Grant Thornton

External Audit Report for Ferguson Marine (Port Glasgow) Holdings Limited

Financial year ended 31 March 2021

Annual External Audit Report to those Charged with Governance and the Auditor General for Scotland

Final External Audit Report 1 December 2021

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

Fraser Hoggan
Assistant Manager
T 0141 223 0746
E fraser.w.hoggan@uk.gt.com

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 external audit 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 Ferguson Marine Port Glasgow (Holdings) Ltd 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.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Ferguson Marine (Port Glasgow) Holdings Limited ('FMPG') and the preparation of the FMPG and group financial statements for the year ended 31 March 2021.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- 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 (regularity); and,
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

We are appointed auditors of Ferguson Marine (Port Glasgow) Holdings Limited (referred to in this report as FMPG). We are appointed by the Auditor General for Scotland, under our contract with Audit Scotland. The accounts are prepared for FMPG and the group position. The Accounts Direction issued by Scottish Government confirms the accounting basis for FMPG is the HM Treasury Financial Reporting Manual (FReM). The 2020/21 financial year is the first year in adopting the FReM. The impact of this has been restatement of the valuation of property plant and equipment to reflect current value (prior year on a cost basis), the inclusion of the Performance Report, Accountability Report and a Remuneration and staff report.

We completed our external audit work remotely in September and October 2021. The finance team were very supportive of the audit process and turned around our external audit queries on a timely basis. The quality of the draft financial statements was good. Iterations during the audit process arose as management converted updated the annual report and accounts to reflect accounting under FReM, including the front-end narrative.

We identified 4 audit adjustment to the financial statements, 1 unadjusted misstatement alongside disclosure adjustments. The adjustments primarily related to the recognition of the revaluation of land and buildings and disclosure changes required under the FReM. The audit adjustments are detailed in Appendix 1 which includes the unadjusted misstatement as well as disclosure amendments. We have also raised recommendations for management as a result of our audit work in Appendix 2.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit opinion (audit report) is unmodified.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider FMPG's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial management – 2020/21 represented a challenging financial year as FMPG managed the impact of Covid-19 on operations.

During 2020/21 FMPG's financial statements reflected the reversal of the previously recognised contract loss provision of £90.722 million on the 801-802 vessels. However, as detailed in our report, this reflected a non-cash reversal of the provision upon the new contract agreement with Scottish Ministers for the vessels.

2020/21 represented a challenging financial year for FMPG. On removing the contract loss provision, FMPG reported net underlying operating expenditure of £8.492 million. This was primarily due to the impact of Covid-19 temporary stopping production during the year resulting in increase in administration costs and estimated contract loss provision on 803-805 vessels of £1.175 million. This was partly offset by Scottish Government capital contributions of £4.714 million.

Financial sustainability – The new contract with Scottish Ministers for the completion of the two vessels (801-802) helps secure the financial position of the organisation over the next 12-18 months when the vessels are delivered. However, Management recognise that securing additional orders will be essential for the longer term financial sustainability of the organisation.

In agreeing the new contract with Scottish Ministers for the completion of the two vessels (801 and 802), FMPG have secured the financial position of the organisation over the next 12-18 months.

Management recognise the necessity of securing future contract orders to support the longer term financial sustainability of the organisation. During 2020/21, Management undertook benchmark reviews of its productivity and use of technology to inform the creation and progression of a development plan to support the organisation become as streamlined and competitive as possible. Management have identified potential future orders / tender pipeline and development plan to support the generation of future orders for the yard. However, there is an opportunity to develop, working in conjunction with the Scottish Government, a medium to longer term strategic plan, underpinned with a financial strategy to outline FMPG's approach to securing the long term viability of the yard, retaining shipbuilding work in Inverclyde.

Executive Summary

Wider scope audit (continued)

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider FMPG's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Governance and transparency – FMPG has continued to develop its governance arrangements. However, Management recognise further work is required to enhance risk management, internal control and governance arrangements.

FMPG has continued to establish governance arrangements during 2020/21 with the establishment of the Board and Audit and Risk Committee. However, as recognised by Management, further work is required to establish governance arrangements in line with the Scottish Public Finance Manual ('SPFM') that support effective scrutiny, oversight and challenge of the corporate priorities and risks facing the organisation. In particular, establishing a Corporate / Strategic Risk register and corporate risk management framework will be important for the organisation to manage its wider strategic risks beyond contract risk management where current arrangements are focused. In addition, FMPG should have in place an Internal Audit function that provides independent assurance around systems of internal control, risk management and governance.

While operational delivery is clearly a key focus, it will be important over the coming year that sufficient resources are in place to support the development of effective governance, risk and control arrangements including the delivery of the Audit and Risk Committee work plan. As a non-departmental public body, FMPG should look at enhancing the transparency of performance and other information (including timely publication of minutes) to support public openness and transparency while managing commercially sensitive information.

Value for money – As part of our audit planning and fieldwork we did not identify any significant audit risks.

FPMG operates in a commercial environment and therefore the efficient and effective use of resources is a key focus for Management. The strategic focus for FMPG is on the delivery of the 801-802 vessels over the next 18 months as the organisation works through its turnaround phase. Under the development plan, FMPG will look to develop its capability and ultimately a sustainable future for the organisation over the next three years.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff to support the conclusion of the audit.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at Ferguson Marine (Port Glasgow) Holdings Limited ('FMPG'). The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Risk Committee in September 2021. Our audit planning was delayed due to the Accounts Direction not being formally issued until September 2021 which clarified the accounting framework which FMPG is required to follow.

The main elements of our audit work in 2020/21 have been:

- An audit of the FMPG and group annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money; relative to identified significant risks, within the audit plan; and,
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to FMPG and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

FMPG is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. FMPG is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to FMPG throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations, particularly around fist time adoption of the FReM. During 2021, reflecting on lessons learned from the prior period audit, to support effective communication, the Audit Partner had monthly meetings with the Chair of the Audit and Risk Committee, Interim Accountable Officer and Director of Finance. We have sought to proactively support FMPG in adopting accounting under the FReM alongside, as appropriate, liaison with the Scottish Government sponsor team..

Audit of the annual report and accounts

Key messages and judgements

We have issued an unmodified audit opinion on the annual report and accounts.

During the audit there were 4 adjusted misstatements to the financial statements. These arose upon adoption of the FReM as well as disclosure adjustments. These related to the recognition of valuation of land in buildings in accordance with the FReM (2019/20 and 2020/21) as well as presentational adjustments for the recognition of administration expenditure and other related income. The financial statements have been correctly amended to reflect these adjustments. We identified 1 unadjusted misstatement to the financial statements. This related to the correction of in year depreciation on the financial statements and associated transfer from revaluation reserve to general reserve. Management have concluded these are not material to the user of the accounts. Audit adjustments are detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an unmodified opinion on the annual report and accounts. As reported in the independent auditor's report:

- The FMPG and group financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- The FMPG and group financial statements have been properly prepared in accordance with IFRSs as interpreted and adapted by the 2020/21 FReM;
- The FMPG and group financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and,
- The audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

We are satisfied that the information provided within the Performance Report and Governance Statement have been prepared in accordance with the Public Finance and Accountability (Scotland) Act 200 and directions made thereunder by Scottish Ministers.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within FMPG. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We did this through a walkthrough of key controls within FMPG including payroll, income, expenditure, contract loss estimates (803-805) and journals. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

The audit process

As a non-departmental public body, under the Public Finance and Accountability (Scotland) Act 2000 the Auditor General for Scotland has responsibility for appointing the auditor of FMPG. We were appointed as auditors on 3 September 2021 and, in accordance with our audit plan, our audit work commenced immediately. Due to the social distancing and restrictions introduced in response to Covid-19, our audit work was undertaken remotely. As the final Accounts Direction issued by Scottish Ministers was not clarified until September 2021, the draft financial statements submitted to audit were predominantly based on Financial Reporting Standard 101 (FRS 101). The Finance Team and Management have subsequently updated the financial statements to reflect the requirements of the FReM in accordance with the Accounts Direction.

The main areas impacted through the transition to the FReM were:

- Inclusion of Performance Report and Accountability Report (including Remuneration and Staff Report). This FReM specifies the information and disclosures required in the financial statements.
- Restated opening prior period balances and comparative information to reflect the FReM to ensure prior period comparators reflect the FReM.
- The only substantial impact on the prior year balances and transactions related to the carrying value of property, plant and equipment. Under the FReM this is valued at current value in the financial statements (previously cost). This required the revaluation of land and buildings as at 31 March 2020 and 31 March 2021.

We thank Management and the Finance Team for their support during the audit process. This has included updating the FRS 101 based Annual Report and Accounts to be consistent with the requirements of the FReM, while supporting the audit of transactions and balances.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice. Our audit approach was set out in our audit plan. We retained our materiality based upon your 2020/21 draft financial statements as detailed within the annual audit plan. Financial statement materiality was set at £645,480, representing 2% of gross expenditure. Performance materiality was set at £451,836, representing 70% of our calculated materiality. We report to management any difference identified over £32,274 (being 5% of overall materiality). We applied a lower materiality threshold for disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings (being £1,000).

Contract Loss Provision reversal

During 2020/21, FMPG entered into a new contract agreement with Scottish Ministers which effectively secured funding for the total estimated cost of 801-802 vessels. Consequently, the previously recognised contract loss provision (estimate of future project costs that would not be recoverable through contract income) of £90.772 million recognised in the prior period has been reversed and reflected as a gain through Comprehensive Net Income Statement. FMPG have a further contract loss provision relating to 803-805 vessels. In the year this was re-estimated and the outstanding provision as at 31 March 2021 was £1.175 million. The net impact on the Comprehensive net income for year was an accounting (non-cash) gain of £89.547 million.

FMPG's Financial Performance

2020/21 represented a challenging financial year for FMPG. On removing the contract loss provision release, FMPG reported net operating expenditure of £8.492 million. This was primarily due to the impact of Covid-19 temporary stopping productivity during the year resulting in increase in administration costs and estimated contract loss provision on 803-805 vessels of £1.175 million. This was partly offset by Scottish Government capital contributions of £4.714 million. The underlying financial position includes estimated net costs of £3 million relating to cost of Covid-19 on the organisation. This includes staffing costs who were unable to continue operations due to social distancing and other restrictions introduced during the year.

The comprehensive net income for the period of £82.223 million has significantly improved FMPG's net assets position. Net assets as at 31 March 2021 were £5.732 million (2020: Net liabilities of £81.365 million).

Impact of the adoption of the FReM

In adopting the FReM, FMPG were required revalue property, plant and equipment at current value. In adopting the FReM this included restatement of the prior year comparative information, including restatement of the opening position (12 August 2019).

Management engaged Graham & Sibbald to undertake an independent valuation of land and buildings as at 31 March 2021 and 31 March 2020. The impact saw an increase in the carrying value of assets of £1.828 million and £1.668 million as at 31 March 2021 and 31 March 2020 respectively. While we are satisfied the valuations have been appropriately reflected in the audited accounts, we have included an unadjusted audit difference in relation to the impact on depreciation in year (Appendix 1).

Early adoption of IFRS 16

FMPG has early adopted IFRS 16: Leases where effectively all lease arrangements are held as finance leases. This is aligned to reporting last year under Companies Act. Confirmation of FMPG's ability to early adopt IFRS 16 was sought and confirmed by Scottish Government.

Impact of the adoption of the FReM	Opening Balance Sheet (12 August 2019) £'000	31 March 2020 £'000
Net Assets / (liabilities) under FRS 101	0	(83,033)
FReM transition adjustments:		
Valuation increase as a result of current value measurement of PPE	0	1,668
Restated Net Assets under the FReM	**0**	**81,365**

Responding to significant financial statement 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.

This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan	Commentary

Management override of controls
 	
As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override FMPG's controls for specific transactions.
We consider those critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.
	In response to this significant risk, our audit response was as follows:
	• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
	• We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020.
	• Journals testing including:
	  • Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
	  • Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger; and,
	  • Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.
	
	Conclusion
	Through our audit procedures performed we did not find evidence of management override of controls in our testing of journal transactions or any instances of material error. Furthermore we did not identify any indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
Risk of fraud in expenditure recognition 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. For commercial contracts (803-805) we will also consider financial forecasts to determine if the contract loss provision recognised in the prior period accounts remains appropriate. 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.	In response to this significant risk, our audit response was as follows: • Walkthroughs of the controls and procedures over non-pay expenditure streams; • Substantive testing of non-pay expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording; • Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to ensure completeness of expenditure; • Review of creditors, where material, around the year end to consider if there is any indication of understatement of balances held at year end through consideration of accounting estimates; and • Unrecorded liability testing to confirm the completeness of year end liabilities as well as the completeness of expenditure recognised during the year. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end. Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the nature of the FMPG (regularity testing).

Responding to significant financial statement risks (continued)

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities. For 2020/21, under the new financial arrangements for vessels 801-802, FMPG receive contract income through allocations direct from the Scottish Government based on forecast costs incurred to build the vessels. The risk of management manipulation and fraud is therefore limited. During 2019/20 the FMPG Group, reported £2.278 million in revenue through commercial contracts on 803-805. We therefore focus our significant risk of material misstatement on these commercial contracts. 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. We therefore focus our testing on the occurrence of revenue recognised at year end including existence of receivables at the year end.	In response to this significant risk, our audit response was as follows: • We performed walkthroughs of the controls and procedures over 803-805 vessel income. • For these income streams, substantive testing over income recognised in the year in line with contract terms. • Sample testing of receivable balances held at 31 March 2021 through agreeing balances held to invoices and/or other supporting records. • Performed income cut-off procedures and substantive testing over pre and post year end balances. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of income. We did not identify any exceptions in the testing of receivables balances at year end and are satisfied that income is free from material misstatement.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to FMPG and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the FReM.
- We enquired of management and the Audit and Risk Committee, concerning FMPG's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of FMPG's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered FMPG's financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 7.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - FMPG's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - FMPG's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

FMPG's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Recoverability of receivables and construction contract assets	FMPG asses annually whether receivables or construction contract assets are recoverable in the preparation of the financial statements and whether these assets require impairment. A receivable or construction contract asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.	Through our audit procedures performed we have not identified any indication of management bias in FMPG's assessment of receivables of construction contract assets.	● [Light purple]
Revenue at stage of completion and contract loss provision	The percentage of completion accounting is used for revenue recognition on contracts where it is applicable. This is in accordance with IFRS 15. Management estimate forecast costs to completion to determine the extent of progress towards completion, project revenues, and project costs. Where Management forecast that the cost to complete a project exceeds contract income, IAS 37 requires immediate recognition of estimated loss. Management estimate the total contact loss including both indirect overheads and general and administrative costs on the basis that all these costs should be included as the directors have judged that they are 'unavoidable' and are wholly attributable to completion of the contract obligations.	Management's approach to estimating project costs and subsequent stage of completion and any resultant contract loss provision required appear reasonable and our audit testing did not identify any indication of management bias in approach adopted. As at 31 March 2021, the contract loss provision related to estimated contract losses on 803-805 vessels. As these vessels are substantially complete our audit work included retrospective review of the project costs incurred to gain assurance the provision made was appropriate.	● [Light purple]

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property, plant and equipment valuations	In accordance with the FReM FMPG is required to value Property, plant and equipment on the basis of current value in existing use. As permitted within the FReM guidelines, the company has adopted a policy of using depreciated historical cost basis as a proxy for current value in existing use for assets within the classification of plant and equipment, on the basis that they have short useful lives of 5 years. For land and buildings, Management appointed an independent valuer, Sibbald & Co, to undertake a valuation of these assets. The valuer has conducted the valuation in accordance with the FReM and RICS guidance and the valuation movements are reflected in the accounts.	While we are satisfied that the approach adopted by FMPG is reasonable in estimating the value of property, plant and equipment and that there is no indication of management bias in the approach adopted, there is an opportunity for Management to review the valuation approach to ensure these remain appropriate. Specifically we identified that land (car park) and leased buildings were not included in the formal valuation. While we are satisfied these would not result in a material change to the carrying value in the financial statements we recommend that Management include these in future valuations. In addition, the valuation covers land and buildings, Management should consider whether material items of plant and equipment, such as the newly acquired crane, that are held for a longer period, should be subject to valuation. *See Action plan.*	● [Light purple]

IAS 1 requires disclosure of significant estimates where there is a risk these could change material over the next 12 months. While the financial statements cover those areas of critical judgement and estimation there is an opportunity to enhance the disclosures made in accordance with IAS 1. This includes providing the reader clarity around the key assumptions and areas of estimation that could result in a material change in the coming period and sensitivities surrounding these. See Appendix 1.

Assessment

● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is FMPG's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We were informed of one ongoing investigation in relation to an alleged third party fraud at the organisation subsequent to the year end which is ongoing police investigation. In addition, Management have informed us of a potential HR claim from a former employee against the organisation. We are satisfied that this does not impact on FMPG's financial position as at 31 March and not material to the 2021 accounts. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of FMPG's accounting policies, accounting estimates and financial statement disclosures. FMPG's group accounting policies have been updated to reflect the FReM requirements. The subsidiaries accounting policies continue to adopt FRS 101. The main difference is the adoption of the revaluation of property, plant and equipment under the FReM. In addition, FMPG have early adopted IFRS 16 reflecting the previous adoption of IFRS 16 by the subsidiary companies. The Disclosures and accounting policies are in line with the FReM and we have no matters to report.
Matters in relation to related parties	One related party was identified during our audit testing that required disclosure in the financial statements in relation to Crown Estate Scotland. Management have updated the accounts to disclose this related party. We are not aware of any further related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.

Issue	Commentary
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the FReM, and the Accounts directions thereunder. We have audited the elements of the Remuneration Report and Staff Report , as required and are satisfied that these have been properly prepared in accordance with applicable legislation. The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the FReM and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the directions made thereunder by the Scottish Ministers.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Governance statement	The governance statement is included within the Accountability Report. The report outlines the governance framework in place at the FMPG. The Report includes the Statement of the Interim Accountable Officer's responsibilities and had been prepared in accordance with the FReM. In accordance with the Scottish Public Finance Manual (SPFM), the Interim Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value and this is confirmed in the narrative in the annual report and accounts. The governance statement highlights the areas of development over the coming year for FMPG to enhance its internal control, risk management and governance arrangements. We are satisfied that the governance statement accurately reflects the further areas of development required at FMPG in particular the further work required around corporate risk management arrangements, cyber security and the establishment of an internal audit function in line with the SPFM. There were no further matters arising from our review of the governance statement that we want to draw attention to.
Written representations	A letter of representation has been provided by the Interim Accountable Officer to support the audit process and the signed annual report and accounts.

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by FMPG meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management's assessment of the appropriateness of the going concern basis of accounting and conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	The Interim Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Accounts Direction	As a new Non-Departmental Public Body (NDPB), the Scottish Government receive Ministerial Instruction as well as guidance from the Scottish Government. In addition, the relationship with Scottish Government becomes more complex as they are currently FMPG's largest customer. Consequently, the signing and agreement of the Framework Document, which sets out the key governance and working arrangements between the entities, is important. During 2020/21 there were delays in finalising the Accounts Direction for FMPG, with this received late in the audit process. In addition, there was a delay in the Interim Accountable Officer receiving formal confirmation from Scottish Government of their Accountable Officer status. It is important that going forward Scottish Government continue to support FMPG.

Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. Within our annual audit plan we identified 2 significant wider scope risks in relation Financial Sustainability and Governance and Transparency. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial Management Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	No significant wider scope risks identified	Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to FMPG's financial management arrangements. We have assessed the FMPG's financial performance in year. During 2020/21 FMPG agreed a new contract with Scottish Ministers for 801-802 vessels. This has secured the funding required to meet the forecast costs in the delivery of the most significant vessels under production. The contract has removed the financial uncertainty around the previous contractual arrangement in place and thus enabled FMPG to reverse the contract loss provision recognised in 2019/20. During 2020/21, having utilised the previously recognised £1.481 million contract loss provision on vessel 805. A further provision was required as at 31 March 2021 of £1.175 million for this contract as estimated costs exceeded contract income. The impact of Covid-19 on operations resulted in greater costs being incurred than income. Core to FMPG's financial planning is the underlying cost model. This forecasts direct and indirect costs in the production of vessels. Management keep the model under regular review. FMPG report financial performance to the Scottish Government. This includes monthly returns on expenditure incurred on vessel production.	FMPG's financial management arrangements appear effective. Financial forecasts are based on the development and production of vessels and are subject to detailed ongoing monitoring and review.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial sustainability Financial sustainability looks forward to the medium and longer term to consider whether FMPG is planning effectively to continue to deliver its services or the way in which they should be delivered.	Since its acquisition in 2019 by Scottish Ministers, the focus of the organisation has been the completion of the two ferries (801 and 802) currently being built and ensuring the work continues towards delivery of the other vessels under construction. This has included protecting and investing in the skilled workforce across FMPG. Alongside the delivery of the current vessels under construction, a key challenge for FMPG is securing a long term sustainable future for the organisation. To support this, FPMG has invested both in its people and infrastructure. 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 FPMG beyond the delivery of the current workbook	In taking ownership of FMPG, Scottish Ministers have identified three key strategic priorities for FMPG: - to complete the two CMAL ferries currently under construction (vessels 801 and 802); - to secure the workforce and skills; and, - to explore options and secure a viable future for the business. In March 2021, FMPG signed a new contract arrangement with Scottish Ministers for the shipbuilding contracts for vessels 801 and 802. The contract is effective from 1 April 2020 and secures funding for the remaining projected costs in the production of 801 and 802. However, Management recognise the necessity of securing future contract orders to support the longer term financial sustainability of the organisation. During 2020/21, Management undertook benchmark reviews of its productivity and use of technology to inform the creation and progression of a development plan to support the organisation become as streamlined and competitive as possible. Management have a potential future orders / tender pipeline and development plan to support the generation of future orders for the yard.	In agreeing the new contract with Scottish Ministers for the completion of the two vessels (801 and 802), FMPG have secured the medium term financial position of the organisation. However, Management recognise the importance of securing future contract orders to support the longer term financial sustainability of the organisation. The delivery of the FMPG development plan, aiming to maximise productivity and use of technology, will be critical for the financial sustainability of the organisation to develop a competitive offering to secure future orders in the organisation.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)	(continued)	During 2020/21 Management undertook benchmark reviews of its productivity and use of technology to inform the creation and progression of a development plan to support the organisation become as streamlined and competitive as possible. A key aspect of the longer term sustainability and competitiveness of the organisation is the investment in underlying infrastructure. The Development Plan identifies the need for further investment in underlying infrastructure including systems and capital infrastructure as well as project management capability.	Management have a potential future orders / tender pipeline and a development plan which focuses on the Turnaround of the organisation over the next three years. However, There is an opportunity develop, working in conjunction with the Scottish Government, a medium to longer term strategic plan, underpinned with a financial strategy to outline FMPG's strategic approach in securing the long term viability of the yard, retaining shipbuilding work in Inverclyde. *See Action Plan.*

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Governance and transparency Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Maintaining good governance** As a publicly owned entity under Ministerial Direction and the Framework Agreement with Scottish Government, FMPG will be required to follow the requirements of the Scottish Public Finance Manual (SPFM). This includes the approach to managing risks and resources and wider aspects of good governance. Since it was nationalised in 2019, FMPG has being establishing and embedding its governance arrangements including the appointment of a Board of Directors and establishment of the Audit and Risk Committee as well as the development of financial, operational and risk management arrangements. However, there is a risk that as the organisation transitions from being a privately operated entity to a public body, the governance arrangements in place at the FMPG group, do not meet the requirements of the SPFM, particularly around risk and resource management and wider arrangements for ensuring clear, transparent decision making expected from a public sector body.	**Governance arrangements in transitioning to a non-departmental public body** During 2020/21, the Scottish Government, in consultation with FMPG, developed Ministerial Guidance and a Framework Agreement establishing the broad framework within which the organisation will operate including key roles and responsibilities which underpin the relationship between FMPG and the Scottish Government. The Framework has yet to be signed and it is important that this is agreed to ensure arrangements with Scottish Government are formally established. FMPG has sought to develop its governance arrangements and align to the requirements of the Scottish Public Finance Manual ('SPFM'). This has included the development of the Audit and Risk Committee and appointments to the Committee. In addition, the following aspects of governance have been developed and enhanced during the year: • Project and financial reporting arrangements have been introduced, including monthly project reporting to the Board and Scottish Government to support greater scrutiny and transparency of performance. • Procurement arrangements– During 2020/21 procurement processes were developed and enhanced. This included updating of the scheme of delegation to facilitate greater control over supplier and sub-contractors; and • Processes and controls – A fully process mapping exercise was undertaken during the year to enhance quality management arrangements. This supported the achievement of the ISO9001 certification standard for quality management.	FMPG has progressed in establishing governance arrangements during 2020/21 with the establishment of the Board and Audit and Risk Committee. However, as recognised by Management, further work is required to establish governance arrangements in line with the SPFM that support effective scrutiny, oversight and challenge of the corporate priorities and risks facing the organisation.

Wider scope dimension	Risk identified	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)	(continued)	Management recognise that further work is required to ensure governance arrangements are in place to support scrutiny and oversight. As identified in the FMPG Annual Governance Statement areas include: • Risk Management – While there are established project risk management arrangements, further work is required to support the development and oversight of corporate risks. In addition, Management have commissioned a review of IT network and infrastructure to enhance cyber risk management. • Policies and procedures have not been subject to review and refresh since the new Board has been established. Currently Management across the organisation are reviewing policies and procedures to ensure these remain fit for purpose. In addition, organisational wide e-learning training course are being made available to staff to enhance organisational wide understanding of corporate governance. • In line with the SPFM, FMPG should have an established internal audit function to provide independent assurance over governance, risk management and control environment. Currently no Internal Audit function is in place and therefore there is a gap in the assurance to members of the Audit and Risk Committee and the Board. Progress against these actions is being taken forward during 2021 as part of the Audit and Risk Committee's work plan over the coming year. As a public body, it is important that FMPG follow the principles of openness and transparency including publication of performance and other information including minutes, to support effective public scrutiny. We recognise that Management will need to balance this transparency with the need to ensure to ensure commercially sensitive information is not in the public domain.	While operational delivery is clearly a key focus for the organisation, it will be important over the coming year that sufficient resources are in place to support the development of effective governance, risk and control arrangements and the delivery of the Audit and Risk Committee work plan. Specifically, the establishment of robust corporate risk management arrangements and an internal audit function. Overarching this should be the Framework document with Scottish Government (currently in draft). In addition, as a non-departmental public body, FMPG should look at enhancing the transparency of performance and other information (including timely publication of minutes) to support public scrutiny while managing commercially sensitive information. *See Action Plan.*

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Value for money Value for money is concerned with using resources effectively and continually improving services.	No significant wider scope risks identified	Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the FMPG's value for money arrangements. The new agreement with Scottish Ministers for the shipbuilding contracts for vessels 801 and 802 secures funding for the remaining projected costs in the production of vessels of 801 and 802. Under the arrangement, FMPG's performance against forecast is monitored through project monitoring reports, including oversight from the Scottish Government. A key focus for FMPG is therefore the delivery of this contract in line with budget and projected spend. Beyond the existing contracts, FMPG operate in a commercially competitive environment. Therefore, a key focus for Management is maximising the use of resources. Management have recognised this and developed a development plan to enhance its productivity and use of technology.	FPMG operates in a commercial environment and therefore the efficient and effective use of resources is a key focus for Management. While 2020/21 represented a challenging year operationally as a result of Covid-19, Management made progress in securing the contract for the delivery of 801-802 vessels as well as undertaking benchmarking reviews of its operations. As the organisation looks to secure additional commercial contracts, it is important that the organisation progresses with the development plan to support the organisation become as streamlined and competitive as possible.

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance. There were four corrected adjustments to the financial statements identified during our audit. This included an adjustment arising on the valuation of property, plant and equipment on transition to the FReM. We identified one uncorrected misstatements to the financial statements in respect of incorrect depreciation on revalued assets.

Impact of adjustment to the financial statements on transition to the FReM

Detail	Statement of Comprehensive Net Expenditure £000's	Statement of Financial Position £000's
Being adjustment arising on the transition to the FReM to recognise the valuation of land and buildings at current value under the FReM		
Dr Property, plant and equipment - valuations		1,828 (2020:£1,668)
Cr Revaluation reserve		(1,828) (2020: (£1,668))

Impact of adjusted misstatements

There were 3 adjusted misstatement greater than £32,274 during the 2020/21 audit which is set out below.

Detail	Statement of Comprehensive Net Expenditure £000's	Statement of Financial Position £000's
Being reallocation between accruals and trade payables		
Dr Accruals and deferred income		284
Cr Trade Payables		(284)
Being adjustment to reclassify administration costs from Cost of Sales to administration expenses		
Dr Administration expenses	3,103	
Cr cost of sales	(3,103)	
Being adjustment to reclassify exceptional items (covid-19 and FMEL administration income and expenditure) to administration expenses and other operating income		
Dr Administration expenses	3,799	
Cr Other operating income	(368)	
Cr Covid 19 – Exceptional costs	(3,796)	
Dr Exceptional FMEL	365	
Cr Other operating income	(170)	
Dr Admin expenses	170	
Overall impact	-	-

Impact of unadjusted misstatements

The table below provides details of the adjustment identified during the 2020/21 audit which have not been made within the final set of financial statements. Management consider this adjustment does not have a material impact on the financial statements and the user of the financial statements understanding of FMPG's financial position.

Detail	Comprehensive Income and Expenditure £000's	Statement of Financial Position £000's
Being understatement of depreciation charge on revalued items of property, plant and equipment in March 2021 (Note this would result in higher revaluation movement to get to correct closing valuation)		
Dr CIES - Depreciation	54	
Cr Property, plant and equipment – Depreciation		(54)
Dr PPE – Valuation		54
Cr Profit and loss account (transfer from revaluation reserve)		(54)
Overall impact	54	(54)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted
Remuneration and staff report	The Accounts Direction issued in September 2021 requires the Annual Report and Accounts to be prepared in accordance with the FReM. This included the requirement to include a Remuneration and Staff Report within the annual report and accounts. Management have updated the audited accounts to meet the requirements of the FReM.	Yes - Management have disclosed all information available to meet the disclosure requirements of the FReM.
Critical judgements	International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates. Significant Estimates relate to assumptions and estimates at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In the draft accounts, Management have disclosed valuation of property, plant and equipment and pension valuations and revenue recognition. There is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions such as pension fund discount rate or key assumptions in the valuation.	Partly – the disclosures have been updated to reflect the valuation of property, plant and equipment. However, there are opportunities to enhance the disclosure the disclosure. In particular, focusing on key areas of judgement and their sensitivity to change over the next 12 months. Audit are satisfied that this is not material disclosure misstatement to the financial statements.
Accounting policies	The draft financial statements accounting policies, including basis of preparation and accounting framework adopted were based on FRS 101 and Companies Act. The FReM adapts and interprets International Financial Reporting Standards and there FMPG were required to update accounting policies to reflect those as outlined in the FReM. In particular, the basis of preparation and valuation of property, plant and equipment.	Yes

Disclosure	Auditor recommendations	Adjusted?
Adoption of the FReM	As 2020/21 represented the first year FMPG has adopted the FReM, in accordance with IAS 1, the financial statements require appropriate disclosures to report the impact of the adoption of the accounting framework. In addition, there were significant presentational and disclosure changes required to the accounts including the inclusion of a Comprehensive Net Expenditure Statement and presentation of an opening statement of financial position as at 12 August 2019 and notes to the accounts to disclose the impact of the adoption of the FReM. Management have updated the Statement of Financial position to include opening prior period comparative information as well as a note to the accounts on first time adoption of the FReM. As noted in this report, the adoption of the FReM has had minimal impact on FMPG's overall financial position.	Yes
Cash flow statement	The cash flow statement included a disclosure adjustment to recognise the actual sale proceeds within cash flow movements rather than as net sales. The impact of the adjustment was as follows: Cr Movement in working capital £105,000 Dr Proceeds from sale of PPE £105,000 There is also an opportunity to enhance the cash flow disclosure notes by including movements in the accounts.	Yes - Cash flow has been updated to reflect movements in the financial statement. Additional disclosures have not been updated but are not considered material to the user of the accounts.
Operating segments	FMPG have included disclosure in the accounts that it monitors performance through a single operating segment at the Group / Parent level. Effectively oversight of the overall delivery of vessels. In accordance with the FReM, the financial statements should include disclosure of performance consistent with internal reporting which we would consider to be at the contract / vessel level.	No - We are satisfied that this is not material to the user of the accounts.

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation	Management response
1. Valuation of property, plant and equipment The FReM requires operational property, plant and equipment to be held at current value. During the audit Management obtained an independent valuation of land and buildings from Graham & Sibbald. Our audit testing found that the valuation exercise did not cover all assets which we would have expected to be considered. In particular it did not cover: leased property at Cartsdyke and car parks at the yard. Management have sought subsequent assurances that the valuation of these assets would not materially differ from the current carrying value. However, we recommend that Management ensure arrangements are in place to ensure values continue to be reviewed with sufficient regularity to ensure they reflect current value. In addition, the valuation covers land and buildings, Management should consider whether material items of plant and equipment that are held for a longer period, should be subject to valuation.	Management response: Agreed. Will be considered in the 2021/22 Valuation considerations. Responsible Manager: Chief Financial Officer Implementation Date: 31 March 2022
2. Strategic planning Management have a potential future orders / tender pipeline. The pipeline and project planning in place as well as investment in infrastructure evidences strategic planning. However, there is an opportunity develop, working in conjunction with the Scottish Government, a medium to longer term strategic plan, underpinned with a financial strategy. This should provide clarity around the future strategic direction of the organisation, including those of the various subsidiary companies.	Management response: Management recognises and agrees with the recommendations set out in the proposed Action Plan. The Audit and Risk Committee work programme has included actions to address these issues and implement the recommendations. The work programme is currently being reviewed and revised to reflect progress, and prioritisation of completing outstanding actions. Responsible Manager: Interim Accountable Officer (Accountable Officer) Implementation Date: 1 October 2022

Recommendation	Agreed officer response
3. Governance and transparency While operational delivery is clearly a key focus for the organisation, it will be important over the coming year that sufficient resources are in place to support the development of effective governance, risk and control arrangements and the delivery of the Audit and Risk Committee work plan. Specifically, the establishment of robust corporate risk management arrangements and an internal audit function. Overarching this should be the agreement of the Framework document with Scottish Government (currently in draft). In addition, as a non-departmental public body (NDPB) FMPG should look at enhancing the transparency of performance and other information (including timely publication of minutes) to support public scrutiny while managing commercially sensitive information.	Management response: The Audit and Risk Committee work programme has included actions to address these issues and implement the recommendations. The work programme is currently being reviewed and revised to reflect progress, and prioritisation of completing outstanding actions. Responsible Manager: Chief Financial Officer Implementation Date: 1 December 2022

3. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration for the audit of Ferguson Marine (Port Glasgow) Holdings Limited	45,000
Pooled Costs	10,350
Contribution to Audit Scotland costs	2,250
Contribution to Performance Audit and Best Value	-
2020/21 Fee	57,600

Fees for other services

Service	**Fees £**
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Independence and ethics

- 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 Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

4. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Annual 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 the 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		•

grantthornton.co.uk