

# Scottish Rail Holdings Limited

## Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Scottish Rail Holdings Limited

May 2024

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Scottish Rail Holdings Limited (SRH). The main elements of our work include:

- an audit of the 2023/24 annual report and accounts to support our opinions on the financial statements
- an audit of regularity and the other statutory information published within the 2023/24 annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope of public sector audit: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Respective responsibilities of the auditor and SRH

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and SRH. Key responsibilities are summarised below.

### Auditor responsibilities

3. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at SRH. In doing this, we aim to support improvement and accountability.

### Scottish Rail Holdings Limited responsibilities

5. SRH is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It must also prepare other reports in the annual report and accounts in accordance with applicable requirements.

6. SRH also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enables it to deliver their objectives.

## Communication of fraud or suspected fraud

**7.** In line with ISA 240, 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 SRH, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

## Adding value

**8.** We aim to add value to SRH by tailoring audit work to the organisation's circumstances and the audit risks identified, by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help SRH promote improved standards of governance, better management and decision making and more effective use of resources.

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# Annual report and accounts

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**9.** The annual report and accounts are an essential part of demonstrating SRH's stewardship of resources and its performance in the use of those resources.

**10.** As part of our audit we perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**11.** We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**13.** We assess materiality at different levels as detailed in [Exhibit 1](#) on page [6](#). This sets out the materiality values for both the SRH single-entity and group figures.

## Exhibit 1

### Materiality levels for the 2023/24 audit

Materiality	Single entity	Group
<p><b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of SRH's operations. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure. For the single entity this is based on the audited 2022/23 financial statements. For the group it is based on the 2022/23 group expenditure adjusted for the expected financial results of Caledonian Sleeper Limited which will be consolidated within the SRH group accounts in 2023/24 for the first time.</p>	£13.5 million	£20.0 million
<p><b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have set performance materiality at 75 per cent of planning materiality for the single entity and 65 per cent for the group.</p>	£10.1 million	£13.0 million
<p><b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements above the 'reporting threshold' amount.</p>	£0.5 million	£0.5 million

Source: Audit Scotland

## Significant risks of material misstatement and other risks of material misstatement for the 2023/24 financial statements

**14.** Our risk assessment draws on our cumulative knowledge of SRH and consideration of its major transaction streams, key systems of internal control, and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and review of other relevant information.

**15.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and, where relevant, report them to those charged with governance.

**16.** Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are the risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) summarises

the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

## Exhibit 2

### Significant and non-significant risks of material misstatement to the 2023/24 financial statements

Nature of risk	Sources of assurance	Planned audit response
<b>Significant risks of material misstatement</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. As a result, we are required to design audit procedures to specifically address this risk for all of our financial statements audits.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> <li>• Detailed testing of SRH consolidation adjustments, transactions and journals.</li> <li>• Review of significant accounting estimates.</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• 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 – see risk 2 below.</li> </ul>
<p><b>2. Significant risks of material misstatement in ScotRail Trains Limited (SRT)</b></p> <p>PwC, as the appointed external auditors of SRT, has identified the following significant risks of material misstatement for SRT's 2023/24 financial statements:</p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Fraud in revenue recognition</li> <li>• Service agreement length assumptions</li> <li>• Pensions assumptions and service agreement adjustment methodology.</li> </ul>	<ul style="list-style-type: none"> <li>• PwC has designed audit procedures to address each of these risks in the audit of SRT.</li> </ul>	<ul style="list-style-type: none"> <li>• As the SRH Group auditor we will obtain group auditor assurances 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: audits of group financial statements (including the work of component auditors).</li> </ul>

Nature of risk	Sources of assurance	Planned audit response
<p>As SRT is a significant component of the SRH group, representing over 90 per cent of annual group expenditure, these also represent significant risks of material misstatement for the SRH 2023/24 group financial statements.</p>		
<p><b>Other non-significant risks of material misstatement</b></p>		
<p><b>3. First time consolidation of the Caledonian Sleeper Limited (CSL) financial results within the SRH group statements</b></p> <p>Sleeper train services were brought into public ownership on 25 June 2023 and CSL was established to oversee the operation of the sleeper service. CSL is a subsidiary of SRH and its financial results will therefore require to be consolidated within SRH's group financial statements in the SRH 2023/24 Annual Report and Accounts.</p> <p>The classification of CSL has not yet been confirmed by the Office of National Statistics (ONS) but we expect ONS to confirm CSL's status as a Non-Departmental Public Body (NDPB). We also expect the Accounts Direction will reflect this classification and require CSL to produce accounts in accordance with the Government Financial Reporting Manual (FReM). This should reduce the number of consolidation adjustments required to the financial results of CSL to align its accounting policies with SRH for the preparation of the SRH group statements. However, there remains a risk that the</p>	<ul style="list-style-type: none"> <li>• It is expected that CSL's Accounts Direction will require it to comply with the FReM which will reduce the number of consolidation adjustments required to the financial results of CSL to align its accounting policies with SRH for the preparation of the SRH group statements.</li> <li>• Discussions between SRH and CSL will identify any areas of significant divergence in accounting policies that will require adjustments to be made to the CSL financial results as part of the consolidation process.</li> <li>• Processing consolidation adjustments is an expected part of the group statements preparation process and officers already have experience of consolidating the SRH financial results in the prior year.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of CSL's ONS classification and Accounts Direction.</li> <li>• Review of completeness of consolidation adjustments and group disclosures, including the disclosures within the Annual Report.</li> <li>• Testing of key accounting consolidation adjustments.</li> </ul>



Nature of risk	Sources of assurance	Planned audit response
information required to consolidate CSL and prepare FReM compliant group accounts may be incomplete or unavailable.	<ul style="list-style-type: none"> <li>• Intercompany transactions between SRH and CSL relate primarily to train operator funding payments which are easy to identify and eliminate upon consolidation.</li> </ul>	

Source: Audit Scotland

## Consideration of the risk of material misstatement due to fraud in the recognition of revenue or expenditure

**17.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**18.** We have rebutted this risk for the SRH single entity accounts as its only source of income is Scottish Government funding which can be easily verified. However, the risk of fraud in the recognition of revenue has been identified as a significant risk of material misstatement by the external auditors of SRT (see risk 2 in [Exhibit 2](#) above). As SRT is a significant component of the SRH group, representing over 90 per cent of annual group expenditure, this also represents a significant risk of material misstatement for the SRH 2023/24 group financial statements. We will obtain group auditor assurances in accordance with ISA (UK) 600 in respect of this risk.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**20.** We have rebutted the risk of material misstatement due to fraud related to expenditure recognition for both the SRH single entity accounts and the SRH group financial statements, with the exception of management override of controls, as detailed at point 1 in [Exhibit 2](#) above. This assessment is on the basis that:

- 99 per cent of SRH's single entity expenditure relates to grant payments to subsidiaries where the funding is received by SRH from the Scottish Government (via Transport Scotland) and passed on to the train operators. Almost all of the remaining 1 per cent relates to staff costs which is well controlled and easily verifiable to information from the payroll

system. This spend is predictable and regular during the year and not considered to be an area of significant risk of misstatement.

- Over 90 per cent of the group expenditure is by SRT and the majority of this relates to low risk areas (including Network Rail access payments, Fixed Track Access Charges, depreciation and staff costs) and is not considered to represent a significant risk of misstatement.

**21.** We have not, therefore, incorporated specific work into our audit plan, over and above our standard audit procedures, in respect of the risk of material misstatement due to fraud related to expenditure recognition.

## Regularity

**22.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

**23.** We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

## Audit of Performance Report, Governance Statement, and the audited part of the Remuneration and Staff Report

**24.** In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and the audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks, and are consistent with the financial statements.

**25.** To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

**26.** For the 2023/24 audit we have identified the following risks in relation to these statements:

- The Remuneration and Staff Report is required to disclose pension information for members of the SRH Board and the Senior Management Team. However, these disclosures were not complete in 2022/23 as pension information had not been obtained for all officers on the SMT. There is a risk that similar issues are encountered for the 2023/24 Annual Report.
- The Performance Report is required to provide a clear and transparent summary of the performance of the organisation during 2023/24. For SRH this should also cover the performance of the group and include high level performance data for SRT and CSL. There is a risk that this information is not available.

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# Wider Scope and Best Value

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**27.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**28.** In summary, the four wider scope areas are:

- **Financial management** means having sound budgetary processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability:** We will consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years) in our Annual Audit Report.
- **Vision, leadership, and governance:** We will conclude on the arrangements in place to deliver a clear vision, strategy, and priorities for SRH. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** We will consider how SRH demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

**29.** Our planned work on our wider scope responsibilities is risk based and proportionate. Our prior year audit identified a number of wider scope issues for SRH that continue to present risks for the 2023/24 audit as detailed below. A further local risk has also been identified this year which relates to changes in the Senior Management Team as detailed at paragraphs [37.](#) to [40.](#)

### Barriers to SRH operating effectively

**30.** Scottish Rail Holdings Limited is an organisation controlled by Scottish Ministers that was set up with the express purpose of overseeing the governance of train operating companies under Section 30 of the Railways Act 1993. However, a number of barriers are currently preventing SRH from operating effectively, including:

- The lack of clarity over the role of SRH in setting strategic policy for Scotland's rail services.
- The lack of a strategic plan providing a clear strategy for overseeing the delivery of rail services in Scotland.

- Staff capacity issues impacting on SRH's ability to review performance arrangements and provide effective financial and performance oversight of the delivery of rail services provided by SRT and CSL.

**31.** Management is continuing to engage with Transport Scotland and work to progress these issues and we will review and report on this progress as part of our 2023/24 annual audit.

### **Establishment of effective governance arrangements**

**32.** The importance of SRH establishing effective governance arrangements, including key policies and procedures and appropriate internal audit provision, was raised as a risk in 2022/23 and remains a risk for 2023/24. As reported in our 2022/23 Annual Audit Report, arrangements to support good governance have still to be fully established.

**33.** The General Counsel and Company Secretary is currently conducting a review of the governance requirements of the organisation which includes the level of internal audit coverage required. This review is still to be concluded but has identified the need for a dedicated SRH Internal Audit and Risk Manager. Recruitment for this post will be subject to approval from Transport Scotland as SRH's sponsor body.

**34.** The results of the review and the related recommendations will be reported in summer / autumn 2024. We will report on the outcome of the review in our 2023/24 Annual Audit Report.

### **Duty of Best Value**

**35.** [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 have been made to secure Best Value. We highlighted in our 2022/23 Annual Audit Report that given SRH's unique role in overseeing the delivery of rail services in Scotland, the Chief Executive, as Accountable Officer, should establish how he can demonstrate that SRH is securing best value in the delivery of these services.

**36.** The SRH strategic plan that is being developed will include measures to demonstrate the value being delivered by the group and its components. We will review the new strategic plan as part of our 2023/24 annual audit and assess whether it provides an appropriate framework to secure best value in the delivery of rail services in Scotland.

### **Changes in Senior Management Team**

**37.** This wider scope risk links to the wider staff capacity issue noted at paragraph [30](#). Above, but relates specifically to the strategic leadership and management capacity of the organisation.

**38.** In December 2021, SRH appointed a Finance Director who was responsible for overseeing all aspects of the finances of SRH and the financial aspects of SRH's oversight of SRT. In December 2022, the Finance Director was appointed as interim Chief Executive of SRH following the resignation of the previous incumbent. A new Finance Director has not yet been appointed.

**39.** The interim Chief Executive has tendered his resignation and will be leaving SRH in June 2024. Therefore, SRH will need to recruit for both a new Chief Executive and Director of Finance in 2024/25. In addition, the General Counsel and Company Secretary will also be leaving the organisation during 2024 and SRH will also need to recruit a replacement for this post early in 2024/25.

**40.** These changes in the SRH Senior Management Team present a risk to the strategic leadership and strategic direction of the organisation. They also create management capacity challenges in the shorter-term. We will assess the impact of these key staff changes as part of our 2023/24 audit and report our conclusions in our 2023/24 Annual Audit Report.

## **National risks**

**41.** Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider any new national risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**42.** Audit reporting is the visible output for the annual audit. This Annual Audit Plan and the outputs set out in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**43.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy prior to issue and publication of final reports.

**44.** We will provide an Independent Auditor's Report to Scottish Rail Holdings Limited, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will also provide SRH and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit, and our conclusions on wider scope areas.

## Exhibit 3 2023/24 Audit outputs



Audit Output	Target date	Board / Audit and Risk Committee Date
Annual Audit Plan	30 May 2024	To be agreed
Independent Auditor's Report	6 December 2024	To be agreed
Annual Audit Report	6 December 2024	To be agreed

Source: Audit Scotland

## Timetable

**45.** To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the accounts. [Exhibit 4](#) sets out a proposed timetable for the key stages in the annual audit process to enable certification of the 2023/24 annual report and accounts by our 6 December 2024 target date. Management has confirmed that the Annual Report and Accounts and working papers package will be provided for audit on 13 September 2024 but the other dates in [Exhibit 4](#), including the Audit and Risk Committee and Board meeting dates, are provisional dates which are still to be agreed.

## Exhibit 4 Proposed Annual Report and Accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited Annual Report and Accounts by those charged with governance	To be agreed
Latest submission date for unaudited Annual Report and Accounts with complete working papers package	13 September 2024
Latest date for final clearance meeting with Chief Executive and Financial Controller	14 November 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed independent auditor's report)	21 November 2024
Audit and Risk Committee meeting to consider proposed Annual Audit Report and audited Annual Report and Accounts	28 November 2024 (To be agreed)
Board meeting to approve and sign audited Annual Report and Accounts	5 December 2024 (To be agreed)
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	6 December 2024 (To be agreed)

Source: Audit Scotland

## Audit fee

**46.** 2022/23 was the first year of operation of SRH and, as detailed in our prior year Annual Audit Plan, we had no historic experience of auditing any similar organisation with a very significant subsidiary and outstanding key judgements over significant assets / liabilities, when setting the external audit fee level. However, based on our assessment of the potential resource inputs required to complete an ISA compliant financial statements audit and our wider code of audit practice responsibilities, we agreed a fee of £30,000 for the 2022/23 audit. This took into account the identified risks and the planned management assurances in place but we noted that we would review the audit fee level in 2023/24, on the basis of our experience of actual resources employed to complete the 2022/23 audit.

**47.** The actual cost of delivering the 2022/23 audit ended up being significantly higher than the agreed fee as the complexity of the audit judgements for year 1 required significant Audit Director and Senior Audit Manager input, and significant time was also spent agreeing the format, layout and extent of disclosures for the Annual Report in SRH's first set of accounts. We do not expect the same level of either senior staff input or changes to the Annual

Report for 2023/24. However, any savings we make will be partly offset by the additional work related to the consolidation of the Caledonian Sleeper Limited financial results for the first time this year, including engagement with the component auditor. Therefore, based on our best estimate of the actual work required to deliver the 2023/24 audit we have agreed a fee of £42,111, an increase of 40 per cent. SRH will receive a fee rebate of £111 in respect of unspent 2022/23 travel budgets. This can be offset against the 2023/24 audit fee meaning the net charge to SRH for the year will be £42,000.

**48.** In setting the fee, we have assumed that SRH will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the proposed timetable. The audit fee also reflects our assumption that there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned a supplementary fee may be levied.

**49.** As the consolidation of CSL for the first time means that 2023/24 will again not be a typical year we will review the fee level again for 2024/25 to establish what would be an appropriate audit fee level going forward.



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# Other matters

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## Internal audit

**50.** It is the responsibility of SRH to establish internal audit arrangements appropriate to its requirements. As detailed at paragraphs [32.](#) to [34.](#), during 2023/24 the single entity element of SRH has not had any internal audit input and management is considering SRH's internal audit requirements going forward.

**51.** SRT has established internal audit arrangements, which include revenue auditors, and an Audit Risk and Compliance Manager to oversee the delivery of the internal audit's annual plan of work. We don't plan to place formal reliance on this work for the SRH 2023/24 audit, but we will consider the findings of SRT's internal auditors as part of our wider code of audit practice responsibilities.

## External audit team

**52.** There is a change in the engagement lead for the Scottish Rail Holdings Limited audit this year as Brian Howarth, Audit Director, retired at the end of March 2024. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in central government, NHS and local government audits. The incoming and outgoing engagement leads held handover discussions on the SRH audit to ensure a smooth transition.

**53.** Richard Smith, Senior Audit Manager, will continue to lead and manage the external audit team on a day-to-day basis.

## Independence and objectivity

**54.** Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**55.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**56.** Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Rail Holdings Limited.

## Audit Quality

**57.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**58.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 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. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

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

**60.** 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 regularly monitored by Audit Scotland's Quality and Ethics Committee.

**61.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

# Scottish Rail Holdings Limited

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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