

# Ferguson Marine (Port Glasgow) Holdings Limited

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Ferguson Marine (Port Glasgow) Holdings Limited

March 2024

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# Introduction

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## Summary of planned audit work

1. I, John Boyd, have been appointed by the Auditor General for Scotland as external auditor of Ferguson Marine (Port Glasgow) Holdings Limited (FMPG) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

## Respective responsibilities of the auditor and FMPG

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and FMPG. Key responsibilities are summarised below.

### Auditor responsibilities

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

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

### FMPG's Accountable Officer and directors' responsibilities

6. The Accountable Officer and directors are responsible for maintaining adequate accounting records and internal controls, and preparing financial

statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. The Accountable Officer and directors have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

### **Adding Value**

8. My team and I aim to add value by: tailoring audit work to the circumstances of FMPG and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help FMPG promote improved standards of governance, better management and decision making, and more effective use of resources.

# Annual report and accounts

## Introduction

9. The annual report and accounts are an essential part of demonstrating FMPG's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

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

### Materiality levels for the 2023/24 audit

13. We assess materiality at different levels. The materiality values for FMPG and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for FMPG and its group

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of FMPG's operations. For the year ended 31 March 2024, we have set our materiality at 1.5 per cent of gross expenditure based on the audited financial statements for 2022/23.	£1.000 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£0.750 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.

<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£50 thousand
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

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

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

## Exhibit 2

### 2023/24 Significant risks of material misstatement to the financial statements

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

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Review accounting estimates for management biases and evaluate whether any such bias represents a risk of material misstatement due to fraud.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focused testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Presumed risk of fraud over expenditure recognition under ISA (UK) 240 and PN 10</b></p> <p>Staff costs are well-forecast and reconcile to the payroll system and underlying records. Similarly, depreciation charges are well-forecast and applied on a systematic basis. Therefore, we do not consider these expenditure streams of significant risk of material misstatement. Therefore, our audit focus will be on remaining administrative and operating expenditure (cost of sales) in relation to vessels Glen Sannox and Glen Rosa. We consider the risk to be most pertinent around the year end where there is</p>	<ul style="list-style-type: none"> <li>• Maintenance of accruals and prepayments records to ensure that expenditure is recognised in the correct period.</li> <li>• Regular updates to Scottish Government on expected vs actual expenditure relating to Glen Sannox and Glen Rosa.</li> </ul>	<ul style="list-style-type: none"> <li>• Assess the design of controls over expenditure including those in relation to recording transactions around the year end.</li> <li>• Testing of pre and post year end non-pay expenditure to an elevated risk level to confirm expenditure recorded in the correct financial year.</li> <li>• Testing of post year end bank transactions for expenditure items to identify any potential unrecorded expenditure.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>greatest incentive and opportunity to misstate expenditure given the level of oversight of expenditure in year and focus on year end outturn results. We consider the main risk to be around the year end and therefore our focus will be on cut-off of non-pay expenditure.</p>		

Source: Audit Scotland

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

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

## Other areas of audit focus

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

The areas of specific audit focus identified are:

- Going Concern disclosure** – The 2021/22 and 2022/23 Annual Report and Accounts have both highlighted the risks and uncertainties over FMPG's ability to continue as a going concern. We will assess ongoing operations of FMPG beyond 12 months from the date of signing, as well as the appropriateness of disclosures around going concern in the annual report and accounts. We will take recognition of the requirements of the FRC Statement of Recommended Practice – *Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom [Revised 2020]*, where applicable.



- **Property, Plant and Equipment Valuations** - We will review arrangements at FMPG to ensure that valuations recognised in the accounts are free from material misstatement. The land and buildings subject to valuation relate to office accommodation and the site at Port Glasgow as well as leased property. These have been subject to regular independent expert valuation with limited volatility in valuations and assumptions.
- **Remuneration and Staff Report** – To ensure sufficient audit testing on an area of focus for the users of the accounts, we have set a lower materiality threshold of £25,000 in relation to bonus and retention payments and will evaluate whether the disclosures around these payments are free from material misstatement.

## Regularity

**20.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

**21.** We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

## Group Consideration

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

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

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

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# Wider Scope and Best Value

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## Introduction

25. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether FMPG is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by FMPG. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how FMPG demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

26. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks (if there are no significant risks then this must be explicitly stated).

## Exhibit 3

### 2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p><b>1. Short and Long-Term Financial Sustainability</b></p> <p>FMPG faces significant financial uncertainty. With MV Glen Sannox and MV Glen Rosa due for completion on 30 June 2024 and 30 September 2025 respectively and limited work outwith these vessels currently secured, there is significant uncertainty around future revenue beyond these contracts. In the short term, Scottish Government has also only contractually committed to annual budgeted funding for 2024/25 and therefore there remains risk and uncertainty over short term finances.</p> <p>In addition, FMPG recognise the need to invest in more efficient yard equipment, competitive employee benefits for yard workers, and implementation of their Digital Strategy to deliver a competitive, financially sustainable operating model.</p>	<p>An updated strategic plan that sets out how management will ensure the long-term financial sustainability of FMPG</p>	<ul style="list-style-type: none"> <li>• Review cash flow forecasts as far ahead as available in order to assess the appropriateness of the annual report and accounts being prepared on a going concern basis</li> <li>• Review FMPG's strategic and financial plans around how it will look to deliver a financially sustainable operating model.</li> <li>• Consider the progress made by FMPG in securing additional contracted work beyond the completion of vessels MV Glen Sannox and MV Glen Rosa.</li> </ul>
<p><b>2. Financial Management and Value for Money</b></p> <p>As a non-departmental public body, FMPG is required to comply with the Scottish Public Finance Manual (SPFM),</p>	<p>Value for Money performance measures agreed with Scottish Government</p>	<ul style="list-style-type: none"> <li>• Evaluate updated strategies or business plans including scenario planning.</li> <li>• Assess the extent to which FMPG has established and embedded financial and non-financial performance management arrangements to</li> </ul>

Description of risk	Management's sources of assurance	Planned audit response
<p>which requires them to demonstrate Value for Money across its activities.</p> <p>It is unclear how FMPG demonstrates value for money in the context of its operational and strategic objectives.</p>		<p>enable it to demonstrate sound financial management and value for money.</p> <ul style="list-style-type: none"> <li>• Review the progress made by management in engaging with the Scottish Government to clarify how FMPG should seek to fulfil its obligations relating to value for money.</li> </ul>

Source: Audit Scotland

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

## Duty of Best Value

28. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within FMPG.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

29. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

30. We will provide:

- an Independent Auditor's Report to FMPG, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- FMPG and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas

31. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to meeting the statutory deadline for laying the accounts of 31 December 2024.

32. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

## Exhibit 4

### 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	21/03/2024	21/03/2024
Independent Auditor's Report	August 2024	August 2024
Annual Audit Report	August 2024	August 2024

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## Timetable

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

35. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	June 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	3 June 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	4 July 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	4 July 2024
Agreement of audited and unsigned annual report and accounts	August 2024
Issue of Annual Audit Report to those charged with governance.	August 2024
Signed Independent Auditor's Report	August 2024

Source: Audit Scotland

## Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of FMPG and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £53,850 as set out in [Exhibit 6](#).

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

<b>Fee component</b>	<b>Fees (£)</b>
External Auditor Remuneration	40,370
Pooled costs	430
Sectoral Cap Adjustment	13,050
<b>Total 2023/24 fee</b>	<b>53,850</b>

Source: Audit Scotland

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**37.** In setting the fee for 2023/24, we have assumed that FMPG has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**38.** It is the responsibility of FMPG to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**39.** While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**40.** I am independent of FMPG in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

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

**42.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of FMPG.

## Audit Quality

**43.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**44.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

**45.** ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.



**46.** ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**47.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**48.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

**49.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

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# Appendix 1: Your audit team

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The audit team involved in the audit of FMPG have significant experience in public sector audit.

John Boyd  
Audit Director  
[jboyd@audit-scotland.gov.uk](mailto:jboyd@audit-scotland.gov.uk)

John has overall responsibility for the Audit Engagement. He has considerable audit experience across public and private sector audits including health, IJB, pension, local government, and central government sectors as well as commercial audits including listed companies.

Mark Ferris  
Senior Audit Manager  
[mferris@audit-scotland.gov.uk](mailto:mferris@audit-scotland.gov.uk)

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

Jacqueline Farmer  
Senior Auditor  
[jfarmer@audit-scotland.gov.uk](mailto:jfarmer@audit-scotland.gov.uk)

Jacqueline has considerable experience in planning and delivering audits. Jacqueline will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit

Donna Rigby  
Auditor  
[drigby@audit-scotland.gov.uk](mailto:drigby@audit-scotland.gov.uk)

Donna has over 4 years of experience in planning and delivering external audit services

Katrina Lyall  
Trainee Auditor  
[kylall@audit-scotland.gov.uk](mailto:kylall@audit-scotland.gov.uk)

Katrina is in her second year of her traineeship with Audit Scotland and supported the team in the 2022/23 audit of FMPG

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

# Ferguson Marine (Port Glasgow) Holdings Limited

## Annual Audit Plan 2023/24

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

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

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