

Minutes
Scottish Rail Holdings Limited (SRH)
Audit & Risk Committee (ARC) Meeting
Wednesday 12 February 2025 – 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
Neil Amner – General Counsel
Graeme Cook – Chief Operating Officer
Campbell Davidson – Finance Director
Rachel Browne – Audit Director, Audit Scotland
Sanya Ahmed – Senior Auditor, Audit Scotland
[Redacted] – Audit and Risk Manager
[Redacted] – Project Accountant*
[Redacted] – Board Secretary

Apologies: Richard Smith – Senior Audit Manager, Audit Scotland

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.

Agenda Item 3 – Minutes of Previous Meeting

3. The Committee approved the minutes of the meeting held on 9 December 2024 subject to some amendment requested by the Finance Director at paragraphs 19, 20 and 34.

Agenda Item 4 – Matters Arising

4. The Committee considered the actions from previous meetings.
5. 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 this will require a Scottish Statutory Instrument (SSI) to be drafted by the Scottish Government and approved by the Scottish Parliament, and the process could take around 12 months for the SSI to become law. The Audit Director, Audit Scotland said that once the SSI process commences the Audit Scotland appointments team will consider the resource implications and whether Audit Scotland would conduct the audits or whether this will be outsourced. General Counsel said that he would discuss with Transport Scotland next steps to commence the SSI process. Roz Foyer said that this matter could be raised with the Cabinet Secretary at the forthcoming meeting with the SRH Board.
6. In relation to action three, establish an internal audit function for SRH Group, the Audit and Risk Manager said that the technical specification had been finalised, and the evaluation questions would soon be finalised. He said that the

invitation to tender should be issued by the end of the week, and an appointment should be made by mid April. The Chair asked for the evaluation questions to be sent to him. The Committee agreed to close this action.

7. In relation to action eight, develop a plan for shared services and policies across the SRH Group, General Counsel said that the primary focus has been on regularising the SRH back office position by documenting, by contractual agreements, the support services that SRH currently relies on from ScotRail and CSL, and by backfilling missing key policies and procedures for SRH that are needed for daily operations or statutory compliance purposes. He said that contractual agreements with ScotRail for IT and procurement services are almost finalised, and there is work to be undertaken on the wider approach for shared services on HR, payroll, communications etc but the absence of required policies in SRH needs to be prioritised.

8. The Chief Executive said that a group strategy is needed on shared services. She said that work is in hand to progress this, for example, through the CSL IT transition programme as CSL brings in-house IT, HR etc functions as it transitions from Serco arrangements, all of which are scalable and shareable. She said that building confidence and trust throughout the SRH Group is a key priority, but a plan is needed to drive efficiency throughout the group.

9. The Chair said that the work being taken forward was excellent and he agreed it was necessary, but he said that a plan is needed to set out the approach to get shared services on all aspects for the Group. Roz Foyer said that she shared the Chair's view, and while she appreciates the time constraints on the Executive team, time needs to be spent on setting timelines for the shared services strategy. She said that she was concerned that there may be contracts expiring and being re-negotiated which do not take a shared group service approach. The Chief Operating Officer said that while the shared services strategy is not yet documented, opportunities to share services are not being missed. By way of example, he said that the SRH contract for recruitment services expires in March 2025 and discussions are on-going with CSL for SRH to utilise their services in this area. Similarly, CSL do not have their own communications directorate and utilise ScotRail's Communications resources for this service.

10. The Chief Executive said that the 2025/26 business plan is currently being updated and will include a vision for the first steps towards shared services for the SRH Group. The Chair agreed with this approach and asked that a paper be brought to the next meeting of the Committee setting out the scope and timing for the shared services strategy.

11. In relation to action ten, documented process for reporting to the Board on capital spend, the Finance Director said that the SRH Capital and Other Projects Lead had been redeployed on other work over the past few months and should be back in post to work on the capital projects programme in the near future. He said that work was ongoing to secure resources from Network Rail to assist with the alignment of SRH Group capital projects in the Transport Scotland TSEP process. He said that Network Rail had been using this process for a number of years and their experience would be beneficial to SRH to work towards a single focus outlook for capital projects for Scotland's Railway. He said that capital planning for the Group is going through the Rail Portfolio Board and although all of the business cases for projects have not yet been received for 2025/26 there are templates in place to inform assurance that the plans are deliverable through the work of the Capital Investment Panel.

12. The Chair said that this action had initially been raised as there was concern that the project management of capital spend did not have the required rigour which could lead to unspent capital budgets. He said that the process for regular reporting to the Board should be put in place as soon as possible and before the financial year end to ensure that weaknesses have been addressed at Board level. The Chief Executive said that she would discuss this with the Finance Director with a view to submitting a template report to the SRH Board in April. The Chair asked if this could be sent to him prior to being submitted to the Board.

13. In relation to action sixteen, prepare a publication policy for SRH, General Counsel said that the draft is ready to go live, and this will be done once confirmation is received on the process for updating the website.

14. The Committee agreed to close actions six, seven, nine, seventeen, eighteen and nineteen as these were completed or on the agenda.

Agenda Item 5 – Work plan and key milestones to ensure FReM accounting and auditing for ToCs

15. The Committee considered the paper setting out the workplan for the preparation and approval of the 2024/25 SRH Group Annual Report and Accounts, and the basis of preparation and audit assurances for ScotRail and CSL 2024/25 Annual Report and Accounts.

16. The Finance Director and the Committee asked for thanks and appreciation to be noted for the excellent work undertaken by the Project Accountant in preparing these papers.

17. The Finance Director said that this work had been undertaken in response to the Audit Scotland recommendation from the 2023/24 audit for a group timetable to be agreed to ensure that the 2024/25 Annual Report and Accounts from ScotRail and CSL are available in sufficient time for the SRH Group 2024/25 Annual Report and Accounts to be prepared in advance of the external audit commencing. He said that a wash-up meeting had been held with SRH, ScotRail and CSL on 30 January 2025 where the work plan and the key items of FReM compliance, accounting policies, governance disclosures etc were discussed. The result of these discussions and the work undertaken by the Project Accountant is that the numbers for the accounts will be available from ScotRail and CSL by end May with the full draft report and accounts being available around 25 August 2025.

18. The Finance Director said that the plan is to have the sign off on the accounts by November 2025 and the intention is to give the Audit Committee and the Board early sight of the unaudited accounts before the external audit commences but this will be dependent on the timing of the information received from ScotRail and CSL. The Committee noted that consideration of the unaudited accounts by the Committee and other Board Members provides the opportunity for any comments to be considered at an early stage to ensure there is no delay in signing the accounts.

19. The Chief Executive said that she is rescheduling the Board's consideration of the annual business plan and strategic plan so that there will be no clash with dates for the Boards consideration of the annual report and accounts as happened last year.

20. The Finance Director said that the external auditor for ScotRail and CSL could not conduct the 2023/24 external audit under FReM and this will likely be the same for the 2024/25 audit. He said that he is seeking ways, with ScotRail and CSL, to get a third party assurance system in place to cover FReM auditing requirements. He said that this will cause more work for SRH and for Audit Scotland, and there will be increased audit costs for ScotRail and CSL, but once the move to full FReM auditing is in place the work and costs will reduce. It is anticipated that this will be in place for the 2025/26 audits.

Agenda Item 6 – Audit Scotland recommendations 2023/24 progress update

21. The Committee considered the action tracker for the Audit Scotland 2023/24 recommendations and noted the progress under each recommendation.

22. The Finance Director highlighted the progress under each recommendation and the following points were noted:

- On recommendation two, treatment of ScotRail and CSL accrued income grant funding, there is a risk on the applicability of VAT rules on grant/grant-in-aid funding. SRH is seeking VAT expert assistance on this matter through Transport Scotland
- On recommendation four, group budget monitoring and reporting, SRH is developing a new reporting format which will address this recommendation
- On recommendation five, staff capacity issues, of the 10 new posts requested by SRH, six have been approved by Transport Scotland and the recruitment process for each of the six posts has commenced. The requirements for the four remaining posts have been discussed by the SRH Executive Team as part of the organisational design workshops, the outcome of which should be discussed as part of the SRH governance

review group outcome discussions. The target deadline for the business cases to be completed for the remaining four posts is end February/early March

- On recommendation seven, cyber security, General Counsel is taking forward work on this and will be meeting Audit Scotland on 13 February to discuss in further detail. The cyber security self-assessment for SRH itself and both subsidiaries has been undertaken and RAG scoring applied to identify gaps. In addition to the progress on policy development and the SRT support contract referred to above, practical steps have also been taken [Redacted]
- On recommendation eight, performance monitoring of rail operators, ScotRail and CSL draft business plans for 2025/26 are being reviewed by SRH and KPIs are being set. Periodic reporting on 2025/26 KPIs will commence from end April
- On the recommendations carried over from the 2022/23 audit, the update on an internal audit service was discussed earlier in the meeting, and the Best Value framework had been drafted and should be in place by June 2025

23. The Committee noted that the content and presentation of the action tracker was excellent and noted its thanks for the amount of work that had been undertaken to address the Audit Scotland recommendations.

Agenda item 7 – Draft risk management strategy and risk appetite statement

24. The Committee considered the draft risk management strategy for SRH and the draft risk appetite statement.

25. The Audit and Risk Manager said that ScotRail and CSL have their own risk management strategies in place, and he had discussed alignment with the strategies to work towards a common risk management strategy and risk scoring system for the SRH Group.

26. The Chair said that the draft strategy was one of the best that he has seen, it was comprehensive and written in plain English. He said that he had some amendments that he would send by email, and he would discuss, after the meeting, the next steps to achieve alignment on risk management throughout the SRH Group.

27. The Audit and Risk Manager said that he had shared the draft risk appetite statement with ScotRail and CSL, who have adopted their own risk appetite statements, and work is being undertaken to map where these sit with the SRH draft statement. He said that minor amendment may be needed to align the statements of all three companies.

28. Roz Foyer said that the work undertaken on the risk management strategy and the risk appetite statement was impressive and asked about the plans to embed these in the organisation from Board level down. The Chief Executive said that risk management is very important for the organisation and is a valuable, realistic framework that helps to make decisions when there are differing views. She said that to commence embedding this in the organisation this could be an agenda item for SRH Board approval and then facilitate more in-depth discussion through induction and on-going training in a session for the Board on risk management and business and strategic planning. General Counsel said that the template board paper should include a section for risk consideration.

29. After discussion the Committee agreed to recommend approval of the draft risk management strategy and the draft risk appetite statement to the SRH Board, and these should be submitted to the Board at its next meeting on 6 March 2025. Thereafter, subject to Board approval of the drafts, a session should be held for the Board to consider risk management more in-depth and the processes required to embed risk management into the corporate narrative.

Agenda item 8 – Strategic risk register

30. The Committee considered the updated strategic risk register.

31. The Audit and Risk Manager said that the risk register has been developed but is still work in progress as further deep dive sessions are needed with the executive team to fully populate planned mitigating actions, and to agree

responsible officers and timescales. He said that this will be further informed after the Board's consideration of the risk appetite statement and should be completed by May 2025.

32. The Audit and Risk Manager said that the main areas of on-going high risk for the SRH Group are train operating company pay discussions and the risks of industrial action as these have a significant impact on operational, financial and reputational performance, and the requirement to control costs by increasing passenger and revenue numbers.

33. Roz Foyer said that the risk register was comprehensive and clear. She said that SRH can undertake mitigating actions, but it should be made clear where mitigating actions will have to be escalated for Transport Scotland/Ministerial input.

34. The Chair said that the Committee and the Board require assurance that risks are being mitigated as much as can be done is being done. He said that the risk register needs to align to the SRH strategic objectives and should detail the mitigating actions and the effectiveness of those actions. He said the risk of insufficient executive and non-executive resources should be separated as the impact of the effect of the risk is different. The Audit and Risk Manager said that the matters raised by the Chair will be covered in the further executive team deep dive sessions with a rolling programme of review by the executive team.

35. The Chair referred to the operational performance of the train operating companies and reporting of this to the Board and asked if this had been adequately considered in the risk register. He said that performance reporting is currently driven by the requirements of the Grant Agreements, but performance reporting should be driven by the risks to achieving strategic and business plan objectives. He said that performance reporting to the Board should contain key performance areas including operational performance, performance against business plan objectives etc. The Chief Executive said that, as agreed at the last SRH Board meeting, the Chief Executive's report to the Board will be developed to include a more strategic performance report for the Board.

Agenda item 9 – Procedural timetable for Audit and Risk Committee meetings

36. The Committee considered the draft procedural timetable for Committee meetings. The Committee agreed that quarterly meetings of the Committee were adequate but additional meetings may be convened if necessary for the annual report and accounts approval stages and policy review work.

Agenda Item 10 – Any other business

37. The Audit Director, Audit Scotland informed the Committee that Richard Smith, Senior Audit Manager, Audit Scotland, had moved to a new position and a new senior audit manager for SRH had been identified and would be introduced to the Committee in due course.

38. General Counsel said that the SRH Code of Governance, published on the SRH website and produced at the outset of the establishment of SRH, contained outdated terms of reference for the SRH Audit and Risk Committee and said that he would be taking steps to rectify this. The Committee agreed with this approach.

39. The Senior Auditor, Audit Scotland, said that the Scottish Public Finance Manual (SPFM) recommends three non-executive directors as members of an audit and risk committee and asked if SRH should appoint another non-executive director to the Committee. The Chair said that SRH currently has a small number of non-executive directors, and there is only one other non-executive director who would be able to join the Committee to meet the guidance of the SPFM but it would be unrealistic in terms of capacity to ask that non-executive director to be a member of the Committee given her already stretched commitments as non-executive director of the SRH, Scotrail and CSL Boards and as Chair of ScotRail and CSL Safety Health and Environment Committees. He said that the need for more non-executive directors for SRH was being addressed by the SRH governance review group.

Agenda Item 11 – Date of next meeting

40. The next meeting of the Committee will be held on 7 May 2025.