

Ferguson Marine (Port Glasgow) Holdings Limited 2022/23

Annual Audit Report



 AUDIT SCOTLAND

Prepared for Ferguson Marine (Port Glasgow) Holdings Limited and the
Auditor General for Scotland

August 2023

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Key messages

2022/23 annual report and accounts

- 1 Our audit opinions for Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) and its group annual report and accounts are unmodified. While not modified, we do highlight a material risk and uncertainty over the going concern. This references the risks of a material uncertainty highlighted by management in the Performance Report and Notes to the accounts, over FMPG's ability to continue as a going concern, for at least 12 months from the date of signing.
- 2 Key risks arising from the audit of FMPG's accounts were included in our 2022/23 Annual Audit Plan. There were no significant matters arising from our audit work over these risk areas. However, we have found opportunities to enhance the Annual Accounts production process to ensure compliance with the FReM and Companies Act requirements and we identified three adjusted audit misstatements and a number of presentational adjustments to the accounts. The significant matters from that work are detailed within the report.

Financial management and sustainability

- 3 The Scottish Government has confirmed continued support to FMPG for at least a period of 12 months from the date of approval of the 2022/23 annual report and accounts. However, there is risk and uncertainty around the future financial sustainability of FMPG with no contracted work beyond the completion of vessels 801 (the Glen Sannox) and 802. Management recognises that investment is required to secure future work as well as delivering the efficiencies to develop a sustainable operating model.
- 4 FMPG has appropriate financial monitoring arrangements in place. There is regular communication with the Scottish Government on the progress of the vessels 801 and 802 and the forecast cost of delivery.

Vision, leadership and governance

- 5 FMPG has developed a five-year business plan which was approved by the Board in June 2023 and submitted to Scottish Ministers. The business plan has assessed the potential markets where FMPG is best placed to compete effectively. FMPG recognises that to be commercially viable it must secure a guaranteed stream of work over several years. To achieve this, requires investment, efficient working practices and ensuring it has an appropriately skilled and sized workforce. FMPG needs to continue to

engage with Scottish Government to achieve the outcomes set out in the five-year business plan.

- 6** Under the current Framework Agreement with Scottish Government, FMPG is not required to comply with all public sector pay and conditions. However, there is an expectation that FMPG's pay and conditions are broadly consistent with the provisions of Scottish Government Pay Policy. Any significant deviations require further approval from the Scottish Government. During 2022/23 FMPG made performance-related bonus payments. We consider this a significant deviation from Scottish Government Pay Policy and requires approval from the Scottish Government. As at the date of this report, Scottish Government approval had not been received for these payments.
- 7** In addition, as a Non-Departmental Public Body, and in accordance with the Scottish Public Finance Manual, FMPG is required to have an internal audit function. While FMPG has been liaising with the Scottish Government since 2020 to appoint an internal audit function, BDO were only appointed as internal auditors in May 2023. As there was no internal audit function in place during the current financial year, assurances over the design and operating effectiveness of internal controls were limited to management assurances.
- 8** FMPG are in discussions with the Scottish Government in agreeing a revised framework agreement. This will act as an important document in how FMPG works with the Scottish Government, following good practice and applicable aspects of the SPFM but in a way that works in a commercial operating environment.

Use of resources to improve outcomes

- 9** FMPG does not have a formally agreed document that details the arrangements in place to support the best value characteristics, including a systematic approach to self-evaluation and continuous improvement. In shaping the longer-term strategic direction of the organisation, FMPG will need to consider how it demonstrates best value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG).
2. FMPG is 100 per cent owned by Scottish Ministers and is classified as a Non-Departmental Public Body (NDPB). FMPG is the parent holding company of the wider FMPG group. FMPG holds 100 per cent of the share capital for each of the three subsidiary companies:
 - Ferguson Marine (Port Glasgow) Limited
 - Ferguson Marine (801-802) Limited
 - Ferguson Marine (Commercial) Limited.
3. The scope of the audit was set out in our 2022/23 Annual Audit Plan. An audit strategy letter was presented to the 16 March 2023 meeting of the Audit and Risk Committee. The Annual Audit Plan was issued to the Audit and Risk Committee members for consideration on 28 April 2023.
4. This Annual Audit Report comprises:
 - significant matters arising from an audit of FMPG's annual report and accounts
 - conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.
5. This report is addressed to FMPG and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

6. I, John Boyd have been appointed by the Auditor General as auditor of FMPG for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.
7. My team and I would like to thank Audit and Risk Committee members, directors, and finance staff, for their cooperation and assistance during the audit

and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

8. FMPG has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. FMPG is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

9. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

10. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. This report contains an agreed action plan in the [Appendix](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £50,790 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. We add value to FMPG by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship of public funds.

Main judgements

Our audit opinions for Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) and its group annual report and accounts are unmodified. While not modified, we do highlight a material risk and uncertainty over the going concern. This references the risks of a material uncertainty highlighted by management in the Performance Report and Notes to the accounts, over FMPG's ability to continue as a going concern, for at least 12 months from the date of signing the accounts.

Key risks arising from the audit of FMPG's accounts were included in our 2022/23 Annual Audit Plan. There were no significant matters arising from our audit work over these risk areas. However, we have found opportunities to enhance the Annual Accounts production process to ensure compliance with the FReM and Companies Act requirements and we identified three adjusted audit misstatements and a number of presentational adjustments to the accounts.

Our audit opinions for FMPG and its group annual report and accounts are unmodified. While not modified, we do highlight in our audit report the material risk and uncertainty over the going concern as reported by management

14. The annual report and accounts for the year ended 31 March 2023 were approved for issue by the Accountable Officer on 31 August 2023, following the meeting of the Audit and Risk Committee of 16 August 2023.

15. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework

- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

16. While not modified, we do highlight a material risk and uncertainty over the going concern of FMPG, as reported by management in the annual report and accounts.

Overall materiality was assessed as £1 million

17. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

18. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£1 million
Performance materiality	£0.750 million
Reporting threshold	£50,000

Source: Audit Scotland

19. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements. A separate materiality threshold of £25,000 was set for the remuneration and staff report.

20. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality.

21. Performance materiality was set at 75 per cent of overall materiality, reflecting a history of minimal errors and no significant issues noted during planning or from the previous audit team.

22. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

23. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

24. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

25. The significant finding is summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Consideration of going concern</p> <p>We have considered FMPG's ability to continue as a going concern, for a 12-month period beyond the date of signing the 2022/23 annual report and accounts (August 2023). Recognising the nature of FMPG as an organisation we have determined in this case we cannot assess FMPG's going concern in accordance with the FRC Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020).</p> <p>We have concluded under PN10 the continuing service provision does not apply. While FMPG is currently classed as a public sector entity, the Government does not have a statutory responsibility to provide these services, so the continuing service assessment is not appropriate.</p>	<p>The annual report and accounts set out in the performance report, management's assessment of going concern. Management have highlighted the risks and uncertainties in the organisation's ability to continue as a going concern, (pages 4 and 5). This highlights the uncertainty surrounding the future income and cash flows beyond the contracted sums for completion of vessels 801 and 802. While the Scottish Government has reaffirmed the commitment to support a sustainable future for FMPG, there is no financial commitment beyond this and therefore any overrun of costs or delay in delivery dates remain as a risk and there remains a lack of clarity over any specific investment in the yard which would allow FMPG to competitively compete and win new work.</p> <p>As a result of this our audit opinion includes reference to a risk of a material uncertainty over FMPG's ability to continue as a going concern, for at least 12 months from the date of signing our opinion.</p> <p>Recommendation 1</p> <p>(Refer Appendix, action plan)</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

26. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of management override of controls</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 otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries with a focus on areas where there was increased risk of management override of controls.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct year.</p>	<p>Results: Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness.</p> <p>Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p>Conclusion: No incidents of management override of controls were identified.</p>

Source: Audit Scotland – Annual Audit Plan

27. As part of our assessment of audit risks, we identified other areas where we considered 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. These areas of risk of material misstatement were:

- **Risk of fraud over expenditure at year end** – Staff costs are well-forecast and reconcile to the payroll system, so audit focus was on the remaining administrative and operating expenditure in relation to vessels 801 and 802. We also recognise that there is additional visibility of expenditure during the year through regular reporting to the Scottish Government. We considered the main risk to be around the year end and therefore our audit focus was on testing cut-off of non-pay expenditure, including agency costs. There were no significant issues identified through our audit testing or indication of fraud or error in expenditure around the year end.
- **Going concern disclosure:** see issue 1 in [Exhibit 2](#).
- **Remuneration and staff report:** We have reviewed the Remuneration and staff Report in the accounts. There were a small number of adjustments required to the disclosure (see [paragraph 39](#)). These have been corrected by management. We have separately considered decision-making processes on remuneration and bonus disclosures in Section 3, [paragraph 59](#) and Item 3 in [Exhibit 5](#).

28. In addition, we identified ‘areas of audit focus’ in our 2022/23 Annual Audit Plan where we do not consider there to be a risk of material misstatement, but which are of interest to our audit work. The area of specific audit focus was:

- **Property, Plant and Equipment Valuations:** We reviewed the arrangements at FMPG to ensure that valuations recognised in the accounts are free from material misstatement. While we identified some audit adjustments arising through our audit procedures over property, plant and equipment valuations detailed below, we obtained satisfactory assurance that the accounts are free from material misstatement and the assumptions underpinning the valuation and methodology used are in accordance with the FReM.

29. We reviewed the asset register to confirm the completeness and existence of the assets recorded. Through our audit testing we identified assets which were no longer in use / had been disposed but were still recorded on the asset register. We extended our audit procedures and are satisfied that both the gross book value (£68,000) and net book values of these assets were immaterial and had assurance over the existence of property, plant and equipment and that these were free from material misstatement.

30. As part of our review of the Fixed Asset Register a £20,000 lease for land was identified. This was in respect of a £20,000 premium paid for a 99-year lease in 2017 when FMPG traded as FMEL and transferred to FMPG in 2019 with 97 years remaining. Inverclyde Council leased the car park to FMEL to assist the company and as a result assist the economic regeneration of the area. The car park cannot be leased to anyone else and at the end of the 99-year term, or earlier if the lease is terminated for any other reason, Ferguson Marine will, at the landlord’s discretion, require reinstating the car park to an open green space.

31. While the value of the land will not be substantially different from the £20,000 within the fixed asset register, FMPG should liaise with Inverclyde Council to ensure the land is included within future formal valuations.

Recommendation 2

Management should undertake a full review of the Fixed Asset Register to confirm the existence of the assets held. In addition, management should reconsider the value and lives of assets still in use but included on the asset register at nil value.

32. We are satisfied that assets have been valued in accordance with the FReM and free from material misstatement. Two audit adjustments in relation to Property, Plant and Equipment have been reflected within the revised annual report and accounts as detailed below.

There were three misstatements identified within the financial statements

33. Our audit identified three misstatements above our reporting threshold as detailed below.

34. In March 2020, FMPG entered a four-year lease for property at a site in Greenock. The property is used primarily for warehousing purposes. The remaining amount left to be paid on the four-year lease which ends in 2023/24 is £162,000; the original cost of the lease being £675,000.

35. FMPG is entitled to extend the term of this lease by a further four years however they have not yet confirmed that they will be extending the lease. This decision will be made in October 2023. The lease was revalued to £235,000 as at 31 March 2023 based on the outstanding term of the lease. The revalued amount was not reflected within the unaudited annual report and accounts. FMPG has agreed to recognise the revalued amount within the revised annual report and accounts.

36. During our audit, management identified that a building had been double counted resulting in property, plant and equipment and the revaluation reserve being overstated by £714,000. We are satisfied that this is an isolated error and has been corrected within the updated financial statements. In addition, there was a required adjustment to recognise the revaluation through Other Comprehensive Income and Expenditure correctly.

37. The draft financial statements were updated to reflect the impact of corporation tax on the group. The tax computation was undertaken by PricewaterhouseCoopers and resulted in a reduction of £124,000 in corporation tax assets and liabilities in the year. This has been appropriately disclosed in the accounts.

38. Our audit also identified several presentational and disclosure issues in relation to the Performance and Accountability Report which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

39. There were a number of adjustments required to the remuneration and staff report including:

- performance related bonus payments were not properly disclosed within the notes
- fair pay and exit package disclosures. There was an adjustment of £76,000 to the exit package disclosure note which was above the materiality threshold detailed in paragraph 19. Audit work was undertaken to confirm disclosure was in line with FReM requirements.
- an explanatory paragraph required disclosing how performance pay is determined
- disclosures of staff costs and numbers in the staff report to include directors and non-executive directors.

40. The Governance statement within the unaudited annual report and accounts included a number of omissions required by the FReM including:

- incomplete governance framework arrangements disclosure
- no information on the processes applied in reviewing the effectiveness of the system of risk management and internal control, including explaining what actions have been taken or are being taken to remedy any significant failings or weaknesses.
- confirmation of a review of arrangements for corporate governance and risk management during 22/2023 to inform the governance statement.

The unaudited annual audit report and accounts were received in line with the agreed audit timetable

41. We received the unaudited annual report and accounts on 14 June 2023 in line with the agreed audit timetable. The annual report and accounts submitted for audit were of a reasonable standard as were supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Limited progress was made on prior year recommendations

42. FMPG has made limited progress in implementing the audit recommendations identified by the previous audit team. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in the [Appendix](#).

2. Financial management and Financial sustainability

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Main judgements

The Scottish Government has confirmed continued support for FMPG for at least a period of 12 months from the date of approval of the 2022/23 annual report and accounts. However, there is risk and uncertainty around the future financial sustainability of FMPG with no contracted work beyond the completion of vessels 801 (the Glen Sannox) and 802. Management recognises that investment is required to secure future work as well as delivering the efficiencies to develop a sustainable operating model.

FMPG has appropriate financial monitoring arrangements in place. There is regular communication with the Scottish Government on the progress of the vessels 801 and 802 and the forecast cost of delivery.

The Scottish Government has confirmed continued support for FMPG. However there remains considerable uncertainty around the longer-term financial sustainability

43. The Auditor General issued section 22 report on Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) was published on 14 March 2023, following the signing of the annual report and accounts on 22 February 2023. The report highlighted continuing uncertainties over the cost and delivery of the vessels and uncertainty over the longer-term sustainability of FMPG. As part of our audit process, we have considered the latest position with regards to the Board's financial sustainability.

44. In July 2023, the Scottish Government wrote to FMPG confirming that for at least a period of 12 months from the date of approval of the 2022/23 annual report and accounts (Support Period), to support the Group to complete and deliver vessels 801 and 802 and securing a sustainable future for the yard, while ensuring that Ferguson Marine (Port Glasgow) Holdings Limited and its group of companies are managed (in as far as it is within the gift of the Scottish

Ministers) so that it maintains adequate financial resources, and is in a position to meet its obligations.

45. The FMPG five-year business plan, identifies opportunities for the group including Ferguson Marine (Commercial) Limited, to pursue, including ongoing working relationship with BAE systems and opportunities through the small vessels replacement programme planned by CMAL on behalf of Transport Scotland. This would be an attractive opportunity for Ferguson Marine (Commercial) Limited to pursue, but this also remains uncertain while the investment is unconfirmed. However, management recognise that investment is required in shipyard facilities and developing an appropriate resource model to be commercially competitive and demonstrate a sustainable operating model.

46. While the letter of support demonstrates the Scottish Government's continued support of FMPG, guaranteed funding is limited to the amounts formally confirmed as part of the budget settlement in funding vessels 801 and 802. Consequently, with no contracted work beyond completion of the two vessels, there remains uncertainty surrounding the future financial sustainability of the organisation.

47. FMPG review the ongoing progress of the vessels 801 and 802 through project delivery plans. Alongside regular liaison with Scottish Government, FMPG provide quarterly updates to the Net Zero, Energy and Transport Committee on the progress of the vessels. FMPG Management are in the process of reviewing financial forecasts as a result of additional work required on the vessels to comply with requirements for crew space on passenger vessels. This is anticipated to delay sea trials of the Glen Sannox (801) deferred until quarter 1 2024 and the launch of 802 from November 2023 to spring 2024 for subsequent quayside works and sea trials.

FMPG has appropriate financial monitoring arrangements in place

48. FMPG, as an NDPB of the Scottish Government, receives most of its funding directly from the Scottish Government. Monthly monitoring is the primary means of in-year budgetary control across the Scottish Government.

49. FMPG reported a group pre-tax net deficit of £0.866 million for the financial year 2022/23 (2021/22 net deficit of £0.331 million). The ongoing deficit is primarily a result of continued cost in investment and turnaround activity in the yard not covered through contracted income.

50. In September 2022, the Scottish Parliament through the Net Zero, Energy and Transport Committee were advised by the Chief Executive Officer (CEO) of FMPG of the revised forecast and an increase in the cost of delivery with the total cost to complete both vessels being £202.6 million: vessel 801, £97.5 million and vessel 802, £105.1 million respectively.

51. A due diligence exercise was undertaken by Scottish Government on the CEO's revised estimated cost to complete each vessel in line with the requirements of the Scottish Public Finance Manual, which follows on from the requirements of the Public Finance and Accountability (Scotland) Act 2000. In May 2023, the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy reported that while the value for money case for completing vessel 801 was

met, the case for 802 had not been met. On a pure value for money assessment concluded that it could be cheaper to re-procure a new vessel. However, this would result in further delays for the deployment of the vessel. In considering wider factors including the impact on people, communities and national resilience the minister confirmed continued commitment for FMPG to complete the vessel.

52. On conclusion of this review Scottish Government confirmed ongoing financial support for both vessels. This resulted in two uplifts of £15 million in December 2022 and £6 million in March 2023 resulting in a revised total budget allocation of £61.1 million for the financial year 2022/23.

53. Financial performance and budget monitoring is performed at Board meetings, which occur on a bi-monthly basis. The budget monitoring reports are presented by the Chief Financial Officer and provide an overall picture of spend against budget and include a good level of detail in the narrative to explain the main budget variances.

54. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect FMPG's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements. We undertook a fully substantive approach to the financial audit for 2022/23.

Standards of conduct and arrangements for the prevention and detection of fraud and error should be reviewed

55. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

56. FMPG recognises that risk management and corporate governance arrangements are areas where further improvements are required. As part of the Internal Audit Plan for 2023/24, these are key areas that will be subject to review.

3. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Main judgements

FMPG has developed a five-year business plan which was approved by the Board in June 2023 and submitted to Scottish ministers. The business plan has assessed the potential markets where FMPG is best placed to compete effectively. FMPG recognises that to be commercially viable it must secure a guaranteed stream of work over several years. To achieve this, requires investment, efficient working practices and ensuring it has an appropriately skilled and sized workforce. FMPG needs to continue to engage with Scottish Government to achieve the outcomes set out in the five-year business plan.

Under the current Framework Agreement with Scottish Government, FMPG is not required to comply with all public sector pay and conditions. However, there is an expectation that FMPG's pay and conditions are broadly consistent with the provisions of Scottish Government Pay Policy. Any significant deviations require further approval from the Scottish Government. During 2022/23 FMPG made performance related bonus payments. We consider this a significant deviation from Scottish Government Pay Policy and requires approval from the Scottish Government.

FMPG are in discussions with the Scottish Government in agreeing a revised framework agreement. This will act as an important document in how FMPG works with the Scottish Government, following good practice and applicable aspects of the SPFM but in a way that works in a commercial operating environment.

57. [Exhibit 5](#) sets out the wider scope risks relating to vision, leadership and governance we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Our audit work has addressed the wider scope risks identified in our Annual Audit Plan

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>1. Short and Long-Term Financial Sustainability</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. 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 and all other liabilities 12 months from signing the accounts. 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>We monitored correspondence between FMPG and Scottish Government in relation to funding for 2023/24 and beyond.</p> <p>Reviewed 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.</p> <p>Reviewed going concern disclosures in the annual report and accounts for 2022/23 and assess whether they are appropriate.</p> <p>Considered any further work awarded to FMPG prior to signing of the accounts.</p>	<p>Results:</p> <p>In July 2023, Scottish Government wrote to FMPG confirming that they would, for at least a period of 12 months from the date of approval of the 2022/23 annual report and accounts, support the Group to complete and deliver vessels 801 and 802 and securing a sustainable future for the yard.</p> <p>Cash flow forecasts included within the five-year plan include a number of assumptions in relation to capital investment and future programme of work. There remains uncertainty over both the timing of any capital investment and successful securing of future orders.</p> <p>Conclusion:</p> <p>As a result of the above our audit opinion includes reference to a risk of a material uncertainty over FMPG's ability to continue as a going concern, for at least 12 months from the date of signing our opinion, see Exhibit 2.</p>
<p>2. Financial Management and Value for Money</p> <p>As a non-departmental public body, FMPG is required to comply with the Scottish Public Finance Manual (SPFM). In</p>	<p>We reviewed the adequacy of FMPG's arrangements for compliance with the SPFM and in particular how VFM is delivered.</p>	<p>Results:</p> <p>The focus of FMPG in 2022/23 is in delivery of vessels 801 and 802 as efficiently and effectively as possible. In addition,</p>

Audit risk	Assurance procedure	Results and conclusions
<p>particular, compliance with the SPFM requires FMPG to demonstrate value for money across its activities. It is unclear how FMPG demonstrates VFM in the context of its operational delivery and strategic objectives.</p>		<p>work has progressed in securing the medium to longer term future in the yard. However significant risk and uncertainty remains.</p> <p>Conclusion:</p> <p>We confirmed that FMPG does not have a formally agreed document that details the arrangements in place to support the best value characteristics, including a systematic approach to self-evaluation and continuous improvement.</p>
<p>3. Incentive Related Pay</p> <p>In 2021/22, governance and transparency risks were identified in relation to incentive related pay. In response, FMPG is seeking Scottish Government approval of a suitable framework for measuring and approving any incentive related pay.</p>	<p>Reviewed employment contracts of employees for whom an incentive payment is proposed.</p> <p>Assessed the governance process for approving incentive payments and confirm that this has been followed.</p> <p>Reviewed bank statements post year end to gain assurance over completeness of incentive payments paid, relevant to 2022/23.</p>	<p>Results:</p> <p>The clauses in employee contracts (where present) refer to the payments as bonuses and emphasise their discretionary nature.</p> <p>Pay and performance was considered by FMPG at the Remuneration Committee in November 2022 and the bonus targets in respect of 2022/23 were agreed. 2022/23 bonus payments were approved by the Remuneration Committee in March 2023 following a Committee review of achievements of KPI's.</p> <p>FMPG sought Scottish Government approval for the 2022/23 bonus payments in March 2023 and the Deputy First Minister then advised Parliament that payments would be made 2023. At the time of our report approval has yet to be granted.</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>Conclusion:</p> <p>FMPG and Scottish Government should work together to agree arrangements to ensure approval is granted prior to bonus payments being made, see paragraphs 59-62.</p>

Source: Audit Scotland – Annual Audit Plan

FMPG needs to continue to engage with Scottish Government to achieve the outcomes set out in the five-year business plan

58. FMPG has developed a five-year business plan which was approved by the Board in June 2023 and submitted to Scottish Ministers. The business plan has assessed the potential market where FMPG is best placed to compete effectively. The business plan builds upon findings from the recent independent review undertaken by First Marine International Limited (FMI) and focuses on improving FMPG’s ability to secure future revenue. FMPG recognises that to be competitive in the broader market it must secure a guaranteed stream of work over several years. To achieve this requires investment to become a commercially viable entity with the appropriately skilled and sized workforce.

Recommendation 3

There remains a significant degree of uncertainty over the future of FMPG. Without the required investment to facilitate the transformation of the shipyard FMPG will find it challenging to secure future commercial work. FMPG must work with Scottish Government to provide clarity on the future options available.

Bonus payments have been made prior to receiving formal approval from the Scottish Government.

59. In order to incentivise and retain staff, FMPG operates a company performance related bonus scheme to certain employees within the organisation. During the year, a total of £86,551 was paid in 2022/23; £39,334 to the Chief Executive Officer and £47,217 to eight members of staff. The obligation included within the extract of the contract of employment states:

“Remuneration and Bonus: You will be entitled to participate in the Company bonus scheme, and will be eligible for an annual discretionary bonus.....

.....Any bonus will be paid at such intervals and subject to such conditions as the Company may in its absolute discretion determine, taking into account specific performance targets set by the Company during the

relevant financial year. Any bonus payment to you shall be purely discretionary and shall not form part of your contractual remuneration under this agreement. If the Company makes a bonus payment to you, it shall not be obliged to make subsequent bonus payments in respect of subsequent financial years of the Company. The Company may, at its discretion, alter the terms of any bonus arrangements (including targets) or withdraw any bonus altogether at any time without prior notice.”

60. Of the payments made in 2022/23, two recipients who do not have a bonus clause included within their original employment contract were invited to join the scheme for the 2022/23 financial year, by letter on 7 December 2022.

61. The clauses in the contracts (where present) refer to the payments as bonuses and emphasise their discretionary nature. Pay, performance and legal advice regarding the discretionary nature was considered by FMPG at the Remuneration Committee in March 2023 and the bonus payments in respect of 2022/23 were approved with payments made in April, June and August 2023 respectively. Management concluded from consideration of legal advice, that the organisation had an obligation to make the bonus payments based on performance targets met. Management have not yet set individual performance targets for 2023/24 relating to bonus payments. FMPG are in discussions with the Scottish Government around the operating model, including pay and conditions, and therefore have postponed setting any outcomes-based measures as these discussions are ongoing.

62. Under the current Framework Agreement with Scottish Government, FMPG is not required to comply with all public sector pay and conditions. However, there is an expectation that FMPG’s pay and conditions are broadly consistent with the provisions of Scottish Government Pay Policy. Any significant deviations require further approval from the Scottish Government. We would consider that bonus payments represent a significant deviation from this Policy. While Scottish Government approval was sought, FMPG did not have explicit approval prior to payment. We are content that the bonus payments made have been appropriately disclosed within the remuneration and staff report.

Recommendation 4

FMPG should ensure compliance with the Scottish Government Pay Policy, and ensure approval is granted prior to bonus payments being made.

The was no internal audit function during 2022/23

63. Public Sector Internal Audit Standards (PSIAS) are mandatory for all central government departments, agencies and executive NDPBs. The standards require the “chief audit executive” to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

64. During 2022/23 FMPG retained BDO to support their internal audit function. FMPG requested funding from Scottish Government March 2023. Following approval of the business case by Scottish Government, BDO were appointed in May 2023 and presented their Annual Internal Audit Plan for 2023/24 at the Audit and Risk Committee on 13 June 2023.

65. While FMPG has been liaising with Scottish Government since 2020 to appoint an internal audit function, BDO were only appointed as internal auditors in May 2023. As there was no internal audit function in place during the current financial year assurances over the design and operating effectiveness of internal controls was limited to management assurances.

FMPG are in discussions with the Scottish Government in agreeing a revised framework agreement

66. In 2021/22 Scottish Government finalised the Framework Agreement for FMPG. FMPG is classed as a Non-Departmental Public Body, which is fully owned by Scottish Government. The framework document sets out the obligations and requirements for FMPG as a public sector organisation including how FMPG should comply with the SPFM.

67. In the 2021/22 External Audit Report it was recommended that the Framework document was updated in the context of the business plan and future direction of FMPG in relation to full compliance with the SPFM.

68. FMPG are in discussions with the Scottish Government in agreeing a revised framework agreement. This will act as an important document in how FMPG works with the Scottish Government, following good practice and applicable aspects of the SPFM but in a way that works in a commercial operating environment. The latest iteration was shared with Scottish Government on 24 July 2023 and it is anticipated that this will be finalised by December 2023.

Recommendation 5

FMPG should continue to work with Scottish Government to agree a revised framework agreement that provides clarity on compliance with the SPFM and how they can operate in a commercial environment.

FMPG must continue to improve governance arrangements to comply with the requirements of the SPFM

69. FMPG's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that there are areas where FMPG can further improve their governance arrangements.

70. Our review of the governance arrangements of an organisation includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery, and corruption.
- Openness of board and committees.
- Reporting of performance and whether this is fair, balanced, and understandable.

71. As detailed in section 2 above FMPG recognises that risk management and corporate governance arrangements are areas where further improvements are required. As part of the Internal Audit Plan for 2023/24, these are key areas that will be subject to review.

Arrangements to consider performance against climate change need to be put in place

72. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent 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.

73. FMPG must report to Scottish Ministers on climate change annually. In 2022/23, FMPG has no formal arrangements in place to meet the target of net zero by 2045.

74. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cybersecurity arrangements continue to improve but the wider IT environment continues to require development

75. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cybersecurity 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.

76. In 2022/23, we considered FMPG's arrangements for managing and mitigating cybersecurity risks. FMPG renewed its Cyber Essentials accreditation with the certification process illustrating areas of improvement in year. We have concluded that the arrangements for maintaining the integrity and security of data within networks used by FMPG continues to improve.

77. While FMPG does not have a complex IT environment, Management have recognised that further work is required around IT and business continuity arrangements. In particular, during 2022/23 there were no organisation wide disaster recovery arrangements in place and there are opportunities to strengthen IT resilience.

4. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Main judgements

FMPG does not have a formally agreed document that details the arrangements in place to support the best value characteristics, including a systematic approach to self-evaluation and continuous improvement. In shaping the longer-term strategic direction of the organisation, FMPG will need to consider how it demonstrates best value.

FMPG should develop its approach to demonstrating Best Value

78. As detailed above, the key outcome for FMPG is the efficient delivery of 801 and 802 to the revised timelines of 31 December 2023 and 31 December 2024 respectively. In addition, FMPG needs to secure the investment necessary in the shipyard to compete and win a future programme of work in a commercial environment.

79. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

80. We considered whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We did not undertake any specific work in 2022/23. However, we confirmed that FMPG does not have a formally agreed document that details the arrangements in place to support the best value characteristics.

81. The Best Value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee.

Recommendation 6

Management should produce a formally agreed document for 2023-24 which details how it meets the best value characteristics as set out in the SPFM, and consider how this can support the future of the organisation.

Appendix. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Consideration of going concern</p> <p>We have considered FMPG's ability to continue as a going concern, for a 12-month period beyond the date of signing the 2022/23 annual report and accounts (August 2023). Recognising the nature of FMPG as an organisation we have determined in this case we cannot assess FMPG's going concern in accordance with the FRC Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). Management have highlighted the risks and uncertainties in the organisation's ability to continue as a going concern.</p>	<p>FMPG and Scottish Government must continue to work together to agree the future plans for FMPG as an organisation and to provide the clarity required to support a going concern status.</p> <p>Exhibit 2</p>	<p>Agreed management action</p> <p>FMPG and Scottish Government continue to review future risks and uncertainties, revised business plans will be made as and when appropriate.</p> <p>Responsible officer</p> <p>Chief Executive (through engagement with Scottish Government)</p> <p>Target date for implementation</p> <p>Ongoing</p>
<p>2. Property, Plant and Equipment Valuations</p> <p>Through our audit testing of property, plant and equipment we identified assets which were no longer in use / had been disposed but were still recorded on the asset register. We extended our audit procedures and are satisfied that both the gross book value (£68,000) and net book values of these assets were immaterial and had assurance over the existence</p>	<p>Management should undertake a full review of the Fixed Asset Register to confirm the existence of the assets held.</p> <p>In addition, management should reconsider the value and lives of assets still in use but included on the asset register at nil value.</p> <p>Paragraph 31</p>	<p>Agreed management action</p> <p>A full review of the Fixed Asset Register is planned for 2023/24</p> <p>Responsible officer</p> <p>Chief Financial Officer</p> <p>Target date for implementation</p> <p>March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>of property, plant and equipment and that these were free from material misstatement. We also identified that one item was excluded from the valuation exercise in year, but are satisfied this is immaterial to the accounts.</p>		
<p>3. Five-year business plan</p> <p>FMPG has developed a five-year business plan which was approved by the Board in June 2023 and submitted to Scottish Ministers. The business plan has assessed the potential market where FMPG is best placed to compete effectively.</p> <p>There remains a significant degree of uncertainty over the future of FMPG.</p>	<p>Without the required investment to facilitate the transformation of the shipyard FMPG will find it challenging to secure future commercial work. FMPG must work with Scottish Government to provide clarity on the future options available.</p> <p>Paragraph 58</p>	<p>Agreed management action</p> <p>FMPG and Scottish Government continue to review future risks and uncertainties, revised business plans will be made as and when appropriate.</p> <p>Responsible officer</p> <p>Chief Executive (through engagement with Scottish Government)</p> <p>Target date for implementation</p> <p>Ongoing</p>
<p>4. Bonus payments</p> <p>Under the current Framework Agreement with Scottish Government, FMPG is not required to comply with all public sector pay and conditions. However, there is an expectation that FMPG's pay and conditions are broadly consistent with the provisions of Scottish Government Pay Policy. Any significant deviations require further approval from the Scottish Government. . While the bonus payments are used to incentivise and retain staff and that Scottish Government approval was sought, FMPG did not have</p>	<p>FMPG should ensure compliance with the SPFM and ensure approval is granted prior to bonus payments being made.</p> <p>Paragraph 62</p>	<p>Agreed management action</p> <p>FMPG approved bonus payments to be made to the senior management team. This decision was made considering legal advice regarding the discretionary nature. A proposal to revise Senior management incentives was put forward to Scottish Government in July 2023.</p> <p>Responsible officer</p> <p>Chief Executive (through engagement with Scottish Government)</p> <p>Target date for implementation</p>

Issue/risk	Recommendation	Agreed management action/timing
explicit approval prior to payment.		September 2023
<p>5 Revised Framework Agreement</p> <p>The Framework Agreement act as an important document in how FMPG works with the Scottish Government, following good practice and applicable aspects of the SPFM but in a way that works in a commercial operating environment.</p>	<p>FMPG should continue to work with Scottish Government to agree a revised framework agreement that provides clarity on compliance with the SPFM and how they can operate in a commercial environment.</p> <p>Paragraph 68</p>	<p>Agreed management action</p> <p>Agreed</p> <p>Responsible officer</p> <p>Chief Executive (through engagement with Scottish Government)</p> <p>Target date for implementation</p> <p>December 2023</p>
<p>6 Compliance with the duty of Best Value</p> <p>The SPFM sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.</p>	<p>Management should produce a formally agreed document for 2023-24 which details how it meets the best value characteristics as set out in the SPFM, and consider how this can support the future of the organisation.</p> <p>Paragraph 81</p>	<p>Agreed management action</p> <p>Agreed</p> <p>Responsible officer</p> <p>Chief Executive (through engagement with the Scottish Government)</p> <p>Target date for implementation</p> <p>December 2023</p>

Follow-up of prior year recommendations: updated management response for 2022/23

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Business plan</p> <p>FMPG and Scottish Government have agreed the end of March 2023 as the deadline for an agreed business plan. This will be informed by the work of the consultants commissioned by Scottish Government. FMPG management have started to explore future scenarios, and what each scenario including what these scenarios would</p>	<p>In order for FMPG to produce a clear business plan the Board and management need clarity of the level of investment from Scottish Government over the course of 2023/24 and beyond.</p>	<p>Management response:</p> <p>The five-year business plan was approved by the Board and issued to Scottish Government on 16 June 2023 detailing the revenue opportunities for completion of 801 and 802, BAE work and the SVRP programme with associated costs and man hours profiled.</p> <p>A business case was also submitted for £25 million of</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>mean for the workforce, income, and risks.</p> <p>Risk: Without investment, FMPG may not be able to compete in tenders for new work, or continue to explore options.</p>		<p>capex investment in the yard which is required to secure the opportunities outlined in the business plan.</p> <p>Going forward the next annual year business plan will be submitted to the Board and Scottish Government in September with confirmation from Scottish Government early the following year. For example, Budget 24/25 will be submitted in September 2023 with confirmation from Scottish Government in January 2024.</p>
<p>2. Going concern uncertainty</p> <p>At the point of concluding the audit there were risks and uncertainties around FMPG's going concern consideration, for at least the 12 month period from the date of signing the audit report (January 2023).</p> <p>Risk: These risks and uncertainties are drawn out in FMPG's annual report and accounts.</p>	<p>In the last quarter of the 2022/23 financial year, it is important that FMPG and Scottish Government work together to resolve these uncertainties, giving clarity to FMPG on the delivery of 801 and 802, per contract, and the future plans for FMPG (commercial subsidiary). This clarity is needed for the business plan and will support the FMPG Board in further considering the organisations ability to continue as a going concern.</p>	<p>The going concern issues currently remain as Scottish Government have approved a budget of £202.6 million, with £57 million being committed for 2023/24 and the remaining £0.6 million for 2024/25.</p> <p>There is currently no confirmed commitment beyond this, and a letter of comfort has been obtained from Scottish Government committing to supporting FMPG Group to meet all financial obligations for 12 months of signing the 22/23 accounts.</p> <p>Beyond this, FMPG will seek approval of the annual business plan and confirmation of the 2024/25 budget from Scottish Government.</p>
<p>3. Nature and structure of FMPG as a public sector entity</p> <p>FMPG has been established as a non-departmental public body (NDPB) of Scottish Government. The Framework</p>	<p>It is recommended that this is re-reviewed, in the context of the business plan and future direction. There will be a cost to FMPG in being able to fully comply with the Framework document, and SPFM as</p>	<p>FMPG continue to work with Scottish Government to produce a revised Framework document with regular calls between the Scottish Government Governance team and CFO, there are</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>document, on the FMPG website took time to get agreed, with several iterations.</p> <p>This sets out that FMPG must comply with the SPFM and largely mirrors that of other NDPBs.</p>	<p>currently written and whether this cost is justifiable, in the short-term is something that should be revisited.</p> <p>Should the intention be that FMPG operates, in full, as an NDPB, compliance with SPFM will be required and the FMPG management team will need suitable support, in complying, recognising the commercial background of the leadership team, rather than of a public sector background.</p>	<p>challenges which are taking time to resolve and have included conversations with lawyers.</p> <p>We are working towards completing this by the end of December 2023.</p> <p>With reference specifically to the point of remuneration based upon performance, this is currently being discussed with Scottish Government as to how to conclude on this. There is not a confirmed resolution as yet.</p>
<p>4. Value for money assessment</p> <p>In discussions with Scottish Government it was noted that FMPG like all other public sector organisations have an obligation to demonstrate and evidence value for money in all its activities, including financial spend. This is also noted in the Accountable Officer letter formally issued by Scottish Government, to the Chief Executive, setting out their responsibilities. The letter issued to the Chief Executive of FMPG is the standard Accountable Officer letter for public sector entities.</p>	<p>Clarity needs to be given to FMPG on what value for money means in the context of FMPG, and how FMPG will be assessed as delivering VFM. Given the increasing costs of delivering 801 and 802, compared with planned, there is a recognition, looking at costs to outcome, this will not represent VFM. Therefore, what is a suitable measure and benchmark.</p>	<p>FMPG will work with Scottish Government to provide clarity on what value for money means in the context of FMPG and how FMPG will be assessed. Action carried forward.</p>
<p>5. Pay arrangements and KPI frameworks</p> <p>The framework document, as related to pay and FMPG, should be clarified, between FMPG and Scottish Government. In particular, while we note FMPG fall out with Scottish Government pay policies, the Framework document implies, that FMPG should still apply certain pay</p>	<p>Any performance that is paid, needs to be subject to appropriate governance, and be transparent in decision making, and subject to independent review and challenge, within FMPG and Scottish Government as appropriate.</p> <p>Lastly, it should be clear between FMPG and Scottish Government, on how salaries</p>	<p>The recommendation around transparency was taken on board by FMPG and in terms of all retention payments these were communicated to Scottish Government for approval before being paid.</p> <p>No approval was obtained; The Deputy First Minister advised Parliament that payments would be made. FMPG were obligated to</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>practices and where they do not, approval sought by Scottish Government in advance of payments.</p> <p>Recognising the employment contracts (Senior Management and Chief Executive) contain a potential performance related bonus FMPG and Scottish Government should agree a suitable performance framework to evaluate performance, and whether the bonus can be paid, aligned to the performance metrics agreed. It is noted that a framework was proposed and discussed at the FMPG Remuneration Committee in November 2022. This would, as we understand it, need to be approved by Scottish Government.</p>	<p>for FMPG are determined, what they are benchmarked to, and when Scottish Government approval is required, and how this will be evidenced by FMPG.</p>	<p>meet the contractual requirements for employees.</p> <p>The transparency for this is far greater than previous years. All remuneration amendments for Senior Management and CEO are approved by RemCom initially before being advised to the Board and Scottish Government for approval when required.</p>
<p>6. Register of interests</p> <p>FMPG should establish a formal register of interests to capture FMPG Board Members and the Senior Management teams declared interests, and this should be reviewed and updated where required.</p>	<p>This will then support the review of related parties required, under IAS 8, to support disclosure in the annual report and accounts.</p>	<p>There is now a formal register of interests for Board Members and Senior Management.</p>
<p>Follow-up of 2020/21 recommendations</p>		
<p>1. Strategic Planning</p> <p>Management have a potential future orders / tender pipeline. The pipeline and project planning in place as well as investment in infrastructure evidence strategic planning.</p>	<p>However, there is an opportunity to develop, working in conjunction with the Scottish Government, a medium to longer term strategic plan, underpinned with a financial strategy. This should provide clarity around the future strategic direction of the organisation, including</p>	<p>See management response to 2021/22 action point one.</p>

Issue/risk	Recommendation	Agreed management action/timing
	those of the various subsidiary companies.	
<p>2. Governance and transparency</p> <p>While operational delivery is clearly a key focus for the organisation, it will be important over the coming year that sufficient resources are in place to support the development of effective governance, risk and control arrangements and the delivery of the Audit and Risk Committee work plan.</p> <p>Specifically, the establishment of robust corporate risk management arrangements and an internal audit function.</p>	<p>Overarching this should be the agreement of the Framework document with Scottish Government (currently in draft). In addition, as a non-departmental public body (NDPB) FMPG should look at enhancing the transparency of performance and other information (including timely publication of minutes) to support public scrutiny while managing commercially sensitive information.</p>	<p>IN PROGRESS:</p> <p>2022/23 UPDATE:</p> <p>A focus of the Audit Committee in year has been the wider FMPG control environment, and how FMPG can comply with the Framework Agreement and the SPFM. We now have an internal audit function to assist in moving this forward. A draft revised Framework Agreement is in circulation and due to the unique nature of FMPG, careful consideration is being given on whether FMPG is required to comply with all aspects of the SPFM.</p>

Ferguson Marine (Port Glasgow) Holdings Limited

2022/23 Annual Audit Report

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