



Scottish Rail Holdings Limited (SRH)

Terms of Reference:

Group Audit and Risk Committee

Release Certificate

Status of this Document:	Final
Document Version:	1.0
Release Date:	19/06/2026

Document Control

Title:	SRH Terms of Reference Group Audit and Risk Committee
Reference:	SRH/Committees/Audit and Risk
Version:	1.0
Release Date:	19/06/2026
Author:	Board Secretary
Total Pages:	8 including preliminaries & Appendix
Classification:	Official
Distribution:	Public
Disclaimer:	This document is uncontrolled when printed.

Document Approval

Approved By:	SRH Board	Approved at: Board meeting on 11/06/2026
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Revision History

Version	Date	Issued By	Status	Comments
0.1	01/12/2025	Board Secretary	Draft	For General Counsel review
0.2	23/12/2025	General Counsel	Draft	For Board approval
0.3	02/06/2026	ARC Chair	Draft	For Board approval
1.0	19/06/2026	General Counsel	Final	Approved SRH Board 11 June 2026. Approved also by ScotRail Board 18 June 2026 and CSL Board 19 June 2026

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1. Purpose

The Scottish Rail Holdings Limited (**SRH**) Board and Accountable Officer has established a Group Audit and Risk Committee as a Committee of the SRH Board. The purpose of the Audit and Risk Committee (**ARC**) is to provide independent assurance to the SRH Board, the ScotRail Trains Limited (**ScotRail**) Board and the Caledonian Sleeper Limited (**CSL**) Board on the adequacy and effectiveness of policies, procedures and systems relating to governance, internal control and risk management.

2. Membership, attendees, frequency and support

2.1 ARC Members will be appointed by the SRH Board. At least one ARC Member should have recent and relevant financial experience.

2.2 The ARC will have at least 3 Members (including the Chair) who are non-executive director members of the SRH Board. Two non-executive Members constitutes a quorum. In the event that the ARC Chair is unavailable he/she will nominate another non-executive Member to chair the meeting.

2.3 For financial year 2026/27 the Members of the ARC will be: Brian Baverstock (Chair), Roz Foyer and Mike Bagshaw.

2.4 Only Members of the ARC have the right to attend committee meetings. However, the following will routinely be expected to attend meetings:

- The SRH Chief Executive
- ScotRail Managing Director
- CSL Managing Director
- SRH General Counsel
- CSL General Counsel
- SRH Finance Director
- ScotRail Chief Financial Officer
- CSL Finance Director
- SRH Audit and Risk Manager
- Internal Auditors
- External Auditors

Other members of staff will be invited to attend meetings as required.

2.5 In the event that an attendee is unable to attend an ARC meeting they may, with the agreement of the ARC Chair, send a delegate.

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

2.7 In so far as the agenda of any meeting of ARC touches upon the affairs of any company within the SRH group of companies (**SRH Group**), the chair of that meeting shall ensure that at least one non-executive director of the company in question attends the meeting, whether as a Member of ARC or as an attendee.

2.8 The ARC Members will liaise with SRH, ScotRail and CSL executive teams in deciding the order of business for ARC agendas and will decide on SRH Group and/or company specific agenda items.

2.9 The SRH Board Secretary will provide secretarial support for ARC.

3. Responsibilities

3.1 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 policies on gifts, hospitality and interests
- Review the Whistleblowing policies and monitor their application and compliance
- Monitor and ensure adherence to SPFM
- Review ticketing and settlement agreement annual returns

3.2 Compliance policies and procedures

- Other than matters reserved for relevant company Board approval, listed below, the Committee will approve, on the relevant Board's behalf, policies and procedures relating to statutory and/or regulatory compliance (excluding any approval or assurance that falls solely under the remit of the either the ScotRail Board or CSL Board Safety, Health and Environment Committee (SHEC)) and policies and procedures relating to cyber security, business continuity, finance and internal control. ARC will inform the relevant Board, at the next available meeting of that Board, of any policies and/or procedures approved by ARC.
- In respect of matters which could be regarded as being within the remit of either or both of ARC and a SHEC, the Chair will seek to agree with the chair of the in question SHEC which committee will determine the matter and whether in doing so it shall consult the other committee. In the event that the ARC Chair and the chair of a SHEC are unable to agree an approach to such matters, the chair of the SRH Board shall direct the committees on that question.
- the following **policies and procedures are reserved for Board approval:** Counter Fraud; Whistleblowing; Gifts, Hospitality and Interests; External Complaints Handling; Discrimination, Equality Diversity and Inclusion; Safeguarding; Environment; Health and Safety.

3.3 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 the SRH Group
- Review and report to the Boards on the risk management policy and ensure that the SRH Group commits adequate resources to the support and operation of effective risk management
- Review the strategic risk registers at each meeting, with particular focus on currency, the effectiveness of mitigating actions and adherence to agreed risk appetite
- Consider and assess the SRH Group risk profile at each meeting
- Promote a consistent and integrated approach to risk management across the SRH Group

3.4 Internal audit

- Make recommendations to the SRH Board on the appointment, reappointment, termination and remuneration of the SRH Group internal audit service
- Monitor and review the effectiveness of the SRH Group internal audit service, including compliance with professional and ethical standards
- Review, and recommend to the SRH Board approval of the SRH Group internal audit plan, proposed changes and monitor progress against the plan
- Ensure that the SRH Group internal audit plan effectively addresses SRH Group risk and assurance needs
- Ensure the internal audit service is adequately resourced and has appropriate standing within the SRH Group
- 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 an integrated approach to internal audit activity across the SRH Group.

3.5 External audit

- Advise the Boards on the content of the external audit plans. Review the effectiveness of the external auditors and consider external audit outputs including their reports, management letters and letters of representation
- Oversee the relationship between SRH, SRT and CSL and their respective external auditors, and review their effectiveness
- Approve a policy for non-audit services (also to cover internal audit)

3.6 Financial reporting

- Review the Annual Reports and Accounts and advise the Boards on whether, taken as a whole, they are fair, balanced and understandable
- Review the external auditors reports and opinions and the implications for the annual reports 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 ARC has received assurances about the financial and other systems which provide the figures, data and information for the annual reports and accounts
- Review and advise the Boards 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 reports and accounts, including effective engagement with the external auditors

3.7 Governance

- Review and recommend to the Boards the approval of the overall Corporate Governance Framework/Code
- Ensure compliance with the Corporate Governance Framework/Code
- Advise SRH, ScotRail and CSL Boards on effective governance

3.8 Other matters

- Liaise with ScotRail Health, Safety and Environment Committee on health and safety and environmental issues
- Consider any other matter specifically referred to the ARC by the Boards or the Chief Executive
- Consider any other matters which the Members of ARC reasonably believe are relevant to their consideration of matters expressly delegated to them
- In the event it is considered necessary by ARC, procure ad-hoc advice and / or expert opinion of assurance at the expense of SRH (or relevant subsidiary company) (subject to the budget being approved by the relevant Board)
- On an annual basis review its own effectiveness and report the results to the Boards (as part of the ARC annual reports). This review should consider performance against ARC's terms of reference and any need to make alterations to this

4. Reporting

- 4.1 The ARC Chair should report formally to each of the Boards after each of ARC's meetings. The format of such reports should be the draft ARC 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. Where the ARC Chair is not a member of the relevant subsidiary Board, the oral report will be given by SRH General Counsel on a basis agreed with the ARC Chair. The ARC Chair is to normally respond to the Board Secretary within five business days of receipt of draft minutes for comment.

- 4.2 Taking action on matters deemed by the ARC to require urgent escalation to the relevant Board is the responsibility of the ARC Chair.
- 4.3 The ARC will prepare an annual report for the Boards, summarising its activities and the overall level of assurances it has obtained from its scrutiny and other sources. The reports should provide the ARC's overall opinion on the adequacy and effectiveness of governance, internal control and risk management and be timed to support the preparation on the annual reports and accounts

5. Review

- 5.1 Each of SRH, ScotRail and CSL Boards retains the discretion to consider any matter considered by ARC. In the event that there is a disagreement between the ARC and subsidiary Board, the Chair of the subsidiary Board will seek to resolve this with the ARC Chair. Where this fails to resolve the matter, it will be escalated to the SRH Chair.
- 5.2 The delegated authority of ARC will be reviewed by the relevant Board at least annually as part of the review of these terms of reference. The ARC should review its Terms of Reference each year and report the outcome to each of the Boards along with any recommendations for amendment.

Appendix

Specific Paragraphs from the Framework Agreement that ARC 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.