

# **QUALITY MEAT SCOTLAND**

## **ANNUAL REPORT AND ACCOUNTS**

**For the 12 Months to 31 March 2014**

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**Board Report****Introduction**

The accounts have been prepared in accordance with a direction, given by the Scottish Ministers, in accordance with Section 12(5) of the Quality Meat Scotland Act 2008. The direction is reproduced at the end of these accounts.

**Background to Quality Meat Scotland**

Quality Meat Scotland Ltd was formed in 2000 and was a private, non-profit making company limited by guarantee. With effect from 1 April 2003, it received delegated responsibility from Ministers for the exercise of a range of statutory functions, as set out in the Agriculture Act 1967. These functions, aimed at assisting the efficiency and profitability of the Scottish red meat sector, were previously undertaken by the Meat and Livestock Commission.

In 2005, following an independent review of the five GB and UK statutory agriculture and horticulture levy bodies, a decision was taken to retain a separate meat promotion and development body in Scotland. The body would be a Non-Departmental Public Body (NDPB), wholly accountable to Ministers in the Scottish Government. The name of Quality Meat Scotland Ltd was changed to QMS 2000 Ltd and the business and assets of QMS 2000 Ltd were transferred on 1 April 2008 to the NDPB which was named Quality Meat Scotland. QMS 2000 Ltd was subsequently wound up on 4 December 2009.

The registered address of QMS is Rural Centre, West Mains, Ingliston, Newbridge, EH28 8NZ.

**Principal Activities**

The core functions of Quality Meat Scotland (QMS) are to work with the Scottish red meat industry to improve its efficiency, profitability and sustainability and to maximise its contribution to Scotland's economy. This activity is funded largely by a statutory red meat levy, paid by all farmers and processing companies in the Scottish red meat industry. Additional income is received from various public sector grants and from the membership fees, paid by over 10,000 businesses that belong to the voluntary QMS Consumer Assurance Schemes, which set out the standards for the production of beef, lamb and pork in Scotland.

**Relationship with Scottish Government**

QMS is an executive NDPB, operating within the terms of a management statement and financial memorandum agreed with its sponsor department within the Scottish Government.

## Board Members

The Chairman and Board members are appointed by Scottish Ministers in accordance with the code of practice for ministerial appointments to public bodies in Scotland issued by the Commission for Ethical Standards in Public Life in Scotland. The Board has a code of conduct for Board members approved by Scottish Ministers. The Board operates an Audit Committee and a Remuneration Committee to scrutinise activity in these areas and make recommendations to the Board.

Board members who served during the year were:

Jim McLaren (Chairman) (R)  
John Craig  
Ronnie Eunson (R) (A) - appointed 1 April 2013  
Johnny Mackey - resigned 14 November 2013  
Gordon McKen, MBE, TD  
Alan McNaughton (A)  
Robert Parker  
Andrew Peddie (R)  
John Scott  
David Sole, OBE  
Professor Phil Thomas (A)  
Louise Welsh - appointed 1 April 2013

Information on fees earned by Board members can be found in the remuneration report.

R indicates membership of the Remuneration Committee.

A indicates membership of the Audit Committee.

## Pensions

Details of pension contributions can be found in notes 1(c), 4 and 15 of the accounts.

## Independent Auditors

The accounts are audited by PricewaterhouseCoopers LLP, the auditor appointed by the Auditor General for Scotland. Details of auditors' remuneration can be found in note 6 to the accounts.

## Payment Policy

It is QMS's policy to settle all debts within 30 days unless otherwise specified in the contract, and to observe the CBI prompt payment code. On average, QMS settled its debts within 23 days during 2013/14 (2012/13 – 22 days).

## **Equal Opportunities**

QMS is committed to a policy of non-discrimination on any grounds, including race, colour, nationality or ethnic or national origin, religion, gender, sexual orientation, marital status, age, responsibility for dependants, HIV status or disability. This policy applies not only during the course of an individual's employment but also during the selection process, be it the recruitment of external job applicants, the review of internal candidates or in the provision of training and development.

## **Personal Data Incidents**

There have been no incidents relating to the loss of personal data during the year.

## **Sickness Absence**

During 2013/14, a total of 64 days (2012/13 – 15 days) were lost to sickness absence. This equated to 1.5% (2012/13 – 0.4%) of available staff days.

## **Disclosure of Relevant Audit Information**

All reasonable steps have been taken to ensure that all relevant audit information has been disclosed to the auditor and to the best of our knowledge; there is no relevant audit information of which the auditor is unaware.

## **Financial Results**

The results for the year to 31 March 2014 are shown on page 14, together with the notes on pages 18 to 24.

QMS made an operating surplus, before bank interest, of £0.059m for the year to 31 March 2014 (2012/13 - £0.307m deficit).

The operating deficit in 2012/13 consisted of a budgeted operating deficit of £0.18m and a decrease in statutory levy income against budget. The budgeted operating deficit reflected the final year of a 3 year Board approved contribution to an Integrated Measurement of Eating Quality Project (IMEQ) in partnership with Scottish Government. The decrease in statutory levy income (£0.52m against budget mainly due to the closure of Vion/Hall's Broxburn pig abattoir) led to a mid-year review and reprioritisation of spending plans by the Board. It was agreed that expenditure would be reduced to compensate for the shortfall in income and the use of reserves was authorised to support key areas of investment. The drawdown from reserves amounted to £0.11m.

**Income**

During the year, QMS received £4.09m (2012/13 - £4.43m) in statutory red meat levy, £1.41m (2012/13 - £1.40m) in fees from consumer assurance schemes, £1.7m (2012/13 - £1.035m) in grants and £0.05m (2012/13 - £0.05m) in bank interest and other miscellaneous income.

**Statutory Red Meat Levy £4.09m**

	<b>2013/14</b>	<b>2012/13</b>
	<b>£</b>	<b>£</b>
Cattle	2,608,184	2,661,086
Sheep	1,105,659	1,138,736
Pigs	374,735	628,425
	<b><u>4,088,578</u></b>	<b><u>4,428,247</u></b>

**Levy rates for 2013/14**

<b>Species</b>	<b>Paid by Producer per Head</b>	<b>Paid by Slaughterer per Head</b>	<b>Total Levy per Head</b>
Cattle	£4.20	£1.30	£5.50
Calves (up to 68kg)	£0.07	£0.07	£0.14
Sheep	£0.60	£0.20	£0.80
Pigs	£1.02	£0.24	£1.26

**Consumer Assurance Fee Income £1.41m**

From a financial perspective, the Assurance Schemes are designed to be non-profit making. Fees charged to members cover the cost of inspections and the administration of the schemes. The overall purpose of the schemes is to provide consumers with assurances in relation to food safety, animal welfare and environmental protection and to remind farmers and others of the importance of assurance in the marketplace.

**Grant Income**

	<b>2013/14</b>	<b>2012/13</b>
	<b>£</b>	<b>£</b>
Scottish Government	985,477	533,853
EU Quality Programme	705,267	501,568
Others	10,995	0
	<b><u>1,701,739</u></b>	<b><u>1,035,421</u></b>

QMS received twenty grants from the Scottish Government. Four of these grants were received under the Marketing Development Scheme; three of these were used to assist with the continued employment of Market Development Managers in France/Benelux countries, Germany and Nordic countries and the other for the continued development of lamb markets in Italy. Other grants assisted with Industry Development projects including: Monitor Farm projects; the continued facilitation of a Business Network to improve information sharing in the pig meat supply chain; the operation of twenty two Business Improvement Groups for the beef and lamb sectors to facilitate financial and performance bench-marking; a project to develop industry infrastructure for pig health data sharing; a project to improve business competitiveness; a project to assist farmers manage and reduce on-farm infection of Johne's and a project to improve the efficiency of the lamb supply chain through collaboration and communication. The EU programme helped promote consumer awareness of quality schemes for Scotch Beef and Scotch Lamb.

**Expenditure**

Details of expenditure breakdown are shown in the notes to the accounts and in particular notes 3 and 4.

**Other Operating Activity**

Spending on 'Other Operating Activity' includes expenditure on Board, Chief Executive, support staff and central office overheads.

**Uel Morton****Chief Executive and Accountable Officer****Date:** 12.6.14

**Strategic Report**

Quality Meat Scotland's top-line strategy is to "shape a sustainable and prospering Scottish red meat industry" and the organisation's activities during the past year were underpinned by this clear strategic objective.

During the past 12 months QMS's strategic priorities were reviewed by the board with the aim of assisting businesses operating in Scotland's red meat industry to improve their profitability, efficiency and sustainability.

The QMS board is comprised of representatives from different areas of the red meat industry in Scotland who bring a valuable range of skills and expertise to the organisation. The diversity of the board is key to the success of QMS and four new board members - Sarah Mackie, Philip Sleight, Professor Julie Fitzpatrick and George Milne - who were appointed by Scottish Government ministers took up their positions on April 1, 2014.

Specific strategies with clear objectives were established and, in line with the priorities identified by the board, the departmental teams in QMS developed and delivered a range of activities. To ensure these activities meet the differing needs of beef, lamb and pork businesses, regular engagement with the industry takes place.

A key challenge for the industry is the need to increase beef cattle numbers to ensure the critical mass of raw material is available to meet growing market requirements. This was one of the factors behind the QMS board request during the year for a review of the structure and activities of QMS's industry development department.

Accordingly, QMS introduced changes to more sharply focus the work undertaken by its industry development team on grassroots activities aimed at improving efficiency at farm level and the sustainability and confidence of the Scottish red meat industry.

The new structure has not resulted in any increase in staff numbers overall but has seen the creation of two new Knowledge Transfer Specialist roles focused on the uptake of technology by cattle and sheep producers.

The past year has also seen the appointment of a Brands Integrity Manager whose role involves managing and operating QMS's six assurance schemes as well as developing the brands licensing scheme.

QMS's marketing activities are delivering demonstrable benefits to the industry and are carefully tailored to ensure the right approach and tone is adopted to reach target consumers for each brand.

For Scotch Beef PGI and Scotch Lamb PGI the approach is to highlight the mode of production and association with assurance, trust and quality and for Specially Selected Pork a key focus is versatility.

Following the horsemeat issue which emerged in January 2013, the importance of the quality assurance and provenance which underpin our industry's brands shone through. QMS worked hard to ensure the industry benefitted from the increased media and consumer interest in the traceability of meat.

QMS's refreshed export strategy – announced at Anuga in 2011 – is proving successful. This shift in strategy involved focusing on developing opportunities in Germany and the Nordics, along with the existing well-established target markets of France, Italy and Benelux. France remains Scotland's most important export market, accounting for around 48% of trade, followed by the Benelux countries then Italy. There has been some encouraging growth in Sweden and Norway as well as Germany.

There is demand from overseas customers for the very top end of quality products from Scotland and there is also encouraging volume demand from overseas markets for fifth quarter and lower value products which is good news in terms of optimising returns for the whole carcass.

The brands had a strong presence at key international trade fairs such as ANUGA in Cologne, the world's largest food trade fair. Nine Scottish exporters attended the event where QMS's stand highlighted the Protected Geographical Indication (PGI) status of Scotch Beef and Scotch Lamb and the guarantees of quality assurance, provenance and welfare that underpin the brands.

QMS continues to communicate the role of red meat in a healthy diet as part of a healthy lifestyle. The past year saw QMS undertake around 180 demonstrations to Scottish school children.

As well as the development of a range of materials, QMS also runs a successful meat voucher scheme to encourage teachers to purchase red meat for use in home economics and hospitality classes. Applications from schools increased again during the 2013/14 year. QMS's sports linked activities to promote healthy eating included partnerships with Street Soccer Scotland and Champions in Schools as well as a healthy living bursary in partnership with SportScotland

Collaborating with key organisations has continued to be a priority for the organisation. The Scottish Government has reaffirmed its commitment to growing food businesses in Scotland through its Food and Drink Policy and QMS continues to participate with other organisations in Scotland Food and Drink which continues to deliver strongly on behalf of the wider industry.



Our economics services team supplies a broad range of essential industry information to red meat businesses and organisations ranging from our "Enterprise Costings" about farm profitability and "Scottish Red Meat Industry Profile" to weekly market updates on pricing.

Another key area of our activity is securing additional financial support to undertake activities on behalf of the Scottish red meat industry. During the past year the grant income sourced by the organisation topped £1.7 million.

However, levy continued to be eroded during the period by a combination of falling livestock numbers across all three species and sheep and pigs being slaughtered south of the border with the total levy lost amounting to around £1.6 million each year.

As we are funded by an industry statutory levy, robust corporate governance is integral to how we operate. During the past year the board met six times, the Audit Committee met in June, November and March and the Remuneration Committee met in June and January.

During the 2013/14 financial year the 2012/13 external audit, under the direction of Audit Scotland, was satisfactorily completed. Internal audits covering the areas of Nominal Ledger and Budgetary Control, Payroll, and Marketing were also carried out. There is also on-going follow-up on action points resulting from these audits which is regularly reported to, and monitored, by the Audit Committee.

The year 2013/14 has seen another 12 months of strong activity by QMS and the board and staff team is looking forward to rising to the challenge of another demanding workload in the year ahead.

For the small team at QMS, achieving value for money for levy-payers remains at the forefront of every activity undertaken along with the organisation's core values of *Relevance, Integrity, Passion* and *Innovation*.

Each member of the board and staff takes great pride in the part they play in supporting the industry which contributes around £2.1 billion to Scotland's economy and supports 50,000 jobs.



**Uel Morton**  
**Chief Executive and Accountable Officer**

**Date:** 12.6.14

## **Remuneration Report**

### **Remuneration Committee**

The Remuneration Committee is made up of three board members, including the board chairman. During 2013/14 the members were:

Andrew Peddie (Board member and Committee Chairman)

Jim McLaren (Board Chairman)

Ronnie Eunson (Board member)

The purpose of the Committee is to:

- Receive an annual report from the Chairman of the Board on the performance of the Chief Executive and a recommendation on annual salary review;
- Receive an annual report from the Chief Executive on a proposal for review of staff salaries;
- Make recommendations to the Board on the proposed salary review for the Chief Executive and on the proposal for salary review of staff;
- To ensure compliance with Management Statement and Financial Memorandum guidelines on remuneration;
- To oversee the objective setting and appraisal process for staff and the Chief Executive.

### **Remuneration Policy**

In setting salary levels, the Remuneration Committee has regard to the following considerations:

- The need to recruit, retain and motivate suitably qualified people to implement specific strategies and activities in line with the strategy of the organisation;
- Regional or local variations in labour markets and their effect on the recruitment and retention of staff;
- The funds available subject to expenditure limits;
- Other relevant Government policies or targets.

### **Pension Schemes**

QMS operates defined contribution schemes for employees. The assets of the defined contribution schemes are held separately from those of the organisation in independently administered funds.

### **Remuneration**

This section of the Remuneration Report is subject to audit.

The remuneration and pension contributions of the Chief Executive and Board members are set out in the tables below. Remuneration includes gross salary and fees.

	Remuneration 2013/14 £'000	Pension Contribution 2013/14 £'000	Total Remuneration 2013/14 £'000	Remuneration 2012/13 £'000	Pension Contribution 2012/13 £'000	Total Remuneration 2012/13 £'000
Chief Executive	90-95	10-15	100-110	90-95	10-15	100-110

### Board Members' Remuneration and Attendance

The remuneration of the Chairman and Board members is set out below:

	2013/14 £'000	2012/13 £'000	Board meetings attended
Jim McLaren (Chairman)	30-35	30-35	6
John Craig	0-5	0-5	6
Ronnie Eunson	0-5	-	5
Johnny Mackey	0-5	0-5	4
Gordon Mcken, MBE, TD	0-5	0-5	6
Alan McNaughton	0-5	0-5	6
Robert Parker	0-5	0-5	5
Andrew Peddie	0-5	0-5	6
John Scott	0-5	0-5	6
David Sole, OBE	0-5	0-5	3
Professor Phil Thomas	0-5	0-5	4
Louise Welsh	0-5	-	6

QMS does not make any pension payments in respect of the Chairman or any Board member.

*Uel Morton*

**Uel Morton**

**Chief Executive and Accountable Officer**

**Date:** 12.6.14

**Statement of Board's and Accountable Officer's Responsibilities**

Under section 12(4) of the Quality Meat Scotland Order 2008, QMS is required to prepare a statement of accounts for each financial year, in conformity with the direction of the Scottish Ministers.

The statement of accounts is prepared on an accruals basis and must give a true and fair view of the state of affairs of QMS, the income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the Financial Reporting Manual (FRoM) and in particular to:

- observe the accounts direction, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FRoM, have been followed and disclose and explain any material departures in the accounts;
- prepare accounts on a going concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which an Accountable Officer is answerable, for keeping proper records, and for safeguarding assets, are set out in the Public Finance and Accountability (Scotland) Act 2000.

The Board has corporate responsibility for ensuring that QMS fulfils the overall aims set by the Scottish Ministers and for promoting the efficient and effective use of staff and other resources, in accordance with the principles of Best Value.

*Uel Morton*

**Uel Morton**  
**Chief Executive and Accountable Officer**

**Date:** 12.6.14

**Governance Statement****Scope of Responsibility**

As Accountable Officer, I have responsibility for maintaining a sound system of internal control to underpin the achievement of QMS's strategy, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage rather than eliminate risk of failure to achieve specific strategies; it can therefore only provide reasonable and not absolute assurance of effectiveness. No significant weaknesses have been identified.

The system of internal control is based on a continuing process, designed to identify the principal risks to the achievement of QMS's specific strategies, to evaluate the nature and extent of those risks and to manage them effectively and economically. This process was in place throughout the year to 31 March 2014 and up to the date of the approval of the annual report and accounts.

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. The following framework was in place for the year which ended 31 March 2014, covering a range of corporate governance requirements.

**Audit Committee**

The Audit Committee comprises at least three Board members appointed by the Board and has written terms of reference, which are also approved by the Board. The terms of reference outline the make-up, authority and duties of the committee.

**Risk Management/Risk Register**

Responsibility for the risk management process lies with the Board, which is provided with information and guidance by the Audit Committee and the executive team.

With the assistance of an appointed internal auditor, QMS has developed its risk management policy. A risk register is in place, identifying risks and evaluating them for likelihood of occurrence and potential impact. The register is examined regularly by the QMS executive team and reviewed by the Audit Committee and the appointed internal audit consultants; this will continue to be developed in 2014/15.

**Independent Internal Auditor**

The appointed internal auditor carried out a review of selected operating systems, and an on-going programme of work has been agreed with the Audit Committee. The results of reviews are advised to the Audit Committee which reports to the Board.

**Corporate Plan**

QMS publishes an annual rolling three year Corporate Plan, which sets out a review of the industry's operating environment and an overall strategy which is supported by specific strategies. The Corporate Plan includes actions to ensure that QMS complies with best value principles and meets the requirements of the Scottish Government's National Performance Framework.

**Business Plans and Budgets**

Activity plans and an annual budget for 2013/14 were prepared for, and approved by, the Board on 21 February 2013.

**Review of Effectiveness**

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the:

- work of the internal auditor;
- input and feedback from the Audit Committee;
- executive managers within QMS who have responsibility for the development and maintenance of the internal control framework, and
- comments made by the external auditor in management letters and other reports.

Each of these parties is involved in the identification and assessment of areas of operation where review is needed, or is due by virtue of the passage of time since a previous review. Reports are presented to Audit Committee for confirmation that management action in relation to risks identified, has been implemented.

The measures listed above are sufficient to address any weakness identified and to ensure the continuous improvement of the system.



**Uel Morton**  
**Chief Executive and Accountable Officer**

**Date:** 12.6.14

**Quality Meat Scotland****OPERATING COST STATEMENT****For the year ended 31 March 2014**

	<b>Note</b>	<b>2013-14 £</b>	<b>2012-13 £</b>
<b>Income</b>	<b>2</b>		
Statutory red meat levy		4,088,578	4,428,247
Consumer assurance scheme fees		1,414,292	1,403,730
Other income		<u>1,733,299</u>	<u>1,052,011</u>
		<b>7,236,169</b>	<b>6,883,988</b>
<b>Expenditure</b>			
Staff employment and board costs	4	974,591	930,835
Depreciation		9,476	9,903
Other operating costs	3	6,192,748	6,249,866
		<u>7,176,815</u>	<u>7,190,604</u>
<b>Operating surplus / (deficit)</b>		<b>59,354</b>	<b>(306,616)</b>
Finance income	5	17,785	35,627
		<u>17,785</u>	<u>35,627</u>
<b>Surplus / (deficit)</b>		<b><u>77,139</u></b>	<b><u>(270,989)</u></b>

There is no other comprehensive income for the year.

The notes on pages 18 to 24 form part of these financial statements.

## Quality Meat Scotland

### STATEMENT OF FINANCIAL POSITION

**As at 31 March 2014**

	Note	2014 £	2013 £
<b>Non-current assets</b>			
Property, plant and equipment	7	10,139	14,011
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	8	3,179	4,297
Trade receivables and other current assets	9	1,231,515	1,238,539
Deposits and advances	10	700,000	1,000,000
Cash and cash equivalents	11	931,107	746,700
		<hr/>	<hr/>
<b>Total current assets</b>		2,865,801	2,989,536
		<hr/>	<hr/>
<b>Total assets</b>		2,875,940	3,003,547
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade payables and other current liabilities	12	1,565,061	1,769,807
		<hr/>	<hr/>
<b>Total current liabilities</b>		1,565,061	1,769,807
		<hr/>	<hr/>
<b>Assets less liabilities</b>		<u>1,310,879</u>	<u>1,233,740</u>
		<hr/>	<hr/>
<b>Reserves</b>			
General reserve		<u>1,310,879</u>	<u>1,233,740</u>

The financial statements on pages 14 to 24 were approved by the Board Members on 12 June 2014 and signed on its behalf by:

*Uel Morton*

Uel Morton  
Chief Executive and Accountable Officer  
Quality Meat Scotland

Date: 12.6.14

The notes on pages 18 to 24 form part of these financial statements.



# **Quality Meat Scotland**

## **CASH FLOW STATEMENT**

**For the year ended 31 March 2014**

	<b>Note</b>	<b>2013-14</b>	<b>2012-13</b>
		<b>£</b>	<b>£</b>
Cash flows from operating activities	(note a)	(127,773)	(23,247)
Cash flows from investing activities	(note b)	294,395	(5,749)
Cash flows from financing activities	(note c)	17,785	35,627
<b>Increase/(Decrease) in cash in the year</b>		<b><u>184,407</u></b>	<b><u>6,631</u></b>

### **Notes to the Cash Flow Statement**

#### **a) Cash flows from operating activities**

Net operating (deficit)	59,354	(306,616)
Adjustment for non-cash items		
- Depreciation	9,476	9,903
Decrease in Inventories	1,118	1,269
Decrease in trade receivables	7,025	43,283
(Decrease) / increase in trade payables and other current liabilities	(204,746)	228,914

#### **Net Cashflow from operating activities**

<b><u>(127,773)</u></b>	<b><u>(23,247)</u></b>
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#### **b) Cash flows from investing activities**

Purchase of property, plant and equipment	(5,605)	(5,749)
Receipt of cash from UK clearing bank fixed term deposit account	300,000	0
	<b><u>294,395</u></b>	<b><u>(5,749)</u></b>

#### **c) Cash flows from financing activities**

Interest received	17,785	35,627
	<b><u>17,785</u></b>	<b><u>35,627</u></b>

### **Net financing**

QMS has no borrowing or finance lease obligations. Accordingly the net funds of the organisation are equal to its cash balances.

	<b>2013-14</b>	<b>2012-13</b>
	<b>£</b>	<b>£</b>
Net increase/(decrease) in cash and cash equivalents in the year	184,407	6,631
Cash and cash equivalents at beginning of year	746,700	740,069
Cash and cash equivalents at end of year	<b><u>931,107</u></b>	<b><u>746,700</u></b>

## Quality Meat Scotland

### STATEMENT OF CHANGES IN RESERVES

**For the year ended 31 March 2014**

	General Reserve £	Total Reserves £
<b>Balance at 31 March 2012</b>	1,504,729	1,504,729
<b>Changes in taxpayers' equity for 2012-13</b>		
Deficit for the year	<u>(270,989)</u>	<u>(270,989)</u>
<b>Total comprehensive income for 2012-13</b>	(270,989)	(270,989)
<b>Balance at 31 March 2013</b>	1,233,740	1,233,740
<b>Changes in taxpayers' equity for 2013-14</b>		
Surplus for the year	<u>77,139</u>	<u>77,139</u>
<b>Total comprehensive income for 2013-14</b>	77,139	77,139
<b>Balance at 31 March 2014</b>	<u><u>1,310,879</u></u>	<u><u>1,310,879</u></u>

## **Quality Meat Scotland**

### **Notes to the Accounts**

**For the year ended 31 March 2014**

#### **1. Statement of accounting policies**

These financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM), issued by Scottish Ministers. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Quality Meat Scotland, for the purpose of giving a true and fair view, has been selected. The particular policies adopted by Quality Meat Scotland are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

##### **a) Accounting convention**

The financial statements have been prepared on a going concern basis under the historical cost convention modified in a form determined by Scottish Ministers.

##### **b) Assets policy**

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition.

Depreciation is provided on all property, plant and equipment, so as to write them off over their anticipated useful lives at the following annual rates:

Computer Equipment	Written off over 3 years
Furniture, fittings and equipment	Written off over 5 years

All items of capital expenditure greater than £250 are treated as additions to property, plant and equipment.

##### **c) Pension arrangements**

The organisation operates defined contribution schemes for employees. The assets of the defined contribution schemes are held separately from those of the organisation in independently administered funds. The amount charged to the Operating Cost Statement, represents the contributions payable to the schemes in respect of the accounting year.

##### **d) Grants**

Grants of a revenue nature are credited to the Operating Cost Statement in the year in which they accrue.

Grants for the purchase of property, plant and equipment are treated as deferred income and credited to the Operating Cost Statement over the estimated useful life of the relevant assets.

##### **e) Operating leases**

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

##### **f) Foreign currencies**

Transactions in foreign currency are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the Operating Cost Statement.

## **Quality Meat Scotland**

### **Notes to the Accounts**

#### **For the year ended 31 March 2014**

##### **g) General reserve**

The General reserve represents the surplus or deficit on the Operating Cost Statement.

##### **h) Financial instruments**

Financial assets include trade receivables, fixed term cash deposits and cash balances. Financial liabilities consist of trade payables. These are all carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

An impairment review is carried out for all financial assets at the balance sheet date.

##### **i) Credit risk**

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other third parties, as well as credit exposures to QMS's customers. QMS has formal treasury management procedures and invests surplus cash with government supported high street clearing banks, a review of QMS's treasury management policy was under-taken during 2013-14.

QMS now reviews the credit risk associated with financial institutions on a regular basis if market conditions are volatile or other information is made available on the financial security of UK banks and building societies.

##### **j) Liquidity risk**

QMS does not have any external borrowings.

##### **k) Market risk**

Changes in market interest rates influence the interest payable on interest receivable on surplus funds invested. QMS does not rely on interest receivable as its key source of income.

##### **l) Revenue recognition**

Revenue is recognised and included in income when the following conditions are met:

##### **Statutory red meat levy**

Statutory red meat levies consist of two parts: the producer levy and the slaughterer levy. The producer element is collected and held in trust for QMS by slaughterers who pay the levy direct to QMS. Levy is calculated on the number of animals slaughtered and these details are notified to QMS through the completion of regular declarations. Abattoirs inform QMS on a weekly basis of the number of animals which they have slaughtered that were subject to levy. Smaller abattoirs are permitted to submit declarations on a less frequent basis. In all cases the number of animals slaughtered is broken down by category, i.e. pigs, cattle, sheep, calves. Slaughterers are required to pay the levy due within 30 days of the end the month, for animals slaughtered in that month.

## Quality Meat Scotland

### Notes to the Accounts

For the year ended 31 March 2014

#### I) Revenue recognition (continued)

##### Statutory red meat levy (continued)

The value of statutory red meat levies recognised in the accounts of QMS is a combination of actual levy invoices raised for animals slaughtered within the period 1 April to 31 March and an estimate for any declarations not yet received for the same period.

##### Grant income

Government grant income to QMS is for the delivery of specific programmes of work and is recognised in the Operating Cost Statement in the period in which it becomes receivable.

##### Consumer Assurance Scheme Fees

Consumer Assurance Scheme Fees are based on inspection services provided in the year.

	2013-14 £	2012-13 £
<b>2. Income</b>		
Statutory red meat levy	4,088,578	4,428,247
Consumer assurance scheme fees	1,414,292	1,403,730
Grant income	996,471	533,853
Grant income from European Union	705,267	501,568
Other income	31,561	16,590
	<u>7,236,169</u>	<u>6,883,988</u>
<b>3. Operating expenditure</b>		
Marketing and promotion	2,938,978	2,807,884
Consumer assurance scheme costs	1,398,645	1,413,456
Industry development	1,061,959	1,203,830
Communication and economics services	527,830	587,901
Other operating activity	265,336	236,796
	<u>6,192,748</u>	<u>6,249,866</u>

## Quality Meat Scotland

### Notes to the Accounts

For the year ended 31 March 2014

#### 4. Staff employment and board costs

Costs include the following:	<b>2013-14</b>	<b>2012-13</b>
	£	£
<b>Staff</b>		
Salaries	770,222	730,841
National Insurance	80,948	79,811
Pension costs	74,016	70,778
	<hr/>	<hr/>
	925,186	881,430

The average number of persons employed during the year was 19 (2012/13 - 19).

#### Board members

Emoluments for qualifying services	45,776	45,231
National Insurance	3,629	4,174
	<hr/>	<hr/>
	49,405	49,405
	<hr/>	<hr/>
	974,591	930,835

#### 5. Finance income

	<b>2013-14</b>	<b>2012-13</b>
	£	£
Bank interest	<hr/> 17,785	<hr/> 35,627

#### 6. Operating costs

The following have been included in operating costs:

	<b>2013-14</b>	<b>2012-13</b>
	£	£
Depreciation	9,476	9,903
Operating lease payments	39,898	39,827
Auditors' remuneration		
- audit services	<hr/> 10,800	<hr/> 10,800

# Quality Meat Scotland

## Notes to the Accounts

For the year ended 31 March 2014

<b>7. Property, plant and equipment</b>	<b>Computer Equipment £</b>	<b>Furniture, Fittings &amp; Equipment £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 April 2012	41,081	28,112	69,193
Additions	5,749	0	5,749
Disposals	(528)	0	(528)
As at 31 March 2013	<u>46,302</u>	<u>28,112</u>	<u>74,414</u>
As at 1 April 2013	46,302	28,112	74,414
Additions	5,016	589	5,605
Disposals	(5,762)	0	(5,762)
At 31 March 2014	<u>45,556</u>	<u>28,701</u>	<u>74,257</u>
<b>Accumulated depreciation</b>			
At 1 April 2012	23,703	27,325	51,028
Charge	9,513	390	9,903
Disposals	(528)	0	(528)
As at 31 March 2013	<u>32,688</u>	<u>27,715</u>	<u>60,403</u>
As at 1 April 2013	32,688	27,715	60,403
Charge	9,185	292	9,476
Disposals	(5,762)	0	(5,762)
At 31 March 2014	<u>36,111</u>	<u>28,007</u>	<u>64,117</u>
<b>Net Book Value</b>			
At 31 March 2014	<u>9,445</u>	<u>694</u>	<u>10,139</u>
At 31 March 2013	<u>13,614</u>	<u>397</u>	<u>14,011</u>
<b>8. Inventories</b>		<b>2014</b>	<b>2013</b>
		£	£
Consumer assurance scheme signage		<u>3,179</u>	<u>4,297</u>
<b>9. Trade receivables and other current assets</b>		<b>2014</b>	<b>2013</b>
		£	£
Trade receivables		618,857	610,326
Provision for bad and doubtful debt		0	0
Accrued levy		99,466	82,992
VAT recoverable		50,219	76,955
Prepayments and other accrued income		462,974	468,266
		<u>1,231,515</u>	<u>1,238,539</u>

# Quality Meat Scotland

## Notes to the Accounts

For the year ended 31 March 2014

### 10. Deposits and advances

Short term deposits of up to 12 months invested in deposit accounts with 2 UK clearing banks

2014	2013
£	£
<u>700,000</u>	<u>1,000,000</u>

### 11. Cash and cash equivalents

Balance at 1 April  
Net change in cash and cash equivalent balances  
Balance at 31 March

2014	2013
£	£
746,700	740,069
<u>184,407</u>	<u>6,631</u>
<u>931,107</u>	<u>746,700</u>

The following balances at 31 March were held at:

Commercial banks and cash in hand

<u>931,107</u>	<u>746,700</u>
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### 12. Trade payables and other current liabilities

Trade payables  
Accruals and deferred income  
Tax and social security  
Statutory levy processor security deposits

2014	2013
£	£
469,639	489,838
1,039,897	1,226,728
26,178	23,894
29,347	29,347
<u>1,565,061</u>	<u>1,769,807</u>

### 13. Commitments under leases

At 31 March 2014, the organisation had total minimum future payments under non-cancellable operating leases as follows:

	Land and Buildings 2014 £	Other 2014 £	Land and Buildings 2013 £	Other 2013 £
Operating leases which expire:				
Within one year	32,041	7,764	32,041	7,786
In the second to fifth years inclusive	88,112	26,772	120,153	8,133
Over five years	0	0	0	0
	<u>120,153</u>	<u>34,536</u>	<u>152,194</u>	<u>15,919</u>



## **Quality Meat Scotland**

### **Notes to the Accounts**

#### **For the year ended 31 March 2014**

##### **14. Related Party Transactions**

QMS is a Non-Departmental Public Body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. During the year, QMS has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as the parent body.

A number of QMS Board members held senior positions or directorships of red meat processing companies that paid statutory red meat levy to QMS during the year.

Levies were paid by a number of QMS Board members, but these were on an arm's-length basis and the amounts are not considered material.

There are no company directorships or other significant interests that QMS considers may conflict with management responsibilities.

##### **15. Pension Schemes**

The organisation participates in defined contribution pension schemes for certain employees, the assets of which are held separately from those of the organisation in independently administered funds. The pension cost charge represents contributions payable by the organisation to the schemes and amounted to £74,016 (2012/13: £70,778). The contributions outstanding at the year end amounted to £2,956 (2012/13: £6,339).

# Quality Meat Scotland

## STATEMENT OF ACCOUNTS

For the year ended 31 March 2014

	Levy	2013-14 Non Levy	Total	Levy	2012-13 Non Levy	Total
	£	£	£	£	£	£
<b>Income</b>						
Statutory red meat levy	4,088,578	0	4,088,578	4,428,247	0	4,428,247
Consumer assurance scheme fees	0	1,414,292	1,414,292	0	1,403,730	1,403,730
Grant income	0	1,701,738	1,701,738	0	1,035,421	1,035,421
Miscellaneous income	0	31,561	31,561	0	16,590	16,590
Bank interest	0	17,785	17,785	0	35,627	35,627
	<b>4,088,578</b>	<b>3,165,376</b>	<b>7,253,954</b>	<b>4,428,247</b>	<b>2,491,368</b>	<b>6,919,615</b>
<b>Direct expenditure</b>						
Marketing and promotions	1,887,406	1,242,024	3,129,430	2,321,630	668,115	2,989,745
Industry development	807,938	449,330	1,257,268	1,018,264	383,896	1,402,160
Communications and economics services	709,659	40,950	750,609	793,144	0	793,144
Assurance scheme operating costs	0	1,454,438	1,454,438	0	1,459,736	1,459,736
Corporate services	567,285	17,785	585,070	510,192	35,627	545,819
	<b>3,972,288</b>	<b>3,204,527</b>	<b>7,176,815</b>	<b>4,643,230</b>	<b>2,547,374</b>	<b>7,190,604</b>
<b>Surplus / (deficit) on ordinary activities</b>	<b>116,290</b>	<b>(39,151)</b>	<b>77,139</b>	<b>(214,983)</b>	<b>(56,006)</b>	<b>(270,989)</b>

## **Independent auditor's report to the members of Quality Meat Scotland, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of Quality Meat Scotland for the year ended 31 March 2014 under The Quality Meat Scotland Order 2008. The financial statements comprise the Operating Cost Statement, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (the 2013/14 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with The Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM; and
- have been prepared in accordance with the requirements of The Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers.

### **Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In our opinion:


- the part of the Remuneration Report to be audited has been properly prepared in accordance with the The Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers; and
- the information given in the Strategic Report and Board Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.



Martin Pitt, Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP

141 Bothwell Street, Glasgow G2 7EQ

12 June 2014



## **QUALITY MEAT SCOTLAND**

### **DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in pursuance of section 12(5) of The Quality Meat Scotland Order 2008, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2009, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRoM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. In respect of section 12(4)b a copy of the statement of accounts should be sent to Scottish Ministers and the Auditor General for Scotland by *31 July* following the financial year ended 31 March. The accounts will be subject to audit by auditors appointed by the Auditor General for Scotland. The Annual Report and audited statement of accounts should be laid before the Scottish Parliament by *30 September* following the financial year ended 31 March.
5. This direction shall be reproduced as an appendix to the statement of accounts.

**(David Thomson, Deputy Director, Rural Directorate Food and Drink Industry Division)**

Signed by the authority of the Scottish Ministers

Dated: 30 June 2009