

QUALITY MEAT SCOTLAND
ANNUAL REPORT AND ACCOUNTS
For the 12 Months to 31 March 2020

CONTENTS

PERFORMANCE REPORT	PAGE
1. Purpose	1
2. Overview	4
3. Performance Analysis	9
 THE ACCOUNTABILITY REPORT	
1. Corporate Governance Report	12
2. Remuneration and Staff Report	21
3. Independent auditor's report to the members of Quality Meat Scotland, the Auditor General for Scotland and the Scottish Parliament	25
 STATEMENT OF ACCOUNTS	29
ACCOUNTS DIRECTION	41

PERFORMANCE REPORT

1.0 PURPOSE

Welcome to Quality Meat Scotland's (QMS) annual report and accounts for 2019/20. QMS are the Non-Departmental Public Body of the Scottish Government responsible for the collection of the statutory red meat levy. This is collected at point of slaughter and is paid on average 77% by farmers and 23% by processors (abattoirs).

The Scottish red meat sector has been under major pressure due to several external factors, including:

- on-going trend of reduction in meat consumption, activism by the anti-red meat lobby in relation to animal welfare, human health and environmental impact.

As a result of this the Board of Quality Meat Scotland have set out their ambition, strategy and implementation plans to rise to these challenges. However, by the end of this current financial year we have had to respond to the world health pandemic COVID-19 and this has meant that we have had to change strategy to assist the red meat supply chain to continue to remain open for business.

FIGURE 1 –QMS AMBITION

To be recognised and valued as the **Leadership Organisation** for the **Red Meat Sector** by **Industry** and **Government** in **Scotland**.

To achieve **Supply Chain Profitability** we will work collaboratively with government, farmers, processors, research, and learning providers to build supply chain **Efficiency**, **Brand Integrity** and **Consumer Confidence**.



The red meat supply chain is very complex with 10,000 livestock farmers, 26 processors (abattoirs) who produce more than 1,500 products from one carcase and need to find a market for every one of them. On average 15% of red meat is sold into food service, 65% retail (independent butchers, the large retailers and discounters) and 20% exported mostly to Europe.

The red meat levy collected is used in several ways including: -

- To promote red meat products in local, national and international markets.
- To protect the reputation of the industry from anti-red meat activist organisations.

- To develop the industry through the provision of continuing professional development to farmers and other parts of the supply chain.
- To support the industry through the provision of high-quality fact-based information and through our whole of life, whole of supply chain Quality Assurance programmes.

FIGURE 2 – QMS STRATEGY

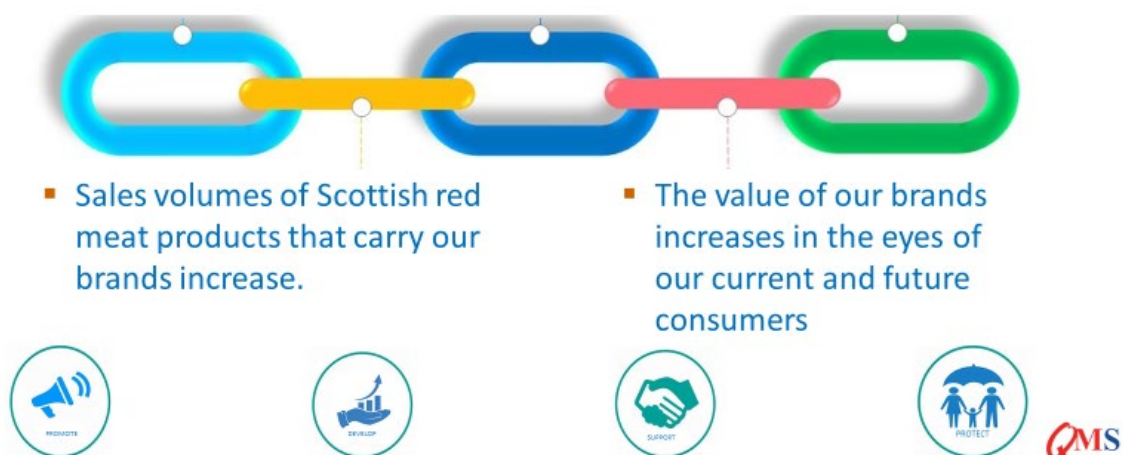
To **develop**, **support**, **promote** and **protect** a profitable and sustainable Scottish red meat industry.



This is a long-term strategy for QMS and we have developed annual implementation plans that support the delivery of this strategy and we have also identified what success would look like for both QMS and the Scottish red meat sector.

FIGURE 3 –WHAT DOES SUCCESS LOOK LIKE FOR QMS?

- A Scottish Red Meat Industry Supply Chain That Is Confident About Investing In Its Future
- Producers And Processors Benefit With Equitable Returns Throughout The Supply Chain



Success for Quality Meat Scottish is a red meat industry that produces viable returns for the supply chain. Red meat is often used by large retailers as a loss leader for retailers meaning that the price at the processor can be tight which in turn squeezes margins for farmers. Failure to address this will lead to farmers leaving livestock farming and meaning that Scotland and the UK will become more dependent on imports.

In addition to our success factors we have also identified several cross-cutting themes

FIGURE 3 –WHAT DOES SUCCESS LOOK LIKE FOR QMS?



Our cross-cutting themes are the internal processes that we have taken into consideration when developing this new ambition and strategy.

This strategy is aligned with the Scottish Government's economic strategy of increasing sustainable economic growth and the next phase of Scotland's National Food and Drink Policy - Becoming a Good Food Nation as well as Scotland Food & Drink's "Ambition 2030" vision.

The impact of COVID-19 has meant that we have had to focus all efforts on keeping the Scottish red meat supply chain open which means that we have had to refocus all of our implementation plans to deal with short term issues. The lockdown led to panic buying and empty supermarket shelves across the country and as time has moved on consumers have moved from stocking up to topping up. This seismic shift in consumer behaviour the equivalent of supermarkets having 5 consecutive busiest days of the year in a row. The closure of food service markets and the substantial restrictions on exports meant that more than 20% of the red meat market closed overnight.

This led to major changes both for QMS and for the Scottish red meat sector, we had to ensure that all staff safely started working from home and were involved with industry partners to ensure that the Scottish red meat supply chain could continue to operate. This included assisting to keep auction marts open, ensuring employees within the sector were designated as key workers, assisting with the

extension of livestock hauliers' hours, assisting with the introduction of social distancing measures in processors, realigning our marketing campaigns to promote higher value cuts including steaks and roasts and working in partnership with the Agriculture, Horticulture, Development Board (AHDB) and Meat Promotion Wales (HCC) to develop our marketing campaigns across England, Scotland and Wales.

I am pleased to report that we are in a strong position to continue this important work. With our strong track record of effective delivery and the resilience to continue to support the sector, we are able to react quickly to challenges and opportunities as they arise.

2.0 OVERVIEW

2.1 BACKGROUND TO QUALITY MEAT SCOTLAND

Quality Meat Scotland Ltd was formed in 2000 and was a private, not for profit 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.

2.2 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 Quality Assurance Schemes, which set out the standards to produce beef, lamb and pork in Scotland.

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 Order 2008. The direction is reproduced at the end of these accounts.

2.3 FINANCIAL RESULTS

The results for the year to 31 March 2020 are shown on page 29, together with the notes on pages 33 to 39. QMS made an operating deficit, before bank interest, of £123K for the year to 31 March 2020 (2018/19 - £36K deficit).

In February 2019 the Board approved a budgeted deficit for the 2019/20 year of £250k. The budgeted deficit was planned to ensure that we could meet our strategic objectives considering the forecasted decrease in levy income and the unknown impact that a potential hard EU exit could have on the industry. This was achieved utilising Balance Sheet reserves in line with the agreed Reserves policy. The resultant 2019/20 deficit of £107k was less than budget due in part to areas of planned activity being funded through the repatriation of levy, ring-fenced fund.

2.4 STRATEGIC REPORT

During the 2019/20 year key agreed activities were undertaken, in line with Quality Meat Scotland's strategic aims to support, protect, promote and develop Scotland's red meat industry and the businesses which operate within plus helping improve profitability, efficiency and sustainability.

Specific strategies with clear objectives were established and, in line with the priorities identified by the QMS Board, the departmental teams in QMS developed and delivered a range of activities, detailed in a comprehensive implementation plan, to meet these objectives.

The diversity of the QMS Board is key to the success of the organisation. Board members are involved in different parts of the red meat industry in Scotland, with each board member bringing different skills and expertise to the organisation.

During the 2019/20 year there were several changes to key staff one including the recruitment of our new Director of Marketing and Communications, Lesley Cameron. We also promoted two key staff to Directors, Tom Gibson and Sarah Miller.

Collaboration is at the heart of the way QMS operates and the organisation works closely with the industry and liaises regularly with representatives of the different sectors to ensure our activities meet the needs of beef, lamb and pork businesses.

2019/20 QMS delivered its first ever industry conference 'Meat the Future' with 430 industry partners in attendance. The conference was well received and it was agreed to repeat every 2 years.

QMS is annually missing out on around £1.5 million of levy income which is collected out with Scotland as a result of Scottish livestock being slaughtered in England or Wales. In late 2015 the three GB red meat levy boards submitted a briefing document to Ministers in England, Scotland and Wales outlining an alternative option for the distribution of red meat levy income.

During the 2019/20 year three strong, highly-targeted marketing and public relations campaigns were delivered behind the Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork brands. This work

was very substantially supported by Scottish Government funding of £200,000 for Scotch Lamb promotion and £125,000 for Specially Selected Pork promotion.

Three brand new, fully-aligned marketing and PR campaigns, featuring brand new creatives were developed – Scotch Lamb Naturally; Go Places with Pork and Know Your Beef. The campaigns included TV, radio, billboard, print, digital and social media. Scotch Beef was also announced as the official Healthy Eating Partner of Scottish Rugby with a range of activity delivered behind that to communicate the nutritional value of beef, lamb and pork. This will include activation in Japan, an exciting future market for the Scottish industry, during the Rugby World Cup 2019.

QMS continues to communicate the importance of a healthy diet and the role of red meat in achieving that. As well as undertaking demonstrations to school children throughout the year, QMS also continued its successful meat voucher scheme to encourage teachers to purchase red meat for use in home economics and hospitality classes.

Export markets remain key in terms of optimising returns for the entire carcass. While there is demand from overseas customers for the very top end of quality products from Scotland there is also encouraging volume demand from overseas markets for fifth quarter and lower value products.

QMS's export strategy has been developed in tandem with Scottish Development International and through working in partnership with AHDB and HCC utilising funding from the ring-fenced funds. Trade shows were attended included: - SIAL Paris, SIRHA Lyon, Speciality and Fine Food Asia Singapore, Foodex Tokyo and SIAL Canada. Inward missions from Japan, Canada and outward missions in partnership with Seafood Scotland to Singapore and Hong Kong.

Scottish exporters attended these events with 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 these brands.

A range of excellent industry development work was also undertaken. The focus of these activities is very much on "farmer-to-farmer" communication of ideas and opportunities to improve efficiency and profitability and reduce waste. This work includes the network of nine monitor farms established by QMS, working in partnership with AHDB Cereals & Oilseeds, as part of a major project funded by the Scottish Government. A pig monitor farm is also in place, funded jointly by QMS and Opportunity North East (ONE).

The red meat industry contributes around £2 billion to Scotland's economy annually and despite concerns about challenges, such as the uncertainty about the impact of Brexit and reduced support payments for farmers, there remain many reasons to be positive about the future of the Scottish red meat industry.

At the end of 2019/20 financial year, the world was hit with a health pandemic 'Coronavirus' which put the UK into lockdown and saw our export markets close overnight plus panic buying from UK shoppers to fill their cupboards and freezers with food. The economic impact at the present time is

not fully known, however coming out of the virus will see the UK heading into recession plus our departure from the EU.

The initial period of Coronavirus saw the small team at QMS work with its key stakeholders to keep the red meat supply chain open, it also saw the launch of a new integrated Scottish and National campaign driven by QMS, 'Make It'. The objective was to support carcass balance and drive sales of higher cuts of beef, lamb and pork. The campaign provided consumers with red meat recipe inspiration through media including TV, PR, Digital, Social and instore POS.

The team is already working on its recovery strategy as we know consumer concern will focus on health and finance. We will communicate the value in monetary terms of red meat (cook once, eat twice, batch cooking), plus build upon the positive feel good factor and recollection that our farmers helped feed the nation during a crisis. Health benefits, sustainability ethics, Local supply will underpin the richness of the Scotch and Specially Selected Pork brands communication plan. Digital will play a strong part in delivering our strategy.

2.5 PERFORMANCE MEASURES

As a small NDPB, the executive team, in partnership with the Board of QMS, develops its strategy and annual plan of key performance measures. These are developed for each department within QMS and monthly review meetings occur with the Chief Executive to review actual performance against plan.

An overall summary of actual performance using a Key Performance Measure tracker goes to each Board meeting. Progress against each performance measure is recorded using a BRAG tracking system and comments are recorded on each measure where planned target is not achieved. These comments may include corrective action to mitigate any potential under performance highlighting the associated risks and issues. Alternatively, where measures contained within the plan are no longer seen as relevant narrative is placed in the Key Performance Measure tracker.

As a small NDPB we utilise a number of financial and non-financial performance tools to develop and manage the performance of QMS.

Our business plan and implementation plan details all the key activities that we aim to achieve with the financial year. To produce this, we conduct a Situation Analysis of the Scottish Red Meat Sector and a review of our past performance. This situation analysis and review is then analysed in terms of the Scottish Government National Performance Framework and we integrate other major stakeholder strategies into this. Our overall strategy is then developed and includes: -

- Our Mission
- Our Vision
- Strategic Aims
- Strategic Objectives to Meet Each Aim
- Implementation Plans per Strategic Objective including Time Scale and Resources both financial and physically required
- Our Key Delivery Partners

- Overall Budget

We also have a series of procedures and processes in place to manage our employee performance, utilisation of resources, procurement processes and financial management. We are subject to both internal and external audit and have review and corrective action processes in place to ensure there is continuous improvement.

As part of our operational performance we develop and measure our performance against the Programme for Government Themes and produce statements on Information & Communications Technology, Climate Change Duties, Equality and develop and manage our risk register to ensure that the red meat industry and QMS have mitigation plans in place.

The Board and executive team are involved in ensuring that our performance is reviewed and that the linkages to each of the tools used provide a comprehensive overview of operational performance. For the 2019/20 year QMS activities were undertaken under the overall strategy of working “to shape a sustainable and prospering Scottish red meat industry” and four strategic aims which were agreed by the Board.

Underpinning these was an implementation plan of activities for the separate departments at QMS through which the work of the organisation is delivered. These objectives were further supported by a list of activities and performance measures which are specified in a detailed management plan.

The activities and their performance measures are reviewed at Board meetings using a red/amber/green status system. At the end of the year the completed plan is reviewed and the achievement of the performance measure by strategic objectives is shown below.

STRATEGIC AIM	B	R	A	G	GRAND TOTAL
1.0 To build the Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork brands through quality assurance and effective marketing and communications with consumers	2	2	7	41	52
2.0 To support the sustainable growth of the industry through strategic engagement with key stakeholders, supply chain collaboration and cascade of key market information		4	3	24	31
3.0 To develop capability and capacity in the Scottish red meat industry through training and education initiatives which attract, motivate and develop the workforce			1	4	5
4.0 To deliver professional services which support the continued growth of a resilient, professional Scottish red meat industry able to grasp opportunities and meet challenges	2		4	10	16

GRAND TOTAL**4****6****15****79****104****3.0 PERFORMANCE ANALYSIS****INCOME**

During the year, QMS received £3.98m (2018/19 - £3.88m) in statutory red meat levy. Levy income contributes towards covering the cost of working with the Scottish red meat industry to improve its efficiency, profitability and sustainability. Consumer assurance scheme fee income of £1.57m (2018/19 - £1.56m) is charged on a cost recovery basis and is used to cover the cost of assurance audits, which were outsourced to Lloyds Register as well as the management and administration of the various assurance schemes. Other income received includes £0.59m (2018/19 - £0.87m) in grants and £0.26m (2018/19 - £0.139m) in repatriated ring-fenced funds, bank interest and other miscellaneous income.

STATUTORY RED MEAT LEVY £3.977M

	2019-20	2018-19
Cattle	£2,493,732	£2,519,264
Sheep	£1,019,132	£ 925,204
Pigs	£ 463,830	£ 432,373
TOTAL	£3,976,694	£3,876,841

LEVY RATES FOR 2019/20

SPECIES	PAID BY PRODUCER PER HEAD	PAID BY SLAUGHTERER PER HEAD	TOTAL LEVY PER HEAD
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

QUALITY ASSURANCE SCHEME FEE INCOME £1.574M

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

	2019-20	2018-19
Scottish Government	£569,656	£853,376
Others	£15,888	£16,348

TOTAL	£585,544	£869,724
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QMS received three grants from the Scottish Government. Two grants from the Scottish Government's Knowledge Transfer and Innovation Fund (KTIF) fund the Monitor Farm Programme which is managed jointly by QMS and AHDB Cereals and Oilseeds and the DNA Project. The other grant from Scottish Government were used to fund a marketing campaign Scotch Lamb PGI. 'Other' grant income includes an Opportunity North East (ONE) grant which contributes to the costs of the North East Pig Business network, including the Pig Monitor Farm. Both KTIF and ONE projects focus on the sharing of best practice to improve the productivity, profitability and sustainability of Scottish farmers.

RING-FENCED FUND INCOME & LEVY REPATRIATION

QMS is annually missing out on around £1.5 million of levy income which is collected out with Scotland as a result of Scottish livestock being slaughtered in England or Wales. In late 2015 the three GB red meat levy boards submitted a briefing document to Ministers in England, Scotland and Wales outlining an alternative option for the distribution of red meat levy income. This has been further up-dated and agreed by the 3 levy boards and submitted to each of the relevant Government departments in England, Scotland and Wales. A long-term solution to the repatriation of levy requires 4 key actions, firstly a change in legislation to allow levy boards to distribute levy collected in one jurisdiction to be paid to a levy board in another jurisdiction, secondly, a scheme of operation detailing the mechanism for collecting and distributing levy between the 3 levy boards, thirdly a consultation between the 3 Governments to ensure that the revised legislation and the scheme of operation are fit for purpose and lastly to agree an implementation date. The required legislation change is on the current UK Agriculture Bill which is currently at 3rd reading in Parliament, the scheme of operation has been agreed by the 3 levy Boards and submitted to the 3 relevant UK and Devolved Parliaments. Therefore, hopefully once the necessary legislation is passed, we can then implement action 3 and 4.

Until the above happens an interim solution is in place this is called the Ring Fenced and during this financial year a fund of £2M of AHDB levy income has been ring fenced and is to be used for the benefit of levy payers in England, Scotland and Wales. The £2M spend is detailed in AHDB's accounts however QMS have received some of this ring fenced money in cash to cover direct costs in relation to activities undertaken by the 3 levy Boards that were funded from the Ring-Fenced Fund. The following table shows a break down of the income received from the Ring-Fenced Fund.

ACTIVITY	2019-20	2018-19
Re-imburement for QMS Export Activity costs	£106,579	£109,604
Contribution to QMS staff Costs	£115,000	£0
TOTAL	£221,579	£109,604

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.

PENSIONS

Details of pension contributions can be found in notes 1(c), 4 and 15 of 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 27 days during 2019/20 (2018/19 – 27 days).

Signature: 
Alan Clarke (Jun 4, 2020 14:44 GMT+1)

Email: aclarke@qmscotland.co.uk

Alan Clarke

Chief Executive and Accountable Officer

Date: Jun 4, 2020

THE ACCOUNTABILITY REPORT

1. CORPORATE GOVERNANCE REPORT

BOARD REPORT

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.

The Chair 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 and Risk Management 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:

Kate Rowell (Chair) (R)	Andy McGowan
Julie Fitzpatrick (R)	Charles Milne Appointed 01/04/2019
Jock Gibson	George Milne (A) (R)
Scott Henderson	Philip Sleight
Ann Irvine (A)	Gordon Wallace appointed 01/04/2019
Sarah Mackie	Louise Welsh (A)

Please note:-

R indicates membership of the Remuneration Committee.

A indicates membership of the Audit and Risk Management Committee.

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

Chief Executive Alan Clarke

PERSONAL DATA INCIDENTS

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

CHARITABLE DONATIONS

A charitable donation of £6.1k was made to the Scottish SPCA. This donation was made from funds collected from sales of merchandise at the Royal Highland Show.

INDEPENDENT AUDITORS

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

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.

The composition of the Board of QMS is disclosed on page 12. Details of the Accountable Officer, who is the Chief Executive of QMS, are reported on page 20.

In preparing the accounts, the Accountable Officer is required to comply with the Financial Reporting Manual (FReM) 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 FReM, 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.

As Accountable Officer, I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

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.

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 2020 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 2020, covering a range of corporate governance requirements.

THE GOVERNANCE FRAMEWORK

QMS's governance framework is clearly defined within the context of the Framework Document which specifically addresses:

- The functions, duties and powers of QMS;
- Aims, objectives and targets;
- The responsibilities of the chair, the board and the chief executive;
- Planning, budgeting and control;
- External accountability;
- Staff management;
- Reviewing QMS's role; and
- Key financial and operating procedures.

The governance framework is further supported by the QMS Scheme of Delegation, Board Standing Orders and Board Code of Conduct.

The QMS board, including the chair, consists of 12 members appointed by Scottish Ministers in line with the Code of Practice issued by the Commissioner for Public Appointments in Scotland. The Board has corporate responsibility for ensuring that QMS fulfils the aims and objectives set by the Scottish Ministers and for promoting the efficient and effective use of staff and other resources by QMS in

accordance with the principles of Best Value. The Board met 6 times face to face and due to COVID-19 had an additional Board meeting by video conferencing to address the challenges that were arising.

The Board in pursuit of its wider corporate responsibilities, shall:

- establish the overall strategic direction of QMS within the needs of the industry and the policy, planning and resources framework determined by the Scottish Ministers;
- ensure that Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of QMS or on the attainability of its targets and determine the steps needed to deal with such changes.

The Chair is appointed by Scottish Ministers in line with the Code of Practice issued by the Commissioner for Public Appointments in Scotland. The chair is accountable to the Scottish Ministers and may also be held to account by the Scottish Parliament. Communications between the NDPB board and the Scottish Ministers should normally be through the chair. The Chair has a particular leadership responsibility in formulating the Board's strategy;

The Chief Executive of QMS is designated as Accountable Officer by the Principal Accountable Officer of the Scottish Administration in accordance with Sections 14 and 15 of the Public Finance and Accountability (Scotland) Act 2000.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management 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. The Audit and Risk Management Committee met 3 times in the 2019/20 year. The minutes of the Audit and Risk Management Committee can be found on the QMS website:

www.qmscotland.co.uk/search/site/audit%2520meeting

RISK MANAGEMENT/RISK REGISTER

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

With the assistance of an appointed internal auditor, QMS has developed its risk management policy. We have worked to update our risk register to ensure that the Board is aware of the key issues that we are facing at any point in time. The register is examined regularly by the QMS executive team and reviewed by the Audit and Risk Management Committee and the appointed internal audit consultants; this will continue to be developed in 2020/21.

The Board acknowledges the potential risks to the Scottish red meat industry from COVID-19 and a plan is currently being developed to show our Response, how we assist to Re-Set and Re-Set the

sector, and how we support a planned Recovery. We are also aware of the potential risks to the sector whenever the UK formally leaves the EU during this financial year.

Risk or Uncertainty Trend	Description	Risk Appetite	Key Mitigations
World Wide Pandemic	COVID-19 has provided significant turbulence in the Scottish Red Meat Sector	QMS will continue working to ensure that the Scottish red meat supply chain operates as normally as possible	A detailed plan covering 4 key stages of Response, Re-Set, Restart and Recover has been developed for each part of the red meat supply chain and for QMS as an organisation
<p>In March 2020 the COVID-19 pandemic reached the UK and the country was put into lockdown. This had an immediate impact on the sector with the food service market closed overnight, auction marts and processors unable to operate as normal due to social distancing measures and a seismic shift in consumer behaviour meaning that supermarket shelves were empty for days and in some cases weeks. This turbulence also provided opportunities for butchers and catering butchers to realign their business model and move to click and collect and direct to consumer. This has given many challenges but looking forward this has tested the resilience of the Scottish red meat sector and our recovery plan will assist to enhance the sectors resilience to cope with future crises.</p>			

Risk or Uncertainty Trend	Description	Risk Appetite	Key Mitigations
Brexit	Impact of WTO rules if UK leaves the EU without a trade deal in place.	This could be particularly difficult for the sheep sector. QMS are committed to maintaining and building our sheep meat markets.	<p>In partnership with AHDB and HCC we have development a significant marketing campaign to assist to protect the lamb sector.</p> <p>Engaging with UKCEP to get more Scottish abattoirs licensed to export.</p> <p>Working with the Scottish and UK Governments to develop contingency plans</p>

The potential closure of the European market, even on a temporary basis will give the sector major challenges. Looking forward we have developed contingency plans should this happen as there could be a major animal welfare issue for the sheep sector.			
International trade negotiations and currency fluctuations	Concern over access to international markets in future trade deals	QMS are committed to assisting processors to build on existing markets and develop new high quality and fifth quarter markets.	<p>Maintain close contact with processors to share knowledge.</p> <p>Promote political and industry awareness of impact.</p> <p>Working in partnership with AHDB, HCC to exhibit at international trade shows to promote our world class brands and UKECP to develop the capability and capacity of processors to export.</p>
COVID-19 has led to almost all international trade shows being cancelled this year. Looking forward in partnership with AHDB and HCC we are developing a calendar of trade shows, developing a new QMS trade show stand and identifying a series of inward missions to reinvigorate our export activities.			

Risk or Uncertainty Trend	Description	Risk Appetite	Key Mitigations
Loss of income	Trend of reduction in cattle numbers in Scotland is leading to a 2-3% reduction in cattle levy annually.	QMS committed to reversing this trend.	Working across the red meat supply chain to identify how to increase sales and reduce costs meaning more profitability across the supply chain.
There is significant investment going on in the processing sector which will increase the processing capacity. Looking forward, this means that more animals from outside of Scotland could be processed here. This is a dichotomy for us as we would collect the processor part of the levy on them, but they wouldn't be eligible to carry the Scotch brands.			

Reduction in industry skill levels	This is an issue right across the red meat supply chain	QMS committed to addressing the skills gap in collaboration with Scotland, Food & Drink Skills Development Scotland and learning providers.	Our Industry Development team have refocused their activities and are concentrating on business improvement and widening the understanding of how the supply chain works through our Meat the Market work. We work closely with industry partners including LANTRA and FDFS to promote industry careers.
The lack of skilled labour is a sector wide issue and with the reduction in European and other foreign workers seeking jobs this is a major issue. Looking forward we have identified key roles that have been included in the skills shortage list to enable foreign workers to take up jobs and through our industry development work we are committed to continuous professional development across the sector.			
Anti-Red Meat Agenda	Media coverage often based on world wide statistics rather than Scottish data.	QMS Communications department committed to proactively promoting our practices and defending our industry.	QMS working with our key stakeholders to develop and agree key messages that can be used in consumer communications for each of our 3 key challenge areas:- Human Health, Animal Welfare and Sustainability including Climate Change.
Looking forward we aim to use the current lessons learned from COVID-19 in our sustainability and climate change messaging.			

FRAUD RISK MANAGEMENT

QMS policies relating to fraud, corruption and bribery are set out in the Staff Handbook. These policies detail the steps taken to manage risk and how to respond to fraudulent or corrupt activity if it is suspected or discovered. Processes are in place to ensure that policies for counter-fraud are consistent with Scottish Government guidance, including a review of current counter-fraud activity. Robust reporting procedures have been adopted by QMS and an Audit and Risk Management Committee is in place to oversee and manage any issues that arise.

There is also a whistle-blower's procedure set out in the Staff Handbook and a member of the Board is appointed so as to be directly available to whistle-blowers

REGISTER OF INTERESTS

Quality Meat Scotland maintains Registers of Interests that cover all senior managers and Board Members. These can be found on our website:

Board - www.qmscotland.co.uk/qms-board-register-interests-2020-2021

Executive Team - www.qmscotland.co.uk/qms-executive-team-register-interests-2020-2021

SUSTAINABILITY

In recognition of its responsibilities under the Climate Change (Scotland) Act 2009 QMS takes appropriate steps to mitigate, adapt and act in a sustainable manner.

In its work with stakeholders to improve business sustainability, QMS continues to promote awareness of mitigation and adaptation strategies and the adoption of best practice to secure carbon reducing production efficiencies across the supply chain.

PEOPLE

QMS is committed to ensuring that all staff, volunteers, students and customers are treated equally irrespective of their sex, marital status, age, race, ethnic origin, sexual orientation, disability, religion or social background, any pregnancy or maternity, gender reassignment, or marriage / civil partnership status in accordance with the Equalities Act 2010.

We have also introduced several HR procedures and processes including an annual training plan to ensure that we are meeting the needs of our industry and our people.

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 and Risk Management Committee. The results of reviews are advised to the Audit and Risk Management Committee which reports to the Board.

CORPORATE PLAN

QMS publishes an annual rolling five 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

The COVID-19 pandemic has meant that all of our future plans that we had developed have been put on hold and interim emergency plans have been developed which include urgent remedial actions as well as some business as usual actions. At our Board meeting on the 30th April 2020 the Board signed off this budget and agreed our interim plans.

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 and risk management 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 and Risk Management 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.

Signature: 
Alan Clarke (Jun 4, 2020 14:44 GMT+1)

Email: aclarke@qmScotland.co.uk

Alan Clarke
Chief Executive and Accountable Officer

Date: Jun 4, 2020

2. REMUNERATION AND STAFF REPORT

REMUNERATION COMMITTEE

The Remuneration Committee is made up of three board members, including the board Chair. The Remuneration Committee met 3 times during the 2019/20 year. During 2019/20 the members were:

Julie Fitzpatrick (Board Member) appointed 01/04/2019

George Milne (Board member and Committee Chair)

Kate Rowell (Board Chair)

The purpose of the Committee is to:

- Receive an annual report from the Chair 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.

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.

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.

	2019-2020				2018-2019			
	Salary £'000	Benefit £100	Pension £'000	Total £'000	Salary £'000	Benefit £100	Pension £'000	Total £'000
Chief Executive	90-95	-	35-40	125-130	90-95	-	25-30	120-125

* QMS contributes directly to a private pension scheme on behalf of the Chief Executive who is not part of a Government pension scheme arrangement.

BOARD MEMBERS' REMUNERATION AND ATTENDANCE

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

BOARD MEMBER	2019/20 £'000	2018/19 £'000	BOARD MEETINGS ATTENDED
Kate Rowell (Chair)	45-50	30-35	6
Julie Fitzpatrick	0-5	0-5	2
Jock Gibson	0-5	0-5	6
Scott Henderson	0-5	0-5	6
Ann Irvine	0-5	0-5	6
Sarah Mackie	0-5	0-5	5
Andy McGowan	0-5	0-5	6
Charles Milne	0-5	N/A	5
George Milne	0-5	0-5	6
Philip Sleigh	0-5	0-5	5
Gordon Wallace	0-5	N/A	6
Louise Welsh	0-5	0-5	5

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

COMPENSATION AND EXIT PACKAGES AGREED IN THE YEAR TO 31 MARCH 2020 (Audited)

	2019/20	2018/19
< £10,000	0	0
£10,000 - £25,000	1	0
£25,000 - £50,000	0	0
Total cost	£23,271	£0

No exit packages related to compulsory redundancy or to Board members.

SICKNESS ABSENCE

During 2019/20, a total of 73 days (2018/19 – 70 days) were lost to sickness absence. This equated to 1.42% (2018/19 – 1.43%) of available staff days.

CONSULTANTS

During 2019/20 QMS spent £39k on consultants during the year (2018/19 - £40k).

FAIR PAY REPORT (AUDITED)

In accordance with the requirements of the Hutton Fair Pay Review, QMS is required to disclose the relationship between the remuneration of the highest paid executive of QMS and the median remuneration of QMS's staff.

The annualised banded remuneration, excluding pension benefit, of the highest paid executive employed by QMS during the financial year 2019/2020 was £90k–£95k (2018/19: £90k–£95k). The range of remuneration for 2019/20 commenced at £10k–£15k (2018/19: £15k–£20k). The median staff remuneration was £35,000, a ratio of 2.57 times (2018/19: £37,000, 2.55 times). In 2019/20 and 2018/19, no employees received remuneration higher than the annualised amount paid to the Chief Executive. Total remuneration includes salary and benefits in kind. It does not include employer pension contributions.

STAFF COSTS AND AVERAGE NUMBERS

For the year ended 31 March 2020, we employed a total of 23 permanent staff (22.6 in 2018/19). There were no staff on temporary contracts (nil – 2018/19). During the year there were 3 other staff employed on short-term contracts through employment agencies.

Total staff costs for 2019/20 were £1,248k (2018/19: £1,168k). Further breakdown of staff costs is included in Note 4 on page 36.

STAFF COMPOSITION

The gender split of the average full-time equivalent staff employed across the QMS in 2019/20 was 16 (71%) female and 6 (29%) male (2018/19: 67% female, 33% male). The gender split of the Board in 2019/20 was 7 (58%) male and 5 (42%) female: (2018/19 67% male, 33% female). The Chief Executive and Accountable Officer of QMS is male.

Signature: 
Alan Clarke (Jun 4, 2020 14:44 GMT+1)

Email: aclarke@qmScotland.co.uk

Alan Clarke

Chief Executive and Accountable Officer

Date: Jun 4, 2020

Independent auditor's report to the members of Quality Meat Scotland, the Auditor General for Scotland and the Scottish Parliament**Report on the audit of the financial statements****Opinion on financial statements**

I have audited the financial statements in the annual report and accounts of Quality Meat Scotland for the year ended 31 March 2020 under the Quality Meat Scotland Order 2008. The financial statements comprise the Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Cash Flow Statement, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. 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 2019/20 Government Financial Reporting Manual (the 2019/20 FReM).

In my opinion the accompanying 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 2020 and of its net expenditure 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 2019/20 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 26 January 2018. The period of total uninterrupted appointment is 3 years. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If,

based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my 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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Quality Meat Scotland Order 2008 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

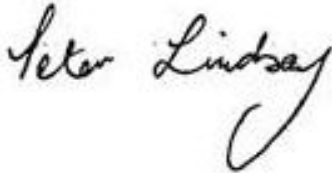
I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

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 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

A handwritten signature in black ink, reading "Peter Lindsay". The signature is written in a cursive style with a large, sweeping loop at the end of the last name.

Peter Lindsay
Senior Audit Manager
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow, G2 1BT
4 June 2020

Quality Meat Scotland

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2020

	Note	2019-20 £	Re-stated 2018-19 £
Income	2		
Statutory red meat levy		3,976,694	3,876,841
Consumer assurance scheme fees		1,573,622	1,561,910
Other income		829,874	997,595
Total operating income		<u>6,380,190</u>	<u>6,436,346</u>
Expenditure			
Staff employment and board costs	4	1,322,342	1,237,734
Depreciation		28,283	21,669
Other operating costs	3	5,152,080	5,212,939
Total operating expenditure		<u>6,502,705</u>	<u>6,472,342</u>
Net operating expenditure		(122,515)	(35,996)
Finance income	5	15,062	11,310
Net expenditure for the year		<u><u>(107,453)</u></u>	<u><u>(24,686)</u></u>

There is no other comprehensive income for the year.

The notes on pages 33 to 39 form part of these financial statements.

Quality Meat Scotland

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020 £	2019 £
Non-current assets			
Property, plant and equipment	7	61,132	62,624
		<hr/>	<hr/>
Current assets			
Trade receivables and other current assets	8	1,179,729	1,093,191
Deposits and advances	9	1,125,702	1,108,048
Cash and cash equivalents	10	379,577	442,028
Total current assets		<hr/> 2,685,008	<hr/> 2,643,267
Total assets		2,746,140	2,705,891
Current liabilities			
Trade payables and other current liabilities	11	1,529,134	1,381,432
Total current liabilities		<hr/> 1,529,134	<hr/> 1,381,432
Assets less liabilities		<hr/> <hr/> 1,217,006	<hr/> <hr/> 1,324,459
Reserves			
General reserve		<hr/> <hr/> 1,217,006	<hr/> <hr/> 1,324,459

The financial statements on pages 29 to 39 were approved and authorised for issue by the Board Members on 4th June 2020 and signed on its behalf by:

Signature: 
Alan Clarke (Jun 4, 2020 14:44 GMT+1)

Email: aclarke@qmscotland.co.uk
 Alan Clarke
 Chief Executive and Accountable Officer
 Quality Meat Scotland
Date: Jun 4, 2020

The notes on pages 33 to 39 form part of these financial statements.

Quality Meat Scotland

CASH FLOW STATEMENT

For the year ended 31 March 2020

	Note	2019-20 £	2018-19 £
Cash flows from operating activities	(note a)	(33,065)	(516,744)
Cash flows from investing activities	(note b)	(44,448)	(734,521)
Cash flows from financing activities	(note c)	15,062	11,310
Increase/(decrease) in cash in the year		<u>(62,451)</u>	<u>(1,239,955)</u>

Notes to the Cash Flow Statement

a) Cash flows from operating activities		
Net operating (deficit)	(122,515)	(35,996)
Adjustment for non-cash items		
- Depreciation	28,283	21,669
Decrease/(increase) in trade receivables	(86,536)	(83,829)
Increase/(decrease) in trade payables and other current liabilities	147,703	(418,588)
Net Cashflow from operating activities	<u>(33,065)</u>	<u>(516,744)</u>
b) Cash flows from investing activities		
Purchase of property, plant and equipment	(27,027)	(29,473)
Loss on disposal of property, plant and equipment	234	0
Withdrawal/(deposit) of cash to UK clearing bank fixed term deposit account	(17,655)	(705,048)
	<u>(44,448)</u>	<u>(734,521)</u>
c) Cash flows from financing activities		
Interest received	15,062	11,310
	<u>15,062</u>	<u>11,310</u>

Net financing

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

	2019-20 £	2018-19 £
Net (decrease) in cash and cash equivalents in the year	(62,451)	(1,239,955)
Cash and cash equivalents at beginning of year	442,028	1,681,983
Cash and cash equivalents at end of year	<u>379,577</u>	<u>442,028</u>

Quality Meat Scotland

STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March 2020

	General Reserve £	Total Reserves £
Balance at 31 March 2018	1,349,145	1,349,145
Changes in taxpayers' equity for 2018-19		
Deficit for the year	<u>(24,686)</u>	<u>(24,686)</u>
Total comprehensive income for 2018-19	(24,686)	(24,686)
Balance at 31 March 2019	1,324,459	1,324,459
Changes in taxpayers' equity for 2019-20		
Deficit for the year	<u>(107,453)</u>	<u>(107,453)</u>
Total comprehensive income for 2019-20	(107,453)	(107,453)
Balance at 31 March 2020	<u><u>1,217,006</u></u>	<u><u>1,217,006</u></u>

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

1. Statement of accounting policies

The financial statements have been prepared in accordance with the Accounts Direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and in compliance with the principles and disclosure requirements of the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM, apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context.

The financial statements have been prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in International Accounting Standard (IAS) 8: Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note. The fundamental accounting concepts of going concern and accruals have been applied consistently.

The accounting policies adopted by QMS have been applied consistently in dealing with items considered material in relation 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 Statement of Comprehensive Net Expenditure, represents the contributions payable to the schemes in respect of the accounting year.

d) Grants

Grants of a revenue nature are credited to the Statement of Comprehensive Net Expenditure 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 Statement of Comprehensive Net Expenditure over the estimated useful life of the relevant

e) Operating leases

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

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

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 Statement of Financial Position date.

All differences are taken to the Statement of Comprehensive Net Expenditure.

g) General reserve

The General reserve represents the surplus or deficit on the Statement of Comprehensive Net Expenditure.

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 Statement of Financial Position 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 Statement of Financial Position 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 2019-20.

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.

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

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.

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.

m) New accounting standards

All new standards issued and amendments made to existing standards are reviewed by Financial Reporting and Advisory Board (FRAB) for subsequent inclusion in the FReM which is in force for the year in which the changes become applicable. The standard which is considered relevant to QMS and the anticipated impact on the annual accounts is as follows:

IFRS 16 - Leases

This standard has been created to harmonise the rules regarding leases between the IASB and the FASB in the United States. It will supersede the existing IAS 17 and was due to come into effect in the public sector on 1 April 2020 but this has now been deferred until April 2021. The effect of IFRS 16 will be to reclassify leases which were previously treated as operating leases, requiring capitalisation of the underlying assets. This will impact on QMS's annual accounts. All future lease payments would require to be recognised as a Right of Use (RoU) Asset together with a corresponding lease liability in the Statement of Financial Position. Lease payments will no longer be made through the Statement of Comprehensive Net Expenditure (SoCNE) and instead will be accounted for by charging depreciation on the RoU asset and interest on the liability. Work is on-going to assess the likely impact to i) comprehensive net expenditure and ii) the Statement of Financial Position of applying IFRS 16.

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

	2019-20	Re-stated 2018-19
	£	£
2. Income		
Statutory red meat levy	3,976,694	3,876,841
Consumer assurance scheme fees	1,573,622	1,561,910
Grant income	585,544	869,724
Ring-fenced Funding	221,579	109,604
Other income	22,751	18,267
	<u>6,380,190</u>	<u>6,436,347</u>

	2019-20	Re-stated 2018-19
	£	£
3. Operating expenditure		
Marketing and Communications	2,182,138	2,298,317
Consumer assurance scheme costs	1,444,402	1,429,053
Industry development	769,905	792,853
Economics services	147,368	141,225
Strategic Engagement	1,943	0
Market Development	304,258	228,814
Other operating activity	302,067	322,679
	<u>5,152,080</u>	<u>5,212,939</u>

In Notes 2 and 3 income and expenditure in 2018/19 have been restated to separately disclose Ring Fenced Funding Income which had been netted off with expenditure in 2018/19. The restatement has no effect on the financial results reported in the 2018/19 accounts.

4. Staff employment and board costs

Costs include the following:	2019-20	2018-19
	£	£
Staff		
Salaries	991,265	934,107
National Insurance	104,708	102,565
Pension costs	151,663	131,775
	<u>1,247,636</u>	<u>1,168,447</u>

The average number of persons employed during the year was 23 (2018/19 - 22.6).

Board members

Emoluments for qualifying services	68,635	62,857
National Insurance	6,072	6,430
	<u>74,706</u>	<u>69,286</u>
	<u>1,322,342</u>	<u>1,237,734</u>

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

5. Finance income	2019-20	2018-19
	£	£
Bank interest	<u>15,062</u>	<u>11,310</u>

6. Operating costs

The following have been included in operating costs:

	2019-20	2018-19
	£	£
Depreciation	28,283	21,669
Operating lease payments	37,094	40,355
Auditors' remuneration - audit services	<u>10,960</u>	<u>10,820</u>

7. Property, plant and equipment	Computer Equipment £	Furniture, Fittings & Equipment £	Total £
Cost			
At 1 April 2018	60,633	29,790	90,423
Additions	14,273	15,200	29,473
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
As at 31 March 2019	74,906	44,990	119,896
As at 1 April 2019	74,906	44,990	119,896
Additions	23,557	3,470	27,027
Disposals	<u>(31,423)</u>	<u>(260)</u>	<u>(31,683)</u>
At 31 March 2020	<u>67,040</u>	<u>48,200</u>	<u>115,240</u>
Accumulated depreciation			
At 1 April 2018	32,942	2,662	35,604
Charge	13,930	7,740	21,670
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
As at 31 March 2019	46,872	10,402	57,274
As at 1 April 2019	46,872	10,402	57,274
Charge	18,888	9,395	28,283
Disposals	<u>(31,192)</u>	<u>(257)</u>	<u>(31,449)</u>
At 31 March 2020	<u>34,568</u>	<u>19,540</u>	<u>54,108</u>
Net Book Value			
At 31 March 2020	<u>32,472</u>	<u>28,660</u>	<u>61,132</u>
As at 31 March 2019	<u>28,034</u>	<u>34,588</u>	<u>62,622</u>

8. Trade receivables and other current assets	2020	2019
	£	£
Trade receivables	653,840	562,279
Accrued levy	98,997	74,252
VAT recoverable	126,114	85,193
Prepayments and other accrued income	300,778	371,467
	<u>1,179,729</u>	<u>1,093,191</u>

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

	2020	2019
	£	£
9. Deposits and advances		
Short term deposits of up to 12 months invested in deposit accounts with UK clearing bank	<u>1,125,702</u>	<u>1,108,048</u>

	2020	2019
	£	£
10. Cash and cash equivalents		
Balance at 1 April	442,028	1,681,983
Net change in cash and cash equivalent balances	<u>(62,451)</u>	<u>(1,239,955)</u>
Balance at 31 March	<u>379,577</u>	<u>442,028</u>

The following balances at 31 March were held at:

Commercial banks and cash in hand	<u>379,577</u>	<u>442,028</u>
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	2020	2019
	£	£
11. Trade payables and other current liabilities		
Trade payables	885,872	623,403
Accruals and deferred income	437,695	540,498
Tax and social security	33,337	45,302
Statutory levy processor security deposits	172,229	172,229
	<u>1,529,134</u>	<u>1,381,432</u>

12. Commitments under leases

At 31 March 2020, the organisation had total minimum future payments under non-cancellable operating leases as follows:

	Land and Buildings 2020 £	Other 2020 £	Land and Buildings 2019 £	Other 2019 £
Operating leases which expire:				
Within one year	33,297	2,122	33,297	1,306
In the second to fifth years inclusive	0	3,755	0	4,245
	<u>33,297</u>	<u>5,877</u>	<u>33,297</u>	<u>5,551</u>

Quality Meat Scotland

Notes to the Accounts

For the year ended 31 March 2020

13. Related Party Transactions

QMS is a Non-Departmental Public Body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. Acoura (formerly Scottish Food Quality Certification) and the Scottish Agricultural Organisation Society Limited are considered to be related parties of QMS. QMS has incurred expenditure of £1.50m (2018/19 £1.36m) and £0.080m (2018/19 £0.100m) relating to these related parties respectively.

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.

During 2019/20, AHDB ring fenced £2 million of red meat levies to be spent on activities which have been jointly agreed with the red meat levy board in Wales and by QMS in Scotland. This recognised that a proportion of cattle, sheep and pigs slaughtered in England spend much of their lives in those countries. These activities provided benefits to levy payers across Great Britain. The £2M spend is detailed in AHDB's accounts however QMS have received £221.579 (2018/19 £109.614) of this ring fenced money in cash to cover direct costs

14. 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 £161,329 (2018/19: £131,775). The contributions outstanding at the year end amounted to £18,812 (2018/19: £8,275).

Quality Meat Scotland

STATEMENT OF ACCOUNTS

For the year ended 31 March 2020

	2019-20			(Re-stated) 2018-19		
	Levy	Non Levy	Total	Levy	Non Levy	Total
	£	£	£	£	£	£
Income						
Statutory red meat levy	3,976,694	0	3,976,694	3,876,841	0	3,876,841
Consumer assurance scheme fees	0	1,573,622	1,573,622	0	1,561,910	1,561,910
Grant income	0	585,544	585,544	0	869,724	869,724
Ring-fenced funding	221,579	0	221,579	109,604	0	109,604
Miscellaneous income	0	22,751	22,751	0	18,267	18,267
Bank interest	0	15,062	15,062	0	11,310	11,310
	4,198,273	2,196,979	6,395,252	3,986,445	2,461,211	6,447,656
Direct expenditure						
Marketing and Communications	2,300,674	224,917	2,525,591	2,115,934	497,701	2,613,635
Industry development	578,787	375,915	954,702	679,468	390,290	1,069,758
Economics services	253,657	0	253,657	255,262	0	255,262
Assurance scheme operating costs	0	1,554,890	1,554,890	0	1,525,352	1,525,352
Strategic Engagement	116,030	0	116,030	0	0	0
Market Development	404,888	0	404,888	324,781	0	324,781
Corporate services	692,947	0	692,947	683,553	0	683,553
	4,346,983	2,155,722	6,502,705	4,058,998	2,413,343	6,472,341
Surplus / (deficit) on ordinary activities	(148,710)	41,257	(107,453)	(72,553)	47,868	(24,686)



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 (FReM) 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

20200604 19-20 Audited Accounts

Final Audit Report

2020-06-04

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