

Minutes
Scottish Rail Holdings Limited (SRH)
Audit & Risk Committee (ARC) Meeting
Tuesday 22 October 2024 – 13:00 – 15:00
Location: St Vincent Plaza, Room 1/Teams*

Agenda

Present: Brian Baverstock – Chair
Roz Foyer – Non-Executive Director

In attendance Hannah Ross – Chief Executive
Campbell Davidson – Finance Director
Rachel Browne – Audit Director, Audit Scotland
Richard Smith – Senior Audit Manager, Audit Scotland
Sanya Ahmed – Senior Auditor, Audit Scotland
Ken Adamson – Audit and Risk Manager
Jackie Bergen – Board Secretary

Agenda Item 1 – Notice and Quorum

1. Two Committee Members were present. The Meeting was quorate.

Agenda Item 2 – Declarations of Interest

2. There were no declarations of interest to note.

Agenda Item 3 – Minutes and Action Arising from Previous Meetings

3. The Committee approved the minutes of the meeting held on 6 June 2024.

4. The Chair confirmed that the minutes of the meeting held on 13 December 2023 had been approved by email.

2022/23 Audit Scotland recommendations

5. The Committee noted the update on progress in actioning the recommendations from the 2022/23 audit. The Finance Director gave an overview of the key points of the work undertaken and highlighted the following for the Committee:

- The SRH Audit & Risk Manager had recently commenced employment and has a wealth of experience in audit and risk in the public sector
- SRH staffing structure was revised and approved by the Board and is with Transport Scotland for approval of the full structure
- SRH strategic plan for 2024 to 2029 was approved by Transport Scotland and is now published on the SRH website. The strategic plan for the period 2025 to 2030 and the business plan for 2025/26 will be considered by the Board at its December meeting and submitted to Transport Scotland for approval by 10 January 2025
- The review of the SRH governance structure is now being undertaken in-house and a substantive, but not concluding, report will be submitted to the Board at its November meeting

6. In relation to developing a Best Value framework for the SRH Group, the Chief Executive said that this will be driven by the strategic plan once the 2025 to 2030 plan is approved by the Board. The Senior Audit Manager said that he had expected more progress on this recommendation from the last audit report, but he understood the staff capacity issues that SRH had faced, and he hoped to see the development of a Best Value framework now move more quickly.

7. Roz Foyer said that she understood Audit Scotland's concerns but due to unavoidable factors such as staff capacity, work had not been progressed as quickly as SRH would have liked. She said that the Executive Team have had to prioritise due to lack of resources and while improvement was being made with the recruitment of new members of staff there were still external pressures to deal with. The Chair agreed that progress had not been as quick as he would have hoped for but said that he has seen significant progress recently with relatively small added resource which demonstrates that as additional resources come on board they can be mobilised quickly and effectively.

Agenda Item 4 – External Audit update

8. The Senior Audit Manager said that the timetable for the audit of the SRH Group 2023/24 accounts had moved slightly from the original plan. He said that the accounts are substantially complete, and the audit work is progressing well although it is at an early stage of the audit. He said that the accounts should be ready for sign-off by beginning to mid December.

9. The Finance Director said that the audit of the ScotRail accounts was complete and there were no matters raised by ScotRail external auditors that would impact on the SRH Group. He said that the audit of the CSL accounts was not yet complete, but he was not as yet aware of any issues arising from the audit work. He said that the proposed timetable, at this stage, would be to present the accounts for CSL and ScotRail to their respective Audit and Risk Committees at their meetings on 4 and 5 December, convene special meetings of the CSL and ScotRail Boards thereafter to sign the accounts, thereafter convene a meeting of the SRH Audit and Risk Committee to present the draft SRH Group accounts and submit these to the SRH Board at its meeting on 12 December for sign-off.

10. The Chair said that ScotRail and CSL do not currently fall under the remit of the Auditor General for Scotland and currently appoint private firms to undertake their external audit work. He said that there are benefits in relation to cost and the scope of the audit work for Audit Scotland to be appointed as the auditors for ScotRail and CSL, as they are both public bodies. The Audit Director said that Audit Scotland does not control the process for making such a change and it would have to be enacted through subordinate legislation. The Chair asked the Chief Executive to follow this up with Transport Scotland and obtain clarity on the process and timescales for taking this forward.

Agenda Item 5 - Internal Audit update

11. The Finance Director said that the Audit and Risk Manager would be taking forward the work for the procurement of an internal audit service. He said that meetings with ScotRail and CSL were being set up to discuss current internal audit provision in each company before the procurement specification is produced. The Chair said that there has been prior discussion with ScotRail and CSL, and the procurement should be for an internal audit service for the SRH Group not just for SRH. He said that he was concerned that this had not been progressed over the past twelve months and this should now be taken forward as a matter of high priority.

Agenda Item 6 – Methodology for the annual governance statements

12. The Committee considered the report from the Audit and Risk Manager setting out the expectations and requirements for the annual governance statements. The Audit and Risk Manager said that the evidence for the governance statements will come from senior management certificates of assurance, and assurances from ScotRail and CSL Managing Directors. He said that, given the absence of internal audit within SRH during 2023/24, he will undertake a sample of control testing to

supplement the evidence from the certificates of assurance for the governance statement. He said that for the future, internal audit activity will underpin the assurance required for the governance statements and more formal arrangements, with a detailed work plan, will be put in place for 2024/25.

13. The Senior Audit Manager said that he would expect the governance statement to refer to the issues concerning the lack of an internal audit function and the irregularity of audit and risk committee meetings during 2023/24, and state the actions being taken by SRH to address these.

14. The Chair and Chief Executive thanked the Audit and Risk Manager for the excellent work that he had undertaken in the short time since joining SRH.

Agenda Item 7 – Annual Report to Transport Scotland on Fraud

15. The Chair said that there was a requirement for the Audit and Risk Committee to prepare an annual report on fraud for Transport Scotland. He said that, through the work of the subsidiary company audit and risk committees he was not aware of any instances of reportable fraud other than three minor instances in ScotRail. He asked the Audit and Risk Manager to take this forward and produce a report for the Committee's consideration.

16. The Chair said that once the internal audit function is in place an assessment of fraud risk across the SRH Group should be undertaken.

Agenda Item 8 – SRH Risk Register

17. The Committee considered the paper setting out the changes to the risk register since the last meeting of the Committee. The Finance Director highlighted the following key points for the Committee:

- [Redacted]
- The scoring in relation to capital spend approval delays has reduced as SRH received formal approval of the SRH Group 2024/25 capital programme, which is progressing within CDEL budget allocation and authority to spend. Capital controls are being undertaken through the Transport Scotland TSEPS (Team Scotland Execution Plan) process which provides more discipline around applying for and approving capital projects.
- The risk relating to the lack of a documented strategic plan will be removed as the plan is now in place
- A new risk has been added in relation to the risk to services due to lower than required train operational performance and the financial and reputational impact of this.
- [Redacted]
- The Audit and Risk Manager will address, as part of his on-going work, matters raised by the SRH Board including the [Redacted] and the risk register detail that mitigating actions have been applied and the effectiveness of those actions
- The Audit and Risk Manager will be assessing where the SRH Group is in relation to risk management and identify areas for improvement, drafting policy for escalation of risks from subsidiary companies to the SRH risk register, and developing a consistent risk management strategy across the SRH Group

18. The Senior Audit Manager referred to the [Redacted] and asked how Scottish Government factor in the funding for the ScotRail off-peak all day fares trial. The Finance Director said that [Redacted] He referred to his early comments that SRH has been working with ScotRail [Redacted] and this will be discussed with Transport Scotland.

19. [Redacted] The Chief Executive said that SRH Group needs to introduce the risk of external factors, such as industrial action, to predicting revenue which will help to test whether budget allocations are sufficient for the required level of services. The Chair said that a more strategic approach to trying to [Redacted] needs to be taken and options presented to do this. A non-executive director said that there needs to be a dedicated resource for development of pro-active modernisation initiatives to create efficiencies and increase revenue rather than the current reactive position.

20. In relation to the risk of [Redacted], the Chair said that this currently only mentions [Redacted] and it should include any other policy areas where there could be a risk of [Redacted].

21. In relation to the risk of lack of required policies, the Chief Executive said that the lack of policy development in SRH is being addressed and work is on-going to get required policies updated, and/or prepared. She said that the new General Counsel starts employment with SRH on 23 October and will progress this work. The Chair said that this risk should be adapted to include the risk of failing to optimise shared services and activities across the SRH Group. To mitigate this risk there should be a clear plan to get a strategy in place for shared services and shared policies for the Group.

22. The Chair said that he appreciates the developing form of the risk register and asked that a review of the strategic plan and business plan be undertaken to ensure that all key risks are captured on the risk register.

Agenda Item 9 - Control Mechanisms for Capital Spend

23. The Committee noted the update in the risk register in relation to high value capital spend and that new fleet procurement governance was being established by SRH, and work was being undertaken by ScotRail to develop a framework for the control of major capital projects for the SRH Group.

24. The Chair asked whether more routine capital projects will be subject to the same controls as the high value projects. The Finance Director said that there will be a documented process from the Transport Scotland TSEP process which will cover the SRH Group needs for on-going monitoring of all capital projects. He said that there are different routes within that system for higher and lower level spend. He said the SRH Capital Investment Panel utilisation of the TSEP process across the SRH Group will help to control the risk of capital budgets not being fully used.

25. The Chair asked if there was a process for reporting to the Board on capital projects. The Finance Director said the Capital Investment Panel will monitor authority to spend, potential underspend opportunities etc across the group throughout the year. He said he has reported information on this to the SRH Board but there is as yet no documented process in place for this reporting. The Committee asked the Finance Director to prepare a documented process for regular reporting to the Board on capital spend.

Agenda Item 10 – Whistleblowing Policy

26. The Committee considered the draft Whistleblowing policy. The Chair said that clarification was needed on certain parts of the draft, and he said he would provide his comments on the draft after the meeting. The Committee agreed to approve the policy subject to the Chair's comments being incorporated.

Agenda Item 11 – Staff Code of Conduct

27. The Committee considered and approved the draft Staff Code of conduct and noted that this was prepared on the basis of the Scottish Government model code of conduct for staff of NDPBs.

28. The Chief Executive said that as this, and the Whistleblowing policy were new and related to staff, the trade unions should be informed of these as part of the trade union recognition agreement. Roz Foyer said she fully supported this approach and asked that, going forward, the trade unions are consulted on relevant draft policies prior to the Committee and/or Board consideration so that any comments from the trade unions can be considered prior to policies being approved.

29. The Chief Executive said that clarity was needed on authority to approve policy and whether this should be delegated to Committees or reserved for the Board and said that she would ask the General Counsel to look at this and make recommendations. She said that she would submit an oversight document on all required policies to the next meeting of the Committee.

Agenda Item 12 – Complaints Handling Procedure

30. The Committee considered and approved the Complaints Handling Procedure and noted that this was prepared on the basis of the model complaints handling procedure published by the Scottish Public Services Ombudsman.

Agenda Item 13 – Any Other Business

31. The Committee noted Audit Scotland's observation that SRH Audit and Risk Committee minutes are not currently published on the SRH website. The Committee noted that it is best practice for agendas, minutes and papers to be published for public bodies but not to the detriment of business. The Audit Director noted that meaningful and detailed minutes of public body Board and Committee meetings should be prepared and published with FOI permitted exemption redactions where applicable. The Committee noted that this is the approach currently taken for publishing SRH Board minutes and agreed that Audit and Risk Committee minutes should be published from this point forward using the same approach. The Committee also agreed that SRH should prepare a publication policy, and this should be taken forward by the General Counsel.

Agenda Item 14 – Date of next meeting

32. The Committee noted that a meeting will be required in early December for the draft annual report and accounts to be submitted to the Committee, this will be arranged in due course. The next meeting of the Committee thereafter will be 12 February 2025 unless any critical issues that need to be addressed by the Committee arise before then.