

Ferguson Marine (Port Glasgow) Holdings Limited Financial year ended 31 March 2022

Final External Audit Plan

Presented to the Audit & Risk Committee on 15 March 2022
and finalised on 30 March 2022



Contents

Your key Grant Thornton team members are:

Joanne Brown

Audit Partner

T 0141 223 0848

E joanne.e.brown@uk.gt.com

John Boyd

Audit Director

T 0141 223 0899

E john.p.boyd@uk.gt.com

Rudi Farmer

Audit Associate

T 0131 659 8543

E rudi.farmer@uk.gt.com

Section	Page
Plan overview	03
Introduction	04
Audit approach	05
Materiality	06
Significant audit risks	07
Wider scope risks	09
Other matters	11
Audit timeline	14
Audit Fees	15
Independence	16
Appendices	
Responsibilities	18
Communication	19
Fraud responsibilities	20
Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)	22
Auditing developments	23

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Plan overview

The audit plan for the financial year ended 31 March 2022 sets out our risk based audit approach. This plan is reported to those charged with governance (Audit and Risk Committee on behalf of the Ferguson Marine (Port Glasgow) Holdings Limited (“FMPG”) Board). Planning is a continuous process and we will continue to review our risk assessment and planned approach.

03 Wider Scope Audit

In accordance with the Code we have identified wider scope risks, at the planning stage and will conclude on these during the audit. Risks have been identified in relation to the following areas:

- Financial sustainability with particular focus on the organisation's plans beyond the delivery of 801-802 contracts;
- Governance and transparency arrangements to meet the requirements of the Scottish Public Finance Manual; and,
- Considering the findings from Audit Scotland's independent assessment of the 801-802 initial arrangements and applicability to FMPG.

01 Materiality

We have calculated planning materiality using forecast expenditure as our benchmark:

- £ 1.015 million group planning materiality
- Group Performance materiality of £761,250 (75% of planning materiality).
- Trivial is capped at 5% of the above thresholds (£50,750)
- Lower materiality (£20,000) on Staff Remuneration Report

04 Other audit matters

We summarise other audit matters for Audit and Risk Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland.
- Consideration of going concern in accordance with FRC Practice Note 10 (for the Public Sector)

02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in revenue expenditure (cut-off) (FRC PN10)

The majority of FMPG's income is from the Scottish Government who have agreed funding of the cost of the vessels. The risk of management manipulation and error is therefore limited. Therefore, we have rebutted the risk of fraud in revenue recognition

05 Our Audit Fee

Our fee is £47,320 for the audit of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) including company only and consolidated accounts. Our appointment does not cover the audit of the individual financial statements of the subsidiary companies where Management has taken the audit exemption from Companies House.

Our fee is on the assumption the financial statements will consist of the results of FMPG and the consolidated Group. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG). The plan is prepared for those charged with governance.

We are appointed by the Auditor General as the external auditors of FMPG and its Group. This is the second year of our appointment under the Auditor General for Scotland, and is the second year we have undertaken the audit of the group.

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of FMPG are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on:

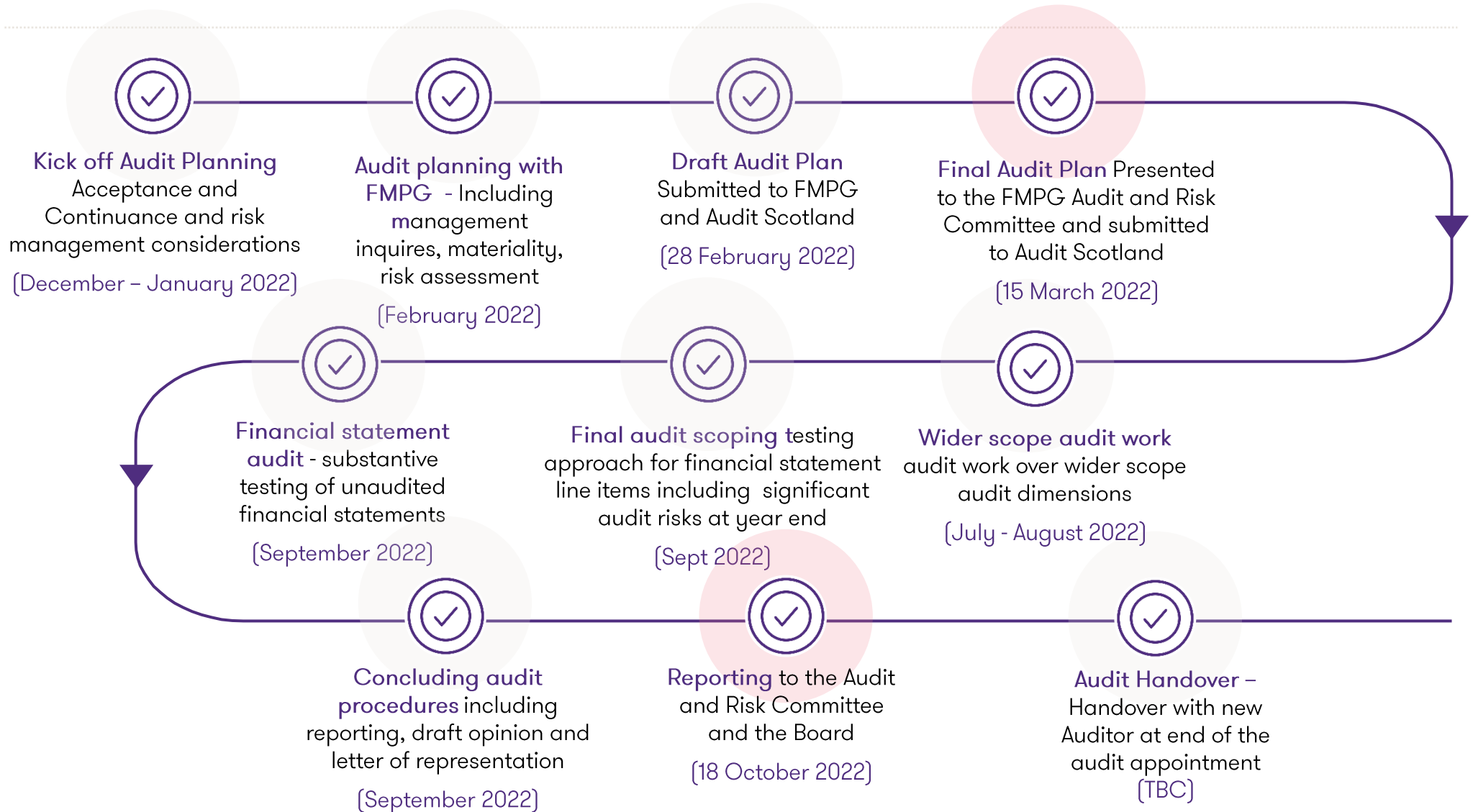
- FMPG financial statements (including consolidated financial statements) that have been prepared by management with the oversight of those charged with governance (the Audit and Risk committee).

The FMPG accounts include the consolidated financial statements of Ferguson Marine (Port Glasgow) Holdings Limited and its subsidiaries: Ferguson Marine (Port Glasgow) Limited; Ferguson Marine (801-802) Limited; and, Ferguson Marine (803-805) Limited. We do not audit the individual subsidiary accounts.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of FMPG to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the FMPG is fulfilling these responsibilities. Our audit approach is based on a understanding of FMPG and is risk based.

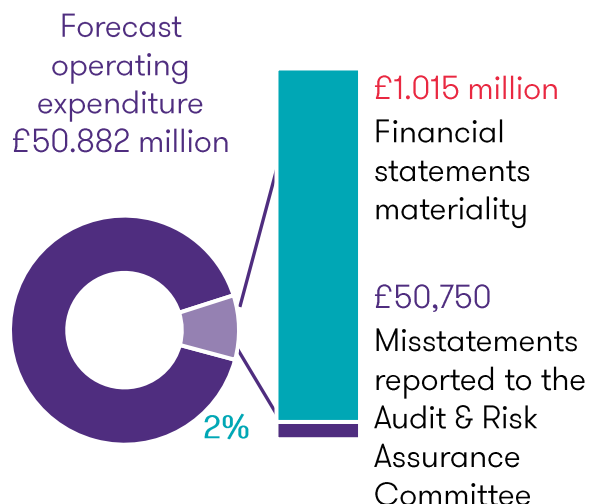


Audit approach



Materiality

Financial statement materiality is determined based on a proportion of the total operating expenditure. We have determined **planning materiality** for the Group to be £1.015 million, which equates to approximately 2% of total operating expenditure based on the Group's forecast costs (December 2021 forecast outturn).



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 75% of planning materiality (£761,250). This is based on our understanding of FMPG reflecting on the number of audit adjustments made to the draft financial statements in the prior period acknowledging that a number of the technical accounting challenges in the prior period, such as the transition to the FReM should not be an issue in the current year.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

On this basis we apply a separate **lower materiality level** to the Remuneration and Staff Report, a new disclosure required in adopted the FReM. This is set at the lowest disclosure bandings in the Remuneration Report (£20,000).

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £50,750 being 5% of financial statement materiality.

We consider Ferguson Marine (801-802) Limited and Ferguson (803-805) Limited as material but not significant to the group. Ferguson Marine (Port Glasgow) Holdings Limited is neither material or financially significant to the group. Ferguson Marine (Port Glasgow) Limited is both material and significant to the group. We will therefore, upon receipt consolidated workings at year end, determine a specific materiality for Ferguson Marine (Port Glasgow) Limited.

We will update our materiality based on the unaudited 2021/22 financial statements including consideration of parent materiality. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override FMPG internal controls, related to individual transactions. We will test the design of controls in place over journal entry processing and risk assess journals and select items for detailed follow up testing. Journals entries will be selected using computer-assisted profiling based on areas which we consider to be of increased risk.

Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (expenditure) and the use of manual journals during the year, and in creating the financial statements where controls may be overridden by management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. We will obtain an understanding of the business rationale of significant transactions that we become aware of that, based on our audit knowledge and understanding, are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Significant audit risks (continued)

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams. Commercial contracts (803-805) were completed during 2021/22 and we consider the risk of material misstatement within these to be low. We therefore focus on expenditure in relation to 801-802. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of material non-pay expenditure streams ensuring the completeness of expenditure. Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

Auditing standards require us to consider the **risk of fraud in Revenue** as a presumed risk in all entities. With the completion of 803-805 contracts the only revenue stream susceptible to material misstatement during 2021/22 is contract income on 801-802 vessels. This income is from the Scottish Government who have agreed funding of the cost of the vessels. The risk of management manipulation and error is therefore limited. Therefore, we have rebutted the risk of fraud in revenue recognition.

The financial statements include a material estimate in relation to the valuation of land and buildings. These are held in accordance with the FReM at current value based on independent professional valuation. The last valuation was undertaken as at 31 March 2021 £6.9 million. While there is a judgement and estimation in the valuation, the carrying value has had limited movement between 2020 and 2021 and given the value, we consider the risk of material misstatement to be low.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Auditor General.

Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on FMPG. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on FMPG's arrangements. There are four wider scope dimensions we consider: Financial management, financial sustainability, governance and transparency and value for money. Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. In addition to wider scope risks there may be other areas that Audit Scotland require us to consider. These requirements are set out in the planning guidance (2021/22). Where relevant we refer to them here, or within our wider audit plan.

Our wider scope audit work has been undertaken on the context of FMPG agreeing the contract for the completion of vessels 801-802 with the Scottish Government. This contact secures the funding for the costs of the completion of the vessels and therefore the focus of our risk assessment is around the medium to longer term outlook for the organisation.

Financial sustainability

With the completion of the 803-805 contracts, the primary focus of FMPG is the completion of ferries (801 and 802) being delivered on behalf of the Scottish Government. A key challenge for FMPG is securing a long term sustainable future for the organisation through generating future work for the site as well as the delivery of existing work in line with financial targets. To support this, FMPG has invested both in its people and infrastructure. FMPG have established a Development Plan that outlines the route map for turning around the organisation over the next three years to a financially sustainable organisation. It is important that the organisation look to secure future work for the site and that this is supported through a robust financial and operational planning to secure the ongoing sustainability for FMPG beyond the delivery of the current workbook.

Governance and transparency

FMPG became a Non-Departmental Public Body (NDPB) with effective from 1 April 2020. As an NDPB, FMPG are required to follow the requirements of the Scottish Public Finance Manual (SPFM). During 2020/21, FMPG began to develop its governance and management arrangements to meet the requirements of the SPFM including the appointment of a Board of directors and establishing the Audit and Risk committee. However, as reflected in FMPG's 2021 Annual Governance Statement, significant work is still required to ensure robust and effective governance and management arrangements are in place as expected of a publicly owned organisation. This includes the approach to managing risks and resources and wider aspects of good governance. In addition there has been change in FMPG leadership with a new Chief Executive Officer and changes within the FMPG Board, including the Board chair stepping down. As the organisation focuses on the delivery of the 801-802 vessels and implementing its Development Plan to develop and financially sustainable organisation, there is a risk that the organisation does establish the governance and management arrangements in place at the FMPG group, to meet the requirements of the SPFM.

Wider scope risks identified in planning (continued)

Value for money

During 2020/21 Audit Scotland undertook an independent assessment of the initial arrangements that were in place to deliver the new vessels for the Clyde and Hebrides (801 and 802). This was published in March 2022. While the review focused on the arrangements in place and management of the project as applicable to the Scottish Government, Transport Scotland and Caledonian Maritime Assets Limited, there may be learnings that are applicable to FMPG. As part of our wider scope audit work in 2021/22, we will consider the findings of the report and the actions taken by FMPG to any recommendations raised.

Other wider scope areas

Audit Scotland's Planning Guidance 2021/22, requires us to consider the risk of fraud in procurement across our audited bodies. In addition to the wider scope risks set out above, we will consider specific risk of fraud within procurement during 2021/22. We will consider audit Scotland's: Procurement Red Flags (2019) when undertaking our assessment and report our conclusions within our Annual Audit Report.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration and Staff Report, a new Report for FMPG as required under the FReM, in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion)
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion)
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement, a new Report for FMPG as required under the FReM, are in line with requirements set out in FReM (opinion)

We consider our other duties under the Code and planning guidance (2021/22), as and when required, including:

- Supporting Audit Scotland in Section 22 reporting.
- Providing regular updates to Audit Scotland to share awareness of current issues
- Notifying Audit Scotland of any cases of money laundering or fraud
- Review of Central Government Technical guidance prior to issue by Audit Scotland

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified risk areas including: income, payroll, material non-pay expenditure streams, journal entries and material areas of management estimate and judgement including the valuation of property, plant and equipment.
- Our focus is design and implementation of controls only. We do place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020). In considering going concern, we will consider the applicability of PN 10 to FMPG. FMPG receive contractual funding for 801-802 rather than Scottish Government funding for statutory services. In particular, we will consider FMPG's financial forecasts, including future revenue beyond 801-802 contracts, including any funding arrangement with the Scottish Government.

Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit.

Other financial reporting developments - Changes in the FReM for 2021/22

One of the changes to the FReM 2021/22 is to expanded requirements for Fair Pay Disclosures within the remuneration and staff report. This is in line with changes made to the FReM for 2021/22. The main changes are:

- A new requirement to disclose the percentage year on year changes in salary and allowances, and performance pay and bonuses, for the highest paid director and for the employees of the entity taken as a whole.
- total pay and benefits, and the salary component separately, for the 25th, 50th and 75th percentiles (previously just the median remuneration). This should be based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at 31 March 2022. For the purpose of this disclosure, pay and benefits excludes the value of pension benefits and severance payments.
- a summary for 2021/22 explaining:
 - whether movement in the ratios is attributable to a change in the highest paid director's remuneration or the employees, or a change in the body's employment models;
 - trends in the median pay ratio; and,
 - whether the body believes that the median pay ratio reflects the pay, rewards and progression policy for employees as a whole.

We will review FMPG's Remuneration and Staff report disclosures in the draft financial statements to evaluate whether the disclosers are complete, clear, concise, and free from material misstatement.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit
- respond promptly and adequately to audit queries.

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

The audit fee is calculated in accordance with guidance issued by Audit Scotland. We have set the external auditor remuneration rate at that applied to central government bodies of similar size and complexity to yourselves. This reflects our responsibilities in undertaking our audit of the financial statements as well as undertaking audit work over the wider scope audit dimensions in accordance with the Code of Audit Practice. Our fee reflects on our knowledge and understanding gained through undertaking the external audit in the prior period and has been agreed with Management. The Audit fee includes Audit Scotland pooled costs and audit Scotland support costs.

Relevant professional standards

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees for 2021/22

Service	Fees £
External Auditor Remuneration for the audit of Ferguson Marine (Port Glasgow) Holdings Limited	37,000
Pooled Costs	8,560
Contribution to Audit Scotland costs	1,760
Contribution to Performance Audit and Best Value	-
2021/22 Fee	47,320

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Fee assumptions

In setting the fee for 2021/22 we have assumed that FMPG will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.



Appendices

Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

FMPG

Responsibilities include:

- Preparing financial statements that give a true and fair view
- Maintaining accounting records
- Establishing and maintaining systems of internal control
- Effective internal controls including controls to achieve objectives and secure value for money
- Establish arrangements for proper conduct of affairs including legality of transactions
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues
- Notify Audit Scotland of any known or suspected frauds greater than £5,000
- Contribute to relevant performance studies (as set out in the planning guidance for the year)



Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Risk Committee on behalf of FMPG). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

Our communication plan	Audit Plan	Annual Report (considered our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of FMPG's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Ferguson Marine (Port Glasgow) Holdings Limited.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- leading a discussion with those charged of governance on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is FMPG's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with FMPG to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at FMPG we will report to the Auditor General as required by Audit Scotland.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. The first year this impacted on was the 2020/21 financial year.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do **Audit and Risk Committee** members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting again this year further information from management and those charged with governance during our audit for the year ended 31 March 2022. These are included within our planning inquiries. Upon receipt of these we will conclude our audit planning and risk assessment over accounting estimates.

Based on our knowledge of the FMPG, in particular prior year, we have identified only one material accounting estimates, being land and building valuations.

FMPG's Information systems

In respect of FMPG's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change.

Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Auditing developments

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) ‘Identifying and Assessing the Risks of Material Misstatement’ - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’ This will impact audits of financial statement for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	<ul style="list-style-type: none"> • The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	<ul style="list-style-type: none"> • The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible

Area of change	Impact of changes
Fraud	<ul style="list-style-type: none"> • The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	<ul style="list-style-type: none"> • The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

