

# Quality Meat Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Quality Meat Scotland  
February 2018

# 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.

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# 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.

2. 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

3. Based on our discussions with staff 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

### 2017/18 Key audit risks

Audit Risk	Source of 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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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>Quality Meat Scotland receives significant income from a number of sources. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</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>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</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>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>4 Financial sustainability</b></p> <p>Quality Meat Scotland has forecast a deficit of £0.166 million in 2017/18. Further reductions in income and increases in cost will increase the budget gap and require further use of reserves.</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>Monitoring of monthly financial reports.</p> <p>Review of risk register.</p>
<p><b>5 Information and cyber security</b></p> <p>Cyber security has become an increasingly important issue given the recent cyber-attacks on public sector bodies. Quality Meat Scotland is in the initial stages of assessing cyber security risks involved and considering the policies and procedures required. Successful cyber-attacks can result in significant disruption, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non-compliance with the GDPR may result in financial penalties to Quality Meat Scotland.</p>	<p>Staff training will be provided on GDPR regulations and new cyber security processes.</p> <p>Current systems will be reviewed and modified to ensure compliance with new regulations.</p>	<p>Monitor and review progress made by Quality Meat Scotland with regard to addressing cyber security.</p> <p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p>

## Reporting arrangements

**4.** 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).

**5.** 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.

**6.** We will provide an independent auditor's report to Quality Meat Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinion on 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 arise during the audit.

**7.** 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 31 July to meet the consolidation timetable.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Management Committee Date
Annual Audit Plan	31 January 2018	7 March 2018
Annual Audit Report	29 May 2018	6 June 2018
Independent Auditor's Report	29 May 2018	6 June 2018

### Audit fee

**8.** The proposed audit fee for the 2017/18 audit of Quality Meat Scotland is £10,610 (prior year £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 30 April 2018.

**9.** 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

**10.** 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.

**11.** 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

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

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within Quality Meat Scotland 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

**14.** 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 Quality Meat Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Quality Meat Scotland 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.

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

- whether they give a true and fair view of the financial position of Quality Meat Scotland and its expenditure and income
- whether they have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2017/18 Financial Reporting Manual (FRoM); and
- whether they have been prepared in accordance with the requirements of the Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers.

## Materiality

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** 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 figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the audited accounts for the year ended 31 March 2017.	£64,450
<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. We have calculated performance materiality at 50% of planning materiality.	£32,225
<b>Reporting threshold (i.e. clearly trivial)</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

Source: Audit Scotland

18. We review and report on other information published with the financial statements including the performance report, accountability report, annual governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit and Risk Management Committee.

### Timetable

19. 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 annual accounts with complete working papers package	30 April 2018
Latest date for final clearance meeting with the Corporate Services Manager or equivalent	25 May 2018
Issue of letter of representation and proposed independent auditor's report	29 May 2018
Agreement of audited unsigned annual accounts	25 May 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	6 June 2018
Independent auditor's report signed	6 June 2018

### Internal audit

20. 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 planning process we carry out an assessment of the internal audit function.

### Reliance on Internal Audit

**21.** During 2017/18, the Board continued to have an outsourced internal audit function provided by TIAA Limited. As in the prior year, we plan to undertake a direct substantive testing approach to the audit of the 2017/18 financial statements. Therefore, we do not require to place formal reliance on the work of internal audit for the audit of the financial statements.

**22.** We will review the internal audits performed during the financial year and presented to the Audit and Risk Management Committee, namely Core Financial Controls and HR Recruitment and Retention reviews using this work to gain an understanding of the Board as relevant for our audit planning and reporting.

### Audit dimensions

**23.** Our audit is based on the Code of Audit Practice which sets out the four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**24.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will comment on Quality Meat Scotland's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability.

### Financial management

**25.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Governance and transparency

**26.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

## Value for money

**27.** Value for money refers to using resources effectively and continually improving services.

**28.** Due to the relative size and scale of the functions delivered by Quality Meat Scotland, we have concluded that the full wider scope of audit is not appropriate. In accordance with paragraph 53 of the Code of Audit Practice, Quality Meat Scotland will be audited under the small body provision in 2017/18. Our work in this area will therefore be restricted to concluding on:

- the appropriateness of the disclosures in the governance statement
- financial sustainability of Quality Meat Scotland and the services that it delivers over the medium to longer term.

## Independence and objectivity

**29.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

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

## Quality control

**31.** 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.

**32.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**33.** 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.

## Adding Value

**34.** Through our audit work we aim to add value to Quality Meat Scotland. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Quality Meat Scotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Quality Meat Scotland

## Annual Audit Plan 2017/18

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