Caledonian Sleeper Limited

Annual Audit Plan 2025/26

Prepared for Caledonian Sleeper Limited
June 2026

Contents

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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 2025/26 audit of Caledonian Sleeper Limited's (CSL) 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 CSL for the period from 2025/26 until 2026/27. Procurement of public sector audit appointments is usually undertaken every five years, with auditors appointed for a five-year period. The current five-year audit appointment covers 2022/23 to 2026/27. Legislation passed in January 2026 confirming that SRT would be audited by the Auditor General for Scotland, so Rachel's appointment covers the remaining two years of the current five-year audit appointment round.

3. Rachel Browne and the audit team are independent of CSL 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 CSL 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 CSL'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 CSL'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 CSL 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 CSL's arrangements in place for the wider scope areas.

CSL's responsibilities

8. CSL 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 that give a true and fair view and other 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.

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 CSL, 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 CSL are outlined in Exhibit 1.

Exhibit 1
2025/26 Materiality levels for CSL

Materiality	Amount
Materiality – based on an assessment of the needs of users of the financial statements and the nature of CSL operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£1.6 million
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that	£0.8 million

Materiality	Amount
further audit procedures are required. Using professional judgement, performance materiality has been set at 50% of planning materiality.	
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£80 thousand

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 CSL, 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 7. 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 CSL 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
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • evaluate the design and implementation of controls over journal entry processing • make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries • test journals entries, focusing on those that are assessed as higher risk, such as those affecting

Risk of material misstatement	Planned audit response
	revenue and expenditure recognition around the year-end • evaluate significant transactions outside the normal course of business • assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements • assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.
Fraud over Passenger revenue Under ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue and there is fraud in financial reporting. CSL has a high degree of passenger revenue of approximately £32 million. This presents an incentive and opportunity to manipulate how these revenue streams are recognised, and therefore the presumed risk is considered to exist for these revenue streams.	The audit team will: • discuss with management and consider management's assessment of fraud risk • sample test journals posted to revenue that appear unusual because they do not follow normal posting characteristics • test passenger income through reconciliation to periodic LENNON reports and sampling to cash receipt.
Implementation of a new general ledger system CSL implemented a new general ledger system during the year, and the financial statements will be prepared using data from the new general ledger. Implementation of the new general ledger gives rise to a number of issues which could result in a material misstatement in the financial statements, including: • The new general ledger may not operate as intended when preparing the financial statements and therefore require alternative arrangements to be made. • There may be issues with the accuracy and completeness of data	The audit team will: • review the arrangements put in place for system implementation of the new general ledger. • obtain an understanding of the new general ledger system, including how it operates, controls in place that are relevant to financial reporting, and if there were any issues with its implementation or after implementation. • evaluate the design and implementation of controls within the new general ledger that are relevant to financial reporting. • test the conversion and transfer of data from the old general ledger to the new general ledger to confirm data in the new system is accurate and complete. • review the chart of accounts and mapping of account codes to the financial statements from the

Risk of material misstatement	Planned audit response
converted and transferred from the old general ledger to the new general ledger. • Key staff may not be sufficiently familiar with the new general ledger when preparing the financial statements.	new general ledger to identify if this is appropriate and in line with expectations.
Service agreement length assumptions The Grant Agreement between CSL, and Scottish Rail Holdings extends to June 2033. Determining the appropriate service agreement term, including the assessment of extension and termination options, requires significant management judgement to ensure the correct accounting treatment is applied. This has been identified as a significant risk area for the audit. The assessment of the service agreement term has an impact on the financial statements. In particular: • **IFRS 16 Leases**: Management must assess whether termination options within leases are reasonably certain to be exercised. Where termination options are not considered reasonably certain to be exercised, they are excluded from the lease term. This judgement directly affects the measurement of lease liabilities and right-of-use assets recognised on the Statement of Financial Position at lease commencement. • **Pension Obligations:** The pension deficit recognised reflects only the portion expected to be funded over the term of the Grant Agreement. This requires an adjustment to exclude the element of the deficit projected to arise after June 2033, discounted back to present value. The determination of this adjustment is highly sensitive to the assumed agreement term.	The audit team will: • review the assumptions in relation to leases and pensions to assess appropriateness • review the accounting treatment for the grant agreement

Risk of material misstatement	Planned audit response
Given the level of judgement involved and the potential for material impact across multiple areas of the financial statements, there is a risk that the service agreement term has been inappropriately determined, leading to misstatement in lease and pension balances.	

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.

20. In addition to the significant risks in Exhibit 2, the following areas of specific audit focus have been identified as part of our planning process and will be reported on in the Annual Audit Report:

- **Accounting framework change** – This is the first year that CSL's annual report and accounts will be prepared in accordance with the Government Financial Reporting Manual (FReM), rather than FRS 101. This will require changes to the annual report narrative, the financial statements and accompanying notes to the accounts. CSL's Accounts Direction requires compliance with FReM. We will review the annual report and accounts against FReM requirements to confirm compliance with the accounting framework.

- **Capitalisation of software development costs –** In the prior year management has made a judgement in relation to the capitalisation of website development costs. We will review the accounting treatment for intangible assets to ensure that they have been correctly capitalised.

21. As planning is an ongoing activity, our work to understand the main financial systems, IT systems, and cyber security arrangements is still in progress. Any risks identified as part of this work will be communicated to management, and an appropriate audit response will be developed.

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 CSL 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 CSL'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 CSL'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 CSL 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 CSL has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements CSL 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 themes 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 CSL to demonstrate how it secures Best Value. In addition, auditors are required to carry out a review of the ‘fairness and equality’ theme at least once during the audit appointment, and this will be carried out later in the audit appointment.

Reporting arrangements, timetable and audit fee

Audit outputs

27. The outputs from the 2025/26 audit include:

- this Annual Audit Plan
- an Independent Auditor's Report to CSL, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts
- an Annual Audit Report to CSL 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, recommendations, where required, and any good practice identified.

28. The matters to be reported in the outputs will be discussed with CSL 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.

29. 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 laying the annual report and accounts, which is 31 October 2026 for central government non-departmental public bodies, and other similar bodies.

30. The audit team will be unable to achieve the target date of 31 October 2026 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to the timing of legislation being passed which confirmed that CSL will be audited by the Auditor General for Scotland, and the subsequent audit appointment process. We will also prioritise 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 is working towards completion of the audit by 18 November 2026.

Audit timetable

31. 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 3 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 CSL and reported to those charged with governance, where required.

Exhibit 3
2025/26 audit timetable

Audit activity	CSL target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		4 June 2026	10 June 2026
Annual report and accounts:			
• Submission of unaudited annual report and accounts and all working papers to audit team	31 August 2026	N/A	N/A
• Latest date for audit clearance meeting	21 October 2026	21 October 2026	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		23 October 2026	9 November 2026
• Agreement of audited and unsigned annual report and accounts	9 November 2026		9 November 2026
• Approval by those charged with governance and signing of audited annual report and accounts	9 November 2026 – Group ARC 18 November 2026 - Board		9 November 2026 – Group ARC 18 November 2026 - Board
• Signing of Independent Auditor's Report and issue of Annual Audit Report		18 November 2026	

Source: Audit Scotland

Audit fee

32. CSL's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £172,500.

33. In setting the audit fee, it is assumed that CSL 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

34. CSL is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

35. 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. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

36. 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.

37. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 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.

38. 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.

39. 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.

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

Caledonian Sleeper Limited

Annual Audit Plan 2025/26

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