Ferguson Marine (Port Glasgow) Holdings Limited

2023/24 Annual Audit Report

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

October 2024

Contents

Key messages

2023/24 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. Whilst not modified, we do highlight a material risk and uncertainty over FMPG's ability to continue as a going concern. This references the risks and 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.

2 Key risks arising from the audit of FMPG's accounts were included in our 2023/24 Annual Audit Plan. While we have not identified any material misstatements through fraud or error, we identified opportunities to enhance the internal control environment, particularly in relation to segregation of duties and payroll controls. We identified a number of misstatements and presentational adjustments that FMPG has reflected within the updated annual report and accounts. The significant matters from that work are detailed within the report.

Financial management and sustainability

3 The Scottish Government has confirmed continued support for FMPG for at least a period of 12 months from the date of approval of the 2023/24 annual report and accounts, including under recoveries, for the Group. However, there is risk and uncertainty around the future financial sustainability of FMPG with no contracted work beyond the completion of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa).

4 FMPG has produced a revised five-year Business Plan which was approved by the Board in July 2024 and outlines the Board's plan to deliver a sustainable, profitable, efficient, and competitive yard under public ownership. FMPG is continuing to engage with Scottish Government to achieve the outcomes set out in the revised five-year Business Plan.

Vision, leadership, and governance

5 Significant change has taken place at a senior level with a new interim Chief Executive and Chief Financial Officer (and Accountable Officer) appointed during 2023/24.

6 In March 2024 the previous Chief Executive's contract of employment was terminated by the Board. The new interim Chief Executive (CE) was employed on a six month appointment ending in September 2024. FMPG has agreed with the interim CE to extend the contract until December 2024. It is envisaged the new permanent Chief Executive will be in post by January 2025.

7 The previous Chief Financial Officer was appointed on an interim basis and their contract ended in January 2024. A new interim Chief Financial Officer was appointed for a period of 12 months in December 2023 to ensure a planned handover. In March 2024, this appointment was made on a permanent basis. Following the termination of the former Chief Executive, who was also Accountable Officer, the decision was taken by the Board to appoint the Chief Financial Officer as the accountable officer.

8 An updated Framework Agreement was approved by Scottish Ministers in July 2024. This Framework Agreement sets out the broad framework within which the relationship will function and defines key roles and responsibilities of and between FMPG and the Strategic Commercial Assets Division of Directorate General Economy in Scottish Government (SCAD).

9 Under the Framework Agreement FMPG is not obligated to comply with public sector pay and conditions. However, FMPG must maintain regular dialogue with the SG Sponsor Directorate and with an expectation that they will align with the guiding principles of the Public Sector Pay Strategy.

10 During 2023/24 three exit packages were paid with values for each above the £95,000 threshold set out in the Scottish Public Finance Manual (SPFM). Only one of the exit packages received approval from the Scottish Government in advance of the payment being made. FMPG subsequently notified their sponsor of the other two exit packages, however no retrospective approval of these payments has been granted by the Scottish Government. These two payments do not comply with the Framework agreement and the thresholds and governance processes set out in the SPFM. However, as the contracts of employment are held with the subsidiary company and not the parent entity this is not a regularity matter which impacts on the audit opinion.

11 While FMPG made progress in establishing the provision of internal audit services during the year, Internal Audit was unable to complete sufficient work to provide overall assurance on FMPG's risk management, control and governance arrangements.

12 Internal control and governance arrangements require improvement. A management led internal review identified a lack of robust policies and procedures, segregation of duties, and governance around payroll and supplier contract management arrangements. During the year FMPG had a contract in place with an individual as a third-party supplier when the individual was already seconded to the organisation from Caledonian Maritime Assets Limited (CMAL).

13 While we understand the additional contract, originally as an employee and amended to a third-party supplier, was to reflect the additional responsibilities and time spent working with FMPG over and above the secondment arrangement, this was not documented or evidenced. In addition, changes in terms and conditions under the contract were not subject to scrutiny from the Remuneration Committee or Board. There is no clear rationale for this arrangement or how it demonstrated value for money to the organisation. In addition, there was a lack of oversight or scrutiny of the arrangement.

14 Management have terminated the contract with the individual and the secondment arrangement with CMAL. FMPG have recognised that arrangements need to be strengthened to ensure there is appropriate segregation of duties and improved transparency and reporting to the Board.

Use of resources to improve outcomes

15 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 that it is a commercially sustainable operation and delivers best value.

Introduction

1. This report summarises the findings from the 2023/24 audit of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) and its group.

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 an Annual Audit Plan presented to the 21 March 2024 meeting of the Audit and Risk Committee. 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.

4. This report is addressed to the Board of 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

5. John Boyd has been appointed by the Auditor General for Scotland as auditor of FMPG for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of the five-year appointment.

6. We would like to thank Board members, the Audit and Risk Committee, directors, and finance staff for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

Responsibilities and reporting

7. 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 the Scottish Ministers. FMPG is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

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

9. 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.

10. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

11. 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. As a result of control weaknesses identified during our audit work, we undertook additional audit procedures to obtain the assurances necessary for our audit opinion. As a result of the additional audit resource required, we have agreed with Management an increase of £6,000 to our planned audit fee. Our final audit fee was therefore £59,850. We are not aware of any relationships that could compromise our objectivity and independence.

12. The annual audit adds 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 2023/24 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 public funds.

Main judgements

Our audit opinions for Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) and its group annual report and accounts are unmodified. Whilst not modified, we do highlight a material risk and uncertainty over the FMPG's ability to continue as a 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 2023/24 Annual Audit Plan. While we have not identified any material misstatements through fraud or error, we identified opportunities to enhance the internal control environment, particularly in relation to segregation of duties and controls around human resources and payroll.

Our audit opinions for FMPG and its group annual report and accounts are unmodified. Whilst not modified, we do highlight a material risk and uncertainty over the going concern

13. The annual report and accounts for the year ended 31 March 2024 were approved for issue by the Accountable Officer on 31 October 2024, following the meeting of the Audit and Risk Committee of 16 October 2024 and Board approval on 17 October 2024. 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 Government Financial Reporting Manual

- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

14. Whilst 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

15. 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.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£1.000 million
Performance materiality	£0.750 million
Reporting threshold	£50,000

Source: Audit Scotland

17. 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 bonus payments disclosures within the remuneration and staff report. While FMPG does not directly employ staff, the accounts disclose the remuneration and staff costs of the group.

18. 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. Performance materiality was set at 75 per cent of overall materiality, reflecting a history of minimal errors and no significant issues noted during planning.

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

Significant findings and key audit matters

20. 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.

21. 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.

22. The significant findings are summarised in Exhibit 2.

Exhibit 2

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

Issue	Resolution
1. Consideration of going concern We have considered FMPG's ability to continue as a going concern, for a 12-month period beyond the date of signing the 2023/24 annual report and accounts (October 2024). 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 (PN10): Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). We have concluded under PN10 the continuing service provision does not apply. Whilst 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.	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 in the Notes to the accounts on pages 28 and 29). This highlights the uncertainty surrounding the future income and cash flows beyond the contracted sums for completion of vessels 801 (Glen Sannox) and802 (Glen Rosa). While the Scottish Government has reaffirmed the commitment to support a sustainable future for FMPG, there remains considerable risk and uncertainty surrounding the future cost of the completion of 802, the ability to generate future revenue streams and the level of support required by the Group. 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

Issue	Resolution
	12 months from the date of signing our opinion. **Recommendation 1** (Refer Appendix 1, action plan)
2. Exit packages During 2023/24 three exit packages were paid with values for each above the £95,000 threshold set out in the Scottish Public Finance Manual (SPFM). Only one of the exit packages received approval from the Scottish Government in advance the payment being made. FMPG subsequently notified their sponsor of the other two exit packages, however no retrospective approval of these payments has been granted from the Scottish Government.	See paragraphs 54-58 below. **Recommendation 4** (Refer Appendix 1, action plan)

Source: Audit Scotland

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

23. 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 identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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.	Assessed the design and implementation of controls over journal entry processing. 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.	Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff

Audit risk	Assurance procedure	Results and conclusions
	Tested journals at the year-end and post-closing entries and focused on significant risk areas. Considered the need to test journal entries and other adjustments throughout the year. Evaluated significant transactions outside the normal course of business. Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. Reviewed accounting estimates for management biases and evaluated whether any such bias represents a risk of material misstatement due to fraud. Substantive testing of income and expenditure transactions around the year-end to confirm if they are accounted for in the correct financial year. Review of material accounting estimates including accruals and prepayments to confirm no indication of management bias.	as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals. **Conclusion:** We have not identified any material misstatement due to fraud caused by management override of controls.
2. Presumed risk of fraud over expenditure recognition under ISA (UK) 240 and PN 10 Staff costs are well-forecast and reconcile to the payroll system and underlying records. Similarly, depreciation charges are well-forecast and applied on a systematic basis. Therefore, we do not consider	Assessed the design of controls over expenditure including those in relation to recording transactions around the year end. Tested pre and post year end non pay expenditure to an elevated risk level to confirm expenditure was recorded in the correct financial year.	Work undertaken included increased testing on non-payroll / non depreciation expenditure transactions around the year end being those assessed as at most of risk of material misstatement in the accounts.

Audit risk	Assurance procedure	Results and conclusions
these expenditure streams of significant risk of material misstatement. Therefore, our audit focus will be on the remaining administrative and operating expenditure (cost of sales) in relation to vessels Glen Sannox and Glen Rosa. We consider the risk to be most pertinent around the year end where there is greatest incentive and opportunity to misstate expenditure given the level of oversight of expenditure in year and focus on year-end outturn results. We consider the main risk to be around the year-end and therefore our focus will be on cut-off of non-pay expenditure.	Tested post year end bank transactions for expenditure items to identify any potential unrecorded expenditure.	**Conclusion:** We are satisfied through audit procedures performed that there has not been a material misstatement in expenditure recognition through fraud. During the course of our audit we identified errors in the recognition of expenditure in the year (detailed in paragraph 25). We are satisfied these were not indicative of fraud and satisfied that unadjusted errors are immaterial to the financial statements.

Source: Audit Scotland Annual Audit Plan 2023/24

24. In addition, we identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Going Concern disclosure** – see issue 1 in Exhibit 2
- **Property, Plant and Equipment Valuations** – We reviewed the arrangements at FMPG to ensure that valuations recognised in the accounts are free from material misstatement. 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.
- **Remuneration and Staff Report** – We reviewed the Remuneration and staff Report in the accounts. There were a number of adjustments required to the disclosure (see paragraph 27). These have been corrected by management. We have separately considered decision making processes on remuneration and exit package disclosures in Section 3, paragraphs 54 to 58.

There were several misstatements identified within the financial statements

25. During the course of the audit, several misstatements above our reporting threshold were identified.

- Builders' Risk Insurance: A review of insurance policies identified an overall overstatement of expenditure of £870,713 in the 2023/24 unaudited financial statements. Management adjusted for £300,000 of this amount with the corresponding entry being a reduction in accruals but has not adjusted for the remaining £570,713 which should be recognised as a prepayment as at 31 March 2024 in the financial statements rather than expenditure.

- Employers liability insurance: the policy covers the period 2023/24 and 2024/25 financial years; however no prepayment had been recognised for this. An adjustment of £55,586 was required to account for the prepayment in year. The adjustment also required reclassification of £133,000 of income and expenditure.

- Expenditure: our review identified that expenditure of £361,922 had been incurred during 2022/23 but had not been accrued. As such the expenditure had been incorrectly recognised within the 2023/24 financial statements. As the amount is below our performance materiality threshold, no prior year adjustment is required.

- Performance penalties: £1 million of Performance penalties were recorded in accruals and receivables - the correct accounting treatment is to recognise these through provisions and contingent liabilities, with the increase in provisions of £425,000 recognised through expenditure. The client has updated the financial statement to reflect this adjustment and added a note explaining that there is a further contingent liability of £425,000.

- Trade payables and accruals/deferred income: there was a reallocation of £495,000 required to correct an understatement of trade payables and a corresponding overstatement of accruals and deferred income identified. This also resulted in the creation of a prepayment of £42,049 and corresponding decrease in expenditure.

- Revaluation reserve: there is a requirement that a transfer is made from the Revaluation Reserve to the General Reserve (Retained Earnings for FMPG) for assets measured at current value for the difference between the depreciation charge and the depreciation that would have been charged if the asset was carried at historical cost. FMPG have had a revaluation each year, but have not made any transfers between the Revaluation Reserve and Retained Earnings. An adjustment has been made to the Statement of Changes in Taxpayer Equity reducing the Revaluation Reserve and increasing Retained Earnings each by £158,000.

- Capital contribution: Ferguson Marine (Port Glasgow) Limited and Ferguson Marine (801-802) Limited have received grants that are treated as financing received from the controlling entity, which is Scottish Ministers. The receipts are recorded as a financing transaction and are credited directly to the Capital Contribution reserve in the Consolidated Statement of Financial Position. The Scottish Government have provided financial support to FMPG during the year including the funding of under-recoveries and the loss on BAE contracts as well as funding in relation to an external contract liability of £155,000 paid for on FMPGs behalf. Following late clarification around the accounting recognition for these transactions, the audited accounts have been updated to reflect the full capital contribution of £1.197 million in the year (unaudited accounts £0.538 million).

- Cash flow statement: there is an unidentified difference of £140,000 within the cashflow statement.

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

27. There were a number of adjustments required to the remuneration and staff report which have been corrected by Management including:

- Completeness of relevant persons/Directors required to be updated
- Disclosure of non-cash benefits were required to be added
- Exit packages
- Fair pay disclosures
- Remuneration and Pension Benefits of the Board Members

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

- **Internal audit assurance**: In September, the Internal Audit Annual Report disclosed a number of control weaknesses. The governance statement should detail the process applied in reviewing the effectiveness of the system of risk management and internal control, including explaining what actions have been or are being taken to remedy any significant failings or weaknesses. Management should disclose any key control weaknesses, management responses and progress in addressing these. The governance statement was amended to include this detail.

- **Significant events:** there were no significant events noted within the governance statement. This was updated to disclose the termination of the former Chief Executive’s contract and areas of identified opportunities to enhance internal controls, risk management and governance arrangements.

- **Meetings:** the governance statement was updated to include how many times the Board and sub-committees met in 2023/24.

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

29. We received the unaudited annual report and accounts on 3 June 2024 in line with the agreed audit timetable. The annual report and accounts submitted for audit were of a reasonable standard as were the supporting working papers. There is an opportunity for more detailed reconciliations to be undertaken with supporting working papers to support the figures included within the unaudited annual report and accounts presented for audit. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Some progress was made on prior year recommendations but further work is required

30. FMPG has made some progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

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.

Conclusion

FMPG has produced a revised five-year Business Plan which was approved by the Board in July 2024 and outlines the Board's plan to deliver a sustainable, profitable, efficient, and competitive yard under public ownership.

There is risk and uncertainty around the future financial sustainability of FMPG with no contracted work beyond the completion of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa). FMPG is continuing to engage with Scottish Government to achieve the outcomes set out in the revised five-year Business Plan.

While FMPG made progress in establishing the provision of internal audit services during the year, internal audit was unable to complete sufficient work to provide overall assurance on FMPG's risk management, control and governance arrangements.

Audit work has addressed the wider scope risks identified in the Annual Audit

31. Exhibit 4 sets out the wider scope risks relating to Financial Management and Financial sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

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

Audit risk (as per the Annual Audit Plan)	Audit Response	Conclusion
1. Short and Long-Term Financial Sustainability FMPG faces significant financial uncertainty. With MV Glen Sannox and MV Glen Rosa due for completion on 30 June 2024 and 30 September 2025 respectively and limited work out with these vessels currently secured, there is significant uncertainty around future revenue beyond these contracts. In the short term, Scottish Government has also only contractually committed to annual budgeted funding for 2024/25 and therefore there remains risk and uncertainty over short term finances. In addition, FMPG recognise the need to invest in more efficient yard equipment, competitive employee benefits for yard workers, and implementation of their Digital Strategy to deliver a competitive, financially sustainable operating model.	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. Reviewed FMPG's strategic and financial plans around how it will look to deliver a financially sustainable operating model. Considered the progress made by FMPG in securing additional contracted work beyond the completion of vessels MV Glen Sannox and MV Glen Rosa.	**Results:** With the expected completion of MV Glen Sannox and MV Glen Rosa in the next 12 months, and limited work out with these vessels currently secured, there is significant uncertainty around the future revenue beyond these contracts. The Scottish Government have provided assurances around continued support for group for at least a period of 12 months from the date of approval of the annual report and accounts. The Business Case outlines forecast scenarios for the yard. However, management recognise it is critical to secure future work beyond the completion of MV Glen Rosa to support the medium to longer term financial sustainability of the yard. **Conclusion:** There is risk and uncertainty around the future financial sustainability of FMPG with no contracted work beyond the completion of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa).
2. Financial Management and Value for Money As a non-departmental public body, FMPG is required to comply with the Scottish Public Finance Manual (SPFM), which requires them to demonstrate Value for Money across its activities. It is unclear how FMPG demonstrates value for	Evaluated updated strategies or business plans including scenario planning. Assessed the extent to which FMPG has established and embedded financial and non-financial performance management	**Results:** The updated five-year business plan includes scenario planning. The Scottish Government has verbally agreed to provide £14.2 million of funding to FMPG to support capital investment in the yard and enable it to be commercially competitive. The business plan included assumptions around the direct award for the Small Vessells Replacement

Audit risk (as per the Annual Audit Plan)	Audit Response	Conclusion
money in the context of its operational and strategic objectives.	arrangements to enable it to demonstrate sound financial management and value for money. Reviewed the progress made by management in engaging with the Scottish Government to clarify how FMPG should seek to fulfil its obligations relating to value for money.	Programme (SVRP) and management will need to work with Scottish Government around ensuring capital investment and business planning is targeting at securing the long term sustainability of the yard. An updated Framework Agreement has been agreed by the Scottish Government and provides some clarification on FMPG's obligations relating to value for money on a commercial basis including: • meeting the objectives in FMPG Group's own business plans • meeting key delivery dates for the vessels MV Glen Sannox and MV Glen Rosa • improving productivity and performance targets; and, • staying within allocated and approved budgets. **Conclusion:** FMPG has made progress in the year working with the Scottish Government to develop and agree its business plan and Framework Agreement. FMPG should now establish a strategy for ensuring that these obligations and commitments in demonstrating value for money are met.

Source: Audit Scotland – Annual Audit Plan 2023/24

FMPG reviewed its financial monitoring arrangements to support the completion of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa)

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

33. FMPG reported a group pre-tax net deficit of £1.322 million for the financial year 2023/24 (2022/23 net deficit of £0.866 million). The ongoing deficit is primarily a result of the continued cost in investment and turnaround activity in the yard not covered through contracted income. The Scottish Government is providing support to the Group during 2024/2025 through capital contributions.

34. Financial performance and budget monitoring is performed at Board meetings, which occur on a bi-monthly basis. During the year the budget and forecasting reports were not accepted by the Board at either the November 2023 or January 2024 meetings due to concerns around the accuracy and format of the reports. These were revised during the year with the March 2024 position being agreed. These key forecasts include the risk element for the completion of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa) and this has meant that recent delays are not expected to impact the total forecast cost of the vessels.

35. The Board considered a finance report in May 2024, which confirmed that the total cost to FMPG to complete as at May 2024 was £150 million (including contingency for risks of £3.8 million) in respect of MV Glen Sannox and £150 million (including contingency for risks of £14.0 million) in respect of MV Glen Rosa. The overall projections remain up to date as at October 2024. In addition to the direct costs of the delivery of the vessels, additional investment in the yard from the Scottish Government in the form of capital contributions (which includes under-recovery costs of £700,000) are detailed below:

	801-802 costs £million	Other Investment £million	Total Scottish Government funding £million
Vessels costs invoiced to May 2024	219.1	-	219.1
FMPG total costs to complete	63.1	-	63.1
Contingency / risk factor	17.8	-	17.8
Capital Contributions to 31 March 2024	-	31.57	31.57
Total	**300.0**	**31.57**	**331.57**

Source: FMPG Financial Statements, financial forecasts – May 2024, and financial cash projections

The Scottish Government has confirmed continued support, including under recoveries, for the Group. However there remains considerable uncertainty around the longer term financial sustainability

36. In July 2024, the Scottish Government wrote to FMPG confirming that for at least a period of 12 months from the date of approval of the 2023/24 annual report and accounts (Support Period), to continue to provide support to the Group. This provided continued support for the delivery of vessels 801 (MV Glen Sannox) and 802 (MV Glen Rosa) as well as under-recovered expenditure incurred. The letter also states that; '*This confirmation of continuing support to the Group is intended to confirm only the Scottish Government's policy regarding the Support Period. It is not to be construed as constituting a promise or warranty as to future conduct in that period or otherwise, or as imposing on Scottish Ministers any obligation beyond the Framework Agreement, or in conflict with, the requirements of the SPFM or any applicable law.*

37. The Scottish Government is working with FMPG to monitor, manage and fund the 2024/2025 Under Recoveries. These reflect the costs incurred by FMPG in relation to future developments and tenders that are not incurred in completing vessels 801 and 802 and any commercial contracts. Management forecast these costs to rise to approximately £1 million per month during 2024/25.

38. FMPG have a £7 million working capital loan from Scottish Government to support cash flow where there are timing differences between funding reimbursements from Scottish Government and FMPG paying their suppliers and other expenses. It is anticipated this will be paid back in full on completion of MV Glen Rosa (802 project). With the completion of MV Glen Rosa, and the decision to not directly award the SVRP, management recognise the importance of securing future orders to provide long term financial sustainability of the yard.

FMPG needs to continue to engage with Scottish Government to achieve the outcomes set out in the revised five-year Business Plan

39. FMPG has produced a revised five-year Business Plan which was approved by the Board in July 2024 and outlines the Board's plan to deliver a sustainable, profitable, efficient, and competitive yard under public ownership. Over the five-year period the business plan outlines that it will deliver a comprehensive productivity improvement programme, enabling the yard to bid competitively for a strong pipeline of future small vessels.

40. The foundation of the business plan was the direct award of the Small Vessel Replacement Programme (first seven ferries/SVRP) noting that FMPG has a track record of delivering vessels of this size, and nature, on time and on budget. In addition, FMPG notes that the delivery of the plan requires capital investment over an 18-24 month period, commencing in early summer 2024.

41. Whilst the Scottish Government has indicated its intention to provide capital funding of £14.2 million in July 2024, it has been confirmed that the SVRP contract will go out to tender, so will not be directly awarded to FMPG.

Recommendation 2

There remains a significant degree of uncertainty over the future of FMPG. The Scottish Government and FMPG must work together to provide clarity on the future options available.

Internal audit was unable to provide assurance on the overall risk management, control and governance arrangements within the organisation

42. FMPG's internal audit function is carried out by BDO, who were appointed in May 2023. The Internal Audit Plan was presented to and approved by the Audit and Risk Committee in June 2023 setting out the proposed audit topics to be undertaken during the year.

43. An internal audit progress report was presented to the Audit and Risk Committee in July 2024 to advise of progress against the Internal Audit Plan 2023/24. Three reviews were completed during 2023/24 including Risk Management, Payroll and IT General Controls. Each report concluded that for both the design of internal control framework and the operational effectiveness of internal controls, only limited assurance could be provided.

44. In September 2024 internal audit presented their Annual Report for 2023/24, which includes the Annual Statement of Assurance, to the Audit and Risk Committee. The report noted that there have been significant delays to the commencement and completion of reviews that were agreed within the 2023/24 internal audit plan. Internal audit highlighted that changes in senior management and the loss of key personnel as well as a focus on the delivery of vessels has been a contributing factor to the lack of progress in internal audit reviews. In addition, they reported that management needs to ensure that internal audit actions are implemented in a timely manner to enhance the risk management, control and governance processes.

45. As a result, internal audit have been unable to complete enough reviews to provide an opinion on the overall risk management, control and governance arrangements within the organisation. Furthermore, internal audit were unable to provide assurance over the implementation of the recommendations made.

Recommendation 3

Progress has been made in establishing the provision of internal audit services and the completion of some internal audit reviews. However, Management needs to engage with internal audit to ensure that appropriate support is provided to progress the programme of work outlined within the Internal Audit Plan.

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.

Conclusion

Significant change has taken place at a senior level with a new interim Chief Executive and Director of Finance (and Accountable Officer) appointed during 2023/24. It is envisaged the new permanent Chief Executive will be in post by January 2025.

An updated Framework Agreement was approved by Scottish Ministers in July 2024. This Framework Agreement sets out the broad framework within which the relationship will function and defines key roles and responsibilities of and between FMPG and the Strategic Commercial Assets Division of Directorate General Economy in Scottish Government (SCAD).

Under the Framework Agreement FMPG is not obligated to comply with public sector pay and conditions. However FMPG must maintain regular dialogue with SG Sponsor Directorate and with an expectation that they will align with the guiding principles of the Public Sector Pay Strategy.

During 2023/24 three exit packages were paid with values for each above the £95,000 threshold set out in the Scottish Public Finance Manual (SPFM). Only one of the exit packages received approval from the Scottish Government in advance the payment being made. FMPG subsequently notified their sponsor of the other two exit packages, however no retrospective approval of these payments has been granted by the Scottish Government.

FMPG must continue to make improvements to both the control environment and the governance arrangements to ensure compliance with the requirements of the SPFM.

An internal investigation identified a lack of segregation of duties and corporate governance weaknesses.

Significant change has taken place at a senior position at both the non-executive and officer level with a new interim Chief Executive and Director of Finance (and Accountable Officer) appointed during 2023/24

46. In March 2024 the then Chief Executive's contract of employment was terminated by the Board. The decision to terminate the contract was in relation to unsatisfactory performance and was subject to approval by the Scottish Government. The former Chief Executive was subject to a performance related bonus payment in the previous year.

47. In March 2024 the previous Chief Executive's contract of employment was terminated by the Board. The new interim Chief Executive (CE) was employed on a six month appointment ending in September 2024. FMPG has agreed with the interim CE to extend the contract until December 2024. It is envisaged the new permanent Chief Executive will be in post by January 2025.

48. The previous Chief Financial Officer was appointed on an interim basis and their contract ended in January 2024. A new interim Chief Financial Officer was appointed for a period of 12 months in December 2023 to ensure a planned handover. In March 2024, this appointment was made on a permanent basis. Following the termination of the former Chief Executive, who was also Accountable Officer, the decision was taken by the Board to appoint the Chief Financial Officer as accountable officer.

49. There has also been significant change at a non-executive level during the year. There has been a review of the governance arrangements to improve the committee structure and the frequency of meetings. Whist this review is welcome, FMPG should assess whether the existing cohort of non-executives provides sufficient capacity to support the updated committee structure.

An updated Framework Agreement was approved by Scottish Ministers in July 2024

50. 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.

51. An updated Framework Agreement was approved by Scottish Ministers in July 2024. This Framework Agreement sets out the broad framework within which the relationship will function and defines key roles and responsibilities of and between FMPG and the Strategic Commercial Assets Division of Directorate General Economy in Scottish Government (SCAD). The Framework Agreement describes certain parameters within which:

- FMPG is expected to operate and comply
- certain responsibilities of Scottish Ministers as the Shareholder of FMPG
- the expected interaction between FMPG and SCAD on behalf of Scottish Ministers as the Shareholder of FMPG, all of which articulate FMPG's operational and administrative independence.

52. Particular strategic aims and objectives, as agreed by Scottish Ministers, are to:

- Complete the two vessels MV Glen Sannox and MV Glen Rosa currently under construction within the designated timeframes
- Ensure that appropriate staff numbers with the necessary skills and expertise are employed from time to time consistent with anticipated yard order book
- Improve yard productivity including by means of development of business cases to facilitate yard and equipment upgrades to meet the requirements of future customers and thus develop a pipeline of new business to ensure the future commercial viability of FMPG
- Engage in the activity of the business in a way which enables continuous improvement, promotes innovation and complies with relevant legislation and public policy requirements.

53. This will support 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.

Exit package payments were made without approval from the Scottish Government

54. Under the Framework Agreement Scottish Ministers, on the basis of evidence presented by officials and in line with the view of the Scottish Government Remuneration Group, have decided that FMPG should not be obligated to comply with public sector pay and conditions. This exemption from compliance with public sector pay and conditions is on the condition that FMPG maintain regular dialogue with the SG Sponsor Directorate and with an expectation that they will align with the guiding principles of the Public Sector Pay Strategy as outlined within the Framework Agreement.

55. During 2023/24 three exit packages were paid with values for each above the £95,000 threshold set out in the Settlement Agreements, Severance, Early Retirement and Redundancy Terms section of the Scottish Public Finance Manual (SPFM). Only one of the exit packages, being that of the former Chief Executive Officer, received approval from the Scottish Government in advance of the payment being made.

56. FMPG subsequently notified their sponsor of the other two exit packages, however no retrospective approval of these payments has been granted by the Scottish Government. We consider this a significant deviation from the expected governance processes as outlined within the Framework Agreement and the Settlement Agreement, Severance, Early Retirement and Redundancy Terms section of the SPFM.

57. FMPG has not been able to provide any documented process or evidence of who has the delegated authority for decision making around employment termination and exit payments. The SPFM is clear that Settlement Agreements should not be used to deal with poor performance or attendance. As FMPG do not have formal policies and limited documentation to support the internal decision making it is difficult to ascertain whether these decisions have been made appropriately.

58. As the contracts of employment are held with the subsidiary company and not the parent entity this is not a regularity matter which impacts on the audit opinion.

Recommendation 4

FMPG should put policies in place to improve governance arrangements in relation to decision making, approval and transparency of reporting.

In addition, FMPG should ensure compliance with the Framework Agreement and the Settlement Agreements, Severance, Early Retirement and Redundancy Terms section of the SPFM.

FMPG must continue to make improvements to both the control environment and the governance arrangements to ensure compliance with the requirements of the SPFM

59. 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.

60. 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.

61. Our review of financial controls identified weaknesses within the payroll control environment. We also found a number of weaknesses within the IT general control environment. The weaknesses we identified are in line with the internal audit findings in their report on payroll and IT controls issued in May 2024. We obtained sufficient assurances that the control deficiencies did not result in a material misstatement within the annual report and accounts.

62. Management have taken actions to address these recommendations, including segregation of duties. These arrangements were predominantly implemented in 2024/25 and it is too early to conclude on whether these issues have been satisfactorily addressed.

Recommendation 5

FMPG must continue to make improvements to both the control environment and the governance arrangements to ensure compliance with the requirements of the SPFM.

FMPG should review the organisational capacity to support improvements to both the control and governance environment.

An internal management investigation identified a lack of segregation of duties and corporate governance weaknesses

63. During 2024 an internal management investigation of contractor payments identified weaknesses in the governance arrangements and transparency of reporting to and approval by the Board. The investigation identified that the former CEO approved the following without the knowledge of the Board or the Remuneration Committee:

- A contract variation letter approving the appointment of a secondee onto the FMPG payroll, paying a salary of £36,000
- A revised contract variation letter, increasing the salary to £54,000
- Agreeing a change in how the secondee was paid, from an employee of FMPG to payments being made to a limited company where the employee was the sole Director.

64. The investigation has confirmed that a total of £144,685 (£120,571 plus VAT) was invoiced by the limited company to FMPG in the period from February 2023 until March 2024. None of the invoices were approved by the FMPG Board or the Remuneration Committee; they were unaware of the change from payroll to self-employed status. Following the termination of the former CEO in March 2024 no further invoices were paid.

65. The off payroll working rules follow the principle that a worker (sometimes known as a contractor) should pay broadly the same income tax and national insurance as an employee would. The rules apply if the worker who provides services to a client through their own intermediary would have been an employee if they were providing their services directly to that client. The rules are sometimes known as 'IR35'.

66. In most cases, the client will be responsible for determining the employment status of the worker. The former CEO completed an IR35 HM Revenue & Customs (HMRC) toolkit which concluded that IR35 did not apply. However, the internal investigation has concluded that a number of responses appear inaccurate.

67. Where an incorrect determination has been made, there is a requirement to make a voluntary disclosure to HMRC, explaining the error and calculating the income tax and National Insurance due. This will also result in interest on any late payments of tax, from the date they were originally due, until the date paid. HMRC may also charge a penalty on any underpaid taxes.

68. FMPG has calculated that an underpayment of £48,000 in respect of PAYE is payable to HMRC.

Recommendation 6

FMPG have recognised that arrangements need to be strengthened to ensure appropriate segregation of duties and improved transparency and reporting to the Board. FMPG should consider whether an independent review of the revised arrangements should be undertaken, including consideration of the investigation process, to provide assurance that the weaknesses in governance arrangements have been addressed.

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

69. 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.

70. In 2023/24, we considered FMPG's arrangements for managing and mitigating cyber security risks and identified a number of weaknesses which correspond to the required improvements identified by internal audit. In response to Internal Audit's findings, management are implementing an improvement action plan.

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.

Conclusions

FMPG does not have a formally agreed document that details the arrangements in place to support the best value characteristics. 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

71. As detailed above, the key outcome for FMPG is meeting key delivery dates for the vessels MV Glen Sannox and MV Glen Rosa respectively. In addition, FMPG needs to meet the objectives in its own business plans and improve productivity and performance targets.

72. 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.

73. In 2022/23 we considered whether Accountable Officers had appropriate arrangements to satisfy their duty of best value. We confirmed that FMPG did not have a formally agreed document and recommended that the best value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics.

74. During 2023/24 management have been working with Scottish Government to develop and document how it can demonstrate and monitor best value through self-evaluation and continuous improvement. In addition, management is engaging with Internal Audit to provide ongoing support and advice.

Recommendation 7

FMPG should continue to work with Scottish Government to demonstrate how it meets the best value characteristics and consider how this can support the future of the organisation.

There is a risk that without project planners, it will be difficult for FMPG to accurately forecast the cost and time to complete MV Glen Rosa

75. FMPG is currently without project planners for the completion of MV Glen Rosa. Project planners typically have oversight of planning and scheduling of a project, and estimating costs of materials, labour and equipment with the aim to complete a building project as efficiently as possible. Management have advised that they will use internal expertise to enable the effective business planning. However, we recognise that this is a time consuming process and without dedicated and experienced project planners, there is a risk that costs and timing to complete MV Glen Rosa will be inaccurately forecast, or that there will be otherwise avoidable inefficiencies.

76. FMPG have recognised this risk and are working towards suitable solutions to support essential business planning and forecasting for the completion of MV Glen Rosa.

The updated Framework Agreement provides some clarity on what FMPG's obligations are in relation to how they are expected to improve outcomes through use of resources

77. In the 2022/23 AAR there was a recommendation brought forward from the 2021/22 AAR with relation to FMPG's obligations to improve outcomes through use of resources. The recommendation was for FMPG to work with Scottish Government to obtain clarity on what value for money means in the context of FMPG and how they should assess this.

78. The Framework Agreement has been updated, and states that Scottish Ministers should be advised on whether FMPG is delivering value for money on a commercial basis by:

- meeting the objectives in FMPG Group's own business plans
- meeting key delivery dates for the vessels MV Glen Sannox and MV Glen Rosa
- improving productivity and performance targets and
- staying within allocated and approved budgets.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Consideration of going concern We have considered FMPG's ability to continue as a going concern, for a 12-month period beyond the date of signing the 2023/24 annual report and accounts (October 2024). 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.	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.	**Accepted** FMPG will continue to work together with SG on future plans for the Company, via tendering for future work, Joint Ventures, Commercial Agreements and cost control via rightsizing plans if and when appropriate, relative to the Revenue streams in any Forecast or Business Plan. **Responsible officer** David Dishon, CFO **Agreed date** 31 January 2025
2. Revised five year business plan FMPG has produced a revised five-year Business Plan. The foundation of the business plan is the direct award of the Small Vessel Replacement Programme.	There remains a significant degree of uncertainty over the future of FMPG. The Scottish Government and FMPG must work together to provide clarity on the future options available. Paragraph 41	**Accepted** FMPG will continue to work together on future plans for the Company, via tendering for future work, and will look to minimise the risk of SVRP not being awarded to FMPG by tendering for other work. **Responsible officer** David Dishon, CFO

Issue/risk	Recommendation	Agreed management action/timing
Risk – The SVRP contract will go out to tender, so will not be directly awarded to FMPG.		**Agreed date** 31 March 2025
3. Engagement with Internal Audit In September 2024 internal audit presented their Annual Report for 2023/24, which includes the Annual Statement of Assurance, to the Audit and Risk Committee. The report noted that there have been significant delays to the commencement and completion of reviews that were agreed within the 2023/24 internal audit plan. **Risk** – FMPG do not receive independent assurance around its internal controls, risk management and governance arrangements.	Progress has been made in establishing the provision of internal audit services and the completion of some internal audit reviews. However, Management needs to engage with internal audit to ensure that appropriate support is provided to progress the programme of work outlined within the Internal Audit Plan. Paragraph 45	**Partially accepted** The Company needs a period of stability within the Management structure to allow for the key staff to engage with Internal Audit. The last year had significant turnover of senior management which did not help with the bandwidth of other staff to engage with Audit. **Responsible officer** David Dishon, CFO **Agreed date** 31 December 2024
4. Exit package payments During 2023/24 three exit packages were paid with values for each above the £95,000 threshold. Only one of the exit packages received approval from the Scottish Government in advance of the payment being made. The client has not been able to provide any documented process or evidence of who has the delegated authority for decision making around employment termination and exit payments. **Risk –** FMPG do not have formal policies and limited documentation to support internal decision making.	FMPG should put policies in place to improve governance arrangements in relation to decision making, approval and transparency of reporting. In addition, FMPG should ensure compliance with the Framework Agreement and the Settlement Agreements, Severance, Early Retirement and Redundancy Terms section of the SPFM. Paragraph 58	**Accepted** FMPG have now put new policies in place after the appointment of David Dishon as Accountable Officer and a more regular and structured Remunerations Committee through the appointment of an experienced NXD with a robust HR and governance background. A regular refresher of SPFM rules will take place by the new AO to the FMPG Board. **Responsible officer** David Dishon, CFO **Agreed date** 31 October 2024

Issue/risk	Recommendation	Agreed management action/timing
5. Control and governance arrangements Our review of financial controls identified weaknesses within the payroll control environment. We also found a number of weaknesses within the IT general control environment. **Risk –** FMPG do not have adequate controls or governance arrangements to detect fraud or error.	FMPG must continue to make improvements to both the control environment and the governance arrangements to ensure compliance with the requirements of the SPFM. FMPG should review the organisational capacity to support improvements to both the control and governance environment. Paragraph 62	**Partially accepted** It is accepted that the payroll control checks were not robust enough, but there have been significant improvements in this area through better working between Finance and HR and more robust monthly checks in place. **Responsible officer** David Dishon, CFO **Agreed date** 30 November 2024
6. Segregation of duties During 2023/24 an internal management investigation of contractor payments identified weaknesses in governance arrangements and transparency of reporting to and approval by the Board. FMPG has calculated that an underpayment of £48,000 in respect of PAYE to HMRC. **Risk –** FMPG do not have adequate controls or governance arrangements to detect fraud or error.	FMPG have recognised that arrangements need to be strengthened to ensure appropriate segregation of duties and improved transparency and reporting to the Board. FMPG should consider whether an independent review of the revised arrangements should be undertaken, including consideration of the investigation process, to provide assurance that the weaknesses in governance arrangements have been addressed. Paragraph 68	**Accepted** Fully accepted that the decisions made by the AO and Senior Management in regard to the contractor lacked governance and transparency to Board and Board Committees. The internal governance has been significantly tightened up and a Voluntary Disclosure was made to HMRC as soon as the investigation was concluded. There are processes in place now that stop this type of governance breach reoccurring and a change in culture to one where staff at a lower level feel empowered to challenge Executives on decisions such as this are fully embedded now. **Responsible officer** David Dishon, CFO **Agreed date** 31 July 2024

Issue/risk	Recommendation	Agreed management action/timing
7. Compliance with the duty of Best Value The SPFM sets out 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.	FMPG should continue to work with Scottish Government to demonstrate how it meets the best value characteristics and consider how this can support the future of the organisation. Paragraph 74	**Accepted** FMPG will continue to work on Best Value Reporting. **Responsible officer** David Dishon, CFO **Agreed date** 31 March 2025

Follow-up of prior year recommendations 2022/23

Issue/risk	Recommendation and Agreed Action	Progress
b/f 1. Consideration of going concern 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.	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. **Agreed management action** FMPG and Scottish Government continue to review future risks and uncertainties, revised business plans will be made as and when appropriate. **Responsible officer** Chief Executive (through engagement with Scottish Government) **Target date for implementation** Ongoing	**Ongoing** See response to issue/risk 1 above.
b/f 2. Property, Plant and Equipment Valuations	Management should undertake a full review of the Fixed Asset	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
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 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 that this is immaterial to the accounts.	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. **Agreed management action** A full review of the Fixed Asset Register is planned for 2023/24. **Responsible officer** Chief Financial Officer **Target date for implementation** March 2024	
b/f 3. Five-year business plan 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. 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. **Agreed management action** FMPG and Scottish Government continue to review future risks and uncertainties, revised business plans will be made as and when appropriate. **Responsible officer** Chief Executive (through engagement with Scottish Government) **Target date for implementation** Ongoing	**Ongoing** See response to issue/risk 2 above.

Issue/risk	Recommendation and Agreed Action	Progress
b/f 4. Bonus payments 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 explicit approval prior to payment.	FMPG should ensure compliance with SPFM and ensure approval is granted prior to bonus payments being made. **Agreed management action** 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. **Responsible officer** Chief Executive (through engagement with Scottish Government) **Target date for implementation** September 2023.	**Implemented**
b/f 5. Revised Framework Agreement The Framework Agreement acts 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.	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. **Agreed management action** Agreed **Responsible officer** Chief Executive (through engagement with Scottish Government) **Target date for implementation** December 2023	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
b/f 6. Compliance with the duty of Best Value The SPFM sets out 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.	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 **Agreed management action** Agreed **Responsible officer** Chief Executive (through engagement with the Scottish Government) **Target date for implementation** December 2023	**Ongoing** See response to issue/risk 7 above.
Follow up of outstanding 2021/22 recommendations		
b/f 7. Value for money assessment 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.	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. FMPG will work with SG to provide clarity on what value for money means in the context of FMPG and how FMPG will be assessed.	**Ongoing**

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than the reporting threshold of £50,000.

The table below summarises uncorrected misstatements that were noted during audit testing and were not corrected in the financial statements. Cumulatively these errors are below the performance materiality level as explained in Exhibit 1. I am satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
Accounting Misstatements		**Dr £000**	**Cr £000**	**Dr £000**	**Cr £000**
A review of insurance policies identified an overall misstatement of £570,713 in the 2023/24 financial statements. The client has not adjusted for this within the financial statements on the grounds of materiality. We recognise that if the accounts were adjusted a corresponding decrease in contract revenue would be recognised.	Cost of Sales		(571)		
	Prepayments			571	

Ferguson Marine (Port Glasgow) Holdings Limited

2023/24 Annual Audit Report

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

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