

Scottish Rail Holdings Limited

2024/25 Annual Audit Report



Prepared for Scottish Rail Holdings Limited and the Auditor General for Scotland
November 2025

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Key messages

Audit of the annual report and accounts

- 1 All audit opinions stated that the annual report and accounts were free from material misstatement.
- 2 The audited annual report and accounts reflect all the findings from our audit. There is one uncorrected misstatement to report to those charged with governance. If corrected this would decrease net expenditure and increase the right of use assets balance by £0.869 million.

Wider scope and Best Value audit

- 3 Scottish Rail Holdings Limited (SRH) refreshed its budget monitoring and reporting arrangements in place in 2025, streamlining the group budget monitoring and reporting process for more effective monitoring of the train operating companies.
- 4 £826.381 million of the £829.547 million in grant-in-aid funding SRH received during 2024/25 was paid across to SRT and CSL to fund the delivery of ScotRail and Caledonian Sleeper train services.
- 5 SRH operated within its fiscal resources in 2024/25, reporting an overall underspend of £4 million against a revised budget allocation of £1,041.3 million. This is primarily due to underspend against the capital budget.
- 6 SRH is working with SRT to manage down a projected RDEL budget pressure of £4.5 million for 2025/26 but this is likely to prove challenging due to the limited levers available to SRT in the short-term to reduce costs or increase passenger revenue.
- 7 Significant capital investment is required in future years to support delivery of the Fleet Strategy. SRH should develop Medium-Term Financial Planning to support its monitoring of the capital programme given the funding pressures.
- 8 Staff capacity has increased at SRH but there is on-going review into staffing structures.

- 9** SRH operated without an internal audit function during 2024/25 but has appointed Azets to provide Internal Audit services across the Group in July 2025.
 - 10** SRH approved its Best Value Framework in May 2025. Further work is required to implement the best value framework across the Group to enable it to better demonstrate it is securing best value in delivery of rail services.
 - 11** SRH should continue to develop a Performance and Oversight Plan with a suite of clear key performance indicators which are reported to the board to support SRH in effectively monitoring the performance of SRT and CSL to improve the delivery of rail services in Scotland.
 - 12** SRH should review its cyber security arrangements to ensure the organisation is as prepared as possible for any potential cyber-attacks.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Scottish Rail Holdings Limited annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Scottish Rail Holdings Limited, hereafter referred to as 'SRH', and the Auditor General for Scotland, and will be published on [Audit Scotland's website](#) in due course.

Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (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, namely the Performance Report and Governance Statement.
 - 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 this Annual Audit Report.

Appointed auditor and independence

4. Rachel Browne, of Audit Scotland, has been appointed as external auditor of SRH for the period from 2023/24 to 2026/27. As reported in the Annual Audit Plan, Rachel Browne and the audit team are independent of SRH in accordance with relevant ethical requirements, including the

Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from SRH, including no provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of SRH and the auditor, with a summary outlined below.

Auditor's responsibilities

6. 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's arrangements in place for the wider scope areas and Best Value.

7. The Annual Audit Report includes an agreed action plan at [Appendix 1](#). The matters reported are those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve SRH from its responsibilities outlined below.

SRH'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 for SRH and its group that gives a true and fair view and other specified information.
- 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.

National and performance audit reporting

9. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to SRH and the Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Acknowledgements

10. We would like to thank SRH and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the audit appointment.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

The audited annual report and accounts reflect all the findings from our audit. There is one uncorrected misstatement to report to those charged with governance. If corrected this would decrease net expenditure and increase the right of use assets balance by £0.869 million.

Audit opinions on the annual report and accounts are unmodified

11. SRH and its group's annual report and accounts were approved by the Board on 13 November 2025 and signed by the appointed auditor on the same day. The Independent Auditor's Report is included in SRH's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit Timetable

12. The unaudited annual report and accounts and all working papers were received on 25 September 2025 in accordance with the agreed audit timetable. Working papers received were generally of an appropriate quality.

Audit Fee

13. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £47,180. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

14. Materiality is applied by auditors in planning and performing an audit. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. 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.

15. Materiality levels for the audit of SRH and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for SRH and its group

Materiality	Single Entity	Group
Materiality – set at 2% of gross expenditure	£16.5 million	£24.6 million
Performance materiality – set at 65% of the overall materiality for the single entity and 55% for the group. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, this could indicate further audit procedures are required.	£10.75 million	£13.5 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.5 million	£0.5 million

Source: Audit Scotland

Significant findings and key audit matters

16. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for SRH is the Audit and Risk Committee.

17. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and include:

- 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.

18. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p>1. Lease remeasurements classification error</p> <p>Our testing of the consolidation process identified that ScotRail Trains Limited (SRT) extended two of its fleet lease agreements in 2024/25. As these were modifications to the lease term, it did not create a new lease nor change the rental payments. The correct accounting treatment was to treat this as a lease remeasurement under IFRS 16 rather than as a separate addition.</p> <p>These lease extensions were treated as additions in Right of Use assets for £190.402m, in contradiction with the accounting policy and expected accounting treatment.</p>	<p>Management made the necessary adjustments in the audited 2024/25 financial statements. This was a reclassification between additions and remeasurements in the Right of Use Assets note and had nil effect on the net book value of these assets, and therefore no impact on the Statement of Financial Position.</p>
<p>2. Unallocated dilapidations provision</p> <p>When assets are leased by a public body the lease agreement generally includes a clause that the lessee will need to restore the leased asset to its original condition at the end of the lease agreement. Therefore, the lessee has to create a dilapidation provision to reflect the costs that will be incurred by the organisation at the end of the lease.</p> <p>Under IFRS16 Leases the value of any dilapidation provision requires to be included in the lease liability and the value of the corresponding right of use leased asset, to reflect the additional costs and economic benefits to the organisation of leasing those assets.</p> <p>When Caledonian Sleeper Limited service (CSL) was brought into public ownership, it took on £0.869 million of dilapidations provisions relating to rolling stock and property right of use leased assets transferred across to it from the previous rail</p>	<p>Management agreed last year to review this to ensure its was correct accounting treatment in the 2024/25 annual report and accounts.</p> <p>This review was not completed, and the dilapidations provision remains inaccurately reflected in the 2024/25 annual accounts, understating expenditure and right of use assets by £0.869 million. As the amount is not material, management has not adjusted the financial statements for this misstatement. Had an adjustment been made to correct this error it would have reduced SRH group net expenditure in the Statement of Comprehensive Net Expenditure by £0.869 million and increased the 'right of use assets' balance in the Statement of Financial Position by the same amount.</p> <p>Recommendation 1 in Appendix 1</p>

Significant findings and key audit matters	Outcome
<p>franchise operator. However, these dilapidations provisions were not charged to the Statement of Comprehensive Net Expenditure or allocated against the corresponding right of use assets in CSL's 2023/24 accounts.</p> <p>This was reported in our 2023/24 Annual Audit Report as an unadjusted misstatement and remains inaccurately reflected in the 2024/25 annual accounts.</p>	
<p>3. Performance Report disclosures revisions</p> <p>Our review of the performance report identified a number of amendments that were required to the disclosures to ensure its accuracy and that the information reported was in accordance with the appropriate regulations and accounting framework.</p> <p>This included a small number of amendments to the performance analysis section to ensure consistency with the annual reports of the subsidiaries, SRT and CSL. Additionally, there were some instances where prior year comparatives needed to be added to ensure compliance with the appropriate regulations and accounting framework.</p>	<p>Management made the necessary revisions to the annual report with an agreement to review the presentation of performance information in 2025/26. The revisions were all reflected in the SRH 2024/25 annual report and accounts.</p> <p>Recommendation 2 in Appendix 1</p>

Source: Audit Scotland

Qualitative aspects of accounting practices

19. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of SRH's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

20. The appropriateness of accounting policies adopted by SRH was assessed as part of the audit. These were considered to be appropriate to the circumstances of SRH, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

21. Accounting estimates are used in SRH's financial statements. Audit work considered the process SRH has in place, including the assumptions

and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

22. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures on areas of greater sensitivity, such as lease liabilities.

Group audit

23. SRH is part of a group and prepares group financial statements. The group is made up of three components, including SRH which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on the group's components for the purposes of the group audit, and this work was performed by a combination of the SRH audit team and the components' audit teams.

24. Group audit instructions were issued to component auditors to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in [Exhibit 3](#).

Exhibit 3

Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
Scottish Rail Holdings Limited	Audit Scotland Full scope audit of SRH's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2 .
ScotRail Trains (SRT) Limited	PwC Significant risks of material misstatement: <ul style="list-style-type: none"> • Management override of controls 	PwC provided component auditor assurances in respect of the significant risks of material misstatement for SRT's 2024/25 financial statements.

Group component	Auditor and audit work required	Summary of audit work performed
	<ul style="list-style-type: none"> • Fraud in revenue recognition • Service agreement length assumptions • Pension assumptions and service agreement adjustment methodology. <p>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).</p>	<p>In addition, the planned audit procedures required on the material classes of transactions and balances were performed by PwC, and these were evaluated and revised by the SRH audit team.</p> <p>No significant issues were identified with the areas tested or the audit procedures performed by PwC. We obtained the necessary assurances for our SRH audit.</p>
Caledonian Sleeper Limited (CSL)	<p>PwC</p> <p>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. <p>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).</p>	<p>PwC provided component auditor assurances in respect of the significant risks of material misstatement for CSL's 2024/25 financial statements.</p> <p>The planned audit procedures required on the material classes of transactions and balances were performed by PwC, and these were evaluated and reviewed by the SRH audit team.</p> <p>No significant issues were identified with the areas tested or the audit procedures performed by PwC. We obtained the necessary assurances for our SRH audit.</p>

Source: Audit Scotland

25. ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved.
- any limitations on the group audit.
- any frauds or suspected frauds involving group or component management.

26. No such matters were identified as part of our audit of the group accounts.

There were misstatements identified during the audit process

27. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. We identified two adjustments totalling £198.840 million. This primarily consists of lease liability remeasurement of £190.402 million (see issue 1 in [Exhibit 2](#)) and an accrual misstatement of £0.915 million ([Exhibit 44](#)).

28. In addition to the corrected misstatements, there was one unadjusted misstatement identified greater than the reporting threshold. This is an unallocated dilapidations provision of £0.869 million (see issue 2 in [Exhibit 2](#)). It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material.

29. Management of SRH have not proposed to correct this misstatement. The final decision on whether an audit adjustment is processed to correct a misstatement rests with the Audit and Risk Committee as those charged with governance.

30. The value, nature and circumstances of the uncorrected misstatement were considered, individually and in aggregate, by the audit team, and it was concluded that these were not material to the financial statements. As a result, it did not have any impact on the audit opinions given in the Independent Auditor's Report.

Our audit work responded to the significant risks of material misstatement identified in the Annual Audit Plan

31. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 44](#).

Exhibit 4**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
Significant risks of material misstatement		
<p>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 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • Our testing of consolidation adjustments identified an issue in relation to lease remeasurements (see issue 1 in Exhibit 2). No other significant issues were identified. • No significant issues were identified from testing of journal entries. • We reviewed accounting estimates and concluded these were appropriate. • Following receipt of the unaudited accounts, management identified an accrual that required adjusting. This resulted in expenditure and accruals both being understated by £0.915m. No other issues were identified. • Focussed testing of prepayments did not identify any issues. • No issues were identified from transactions outside the normal course of business. • Group auditor assurances received from PwC confirmed that they were satisfied that there was no material misstatement arising from this risk for SRT and CSL audits.

Risk of material misstatement	Planned audit response	Outcome of audit work
		Conclusion: no evidence of fraud caused by management override of controls.

Source: Audit Scotland

Prior year recommendations are being progressed

32. SRH has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with SRH and are outlined in [Appendix 1](#).

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

33. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

34. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of the arrangements SRH has in place for each is reported in this chapter.

35. Where a significant risk was identified for a wider scope audit area, and detailed in our Annual Audit Plan, our audit work and conclusions are detailed within the relevant section below.

Duty of Best Value

36. 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.

37. Consideration of the arrangements SRH has in place to secure Best Value has been carried out alongside the wider scope audit.

Significant wider scope and Best Value risks

38. Audit work has been performed in response to the significant wider scope and Best Value risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 5](#).

Exhibit 5**Significant wider scope and Best Value risks**

Significant risk	Planned audit response	Outcome of audit work
<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 resource departmental expenditure limit (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>We completed a review of SRH budget monitoring arrangements through discussions with SRH finance officers and review of finance reports taken to SRH Board.</p> <p>We reviewed the refined group budget monitoring and reporting arrangements. The arrangements and assumptions within the budget monitoring papers were found to be appropriate.</p> <p>Further details on SRH's financial management and outturn position can be found in paragraphs 21. Further work is required to develop medium-term financial plans to support the Strategic Plan and Fleet Strategy as outlined in paragraphs 26 and recommendation 3 in Appendix 1.</p>
<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</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>Progress has been made in obtaining approval to fill vacant posts, however there is a continued need to review staff capacity. Further work on the pace of progress is required.</p> <p>Further detail is outlined within paragraphs 28.</p> <p>See Recommendation 4 in Appendix 1.</p>

Significant risk	Planned audit response	Outcome of audit work
<p>services provided by SRT and CSL.</p> <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. 	<p>We met with SRH officers and SRT IT officers to review the cyber security arrangements.</p> <p>Our review of SRH's cyber security arrangements is outlined in paragraphs 87. - 9131 including the steps SRH should implement to formalise and strengthen these arrangements.</p> <p>Recommendation 5 in Appendix 1.</p>
<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>Our review of the relevant plans and the performance report, along with discussions with SRH, noted that SRH is still to establish key performance indicators to allow for effective performance monitoring to drive improvements in the delivery of rail services in Scotland. Our findings are outlined in paragraph 94. - 9325.</p> <p>Recommendation PY8 in Appendix 1.</p>
<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>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 the internal audit provision and assess 	<p>Our review found that governance processes have been reviewed and improved. The ARC met more regularly, additional non-executive directors were appointed, and Azets were appointed to provide internal audit services across the Group from July 2025.</p> <p>Further information can be found in paragraphs 2768.</p>

Significant risk	Planned audit response	Outcome of audit work
<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. 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. 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>how embedded this is within the organisation.</p> <ul style="list-style-type: none"> • Attend Audit and Risk Committee meetings. 	
<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.</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 	<p>Along with reviewing the relevant plans and the Best Value framework, we met with SRH directors to discuss their work to implement the framework and demonstrate SRH Group is meeting its best value duty.</p>

Significant risk	Planned audit response	Outcome of audit work
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.	<div>review progress in implementing it.</div> <div><ul style="list-style-type: none">Consider how well SRH's governance and performance management arrangements support the demonstration of Best Value.</div>	Our review of SRH's duty to secure best value is outlined in paragraphs 92. - 93. 32 We noted that although SRH adopted a formal Best Value framework in May 2025 further work is required by SRH to implement its best value framework across the Group to enable it to better demonstrate it is securing best value in delivery of rail services. This is concluded in Recommendation 6 in Appendix 1 .

Source: Audit Scotland

Financial Management

Conclusion

SRH refreshed its budget monitoring and reporting arrangements in place in 2025, streamlining the group budget monitoring and reporting process for more effective monitoring of the train operating companies.

£826.381 million of the £829.547 million in grant-in-aid SRH funding received during 2024/25 was paid across to SRT and CSL to fund the delivery of ScotRail and Caledonian Sleeper train services.

SRH operated within its fiscal resources in 2024/25, reporting an overall underspend of £4 million against a revised budget allocation of £1,041.3 million. This is primarily due to underspend against the capital budget.

SRH refreshed its group budget monitoring and reporting arrangements in place in 2025

39. As part of the budget monitoring process, SRT and CSL submit management accounts packs to SRH every 4 weeks, aligning with the grant periods. This informs discussions with SRH management and the Sponsor (Transport Scotland) of the cash funding requirements of the subsidiaries for the next period. The management accounts packs include details of the financial position to date and projections for the full year, a “colour of money” summary (i.e. analysis of expenditure against Scottish Government budget categories) as well as information on risk sensitivities, budget variances and emerging pressures.

40. In addition to these periodic meetings with the train operating companies, SRH finance officers meet weekly with the Sponsor to discuss performance. This is supported by detailed budget returns to inform the funding requirement discussions. This is vital given the budget pressures outlined in [paragraphs 25](#).

41. We reported in our 2023/24 Annual Audit Report that the group budget monitoring and reporting arrangements should be refined to better support SRH's monitoring of the train operators' financial performance including better forecasting information. SRH reviewed its group budget monitoring, and a refreshed budget monitoring presentation was presented to SRH Board from June 2025, allowing for the consolidated group position to be better assessed against the year-to-date and forecasted positions.

£826.381 million of the £829.547 million in grant-in-aid SRH funding received during 2024/25 was paid across to SRT and CSL to fund the delivery of ScotRail and Caledonian Sleeper train services

42. SRH is the vehicle through which the Scottish Government, via Transport Scotland, provides funding for Scottish rail passenger operations. During 2024/25 this covered the funding of ScotRail train services provided by SRT and Caledonian Sleeper train services provided by CSL.

43. During 2024/25, SRH Group received grant-in-aid funding from the Scottish Government of £829.547 million, with £783.893 million paid across to SRT to fund the costs of delivering ScotRail train services during the year and £42.488 million paid across to CSL to fund the costs of delivering Caledonian Sleeper train services. As shown in the Statement of Changes in Taxpayers Equity, SRH drew down £827.438 million of grant-in-aid funding in year. The difference between the draw down and total funding received in year relates to grant funding prepaid to SRT and CSL.

44. In addition to the funding paid to SRT and CSL during 2024/25, at 31 March 2025 SRH owed £54.886 million to SRT and £14.436 million to CSL for grant funding due for services provided up to 31 March 2025, but where the operators did not require the cash funding during 2024/25. This is in line with the conditions of the grant agreements and the Scottish Government's commitment to fund rail services in Scotland and therefore these outstanding amounts have been recognised as expenditure, and with a corresponding payables balance, in the SRH 2024/25 annual report and accounts.

45. SRH single entity expenditure for 2024/25 totalled £2.9 million with £2.5 million used for staff costs. This is an increase from SRH's 2023/24 staff costs of £1.4 million which reflects the fact that the majority of staff did not take up their posts until part way through the year. We would expect SRH staff costs to increase again in 2025/26 as new staff are appointed to the vacant roles within its approved organisational structure, to ensure the organisation has sufficient capacity to effectively perform its

duties in overseeing train operations in Scotland. Further information on staff capacity can be found in [28](#).

SRH Group reported an underspend of £4 million against its budget allocation for 2024/25, primarily due to underspend against the capital budget

46. The main financial objective for SRH is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

47. Almost all SRH's 2024/25 expenditure consisted of payments to SRT and CSL for the delivery of ScotRail and Caledonian Sleeper train services. [Exhibit 6](#) below shows how this expenditure was split across SRH's Scottish Government budget allocations, and the final outturn against the non-cash and annually managed expenditure budget allocations for the year.

48. SRH Group has reported an underspend for the year of £4 million against its Scottish Government budget allocation, which included a £3.2 million overspend against its RDEL budget and a £5.5 million underspend against its CDEL budget. The overspend in the revenue budget is mainly due to lower than anticipated passenger revenue linked to the temporary timetable for part of the year and economic pressures affecting people's ability and willingness to spend on travel for leisure activities. The financial performance against fiscal resource is shown in [Exhibit 6](#).

49. The underspend in CDEL, shown in [Exhibit 6](#) below, was achieved through an underspend in core capital projects and heavy maintenance, along with additional funding allocated during the year to fund fleet extensions.

Exhibit 6

Performance against resource limits in 2024/25

Scottish Government budget allocation category	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource departmental expenditure limit (RDEL)	333.8	342.5	345.7	3.2
Capital departmental expenditure limit (CDEL)	534.3	577.1	571.6	(5.5)
Operating subtotal	868.1	919.6	917.3	(2.3)
Non-cash limit (RfDEL)	124.3	118.8	117.9	(0.9)

Annually managed expenditure (AME)	0.5	2.9	1.9	(1.0)
Capital AME (CAME)	-	-	0.2	0.2
Total	992.9	1041.3	1036.0	(4.0)

Source: Scottish Rail Holdings Limited 2024/25 Annual Report and Accounts

Appropriate internal control arrangements operated throughout 2024/25, including appropriate arrangements for the prevention and detection of fraud and standards of conduct

50. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

51. From our review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect SRH's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements. However, our review and testing of controls did identify a small number of areas where controls could be strengthened and detail of these are included below. This was communicated to management in August 2025.

- Regular user access review of the key systems has been implemented.
- Balance sheet reconciliation review process has been formalised to ensure actions are completed and signed off.
- Journal authorisation process is being reviewed currently by management.
- Payroll checklist has been developed to formally reflect the process of payroll checks and sign off.

52. As noted above, we have undertaken audit work to gain assurances that the areas of control weakness identified do not represent a risk of material misstatement for the audit of the annual report and accounts.

53. SRH is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. It is also responsible for ensuring that its affairs are managed in accordance with proper standards by putting effective arrangements in place. Our

conclusion is that SRH has adequate arrangements in place to prevent and detect fraud or other irregularities. This is based on our review of:

- Control arrangements
- Overall policies and procedures, including staff codes of conduct and whistleblowing policy.
- Counter Fraud Policy and Anti Bribery Policy.

Financial Sustainability

Conclusion

SRH is working with SRT to manage down a projected RDEL budget pressure of £4.5 million for 2025/26 but this is likely to prove challenging due to the limited levers available to SRT in the short-term to reduce costs or increase passenger revenue.

Significant capital investment is required in future years to support delivery of the Fleet Strategy. SRH should develop Medium-Term Financial Planning to support its monitoring of the capital programme given the funding pressures.

SRH is working with SRT to manage down a projected RDEL budget of £4.5 million for 2025/26 but this is likely to prove challenging due to the limited levers available to SRT in the short-term to reduce costs or increase passenger revenue

54. The latest financial monitoring information showed a £28.4 million RDEL budget pressure for 2025/26 relating primarily to the projected outturn for SRT for the year. This is largely attributable to impact of peak fares abolition. Additional funding was received in October 2025 of £24 million to alleviate the peak fares impact, reducing the latest overall RDEL budget pressure to approximately £4.5 million for 2025/26.

55. SRH is working with SRT to try and manage down this projected budget pressure. There remains uncertainty over future funding allocations, and as the majority of SRT's expenditure relates to staff and other operational costs linked to the delivery of the regulated rail services and there are limits to its income generating potential, SRT should continue to work with SRH and the Sponsor over funding requirements and efficiencies that can be identified.

56. The current CDEL budget shows a slight underspend. We note that SRT is exploring some lease options. SRH should continue to engage with SRT and Transport Scotland regarding the implications of this.

SRH has still to develop medium-term and long-term financial plans

57. In June 2025 the Scottish Government published its Medium-Term Financial Strategy and Fiscal Sustainability Delivery Plan.

58. As reported in our 2022/23 and 2023/24 Annual Audit Report, a medium or long-term financial strategy has not been developed for SRH for the funding of its two train services operated by its subsidiaries or for its corporate role. The focus during 2025 has been on the implementation of the 5-year strategic plan and supporting annual business plans. We note that there are other core strategies that will underpin the longer-term financial strategy which have now been developed, such as the Fleet Procurement Strategy in September 2025.

59. Given the challenging position of trying to manage the significant RDEL pressure, SRH should develop a medium-term financial plan which provides a range of possible financial scenarios against which to assess the impact of pressures on SRH's finances and delivery against its Strategic Plan and Fleet Procurement Strategy.

Significant capital investment is required in future years to support delivery of the Fleet Strategy

60. SRH's Strategic Plan 2024-2029 states that approximately 65 per cent of the ScotRail fleet will either need to be life extended or replaced from 2030 onwards. To support this work, SRH approved its Fleet Strategy in September 2025. This strategy outlines the Group's plan for renewal and replacement of train fleets.

61. SRH is working closely with Transport Scotland, SRT and CSL regarding the fleet replacement plans. This requires significant capital planning and investment and SRH is engaging with the Sponsor and in close cooperation with Network Rail Scotland to deliver this.

62. Given the CDEL budget pressures and the significant costs associated with the fleet replacement, it is vital SRH establishes effective medium and longer-term financial planning to allow for monitoring of the capital investment programme. The capital investment programme should be supported by this financial plan which should provide a range of possible financial scenarios against which the delivery of the Fleet Strategy is assessed. This should be continually adapted to allow for effective monitoring as the capital programme progresses, especially in an environment of uncertainty around costs and inflationary pressures.

63. The strategy should outline underlying assumptions and risk scenarios and forecast a budget gap with mitigating actions to manage this.

Recommendation 3

Medium-Term Financial Plan

SRH should develop a medium-term financial plan as soon as possible to ensure it addresses any budgetary concerns and aligns with its strategies through financial scenario planning on different risk profiles. This should include monitoring of the capital programme to support delivery and monitoring of the Fleet Strategy.

Vision, Leadership and Governance

Conclusion

Staff capacity has increased at SRH but there is on-going review into staffing structures

SRH operated without an internal audit function during 2024/25 but has appointed Azets to provide Internal Audit services across the Group in July 2025

SRH should review its cyber security arrangements to ensure the organisation is as prepared as possible for any potential cyber-attacks

SRH has improved governance arrangements and is reviewing the group governance

64. We reported on the importance of SRH establishing effective governance arrangements in our 2023/24 Annual Audit Report and we have seen progress against this during the 2024/25 audit.

65. The Audit and Risk Committee (ARC) met four times during 2024/25, which is an improvement on the 2023/24 operations. The purpose of the meetings includes monitoring issues of risk, control, and governance and associated assurance through a process of constructive challenge. The increased committee meetings are allowing the ARC to meet the remit per the terms of reference.

66. An additional Non-Executive Director was appointed to the Board in 2025, with a further Non-Executive Director expected to be appointed and be in post in early 2026. Membership of the ARC has been strengthened with the appointment of an additional Non-Executive Director in October 2025.

67. There is a proposal in place to have a single ARC and a single remuneration committee covering all parts of the group (SRH, SRT and

CSL). Membership and governance arrangement have yet to be finalised but it is recognised that agendas will need to reflect the requirement for specific items to be considered for each individual part of the Group.

68. The process for this is still being established, and a paper was taken to the Board meeting in October 2025. It is proposed that if the change is accepted that it will be effective from 1 April 2026.

Collaborative working continues to develop with Network Rail

69. Work in relation to the Rail Alliance across the rail network is underway, with the Alliance Agreement between ScotRail Trains and Network Rail being amended and signed in October 2024.

70. Together with Network Rail and Transport Scotland, the SRH Group is working to enhance collaboration across the network in fulfilment of the ambitions of the Alliance. We will continue to review this and report on governance arrangements in 2025/26.

Staff capacity has increased at SRH but there is on-going review into staffing structures

71. We noted as part of our 2023/24 annual audit report, that there was an urgent need to address staffing levels and capability within SRH to ensure it can provide adequate oversight of the rail operators.

72. Over the past year, we have seen that progress has been made to fill key vacant posts including two permanent appointments to finance posts – financial controller and finance manager. Both of these roles have helped with capacity in the finance function; however the interim project accountant role will end in December 2025. SRH is reviewing its finance resource needs and will discuss its proposals with Transport Scotland.

73. The current structure of SRH comprises 30 posts. We noted that of the 30 posts in the new organisational structure, 21 are filled with a permanent member of staff, and 9 are currently vacant. Two of the vacant posts were part of those identified in 2023/24, however they are currently undergoing a role evaluation and SRH will seek to advertise the roles once the revised job descriptions are finalised. The remaining vacant posts were identified as part of the latest update to the organisation design and this includes the following posts which have been approved by the sponsor and recruitment timetable is to be confirmed:

- Interim Chief Operating Officer
- Fleet programme director
- Head of Rail Development
- Safety Officer
- Head of Service and performance

74. The final roles have been identified and are awaiting sponsor approval:

- Personal Assistant (interim support is being procured for this role)
- Group Corporate Risk Officer
- Head of Strategy and Investment
- Senior Counsel

75. A number of roles have been filled on an interim basis through the use of secondments, including Head of Strategy and Investment and Legal Counsel. This has allowed SRH to build capacity without increasing their overall headcount.

76. Following the departure of the former interim Chief Executive in June 2024, SRH operated with a new interim Chief Executive, who was seconded in from the Scottish Government. This arrangement continued until a permanent Chief Executive was appointed in September 2024. The interim Chief Executive remained on secondment from the Scottish Government to SRH, in the role of Chief Operating Officer to help support the handover. The Chief Operating Officer post has now been vacant since August 2025 and recruitment for an interim position is being progressed as outlined in [paragraph 73](#).

77. There is a need to continue to review and address the staffing levels and capability within SRH to ensure it can provide adequate oversight of the rail operators.

Recommendation 4

Staff Capacity

SRH should continue to review the organisational structure to create and fill roles to ensure the organisation has sufficient capacity and skills to effectively perform its duties in overseeing rail services in Scotland.

SRH operated without an internal audit function during 2024/25 but has appointed Azets to provide Internal Audit services across the Group in July 2025

78. SRH operated without an internal audit function during 2024/25. We recommended in our 2023/24 Annual Audit Report that management should determine what internal audit coverage and assurance is required for SRH single-entity functions, based on the review and development of SRH responsibilities (see [recommendation PY9](#) in [Appendix 1](#)).

79. SRH appointed an Audit and Risk Manager in October 2024, therefore part of 2024/25 operated without any internal audit function. He

established certificates of assurance to enable executive directors within SRH, and relevant officers from SRT and CSL, to provide the Chief Executive, as Accountable Officer, with assurances over the operation of the single entity and group governance arrangements and systems of internal control during 2024/25.

80. No Internal Audit work was carried out within SRH in 2024/25 and subsequently there was no internal audit opinion within the Governance Statement in 2024/25. However, it was noted that a range of key financial controls and procedures were formally documented and implemented during the year.

81. In July 2025, Azets were appointed to provide the internal audit function for SRH, SRT and CSL. The SRH internal audit plan for 2025/26 was presented to and approved by the SRH ARC in August 2025, with the work commencing thereafter. The internal audit plan is reflective of the risk areas of SRH, and the function is continuing to be supported by the Audit and Risk Manager.

Fleet Procurement processes are underway to replace the suburban and intercity fleet

82. As mentioned in [paragraph 58](#), the fleet procurement strategy has been approved. Part of this strategy includes the fleet replacement which is split into two main fleets - Suburban and Intercity.

83. Engagement for the suburban fleet replacement project commenced in July 2025 when the periodic indicative notice (PIN) was posted. The procurement process will run for approximately two years, with contracts not being awarded until early 2028. This is the biggest of the fleet replacement and will consist of new trains to run on suburban services. This procurement commenced on 5 November 2025.

84. The intercity fleet replacement is a smaller replacement and therefore is happening at a quicker pace. The tendering is underway, and it is anticipated that the contract award will be made by the end of 2025.

SRH approved its Risk Management Strategy and Risk Appetite Statement in April 2025

85. SRH developed its Risk Management Strategy in line with the Risk Appetite Statement, both of which were formally approved by the Board in April 2025. This Strategy provides a framework for the development of risk management across the Group. This is an area SRH is working to progress in 2025/26 and the formal Risk Management Strategy will support a more consistent and systematic approach of risks across the group, with regard to risk identification, assessment, mitigation and reporting.

86. The Risk Management Strategy is supported by detailed risk registers which are reported to the Board, and Audit and Risk Committees as relevant. Our review of these arrangements noted the process of risk

management and monitoring of risks in the risk registers continue to be refined and progressed.

SRH should review its cyber security arrangements to ensure the organisation is as prepared as possible for any potential cyber-attacks

87. As part of our audit, we reviewed cyber security arrangements. The Cyber Incident Response Plan, Business Continuity and Disaster Recovery Plans are in the process of review. We would consider it good practice to put in place measures to test the effectiveness of these plans following their completion.

88. We noted that mandatory cyber awareness training is in place for staff. At the time of completing our audit work, 100% of staff had completed their training.

89. We reported to management on cyber security areas where improvements can be made to strengthen the arrangements. We have not included further detail in this publicly available annual audit report.

90. It is vital that public sector organisations have suitable plans in place to respond to cyber-attacks. Robust business continuity and disaster recovery plans, including a well-tested Cyber Incident Response Plan, are essential for an organisation to be able to respond to any cyber-attack and minimise its impact.

91. Additionally, it is crucial that SRH ensures that shared cyber security arrangements are formally documented, providing clarity on responsibilities and processes for managing cyber threats.

Recommendation 5

Cyber Security arrangements to be formalised and strengthened

SRH should review its cyber security arrangements to ensure the organisation is as prepared as possible for any potential cyber-attacks.

Use of Resources to Improve Outcomes

Conclusion

SRH approved its Best Value Framework in May 2025 but has still to implement its Best Value framework and embed the duty to deliver Best Value to ensure continuous improvement.

SRH should continue to develop a Performance and Oversight Plan with a suite of clear key performance indicators which are reported to the board to support SRH in effectively monitoring the performance of SRT and CSL to improve the delivery of rail services in Scotland.

SRH approved its Best Value Framework in May 2025 but has still to implement the Best Value framework and embed the duty to deliver Best Value to ensure continuous improvement

92. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. We highlighted in our [2022/23](#) and [2023/24 Annual Audit Reports](#) that due to SRH's unique role in overseeing the delivery of rail services in Scotland, the Chief Executive, as Accountable Officer, should establish how SRH can demonstrate that it is securing best value in the delivery of these services.

93. SRH Board approved the Best Value framework in May 2025 and following this completed a self-evaluation for SRH and the two subsidiaries against the Best Value characteristics. SRH is working to formalise its Best Value framework through development of the Best Value Action Plans which will demonstrate how SRH is securing continuous improvement in the performance of the Group's objectives and thus delivering against its Best Value duty.

Recommendation 6

Best Value framework

The Chief Executive should ensure the Best Value framework is implemented through the Best Value action plans' development and continued assessment against the Best Value characteristics to demonstrate the delivery of continuous improvement.

SRH should continue to develop a Performance and Oversight Plan with a suite of clear key performance indicators which are reported to the board to support SRH in effectively monitoring the performance of SRT and CSL to improve the delivery of rail services in Scotland

94. The tripartite ScotRail grant agreement between Scottish Ministers, SRH and SRT and the Caledonian Sleeper service tripartite grant agreement between Scottish Ministers, SRH and CSL, each set out the conditions of the train operator arrangements. While a number of KPIs

exist for performance monitoring through safety measures and operational performance, there is a requirement for SRH to design a range of key performance indicators which will allow effective monitoring of the performance of the train operating companies beyond those set out by Transport Scotland. These should be a suite of key performance indicators which are reported to the SRH Board, designed in a way to assist SRH in driving improvements and efficiencies in the delivery of rail services in Scotland.

95. SRH established annual business plans for SRH, SRT and CSL which were all approved by the board. These business plans include objectives for the three entities which support the overall five-year Strategic Plan. SRH should finalise the development of its Performance and Oversight Plan with clear KPIs identified to allow for this effective performance monitoring to be conducted. This should be clearly reported to the Board, along with including a performance monitoring update within the annual report and accounts.

Appendix 1 – Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>1. Unallocated dilapidations provision</p> <p>Our audit testing identified £0.869 million of dilapidations provisions relating to CSL's rolling stock and property right of use leased assets to restore the leases asset to its original condition at the end of the lease agreement, that were not allocated to the Right of Use assets.</p> <p>Under IFRS16 Leases the value of any dilapidation provision requires to be included in the lease liability and the value of the corresponding right of use leased asset, to reflect the additional costs and economic benefits to the organisation of leasing those assets. However, these dilapidations provisions were not charged to the Statement of Comprehensive Net Expenditure or allocated against the corresponding right of use assets in CSL's accounts.</p> <p>Risk: SRH Right of Use assets in the Group Statement of Financial Position and expenditure in the Group Statement of Comprehensive Net</p>	<p>Management should ensure a valuation is conducted of CSL's rolling stock and property leases to establish the accurate allocation of dilapidations costs existing in these leases. The costs of restoring the assets to the original conditions should be reflected the Right of Use assets values.</p> <p>Exhibit 2 point 1</p>	<p>Accepted</p> <p>Instruct CSL to undertake the required valuations and ensure accurate allocations posted for the 2025/26 annual accounts.</p> <p>Responsible Officer:</p> <p>Finance Director</p> <p>Agreed Date:</p> <p>30 June 2026</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
Expenditure are both understated.		
<p>2. Performance Report</p> <p>SRH has the responsibility to review and report on the performance monitoring of the Group, including SRT and CSL. Reporting in the SRH Annual Report and Accounts on performance monitoring could be better reflected with more detailed trend analysis of the train operating companies' performance included in the Performance Report, in line with the regulations, frameworks and the subsidiaries' annual reports.</p> <p>Risk: SRH's annual report does not allow for effective performance monitoring review of the train operating companies' performance from prior years.</p>	<p>Management should consider the presentation of performance data and include prior year comparatives where this would enhance comparability and the presentation of the Government Financial Reporting Manual (FReM) requirement of trend information in indicators. This reporting should be in line with the key performance indicators (KPIs) set out in the Business Plans.</p> <p>Management should also ensure that information included in the SRH Performance Report is consistent with that reported in the subsidiaries' annual reports.</p> <p>Exhibit 2 point 3</p>	<p>Accepted</p> <p>Review and refine the structure and presentation of the Group and subsidiary Performance Reports for the 2025/26 annual report taking account of Audit Scotland's feedback and ensuring alignment to the Group's approved Business Plans and compliance with the FReM.</p> <p>Performance and oversight report to SRH Board also continues to be developed, see management actions per the prior year audit recommendation PY8, which will inform the revised Performance Report.</p> <p>Responsible Officer:</p> <p>Finance Director</p> <p>Agreed Date:</p> <p>Define and agree format of Performance Report by 30 April 2026.</p> <p>Complete draft Performance Report for audit by 30 September 2026, subject to agreed external audit timetable.</p>
<p>3. Medium-Term Financial Plan</p> <p>SRH have approved its Strategic Plan and Fleet Strategy but has not finalised a Medium-Term Financial Plan to support the delivery of the plans. This should include a range of possible financial scenarios to assess its impact of pressures on SRH</p>	<p>SRH should develop a medium-term financial plan as soon as possible to ensure it addresses any budgetary concerns and aligns with its strategies through financial scenario planning on different risk profiles. This should include monitoring of the capital programme to support</p>	<p>Accepted</p> <p>The Group maintains outer year projections, which are subject to regular review.</p> <p>SRH will work collaboratively with SRT and CSL to build upon these existing projections incorporating the Group's strategic and business plans. This will form the basis of the Group's</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>Group's finance given future budget uncertainty.</p> <p>Risk: there are not sufficiently detailed financial scenarios and budgetary assumptions set out to support effective financial planning over the medium to longer term.</p>	<p>delivery and monitoring of the Fleet Strategy.</p>	<p>medium-term financial plan and will include scenario planning on different risk profiles to inform strategic decision making.</p> <p>Responsible Officer: Finance Director</p> <p>Agreed Date: Prepare draft proposals incorporating the approved strategic plan refresh by 30 June 2026 for review. Finalise plan for Board consideration by 30 September 2026.</p>
<p>4. Staff capacity</p> <p>The overall staffing complement for SRH is 30 however there are 9 vacant posts. Of these 9, 2 have been vacant since the 2023/24 audit.</p> <p>Risk: SRH lack sufficient capacity and skills to effectively perform its duties in overseeing train operations in Scotland.</p>	<p>SRH should continue to review the organisational structure to create and fill roles to ensure the organisation has sufficient capacity and skills to effectively perform its duties in overseeing rail services in Scotland.</p>	<p>Accepted</p> <p>SRH has made progress against this recommendation including establishing a coherent organisational structure and permanent recruitment to key roles. SRH will continue to review its organisational requirements as the company continues to establish its role and the requirements of the Alliance become clear.</p> <p>In line with its Organisational Design, SRH will continue to consider all options to ensure that it has sufficient capacity and skills, including recruitment, secondment, and fixed term contracts.</p> <p>Key recruitment activity and dates are noted below.</p> <p>Responsible Officer: Chief Executive</p> <p>Agreed Date: For pre-approved roles:</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
		<ul style="list-style-type: none"> - Complete Scottish Government job evaluations by 31 December 2025. - Complete recruitment of the Fleet Procurement Director by 31 January 2026. - Complete recruitment of remaining roles by 31 March 2026. <p>For roles to be approved by the Sponsor:</p> <ul style="list-style-type: none"> - Obtain Sponsor approval by 31 January 2026. - Complete Scottish Government job evaluations by 31 March 2026. - Complete recruitment by 30 June 2026.
<p>5. Cyber Security arrangements to be formalised</p> <p>SRH is in the process of reviewing its cyber security related plans and formalising the arrangements in place for its system and support provision.</p> <p>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>Risk: SRH may not have adequate arrangements in place to prevent or respond to a cyber-attack.</p>	<p>SRH should review its cyber security arrangements to ensure the organisation is as prepared as possible for any potential cyber-attacks.</p>	<p>Accepted</p> <p>Complete review of cyber security related plans.</p> <p>Continue development and enhancement of cyber resilience planning, resourcing, training and testing.</p> <p>Responsible officer:</p> <p>General Counsel</p> <p>Agreed date:</p> <p>31 March 2026</p>
<p>6. Best Value framework</p> <p>SRH has developed a Best Value framework in May 2025</p>	<p>The Chief Executive should ensure the Best Value framework is implemented</p>	<p>Accepted</p> <p>SRH has recently undertaken a self-assessment against the</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>but work is still underway to implement this within the organisation.</p> <p>Risk: SRH is unable to demonstrate that it is securing best value in the delivery of rail services in Scotland</p>	<p>through the Best Value action plans development and continued assessment against the Best Value characteristics to demonstrate the delivery of continuous improvement.</p>	<p>7 Best Value characteristics and SRT and CSL will do so during 2025/26.</p> <p>Best Value actions arising will be identified and captured as part of annual business planning processes and in Best Value Action Plans, progress against which will be monitored and reported to ARC/Board.</p> <p>Responsible Officer: Chief Executive</p> <p>Agreed Date: 31 March 2026</p>

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>PY1. Group Consolidation</p> <p>A significant number of audit adjustments and classification issues were identified as part of our audit of the group consolidation working papers. The extent of the changes required was in large part due to the late receipt of fully complete accounts from the subsidiary bodies and the need for a large volume of consolidation adjustments to align the accounting treatment of SRT and CSL with those of SRH.</p> <p>Risk: There are errors in the SRH group statements.</p>	<p>Recommendation: Management should work with SRT and CSL finance teams to agree a timetable that ensures the component bodies 2024/25 accounts are available in time for consolidation in the SRH 2024/25 annual report and accounts presented for audit. Management should also ensure that FReM accounting requirements are adopted by the component bodies wherever possible to reduce the volume of consolidation adjustments required.</p> <p>Management Action: SRH will agree a group reporting timetable to ensure subsidiary deliverables are received in sufficient time to present the consolidated SRH 2024/25</p>	<p>Implemented</p> <p>SRH implemented a workplan with SRT and CSL to allow for better preparation of the Group accounts which limited the number of adjustments required after the SRH 2024/25 Annual Report and Accounts were presented for audit.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	<p>annual report and accounts for audit.</p> <p>SRH Audit & Risk Committee to consider and agree approach to FReM accounting requirements for the subsidiaries for 2024/25.</p> <p>Responsible officer: Finance Director</p> <p>Agreed date: 31 March 2025</p>	
<p>PY2. Accounting treatment of SRT and CSL accrued income grant funding</p> <p>SRT and CSL will require to recognise receivables balances due from SRH at 31 March each year in respect of services delivered during 2023/24 that funding has not been provided for during the year.</p> <p>Risk: The exact amounts due to SRT and CSL from SRH is not known in time for the production of the unaudited SRH accounts.</p>	<p>Recommendation: Management should establish a process that aligns with the SRH accounts preparation and closedown timetable, to identify the value of the outstanding grant funding due to the subsidiaries at 31 March for rail services delivered during the year.</p> <p>Management Action: Agreed timetable for Issue 1 above to include process and deadline for SRT and CSL to confirm accrued grant funding balances at 31st March each year.</p> <p>Responsible officer: Finance Director</p> <p>Agreed date: 31 March 2025</p>	<p>Implemented</p> <p>Management prepared an agreed timetable to allow the accrued grant funding balances as at 31 March 2025 to be established prior to drafting unaudited accounts.</p>
<p>PY3. Segmental Reporting</p> <p>The FReM includes specific segmental reporting requirements for public sector bodies in the UK which reflect the requirements of IFRS8 – Operating Segments. These were not included in the SRH accounts presented for audit but we accepted a segmental analysis table being included in the financial performance section of the Performance Report in the audited SRH</p>	<p>Recommendation: Management should ensure they have all the information needed for the segmental reporting disclosures required for the SRH 2024/25 Annual Report and Accounts.</p> <p>Management Action: Lessons learned sessions to be held with key stakeholders to further develop segmental reporting and agree deliverables.</p>	<p>Implemented</p> <p>Segmental Reporting disclosures are included within the SRH 2024/25 Annual Report and Accounts.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>2023/24 Annual Report and Accounts.</p> <p>Risk: SRH's annual report and accounts do not include the required segmental analysis information.</p>	<p>Responsible officer: Finance Director</p> <p>Agreed date: 31 March 2025</p>	
<p>PY4. Group budget monitoring and reporting arrangements</p> <p>There is an opportunity for SRH to prescribe the format and contents of the management accounting information it requires from SRT and CSL to better support its role in monitoring the financial performance of the subsidiaries, and to streamline the group budget monitoring and reporting processes.</p> <p>Risk: The SRH finance team is not able to accurately or quickly assess the consolidated group position during the course of the year.</p>	<p>Recommendation:</p> <p>Management should establish what budget monitoring information they require from SRT and CSL for each period to better support its monitoring of the financial performance of the train operators, and to streamline the group budget monitoring and reporting processes.</p> <p>Management Action: SRH to further develop subsidiary reporting packs to ensure all required budget monitoring information is provided on a periodic basis and refine the group's consolidation model.</p> <p>Responsible officer: Finance Director</p> <p>Agreed date: 30 June 2025</p>	<p>Implemented</p> <p>The refined approach to group budget monitoring and reporting arrangements was first presented to Board in June 2025 for Period 2 of 2025/26.</p>
<p>PY5. Staff capacity issues</p> <p>Of the 29 posts in the new SRH organisational structure, only 20 are filled with a permanent member of staff, and 6 are currently vacant.</p> <p>Risk: SRH lack sufficient capacity and skills to effectively perform its duties in overseeing train operations in Scotland.</p>	<p>Recommendation: SRH should work with Transport Scotland and the Scottish Government to expedite the recruitment and appointment of staff to the vacant roles within its approved organisational structure, to ensure the organisation has sufficient capacity and skills to effectively perform its duties in overseeing rail services in Scotland.</p> <p>Management Action: The business case for the additional posts in the first tranche of the organisational</p>	<p>Superseded by 2024/25 recommendation 4</p> <p>Progress has been made on staffing capacity, including the recruitment of two key finance posts. There are still 10 vacant posts in the organisational structure, 8 of which have still to be advertised and filled. Further information can be found in paragraphs 71. -77.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	<p>structure (6 out of 10) has been submitted to the Sponsor for approval. Of these, SRH have been advised that two finance posts are being actively considered by Transport Scotland with the remaining four to be reviewed. The action and associated timescale for these posts is:</p> <ul style="list-style-type: none"> • Continue to support Transport Scotland in respect of their consideration of the business case for all six posts (timing: ongoing). • Advertise posts for recruitment (timing: immediate on receiving Transport Scotland approval). • Complete recruitment of two finance posts (timing: 31 May 2025). • Complete recruitment of remaining approved four posts and confirm Job Descriptions in light of the 2025-30 Strategy and 2025/26 Business Plan (timing: 31 July 2025). <p>The business case for the remaining posts (4 out of 10) in the organisational structure is to be submitted to Transport Scotland. The actions and timescales for these posts is:</p> <ul style="list-style-type: none"> • Confirm posts requirement on completion of capacity and capability review in context of the 2025-30 Strategy and 2025/26 Business Plan (timing: 31 January 2025). • Confirm requirement for business case, and if required submit to Transport Scotland 	

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	<p>for review (timing: 28 February 2025).</p> <ul style="list-style-type: none"> • Advertise posts for recruitment (timing: immediate on receiving Transport Scotland approval). • Complete recruitment (timing: 30 November 2025) <p>Responsible officer: Chief Executive</p> <p>Agreed date: See dates for each action above.</p>	
<p>PY6. Audit and risk committee</p> <p>The ARC only met twice during 2023/24.</p> <p>Risk: The committee is not performing its important role in the effective operation of SRH's governance arrangements.</p>	<p>Recommendation: Management should agree a timetable of Audit and Risk Committee meetings, and a procedural timetable for the issue of committee papers, that supports non-executive members in undertaking their role and fulfilling the committee's remit.</p> <p>Management Action: SRH management will agree with the SRH ARC Chair the timetable of meetings and a procedural timetable for the issues of committee papers.</p> <p>Responsible officer: Finance Director</p> <p>Agreed date: 31 March 2025</p>	<p>Implemented</p> <p>SRH Audit and Risk Committee introduced a procedural timetable and met 4 times in 2024/25.</p>
<p>PY7. Cyber Security</p> <p>There has been an increased prevalence of cyber-attacks on public sector bodies, including successful attacks on Comhairle nan Eilean Siar (Western Isles Council) and NHS Dumfries and Galloway over the last 18 months. It is vital that public sector employees can recognise and</p>	<p>Recommendation: SRH should review its cyber security arrangements and training to ensure the organisation is as prepared as possible for any potential cyber-attacks.</p> <p>Management Action: SRH will complete a self-assessment of existing cyber security arrangements for</p>	<p>Superseded by 2024/25 recommendation 5</p> <p>Management completed a self-assessment of the existing cyber security arrangements for the Group in 2025.</p> <p>Cyber security training has been delivered to all staff. However, as outlined in 3187.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>mitigate cyber risks and that organisations have suitable plans in place to respond to cyber-attacks.</p> <p>Risk: SRH may not have adequate arrangements in place to prevent or respond to a cyber-attack.</p>	<p>both the SRH single-entity function and the wider Group by 28 February 2025.</p> <p>Actions determined from the review will be prioritised, and priority policy/training requirements will be put in place and delivered by 31 May 2025.</p> <p>SRH will develop and embed continual improvement policies to ensure SRH and the wider Group's commitment to improving its cyber security arrangements and alignment with best practice (timing: 30 September 2025).</p> <p>Responsible officer: General Counsel</p> <p>Agreed date:</p> <p>See dates per actions above.</p>	<p>-91 further work is needed to formalise the plans in place to support the cyber security arrangements.</p>
<p>PY8. Performance monitoring of rail operators</p> <p>While a number of KPIs for monitoring the performance of SRT and CSL are included within the Framework and Grant Agreements specified by Transport Scotland, SRH need to review the KPIs beyond those specified by these agreements to ensure they have an effective framework to monitor key aspects of performance and policy delivery, and drive improvements.</p> <p>Risk: SRH is not able to effectively monitor the performance of the rail; operators.</p>	<p>Recommendation: SRH should review the suite of key performance indicators reported to the board to ensure these support it in effectively monitoring the performance of SRT and CSL, and assist it in driving improvements and efficiencies in the delivery of rail services in Scotland in the future.</p> <p>Management Action: SRH will develop a suite of Key Performance Indicators to monitor the performance of SRT and CSL, and also suggest amendments to Transport Scotland on those contained in the Framework and Grant Agreements to ensure that the KPIs specified allow performance monitoring</p>	<p>Work in Progress</p> <p>SRH is finalising the draft Performance & Oversight report and supporting KPIs to be considered by the SRH Board 31 January 2026 with a target implementation date of 30 April 2026.</p> <p>SRH will conduct a review of the effectiveness of the Performance & Oversight Plan by 31 October 2026.</p> <p>Responsible Officer:</p> <p>Rail Business Director</p> <p>Agreed Date</p> <p>Implementation of plan 30 April 2026</p> <p>Review of effectiveness 31 October 2026</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	<p>and reporting to be progressed in a meaningful and efficient manner.</p> <p>Responsible officer: Rail Business Director</p> <p>Agreed date: 30 April 2025</p>	
<p>PY9 (22/23) Internal audit provision</p> <p>Management is still to determine what internal audit coverage is required for the SRH single entity functions.</p> <p>An interim Internal Audit and Risk Manager was appointed in October 2024 and has been implementing procedures and steps to establish an Internal Audit function and provide the SRH Group with assurance over its operations. Further work is required to embed the internal audit provision within the organisation.</p>	<p>Recommendation:</p> <p>Management should determine what internal audit coverage and assurance is required for SRH single-entity functions, based on the review and development of SRH responsibilities.</p> <p>Revised Action:</p> <p>Management have determined the internal audit scope and resource requirements for the SRH single-entity functions and the wider group. The required resources will be secured to deliver and embed the internal audit provision within the organisation.</p> <p>Responsible officer: General Counsel</p> <p>Agreed date: 30 June 2024</p>	<p>Implemented</p> <p>SRH appointed Azets to deliver its internal audit provision for the group under the direction of SRH's Audit and Risk Manager.</p>
<p>PY10 (22/23). Governance Arrangements</p> <p>Arrangements to support good governance have still to be fully established.</p>	<p>Recommendation: The Audit and Risk Committee should continue to develop governance arrangements.</p> <p>Management Action: The SRH Audit and Risk Committee (ARC) will determine appropriate developments for the governance arrangements.</p> <p>Resourcing these arrangements will form part of</p>	<p>Implemented</p> <p>SRH Audit and Risk Committee implemented changes to improve governance arrangements.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
	<p>the refinement of SRH's structure and people plans.</p> <p>Responsible officer: General Counsel</p> <p>Agreed date: 30 June 2024</p>	
<p>PY11 (22/23). Best Value Framework</p> <p>SRH has still to develop a Best Value Framework.</p>	<p>Recommendation: The Chief Executive should develop an appropriate Best Value framework for SRH, that reflects its developing role.</p> <p>Management Action: SRH will develop a Best Value Framework.</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: 30 June 2025</p>	<p>Superseded by 2024/25 recommendation 6</p> <p>A Best Value framework has been developed and now needs to be implemented across the Group.</p>

Appendix 2 – National reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practice: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Scottish Rail Holdings Limited

2024/25 Annual Audit Report



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