

# Ferguson Marine (Port Glasgow) Holdings Limited

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Ferguson Marine (Port Glasgow) Holdings Limited

April 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Report and the Remuneration and Staff Report.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of FMPG for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to FMPG through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help FMPG promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Ferguson Marine Port Glasgow. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at FMPG. In doing this, we aim to support improvement and accountability.

### FMPG responsibilities

9. FMPG is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. FMPG has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

# Financial statements audit planning

## Introduction

**11.** The annual report and financial statements are an essential part of demonstrating FMPG's stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Materiality levels for the 2022/23 audit

**14.** Our assessment of the materiality values for FMPG and its group is set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Ferguson Marine (Port Glasgow) Holdings Limited and its group

Materiality	Amount
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the FMPG's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2021/22.</p>	£0.800 million
<p><b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.</p>	£0.600 million

**Reporting threshold (i.e. clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £40 thousand

Source: Audit Scotland

**15.** Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. On this basis we have applied a separate lower materiality threshold to the Remuneration and Staff Report. This has been set at £25,000.

## Significant risks of material misstatement to the financial statements

**16.** Our risk assessment draws on our cumulative knowledge of FMPG, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, attendance at committees and a review of supporting information.

**17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

**18.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

## Exhibit 2

### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-closing entries, where we consider the risk of</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
otherwise appear to be operating effectively.		management override of controls to be the greatest.

Source: Audit Scotland

**19.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**20.** We have rebutted this risk as the only material stream of income is funding received from Scottish Government. The nature of the contract with Scottish Government is that funding fully covers contract expenditure. FMPG report on a regular basis to Scottish Government and these reports are easily accessible on the Scottish Government website. Due to these factors there is little incentive to overstate revenue and a reduced opportunity for fraud. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

## Risks of material misstatement

**21.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**22.** The identified risks of material misstatement are:

- Risk of fraud over expenditure at year end – In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public sector bodies are net spending bodies, the risk of expenditure recognition may in some cases be greater than the risk relating to revenue recognition. Staff costs are well-forecast and reconcile to the payroll system, so audit focus will be on remaining administrative and operating expenditure in relation to vessels 801 and 802. We recognise that there is additional visibility of expenditure during the year through regular reporting to the Scottish Government around spend (to inform monthly payments). We consider the main risk to be around the year end and therefore our focus will be on cut-off of non-pay expenditure.
- Going Concern disclosure – The 2021/22 Annual Report and Accounts highlighted the risks and uncertainties over FMPG's ability to continue as a going concern. We will assess ongoing operations of FMPG beyond 12 months from the date of signing, as well as the appropriateness of disclosures around going concern in the annual report and accounts. We will take recognition of the requirements of the FRC Statement of

Recommended Practice – *Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom [Revised 2020]*, where applicable.

- Remuneration and Staff Report – We will review the decision-making processes which impact on pay arrangements and evaluate whether the disclosures are complete, clear, concise and free from material misstatement.

## Other areas of audit focus

**23.** The other areas where we do not consider there to be a risk of material misstatement, but which are of interest to our audit work and will require focused audit procedures are:

- Property, Plant and Equipment Valuations – We will review arrangements at FMPG to ensure that valuations recognised in the accounts are free from material misstatement. The land and buildings subject to valuation relate to office accommodation and the site at Port Glasgow as well as leased property. These have been subject to regular independent expert valuation with limited volatility in valuations or assumptions.

## Group Consideration

**24.** As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**25.** FMPG has a group which comprises the holding company and three subsidiaries. The Board of Directors seeks an annual exemption from audit by parent guarantee of all three subsidiary bodies under s479A-s479C of the Companies Act 2006.

**26.** All transactions occur through the subsidiary companies. We will audit the core financial transactions which have been processed through the subsidiaries and confirm the allocation is reflected correctly in the consolidated accounts of Ferguson Marine (Port Glasgow) Limited. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.



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# Wider Scope and Best Value

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## Introduction

27. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

28. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** - audited bodies must have a clear vision and strategy and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by FMPG. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how FMPG demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risks

29. We have identified a number of wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

**Exhibit 3****2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Short and Long-Term Financial Sustainability</b></p> <p>The Framework document and the 2023/24 – 2027/28 business plan sets out a number of strategic objectives for FMPG beyond the delivery of the current contracts.</p> <p>However, there are a number of risks and uncertainties over current and future contracts and Scottish Government funding.</p> <p>The Scottish Government has provided assurances around financial support for the delivery of vessels 801 and 802. FMPG continue to explore future opportunities for the yard and have commissioned an independent review to assess potential viable options. There remains uncertainty in relation to FMPG’s ability to continue as a going concern and its longer-term financial sustainability.</p>	<p>An updated strategic plan that clearly sets out how managements will ensure the long-term financial sustainability of FMPG, including</p> <ul style="list-style-type: none"> <li>- a clear long term financial plan, including the level of SG funding for 2023/24 and beyond</li> <li>- how FPMG intend to generate future work including commercial contracts</li> <li>- how FPMG will address challenges around maintaining an effective workforce over the longer term</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor correspondence between FMPG and Scottish Government in relation to funding for 2023/24 and beyond</li> <li>• Review cash flow forecasts as far ahead as available in order to assess the appropriateness of the annual report and accounts being prepared on a going concern basis.</li> <li>• Review going concern disclosures in the annual report and accounts for 2022/23 and assess whether they are appropriate (see further <a href="#">paragraph 22</a>)</li> <li>• Consider any further work awarded to FMPG prior to signing of the accounts.</li> </ul>
<p><b>2. Financial Management and Value for Money</b></p> <p>As a non-departmental public body, FMPG is required to comply with the Scottish Public Finance Manual (SPFM).</p> <p>In particular, compliance with the SPFM requires FMPG to demonstrate value for money across its activities.</p> <p>It is unclear how FMPG demonstrates VFM in the context of its operational delivery and strategic objectives.</p>	<p>Clear evidence of compliance with the SPFM.</p> <p>VFM performance measures agreed with Scottish Government.</p>	<p>We will review the adequacy of FMPG’s arrangements for compliance with the SPFM and in particular how VFM is delivered.</p>

Description of risk	Sources of assurance	Planned audit response
<p><b>3. Incentive Related Pay</b></p> <p>In 2021/22, governance and transparency risks were identified in relation to incentive related pay.</p> <p>In response, FMPG is seeking Scottish Government approval of a suitable framework for measuring and approving any incentive related pay.</p>	<p>An approved incentive related framework with clear governance and performance measurement arrangements.</p>	<ul style="list-style-type: none"> <li>• Review employment contracts of employees for whom an incentive payment is proposed.</li> <li>• Assess the governance process for approving incentive payments and confirm that this has been followed.</li> <li>• Review bank statements post year end to gain assurance over completeness of incentive payments paid, relevant to 2022/23.</li> </ul>

Source: Audit Scotland

**30.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

### Climate Change

**31.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**32.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on FMPG's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### Cyber Security

**33.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider FMPG's arrangements for managing and mitigating cyber security risks.

### Duty of Best Value

**34.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a

specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within FMPG.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**35.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**36.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**37.** We will provide an independent auditor's report to FMPG, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide FMPG and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**38.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 December 2023.

## Exhibit 4

### 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	30/04/2023	02/05/2023
Independent Auditor's Report	01/08/2023	01/08/2023
Annual Audit Report	01/08/2023	01/08/2023

Source: Audit Scotland

## Timetable

**39.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.



**40.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying

ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**41.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	May 2023*
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	19 June 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	July 2023*
Issue of draft Letter of Representation and proposed Independent Auditor's Report	1 August 2023
Agreement of audited and unsigned annual report and accounts	1 August 2023
Issue of Annual Audit Report to those charged with governance.	1 August 2023
Signed Independent Auditor's Report	August 2023*
*We will agree specific dates with officers as the audit progresses	

Source: Audit Scotland

## Audit fee

**42.** In determining the audit fee, we have taken account of the risk exposure of FMPG and the planned management assurances in place. The agreed audit fee for 2022/23 is £50,790 as set out in [Exhibit 6](#).

**43.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**Exhibit 6****Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	38,090
Pooled costs	-600
Contribution to Audit Scotland costs	1,080
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	12,220
Total 2022/23 fee	50,790

Source: Audit Scotland

**44.** In setting the fee for 2022/23 we have assumed that FMPG has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**45.** It is the responsibility of FMPG to establish adequate internal audit arrangements. FMPG have undertaken a tender process for, and selected, an internal auditor, but the expenditure has yet to be approved by Scottish Government. There has therefore not been any internal audit work undertaken in 2022/23.

**46.** We factor the absence of any internal audit work into our overall risk assessment and will consider the completeness of the governance statement disclosures surrounding assurances in place.

**47.** If any internal audit reports are available throughout our audit in 2022/23, we will review them and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**48.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**49.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**50.** The appointed auditor for FMPG is John Boyd, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of FMPG.

## Audit Quality

**51.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**52.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.



**53.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**54.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**55.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

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# Appendix 1. Your audit team

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**56.** The audit team involved in the audit of Ferguson Marine Port Glasgow have significant experience in public sector audit.

John Boyd  
Audit Director

[jboyd@audit-scotland.gov.uk](mailto:jboyd@audit-scotland.gov.uk)

John has overall responsibility for the Audit Engagement. He has considerable audit experience across public sector audits including health, IJB, pension, local government and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority audit and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC).

Mark Ferris  
Senior Audit Manager

[mferris@audit-scotland.gov.uk](mailto:mferris@audit-scotland.gov.uk)

Mark has over 30 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Iain Lochhead  
Audit Manager

[ilohead@audit-scotland.gov.uk](mailto:ilohead@audit-scotland.gov.uk)

Iain has over 15 years' experience in planning and delivering audits and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies. Iain will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

Jacqueline Farmer  
Senior Auditor

[jfarmer@audit-scotland.gov.uk](mailto:jfarmer@audit-scotland.gov.uk)

Jacqueline has over 7 years' experience in planning and delivering external audit services to a range of bodies including local authorities, health boards and central government bodies. Jacqueline will work alongside the team to deliver the audit.

**57.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Ferguson Marine (Port Glasgow) Holdings Limited

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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