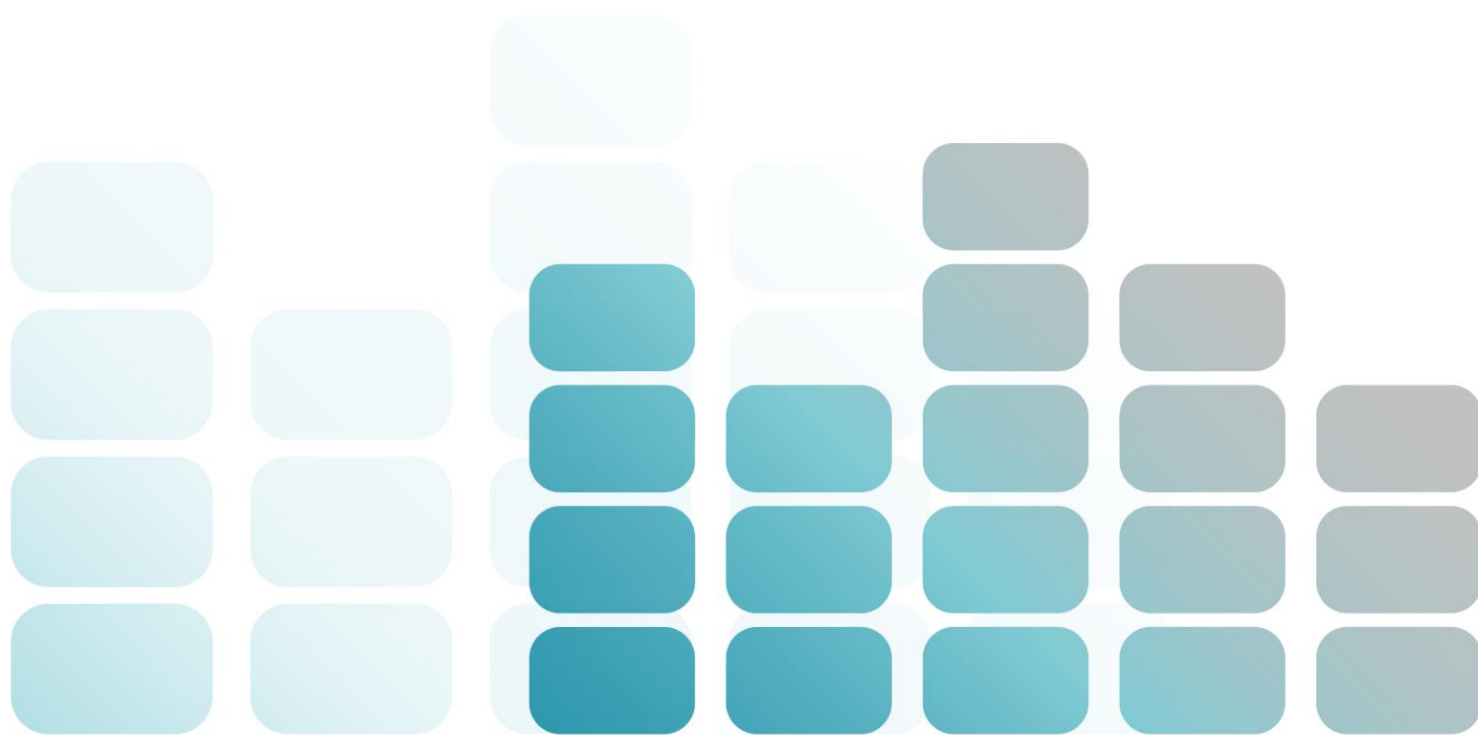


Scottish Rail Holdings Limited

Annual Audit Plan 2024/25



Prepared for Scottish Rail Holdings Limited
April 2025

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Scottish Rail Holdings Limited's (SRH) annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Rachel Browne, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of SRH for the period from 2023/24 until 2026/27. The 2024/25 financial year is the second year of her four-year audit appointment and the third year of the five-year Audit Scotland audit appointment.

3. Rachel Browne and the audit team are independent of SRH in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of SRH to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on SRH's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on SRH's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of SRH and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on SRH arrangements in place for the wider scope areas.

Scottish Rail Holdings Limited's responsibilities

8. SRH has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and

establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Communication of fraud or suspected fraud

9. In line with the ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within Scottish Rail Holdings Limited, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit of the annual report and accounts

Introduction

10. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

13. The materiality levels determined for the audit of Scottish Rail Holdings Limited and its group are outlined in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for SRH and its group

Materiality	SRH single entity	Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of SRH's operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark.	£16 million	£23 million

Materiality	SRH single entity	Group
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65% (SRH) and 55% (group) of planning materiality respectively.	£10.5 million	£12.5 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.5 million	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team's cumulative knowledge of SRH, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to SRH and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>1. Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Detailed testing of SRH consolidation adjustments, transactions and journals. • Review of significant accounting estimates. • Focussed testing of accruals and prepayments. • Evaluate significant transactions outside the normal course of business. • Group auditor assurances will be obtained from PwC, based on the outcome of the audit procedures designed to address the risk of management override of controls for the ScotRail Trains Limited external audit and Caledonian Sleeper Limited external audit – see Exhibit 3.

Source: Audit Scotland

Key audit matters

17. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

19. The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Group audit

20. SRH is part of a group and prepares group financial statements. The group is made up of two components, including SRH which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Scottish Rail Holdings Limited	Holding company - consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
ScotRail Trains Limited (SRT)	Consolidated on a line-by-line basis	Yes – significant risks of material misstatement: <ul style="list-style-type: none"> • Management override of controls • Fraud in revenue recognition • Service agreement length assumptions • Pension assumptions and service agreement adjustment methodology 	We will obtain group auditor assurance over the audit of SRT from PwC as the component auditor, in accordance with the requirements of International Standard on Auditing (UK) 600 – Special considerations: audit of group financial statements (including the work of component auditors).	PwC

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Caledonian Sleeper Limited (CSL)	Consolidated on a line-by-line basis	<p>Yes – significant risks of material misstatement:</p> <ul style="list-style-type: none"> • Management override of controls • Fraud in revenue recognition • Service agreement length assumptions <p>Non-significant risks of material misstatement:</p> <ul style="list-style-type: none"> • Pension assumptions and service agreement adjustment methodology • Capitalisation of software development costs 	We will obtain group auditor assurance over the audit of CSL from PwC as the component auditor, in accordance with the requirements of International Standard on Auditing (UK) 600 – Special considerations: audit of group financial statements (including the work of component auditors).	PwC

Source: Audit Scotland

21. Where audit procedures are required on a component's financial statements, and the component auditor is different to SRH's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

Wider scope and Best Value

Introduction

22. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on SRH being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering SRH's medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering SRH's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

23. A conclusion on the effectiveness and appropriateness of arrangements SRH has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

24. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have

been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

25. Consideration of the arrangements SRH has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements SRH has in place will be reported in the Annual Audit Report.

26. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The wider scope risks set out below cover several best value characteristics including governance and accountability, vision, leadership and governance, and use of resources. Actions to address the identified wider scope risks will contribute to stronger arrangements within SRH to demonstrate how it secures Best Value. In addition, auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this will be carried out later in the audit appointment.

Significant wider scope and Best Value risks

27. The risk assessment process has identified significant risks in the wider scope areas and Best Value as outlined in Exhibit 4, and this includes the planned audit procedures in response to the risks.

Exhibit 4**Significant wider scope and Best Value risks**

Description of risk	Planned audit response
<p>Financial management</p> <p>There is a risk that the current group budget monitoring and reporting arrangements do not support SRH to effectively carry out its role to monitor the financial performance of the subsidiaries and to assess the consolidated group position accurately and quickly during the year.</p> <p>This is particularly important given SRT were projecting a RDEL budget pressure of £24.3 million for 2024/25 and have limited levers available in the short-term to reduce costs or increase passenger revenue. More effective group budget monitoring and reporting arrangements will allow SRH to monitor this pressure and work with SRT to identify efficiencies.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Discuss with SRH if group budget monitoring papers have been developed. • Review any budget monitoring papers developed and assess the appropriateness of the arrangements and any assumptions made. • Assess the group budget reporting arrangements. • Review the outturn position.
<p>Staff capacity</p> <p>Of the 23 posts in the new SRH organisational structure, only 20 are filled with a permanent member of staff, and 3 are currently vacant or backfilled with temporary staff. There is a risk that the staff capacity issues faced by SRH limit its ability to review performance monitoring and provide effective financial and performance oversight of the delivery of rail services provided by SRT and CSL.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Discuss with SRH progress on recruitment. • Assess the pace of improvement and progress made.
<p>Cyber Security</p> <p>There has been an increased prevalence of cyber-attacks on public sector bodies. It is vital that public sector employees can recognise and mitigate cyber risks and that organisations have suitable plans in place to respond to cyber-attacks.</p> <p>SRH may not have adequate arrangements in place to prevent or respond to a cyber-attack.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review SRH's cyber security arrangements.

Description of risk	Planned audit response
<p>Performance monitoring</p> <p>SRH needs to establish key performance indicators (KPIs) beyond those in the Framework and Grant Agreements for the subsidiaries as well as for SRH single entity. There is a risk that without these defined KPIs the SRH group cannot effectively monitor key aspects of performance and policy delivery to drive improvements and efficiencies in the delivery of rail services in Scotland in the future.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review SRH Strategic Plan and Business Plan. • Review progress against reported KPIs. • Assess performance reported in Performance Report.
<p>Establishing effective governance arrangements</p> <p>The importance of SRH establishing effective governance arrangements, including key policies and procedures and appropriate internal audit provision, was raised as a risk in the past two years and remains a risk for 2024/25.</p> <p>As reported in our 2023/24 Annual Audit Report, although limited progress has been made, arrangements to support good governance have still to be fully established.</p> <p>SRH should further develop its Strategic Plan to be supported by more detailed Business Plans to formalise and fully establish the way in which SRH intends to oversee the governance of the rail operators.</p> <p>An Internal Audit and Risk Manager was appointed in October 2024 and is working to establish an internal audit provision and determine how to resource its internal audit requirements. There is a risk that without a fully operational internal audit provision there is a lack of assurance over the SRH internal control processes.</p> <p>Capacity of non-executive directors should be increased in order to allow effective capacity and scrutiny of governance arrangements on the Audit and Risk Committee. There is a risk the committee is not effectively performing its important role in the operation of SRH's governance arrangements.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review the Strategic Plan and Business Plan. • Assess the pace of development of key policies and procedures. • Review the arrangements made for internal audit provision and assess how embedded this is within the organisation. • Attend Audit and Risk Committee meetings.

Description of risk	Planned audit response
<p>Duty of Best Value</p> <p>Given SRH's unique role in overseeing the delivery of rail services in Scotland, SRH should establish how it can demonstrate that it is securing best value in the delivery of these services. As reported last year, developing a suite of key performance indicators to monitor and report on the performance of SRT and CSL is expected to be a key element of SRH's Best Value framework.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review SRH Strategic Plan and Business Plan. • Discuss with management how SRH is developing a Best Value framework and review progress in implementing it. • Consider how well SRH's governance and performance management arrangements support the demonstration of Best Value.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

28. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to SRH, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to SRH and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

29. The matters to be reported in the outputs will be discussed with SRH for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

30. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 31 October 2025 for central government non-departmental public bodies, and other similar bodies.

31. The audit team will be unable to achieve the target date of 31 October 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Auditor General for Scotland, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 13 November 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

32. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical

to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with SRH and reported to those charged with governance, where required.

Exhibit 5

2024/25 audit timetable

Audit activity	SRH target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	30 April 2025	7 May 2025
Annual report and accounts:			
• Submission of unaudited annual report and accounts and all working papers to audit team	29 September 2025	N/A	N/A
• Latest date for audit clearance meeting	22 October 2025	22 October 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	30 October 2025	5 November 2025
• Agreement of audited and unsigned annual report and accounts	5 November 2025	N/A	5 November 2025
• Approval by those charged with governance and signing of audited annual report and accounts	5 November – Audit and Risk Committee 13 November 2025 - Board	N/A	5 November – Audit and Risk Committee 13 November 2025 - Board
• Signing of Independent Auditor's Report and issue of Annual Audit Report	N/A	13 November 2025	N/A

Source: Audit Scotland

Audit fee

33. SRH's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is £47,180.

34. In setting the audit fee, it is assumed that SRH has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

35. SRH is responsible for establishing an internal audit function as part of an effective system of internal control. As detailed in Exhibit 4, an Internal Audit and Risk Manager was appointed in October 2024 and SRH is working to establish an internal audit provision and determine how to resource its internal audit requirements. The audit team will review SRH's progress towards establishing its internal audit provision and obtain an understanding of the nature, responsibilities, and activities of the internal audit function.

36. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. As SRH is still to fully establish its internal audit provision there is no scope to rely on internal audit work this year. The audit team will consider the assurances provided by the Internal Audit and Risk Manager which support the governance statement within the annual report and accounts.

Audit quality

37. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

38. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.

- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

39. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

40. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

41. Audit Scotland may periodically seek the views of SRH on the quality of audit services provided. The audit team would also welcome feedback at any time.

Scottish Rail Holdings Limited

Annual Audit Plan 2024/25



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