

**Minutes**  
**Scottish Rail Holdings Limited (SRH)**  
**Audit & Risk Committee (ARC) Meeting**  
**Monday 9 December 2024 – 10:00 – 12:15**  
**Location: St Vincent Plaza, Room 1/Teams\***

**Agenda**

**Present:** Brian Baverstock – Chair  
Carolyn Griffiths – Non-Executive Director\*

**In attendance:** Hannah Ross – Chief Executive  
Neil Amner – General Counsel  
Campbell Davidson – Finance Director  
Richard Smith – Senior Audit Manager, Audit Scotland  
Sanya Ahmed – Senior Auditor, Audit Scotland  
[Redacted] – Audit and Risk Manager  
[Redacted] – Project Accountant  
[Redacted] – Board Secretary

**Apologies:** Roz Foyer – Non-Executive Director  
Rachel Browne – Audit Director, Audit Scotland

**Agenda Item 1 – Notice and Quorum**

1. Carolyn Griffiths was co-opted as a member of the Committee. Two Committee Members were present. The Meeting was quorate.

**Agenda Item 2 – Declarations of Interest**

2. There were no declarations of interest.

**Agenda Item 3 – Minutes of Previous Meeting**

3. The Committee approved the minutes of the meeting held on 22 October 2024.

**Agenda Item 4 – Matters Arising**

4. The Committee considered the actions from previous meetings.

5. In relation to action one, the development of a Best Value Framework, the Committee noted that the deadline for this would be June 2025. The Finance Director said that he would be taking forward this work with the Audit and Risk Manager with a view to having the framework in place before then.

6. In relation to action two, determining the process to bring SRH subsidiary companies under the remit of the Auditor General for Scotland, General Counsel said that he would take this forward and report to the next meeting of the Committee.

7. In relation to action three, establish an internal audit function for SRH Group, the Audit and Risk Manager said that the draft specification had been discussed with the subsidiary companies and comments had been received. He said that he would be discussing this with the procurement team and thereafter the invitation to tender would be issued. Carolyn Griffiths said that the internal audit function needs to include audit of

safety matters and safety should be covered in the tender specification. The Audit and Risk Manager said that the specification would include health and safety for provision of the service to provide assurances on the adequacy of arrangements in place, and the detail of the work relating to audit of rail safety should be undertaken by professionals in that area. The Chair said that the important perspective for the internal audit function is assurance needs and where that assurance comes from, and internal audit and SHEC provide assurances. He said that an assurance map will be developed once the internal audit function is in place. Carolyn Griffiths said that internal audit has to have oversight of what is happening at SHEC and the audit plans for the SRH Group need to include safety, health and environment matters. She said that going forward there has to be alignment between SHEC and the Audit and Risk Committee. The Chief Executive said that a meeting has been arranged for 10 December with the Chairs of both committees to discuss alignment between committees.

8. In relation to action six, develop a risk management strategy, it was noted that this should be considered by the Committee prior to submission to the Board.

9. In relation to action seven, include all policy areas in the risk of insufficient funding to deliver Scottish Government policy, the Committee agreed to carry this over to the next meeting.

10. In relation to action eight, develop a plan for shared services and policies across the SRH Group, General Counsel said that he was reviewing the arrangements currently in place with the subsidiary companies and discussing additional areas that could be shared. He said that compliance areas are the most important and the first stage is to get a contractual agreement in place for current shared arrangements and then look at other shareable compliance service areas and thereafter look at operational areas that could be aligned. The Chair asked for a short plan setting out how this work will be taken forward for the next meeting of the Committee.

11. In relation to action nine, review strategic and business plans to ensure key risks are on the risk register, update to be provided at next meeting of the Committee.

12. In relation to action ten, documented process for reporting to the Board on capital spend, the Committee noted that this action will be taken forward when an SRH capital resource is in place. The Finance Director said that there is an increased risk that the shortage of staff could delay the process for capital approvals.

13. In relation to action thirteen, determine delegated authority for SRH Group committees on policy approval, General Counsel said that while the terms of reference for the three SRH Group Audit and Risk Committees have differences, all refer to reviewing policies not approving them, therefore the Boards should approve policies but should take weight from the scrutiny undertaken by the committees.

14. In relation to action sixteen, prepare a publication policy for SRH, the Committee noted that a rough first draft had been prepared and this would be undertaken as part of the policy work being taken forward by General Counsel.

15. The Committee agreed to close actions four, five, eleven, twelve, fourteen and fifteen as these were completed or on the agenda.

#### **Agenda Item 5 – External Audit Report 2023/24**

16. The Audit Scotland Senior Audit Manager referred to the draft covering letter to the audit report and said that this provided a clean audit opinion on the financial statements and reports.

17. The Finance Director referred to paragraph six of the letter covering subsequent events and said that there had been a further instance of coach cracking in relation to CSL. He said that while this did not have a material bearing on the 2023/24 accounts he asked if it would require amendment to the wording in the Audit Scotland letter. The Chief Executive confirmed that a temporary solution to fix the cracking problem was in place and the first inclass fitment had taken place, but no final confirmation had yet been received on the success of this as third party approvals were awaited. The Audit Scotland Senior Audit Manager said that he did not think that this would have any material interest to the covering letter but would discuss further with the Finance Director.

18. In relation to paragraph nine of the letter covering outstanding matters, the Finance Director confirmed that the outturn table was now finalised. The Finance Director highlighted one outstanding issue in ScotRail's audited accounts in relation to FReM requirements on the remuneration report and the reporting of special losses and payments. He said that this was in relation to non-disclosure agreements (NDA) for two ScotRail directors who received exit packages in the accounting year and whether disclosure under FReM would contravene the terms of the NDAs. He said that ScotRail was seeking advice on this matter and the ScotRail Audit and Risk Committee had agreed that recommendation of approval of the ScotRail Annual Report and Accounts to the ScotRail Board was subject to a satisfactory conclusion of this matter. The Audit Scotland Senior Audit Manager said that if this issue did not affect the numbers in the SRH Group accounts then there should not be any problem but noted that public bodies should not enter into any agreement that is non-compliant with statutory disclosure requirements. He said that the expectation would be to publish required disclosure information and confidentiality agreements should not take over that.

19. The Audit Scotland Senior Audit Manager referred to the audit report recommendation in relation to improving the accounts preparation process for next year as a significant number of adjustment and classification issues were identified during the 2023/24 audit. He said that alignment of accounting policies between SRH and the subsidiary companies needs to be better as the subsidiary companies had some confusion in relation to the Accounts Direction and the requirements of FReM and the Companies Act. The Finance Director said that the interpretation of the subsidiary Accounts Directions had resulted in the basis of accounts preparation and external audit of the subsidiary annual accounts under the Companies Act (FRS101) and not the FReM, and this needs to be resolved for next year's audit.

20. In relation to the recommendation for SRH to develop its budget monitoring information of the subsidiary companies to better support its monitoring of financial performance, the Audit Scotland Senior Audit Manager said that while SRH had appropriate measures in place, it should make the budget monitoring process more simple to allow SRH to quickly and accurately assess the group position throughout the year. He referred to the current year likely overspend pressure due to lower than expected revenue and noted that discussions were ongoing with Transport Scotland in this regard. The Finance Director said that Transport Scotland was managing that pressure at a portfolio level alongside SRH's focus on reducing the current and future year pressures. [Redacted]

21. In relation to some of the key messages in the audit report the Audit Scotland Senior Audit Manager highlighted the following:

- There has not been much progress since the prior year's audit in SRH establishing effective arrangements to oversee train operations in Scotland due to lack of autonomy from Transport Scotland and the need to expedite recruitment of staff to the vacant roles within SRH's organisational structure to ensure it has sufficient capacity to effectively perform its duties. Transport Scotland and SRH need to work to increase the pace in this regard
- In relation to fleet strategy and fleet procurement strategy, Audit Scotland was encouraged by the discussions with SRH staff
- Governance arrangements within SRH need to be strengthened with provision of an internal audit function and more regular meetings of the Audit and Risk Committee
- SRH needs to develop a Best Value framework and a full suite of KPIs to monitor the performance of CSL and ScotRail to assist in driving improvements and efficiencies in the delivery of rail services in Scotland in the future

22. In relation to prior year audit recommendations most of the recommendations had been covered in discussion at the meeting other than the recommendation in respect of the Transport Scotland gateway review from July 2023, where Audit Scotland noted that Transport Scotland had not progressed the actions from its own review document in relation to resource requirements for SRH. The Chief Executive said that sign off on resource requirements for SRH was being pursued continuously and would be raised again at the forthcoming Strategic Rail Board meeting on 16 December. The Audit Scotland Senior Audit Manager said

that Transport Scotland needs to support SRH in its resource requirements and Audit Scotland has shared its findings from the SRH audit with the auditors for Transport Scotland.

23. The Chair referred to the recommendation in the audit report regarding staff capacity and asked if the deadline of December 2025 could be brought forward. The Chief Executive said that approval has been requested from Transport Scotland for ten new posts, six of which were awaiting AO approval and the remaining four would be progressed early in the New Year to align with the business and strategic plans. She said that some of the vacancies are currently being filled by interim staff. She said that the December 2025 deadline was for the completion of filling all posts as it will take time to recruit once approval is received but she would break down the timeline for recruitment of individual posts. Carolyn Griffiths said that ensuring staff have the correct competencies and skills needed was important and will take time.

24. Carolyn Griffiths said that there was reference in the audit report to quarterly reports from the Audit and Risk Committee to the Strategic Rail Board (SRB) and asked why these reports were not being submitted to the SRH Board. She said that the SRH Board does not have sight of the information that is submitted to the SRB and she would like to see this. The Finance Director said that the reports to the SRB from the Audit and Risk Committee consist of the SRH strategic risk register which the SRH Board currently has as a standing item on its agendas.

25. Carolyn Griffiths said that there is reference in the audit report to the SRH Code of Conduct and Terms of Reference for the Audit and Risk Committee and the Remuneration Committee, but these terms of reference had not been approved by the SRH Board. The Committee noted that the current terms of reference had been approved by the Board. (post meeting note – the terms of reference for the Audit and Risk Committee were approved on 26 May 2022, and the terms of reference for the Remuneration Committee were approved on 18 August 2022).

26. The Chair referred to the recommendation regarding cyber security and the deadline of December 2025 for establishing security policies, a support contract and training. General Counsel said that base policies would be put in place over the next few months and the December 2025 deadline reflects completion of the more in-depth work that will need to be undertaken. The Chair said that the timeline for this work could be broken down to show that work is on-going in the current financial year and to mention the existing arrangements that are in place in the subsidiary companies.

27. The Chair referred to the recommendation on performance monitoring of the subsidiary companies and asked whether the deadline of June 2025 was doing a disservice to the work currently being undertaken in relation to performance monitoring. The Chief Executive said that the current performance monitoring is undertaken through the KPIs as set out in the Grant Agreements and Framework Agreement and SRH needs to develop bespoke KPIs for performance monitoring.

28. The Chair referred to the revised deadline of 30 June 2025 to have an internal audit function in place and said that this should be changed to 31 March 2025 to ensure that the service is in place during the current financial year.

29. The Committee considered and approved the Letter of Representation.

### **Agenda Item 6 – 2023/24 Annual Report and Accounts**

30. The Committee considered the draft 2023/24 Annual Report and Accounts.

31. The Finance Director said that there had been improvement this year in aligning with the FReM requirements. He said that in relation to the governance statement, assurance checklists had been used and assurance statements had been received from the Managing Directors of the subsidiary companies and from directors. He said that the governance statements provided a balanced review of effectiveness and spending had increased during 2023/24 due to CSL being brought into public ownership.

32. Carolyn Griffiths said that she had submitted comments on the annual report and accounts and asked if these had been incorporated as she had not had time to check. The Finance Director said that he would make sure that the comments were taken on board.

33. After discussion, the Committee agreed to recommend the 2023/24 Annual Report and Accounts for approval by the Board, subject to ensuring that Carolyn Griffiths' comments had been incorporated.

34. The Audit Scotland Senior Audit Manager said that any additional changes would need to be submitted by close of business on 10 December. He said that going forward CSL and ScotRail accounts should be finalised in advance of SRH accounts being prepared.

35. The Chair thanked Audit Scotland for their support in highlighting areas for improvement across SRH governance and recognising that there are challenges, some of which are outwith the control of SRH to resolve. The Chair expressed his thanks and appreciation for the excellent work undertaken by the SRH finance team under the leadership of the Finance Director, in particular to the Project Accountant and the Audit and Risk Manager.

#### **Agenda Item 7 – SRH Policies Oversight**

36. General Counsel said that he was undertaking a review of policies to ascertain what SRH has in place and identify gaps. He said that there are some policies in place but there are significant compliance issues as there is a lack of data protection policies, IT security policies, publication scheme, FOI policy etc. He said that he had agreed with the Chief Executive that he would get policies in place to provide statutory compliance and then take time to undertake quality checks of each through the Audit and Risk Committee and then to the Board for approval. The Committee agreed with this approach.

37. The Chief Executive said that there needs to be a meaningful pay policy across the SRH Group. She said that she had been discussing executive pay with the subsidiary companies and how this should be dealt with at group level. She said that SRH is currently working with ScotRail, and CSL would be brought into these discussions, to consider the pay process and get group thinking so that pay is not just tied to inflation, and to consider other aspects that should be considered as part of the annual pay process. She said that a paper on this would be considered by the ScotRail Board at its January meeting.

#### **Agenda Item 8 – SRH Risk Register**

38. The Committee considered the paper setting out the changes to the risk register since it was last considered at the SRH Board meeting on 14 November and outlining current and planned future developments in relation to risk management. The Audit and Risk Manager said that the risk scoring on the risk relating to delays in obtaining capital spend approval had increased due to staff shortages within SRH to progress requests for capital approval. He said that he had revised the risk register to better reflect the wider objectives for the SRH and the group and the recent strategic direction letter from the Minister for Transport.

39. The Audit and Risk Manager said that work is progressing to prepare a draft risk appetite statement for the Board to consider at its meeting in February. He said that the statement would be to provide an approved steer on how SRH and the wider group should manage diverse risks and set parameters for subsidiary companies to deliver their own risk appetite statements.

40. The Audit and Risk Manager proposed that the risk register is considered in detail by the Audit and Risk Committee at its quarterly meetings and instead of submitting this to each monthly Board meeting, any risk update could be reported to the Board through the Chief Executive's update.

41. Carolyn Griffiths referred to risk number 21 on the risk register and said that this should include skills not just numbers of staff. She said that risk number 24 should include environment. She said that there is a risk that the Audit and Risk Committee do not receive detail of all risks as there are risks discussed at SHEC and there is no process for alignment between the committees. The Chair said that this matter will be discussed at the meeting scheduled for 10 December between the Chairs of the committees and the Chief Executive.

42. The Chair said that the revised format of the risk register needs more detail as it should include a clear description of the risk, the cause, impact and actions being taken to mitigate the risk.

43. The Committee agreed to recommend to the Board the revised arrangements for reporting risk to the Board ie through the Chief Executive's update with the risk register being presented either every quarter or every second quarter.

**Agenda Item 9 – Any Other Business**

44. The Committee had no other business to discuss.

**Agenda Item 10 – Date of next meeting**

45. The next meeting of the Committee will be held on 12 February 2025.