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## **Scottish Rail Holdings Limited (SRH)**

### **Terms of Reference: Audit and Risk Committee**

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#### **Release Certificate**

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**Document Control**

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**Revision History**

Version	Date	Issued By	Status	Comments
1.0	26/05/2022		Approved	Approved by SRH Board
1.1	13/05/2025	Board Secretary	Revised draft	
1.2	13/05/2025	General Counsel	Revised	
1.3	13/06/2025	Brian Baverstock	Recast draft	
1.4	17/06/2025	General Counsel	Revised	Submitted to SRH Board 23/06/2025 meeting
1.5	30/06/2025	Board Secretary	Revised	Proposed changes from SRH Board meeting to GC, then to ARC 11/8
1.6	13/08/2025	Board Secretary	Revised	Changes from ARC to GC, then Board 21/8
2.0	27/08/2025	Administrator	Published	Published on SRH Intranet and SRH Website

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## **Purpose**

The Board and Accountable Officer has established an Audit and Risk Committee as a Committee of the Board. The purpose of the Audit and Risk Committee (ARC) is to provide independent assurance to the SRH Board on the adequacy and effectiveness of policies, procedures and systems relating to governance, internal control and risk management.

## **Membership, attendees, frequency and support**

The ARC will have at least two members (including the Chair) that are Non-Executive Members of the SRH Board. Members will be appointed by the Board. At least one Member should have recent and relevant financial experience.

Two non-executive members constitutes a quorum. In the event that the ARC Chair is unavailable he/she will nominate another Member to chair the meeting.

Only Members of the ARC have the right to attend committee meetings. However, the Chief Executive, Finance Director, Audit and Risk Manager, Chief Operating Officer, General Counsel, Internal and External Auditors will routinely attend meetings. Other members of staff will be invited to attend meetings as required.

The ARC will meet a minimum of four times per annum, timed to fit in with the SRH business cycle. The ARC Chair may call for additional meetings, including where these are requested by the Board or the Chief Executive.

The SRH Board Secretary will provide secretarial support for the Committee.

## **Responsibilities**

### **Internal Controls and Compliance**

- Keep under review the adequacy and effectiveness of internal controls systems (including financial, operations, information technology security and control and compliance)
- Review compliance with statutory and regulatory requirements, and reporting thereof, together with the results of management investigation and follow up of any instances of non-compliance
- Review policies on the prevention and detection of fraud and corruption and monitor the conduct and outcome of investigations through regular reporting
- Review and monitor compliance with the policy on gifts, hospitality and interests
- Review the Whistleblowing policy and monitor its application and compliance
- Monitor and ensure adherence to SPFM

### **Compliance policies and procedures**

- Other than matters reserved for Board approval, listed below, the Committee will approve, on the Board's behalf, policies and procedures relating to statutory and/or regulatory compliance (excluding any such compliance that falls solely under the remit of the Safety, Health and Environment Committee (SHEC)) and policies and procedures relating to cyber security, business continuity, finance and internal control. The

Committee will inform the Board, at the next available meeting, of any policies and/or procedures approved by the Committee.

- In respect of matters which could be regarded as being within the remit of either or both of the committee and SHEC, the Chair will seek to agree with the chair of SHEC which committee will determine the matter and whether in doing so it shall consult the other committee. In the event that the Chair and chair of SHEC are unable to agree an approach to such matters, the chair of the Board shall direct the committees on that question.

Policies and Procedures reserved for Board approval:

Counter Fraud, Whistleblowing, Gifts, Hospitality and Interests, External Complaints Handling, Discrimination, Equality and Diversity, Environment, Health and Safety.

### **Risk Management**

- Review and critically challenge the adequacy and effectiveness of the overall arrangements for the management of risk, with particular focus on the identification and management of strategic risks.
- Ensure that risk appetite is defined, understood and embedded across SRH
- Review and report to the Board on the risk management policy and ensure that SRH commits adequate resources to the support and operation of effective risk management
- Review the strategic risk register at each meeting, with particular focus on its currency, the effectiveness of mitigating actions and adherence to agreed risk appetite
- Consider and assess the SRH risk profile at each meeting
- Promote a consistent and integrated approach to risk management across SRH

### **Internal audit**

- Make recommendations to the Board on the appointment, reappointment, termination and remuneration of the SRH internal audit service
- Monitor and review the effectiveness of the SRH internal audit service, including compliance with professional and ethical standards
- Review and recommend to the Board approval of the SRH internal audit plan, proposed changes and monitor progress against the plan
- Ensure that the SRH internal audit plan effectively addresses SRH risk and assurance needs
- Ensure the internal audit service is adequately resourced and has appropriate standing within SRH
- Review internal audit reports on and assess the adequacy of management's responses to findings and recommendations.
- Approve a policy for non-audit services (also to cover external audit)
- Promote and integrated approach internal audit activity across SRH.

**External audit**

- Advise the Board on the content of the external audit plan. Review the effectiveness of the external auditor and consider external audit outputs including their report, management letter and letter of representation
- Oversee the relationship between SRH and the external auditors, and the equivalent relationships in SRT and CSL, and review their effectiveness
- Approve a policy for non-audit services (also to cover internal audit)

**Financial reporting**

- Review the Annual Report and Accounts and advise the Board on whether, taken as a whole, they are fair, balanced and understandable
- Review the external auditors report and opinion and the implications for the annual report and accounts
- Review and ensure the appropriateness of significant accounting policies, estimates and judgements, particularly where adoption is open to interpretation and/or gives rise to disagreement with the external auditors
- Ensure that all relevant disclosures, particularly those required by law or regulation, are made
- Ensure that the Committee has received assurances about the financial and other systems which provide the figures, data and information for the annual report and accounts
- Review and advise the Board on any in-year or preliminary announcements or formal statements which relate to financial performance
- Ensure that there is an appropriately resourced and robust process in place in preparing the annual report and accounts, including effective engagement with the external auditors and stakeholders

**Governance**

- Review and recommend to the Board the approval of the overall Corporate Governance Framework/Code
- Ensure compliance with the Corporate Governance Framework/Code

**Other matters**

- Consider any other matter specifically referred to the ARC by the Board or the Chief Executive
- In the event it is considered necessary, procure ad-hoc advice, expert opinion of assurance at the expense of SRH (subject to the budget being approved by the Board)
- On an annual basis review its own effectiveness and report the results to the Board (as part of the ARC annual report). This review should consider performance against the Committee's terms of reference and any need to make alterations to this

## Reporting

- The ARC Chair should report formally to the Board after each of its meetings. The format of the report should be the draft minutes (including agreed actions) along with an oral report highlighting key issues, risks and assurances as well as matters to be escalated to the Board. The ARC Chair is to respond to the Board Secretary within two business days of receipt of draft minutes for comment.
- Taking action on matters deemed by the ARC to require urgent escalation to the Board is the responsibility of the ARC Chair
- The ARC will prepare an annual report for the Board, summarising its activities and the overall level of assurances it has obtained from its scrutiny and other sources. The report should provide the Committee's overall opinion on the adequacy and effectiveness of governance, internal control and risk management and be timed to support the preparation of the annual report and accounts

## Review

The delegated authority to the Committee can be rescinded by the Board at any time. The Board has the right to recall any particular matter, considered and/or approved by the Committee, for the Board's consideration.

The delegated authority will be reviewed by the Board at least annually as part of the review of these terms of reference.

### **Specific Paragraphs from the Framework Agreement that the Committee should be aware of and consider the company's fulfilment of:**

18 (k) reviewing SRH risks (including their management risks, reporting risks, reputational risks, and project and legal risks), as discussed at the audit and risk committee meetings of SRH and its subsidiaries, and informing the Sponsor Representative of any risks that might impact on the Sponsor or the Scottish Ministers.

59. SRH shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance and develop an approach to risk management consistent with the 'Risk Management' section of the SPFM. Reporting arrangements should ensure that the TS Sponsor Team is made aware of relevant risks and how they are being managed by SRH.

60. SRH is required, at the earliest opportunity, to notify the TS Sponsor Team if it considers that it has identified a significant problem which may have wider implications, including without limitation, any problem which may give rise to significant financial, legal, political and/or presentational issues.

61. SRH shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with the 'Fraud' section of the SPFM. Application of these processes must be monitored actively, supported by a fraud action plan and robust reporting arrangements. This includes the establishment of avenues to report any suspicions of fraud.

62. Each member of the SRH Group shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract.

### Appendix 3 paragraph 1 (e)

Having robust performance and risk management arrangements (consistent with the Risk Management section of the SPFM) in place that support the achievement of SRH's aims and

objectives that facilitate comprehensive reporting to the SRH Board, the Scottish Government and the wider public. Risk management arrangements should include full consideration of organisational resilience to physical, personnel and cyber risks/threats/hazards.