor body the Scottish Government and Audit Scotland for guidance on IFRS 16 disclosures.
b/f 2. Financial sustainability 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 Scotland is forecasting a deficit of £77,000. **Risk:** future reductions in income and increases in costs will increase the budget gap, requiring further use of reserves.	Regular and effective monitoring of the 2022/23 budget will be required to ensure that the financial position remains manageable.	**Complete** Regular budget monitoring reports were considered by the Board throughout 2022/23. The budget was revised in September 2022 to reflect the inflationary impact of the war in Ukraine.

Quality Meat Scotland

2022/23 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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