

# Quality Meat Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Quality Meat Scotland  
February 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	5
Audit fee	6
Responsibilities	6
<b>Audit scope and timing</b>	<b>7</b>
Financial statements	7
Internal audit	8
Audit dimensions	9
Independence and objectivity	10
Quality control	10

# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Quality Meat Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. Quality Meat Scotland receives a material amount of income from a variety of sources. The extent of income means there is an inherent risk that income could be materially misstated.</p>	<p>Sound system of internal control in place.</p> <p>Regular budget monitoring reports.</p> <p>Set rates for the Statutory Red Meat Levy.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). Quality Meat Scotland incurs significant expenditure on other operating costs which require audit coverage.</p>	<p>Sound system of internal control in place.</p> <p>Regular budget monitoring reports.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>

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#### Wider dimension risks

<p><b>4 Financial sustainability</b></p> <p><b>Loss of Income</b></p> <p>Quality Meat Scotland made a deficit of £0.178 million in 2015/16. For 2016/17 they are forecasting a deficit of £0.156 million mainly due to a levy income shortfall of £0.243 million. Further reductions in income could impact on the financial sustainability of the body.</p>	<p>Regular budget monitoring reports.</p> <p>Loss of income is recognised as a risk in the risk register which is updated regularly.</p> <p>Reserves policy is reviewed annually by the Board.</p>	<p>Monitoring of planned income levels</p> <p>Review of risk register.</p>
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## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** 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 officer(s) to confirm factual accuracy.

**5.** We will provide an independent auditor's report to Quality Meat Scotland, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

**6.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. Quality Meat Scotland is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Report including ISA 260 requirements	31st May 2017	6th June 2017
Signed Independent Auditor's Report	31st May 2017	6th June 2017

### Audit fee

7. The agreed audit fee for the 2016/17 audit of Quality Meat Scotland is £10,450. In determining the audit fee we have taken account of the risk exposure of 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 financial statements, with a complete working papers package on 1st May 2017.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

### Responsibilities

#### Audit Committee and Accountable Officer (or equivalent)

9. Audited bodies have 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 successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Risk Management Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of QMS and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how QMS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**14.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Quality Meat Scotland are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.	£64,692
<b>Performance materiality</b> - 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 calculated performance materiality at 50% of planning materiality.	£32,346
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been set at £1,000.	£ 1,000

**16.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration and staff report. Any issue identified will be reported to the Audit and Risk Management Committee.

### Timetable

**17.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Management Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited Quality Meat Scotland's financial statements with complete working papers package	1st May 2017
Latest date for final clearance meeting with Corporate Services Manager	22nd May 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	6th June 2017
Independent auditor's report signed	6th June 2017

### Internal audit

**18.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our audit work we will carry out an assessment of the internal audit function. Internal audit is provided by TIAA Limited.

### Areas of reliance

19. In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work including:

- Corporate Governance

### Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



21. As part of our risk assessment and on-going audit process we consider each of the four audit dimensions to determine whether there is a need to perform targeted audit work. Exhibit 6 highlights the areas we will consider in relation to QMS and, where appropriate, we will report on these in our annual audit report.

## Exhibit 6

### Risk assessment considerations for the audit dimensions

#### Financial sustainability

- use of going concern as basis of accounting
- effectiveness of financial planning in the medium/long term (two to five years) identifying and addressing risks to financial sustainability.

#### Financial management

- whether there are arrangements in place to ensure the effectiveness of internal controls systems
- whether there are comprehensive and current financial regulations and fraud prevention arrangements
- financial capacity and skills

#### Governance and transparency

- governance arrangements are appropriate and operating effectively
- effective scrutiny, challenge and transparency in decision-making
- quality and timeliness of financial and performance reporting.

#### Value for money

- value for money in the use of resources
- clear link between money spent, output and outcomes delivered
- improving outcomes and sufficient focus on improvement.

**22.** In September 2010 the Auditor general published a national report on the Role of Boards. The report highlighted a number of key messages on the role of boards and Audit Scotland will conduct a follow up to this report in 2016/17.

### Independence and objectivity

**23.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**24.** The engagement lead for Quality Meat Scotland is Liz Maconachie, 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

**25.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

**26.** 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**27.** 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

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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