

Scottish Rail Holdings Limited

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Rail Holdings Limited

25 May 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Rail Holdings Limited (SRH). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 annual report and accounts to support our opinions on the financial statements
- an audit of regularity and other statutory information published within the 2022/23 annual report and accounts, including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report
- consideration of arrangements in relation to 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

Audit Appointment

2. We are pleased to be appointed as the external auditor of SRH for the period 2022/23 to 2026/27 inclusive. [Appendix 1](#) sets out the core members of the new external audit team along with a summary of their previous experience.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. We keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work that emerge during the course of the year.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to SRH through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We will also attend meetings of the Audit and Risk Committee and actively participate in discussions relevant to the audit. In doing so we intend to help SRH promote improved standards of governance, management and decision making, and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and SRH. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

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

SRH responsibilities

9. SRH is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. 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 enable them to deliver their objectives.

11. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

12. 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 or board 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.

Financial statements audit planning

Audit of the financial statements

13. 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.

14. Our approach to the audit of the 2022/23 financial statements has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of SRH's finances for the year ended 31 March 2023, and have been properly prepared in accordance with International Financial Reporting Standards as interpreted and adapted by the Government Financial Reporting Manual (the FReM).

Materiality

15. 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 that 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 2022/23 audit

16. We assess materiality at different levels as detailed in [Exhibit 1](#) on page [6](#), along with the materiality levels set for the 2022/23 audit of SRH. As shown in [Exhibit 1](#), the SRH group materiality levels are significantly higher than the single entity material levels as the consolidation of the financial results of ScotRail Trains Limited (SRT) within the SRH group statements will represent over 99 per cent of the group's gross expenditure for 2022/23. Therefore, the consolidated group figures will be the primary focus of our audit of the SRH 2022/23 annual report and accounts, but we will also undertake proportionate audit testing of the single entity transactions and balances.

Exhibit 1

Materiality levels for the 2022/23 audit

Materiality	Amount
SRH group materiality levels	
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SRH's operations. Our overall materiality has been set at 2% of gross expenditure based on the SRH group projected expenditure for the year ended 31 March 2023.	£20 million
Performance materiality: 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 should be considered. Using our professional judgement, we have set performance materiality at 55% of the planning materiality level.	£11 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been capped at the maximum amount allowable under Audit Scotland's audit approach.	£0.25 million
SRH single entity materiality levels	
Planning materiality: A lower materiality has been set for the audit of the SRH single entity transactions and balances. This has been set at 2% of gross expenditure based on the SRH single entity expenditure for the year ended 31 March 2023.	£30,000
Performance materiality: Using our professional judgement, we have set the single entity performance materiality at 75% of the single entity planning materiality level.	£22,500
Reporting threshold: We believe £5,000 is an appropriate reporting threshold for any errors identified through our audit of the single entity transactions and balances.	£5,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

18. 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 has also informed by our discussions with management, meetings with the SRT component auditors, attendance at committees and review of other relevant information.

19. 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 these risks, the sources of assurance from management arrangements, and the further audit procedures we plan to perform to gain assurance over these risks.

Exhibit 2

Significant and non-significant risks of material misstatement for the 2022/23 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<p>1. First time production of Scottish Rail Holdings Limited annual report and accounts</p> <p>Scottish Rail Holdings Limited (SRH) was established on 1 April 2022 to oversee the operation of ScotRail services by its subsidiary: ScotRail Trains Limited (SRT).</p> <p>SRH has been established with the expectation that the Office for National Statistics (ONS) will confirm its status as a Non-Departmental Public Body (NDPB), and we expect the Accounts Direction will reflect this classification. This will determine the accounting framework to be applied to SRH.</p> <p>As an NDPB, SRH will be required to produce accounts in accordance with the Government Financial Reporting Manual: 2022-23 (FReM) for the year ended 31 March 2023 and follow the “NDPB Green illustrative statements”.</p> <p>This will include group statements that consolidate the financial results of SRT. SRT intends to produce 2022/23 accounts which will be</p>	<ul style="list-style-type: none"> • SRH management have identified the accounting framework to be used and assessed the key differences between FRS101 and FReM. • Key adjustments are an expected part of the consolidation process (for example Government income (SRT) translation into shareholder equity changes (SRH)). • Discussions between SRH and SRT have identified areas where alignment and adoption of FReM requirements might assist the preparation of SRH accounts (Disclosures and IFRS16). • Accounts directions are not expected to be changed to apply any change in ONS 	<ul style="list-style-type: none"> • Review of ONS classification and Accounts Directions. • Review accounts presented for audit against the requirements of the 2022/23 FReM to identify any material areas of non-compliance. • Confirm that Performance Report, Governance Statement, and 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. • Consideration of expected key accounting adjustments on consolidation including government income, IFRS 16 leasing, pensions, and treatment of grants. • Review of key judgements by management and of their disclosure in the accounts.

Nature of risk	Sources of assurance	Planned audit response
<p>prepared in accordance with the requirements of FRS101 – Reduced Disclosure Framework.</p> <p>The classification of SRT has not yet been confirmed by ONS but, we understand the Accounts Direction will confirm that FRS101 is the appropriate framework for 2022/23.</p> <p>SRH will need to make a number of consolidation adjustments to the SRT FRS101 disclosures to present the SRH group statements in compliance with the 2022/23 FReM requirements.</p> <p>There is a risk that the information required to prepare FReM compliant accounts may be incomplete, unavailable or require additional processes to ensure FReM compliance.</p> <p>There is also a risk that the ONS classification will change for SRT, based on the assessment of dependence on government funding.</p>	<p>classification retrospectively.</p>	

2. Application of ‘franchise period accounting exemption’

A key judgement for the preparation of SRH’s 2022/23 financial statements is whether SRT as the train operating company and SRH as the rail holding company, are permitted to limit their recognition of certain assets and liabilities to the franchise period. This issue is particularly relevant to the valuation of the IAS19 pension liability / asset and the liability for leased rolling stock.

There are a number of factors here, that might be considered relevant:

- the extent to which SRH exists as only a holding company and is an organisation aligned with the

- SRH are engaging with Transport Scotland and the Scottish Government on this issue and any potential budget implications.

- PWC, as SRT’s external auditors, are considering whether a ‘franchise period accounting exemption’ can be applied in SRT’s 2022/23 annual accounts.

- Consideration is being given to the length of the franchise period that will be used to determine liabilities

- We will review SRH management’s assessment of this key judgement and estimate over the use of a rail franchise exemption and the length of time that the franchise is expected to operate.

- We will discuss this issue with the external auditors of Transport Scotland and SRT.

- We will consult our technical services team on the appropriate accounting treatment.

- We will review and test the accuracy and completeness of any disclosures and amounts in the accounts.

Nature of risk	Sources of assurance	Planned audit response
<p>franchise operator appointment period of SRT,</p> <ul style="list-style-type: none"> the existing practices in DfT OLR Holdings Limited and any differences or similarity with SRH. <p>If a 'franchise period accounting exemption' can be applied then SRT and SRH will also need to make a further judgement as to the appropriate period to use as the franchise period.</p> <p>These issues also highlight the need for a wider review of the accounting for the IAS19 and rolling stock liabilities within Scotland. With franchise operations now being delivered by the public sector, it seems appropriate that these long-term liabilities are recognised for the first time within the Scottish public sector accounts of either SRH, Transport Scotland or the Scottish Government.</p>		
<p>3. Risk of material misstatement due to fraud caused by management override of controls</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"> 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 SRT external audit.

Nature of risk	Sources of assurance	Planned audit response
<p>4. Introduction of IFRS 16 – lease accounting</p> <p>International Financial Reporting Standard 16 - Leases is effective for accounting periods starting from 1 April 2022.</p> <p>Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>As noted above, there is a key judgement to be made on the use of any franchise period accounting exemption for SRT and SRH and consideration of whether the full IFRS 16 liability / asset will be accounted for in Scottish public sector accounts.</p> <p>There is a risk that SRH's group statements do not accurately reflect the impact of the new IFRS 16 accounting arrangements.</p>	<ul style="list-style-type: none"> • All lease agreements being reviewed against new IFRS 16 requirements. • Impact of new IFRS 16 accounting requirements will be accurately reflected in the 2022/23 Annual Report and Accounts. • The SRT accounts will extend FRS 101 requirements and include IFRS 16 lease obligations and assets. 	<ul style="list-style-type: none"> • We will review SRH management's assessment of this key judgement and estimate over the use of a rail franchise exemption and the length of time that the franchise is expected to operate. • Obtain assurances from the external auditor of SRT. • Examine and test any consolidation adjustments by SRH. • Review list of leases to assess for completeness. • Sample testing of lease agreements to ensure they have been correctly assessed and accounted for in the 2022/23 financial statements.
<p>5. Significant risks of material misstatement in component bodies</p> <p>PWC, as the appointed external auditors of SRT, has identified the following significant risks of material misstatement for SRT's 2022/23 financial statements:</p> <ul style="list-style-type: none"> • Management override of controls • Revenue recognition • Pension assumptions • Service agreement length assumption • Going concern <p>As SRT is the major component of the SRH group these also represent significant risks of material misstatement for the SRH 2022/23 group financial statements.</p>	<ul style="list-style-type: none"> • PWC has designed audit procedures to address each of these risks in the audit of SRT. 	<ul style="list-style-type: none"> • Group auditor assurances will be obtained from PWC 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).

Nature of risk	Sources of assurance	Planned audit response
Other non-significant risks of material misstatement		
<p>6. Estimation in the valuation of pension assets and liabilities</p> <p>Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates).</p> <p>As noted above, there is a key judgement to be made on the use of any franchise period accounting exemption for SRT and SRH and consideration of whether the full IAS19 liability / asset will be accounted for in Scottish public sector accounts. This might require a separate IAS 19 actuarial report.</p> <p>It is also possible that any valuation might result in a net pensions asset and further consideration may need to be given to obtaining an actuary's report on the extent that any pensions assets should be limited by IFRIC 14.</p>	<ul style="list-style-type: none"> • Key judgement on the application of any franchise period accounting exemption in SRH is being considered. • Use of professional actuaries appointed by the Rail Pension Fund to value pension adjustments required by IAS19/ IFRIC 14. • Actuarial valuations are reviewed by qualified finance staff in SRT for reasonableness including confirmation of the accuracy of the source data used to produce them. 	<p>Where the IAS19 valuation for SRH is assessed on the same basis as SRT:</p> <ul style="list-style-type: none"> • We will review SRH management's assessment of this key judgement and estimate over the use of a rail franchise exemption and the length of time that the franchise is expected to operate. • Obtain assurances from PWC, as the appointed external auditors of SRT. <p>Where the IAS19 valuation for SRH is assessed differently from SRT:</p> <ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. • Review the appropriateness of actuarial assumptions and results including comparison with other relevant bodies and the pension fund as a whole. • Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary.

Source: Audit Scotland

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

20. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, 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.

21. 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 5 in [Exhibit 2](#) above). As SRT is the major component of the SRH group this also represents a significant risk of material misstatement for the SRH 2022/23 group financial statements. We will obtain group auditor assurances in accordance with ISA600 in respect of this risk.

22. 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.

23. 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 3 in [Exhibit 2](#) above. This assessment is on the basis that:

- The majority of expenditure for SRH is on staff costs which is predictable and regular during the year and is not considered to be an area of significant risk of misstatement. It is also readily verifiable to information from the payroll system.
- The majority of the group expenditure is by SRT and 80 per cent of expenditure 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.

24. 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.

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

25. 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 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.

26. 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.

27. We have not identified any specific risks in relation to these statements, over and above those at point 3 in [Exhibit 2](#) relating to the first time production of Scottish Rail Holdings Limited annual report and accounts.

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound financial control processes. We will consider the arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2022/23 financial position and sustainability in our Annual Audit Report.
- **Vision, leadership and governance** – we will conclude on the arrangements in place to deliver the vision, strategy and priorities of SRH. We also consider the effectiveness of the governance arrangements.
- **Use of resources to improve outcomes** – [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will establish whether arrangements are in place within SRH.

Wider scope risks

30. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified two wider scope audit risks for the 2022/23 audit of SRH as shown in [Exhibit 3](#) on page [14](#).

Exhibit 3**Wider scope risks for 2022/23 audit**

Description of risk	Sources of assurance	Planned audit response
<p>1. Establishment of effectiveness governance arrangements</p> <p>Scottish Rail Holdings Limited was established on 1 April 2022 to oversee the operation of ScotRail services by ScotRail Trains Limited.</p> <p>There is a risk that effectiveness governance arrangements are not put in place to support SRH in undertaking its duties.</p>	<ul style="list-style-type: none"> • During the course of 2022/23 management has put governance arrangements in place to support SRH in undertaking its core duties, including the establishment of a Board and Audit and Risk Committee. • The Audit and Risk Committee are considering the arrangements for SRH. • Further arrangements will be developed during 2023/24 to support good governance. 	<ul style="list-style-type: none"> • We will review the operation and effectiveness of the Board, and Audit and Risk Committee, in supporting SRH in undertaking its core duties. • We will assess the overall effectiveness of the governance arrangements in place, including areas where existing arrangements could be strengthened.
<p>2. Compliance with requirements of ScotRail grant agreement</p> <p>The tripartite ScotRail grant agreement between Scottish Ministers, SRH and SRT sets out the conditions of the new franchise arrangements. These include a range of strategies and policies listed in Schedule 13.1 of the agreement that SRT are expected to submit to SRH for approval by key dates during the first year of it operating the ScotRail service.</p> <p>SRH and SRT accept that not all these requirements have been met by the dates set out in the grant agreement.</p>	<ul style="list-style-type: none"> • SRH and SRT are in discussion to agree a realistic timetable to have arrangements in place to satisfy all the conditions of the ScotRail grant agreement. 	<ul style="list-style-type: none"> • We will review the extent of non-compliance with the conditions of the ScotRail grant agreement and report on any areas that could have a significant impact on the operation of the franchise.

Source: Audit Scotland

Climate Change

31. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

32. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will establish whether SRH has a role in determining climate change policy and strategy and gather information on the arrangements for Scotland's rail services, including the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Audit reporting is the visible output for the annual audit. This Annual Audit Plan and the outputs set out in [Exhibit 4](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

34. 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 the issue and publication of final reports.

35. We will provide an independent auditor's report (audit certificate) to SRH, 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 report on the audit containing observations, conclusions and recommendations on significant matters which have arisen during the audit.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Board / Audit and Risk Committee date
Annual Audit Plan	30 May 2023	25 May 2023
Proposed Independent Auditor's Report	To be agreed	To be agreed
Proposed Annual Audit Report	To be agreed	To be agreed



Source: Audit Scotland

Timetable

36. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the accounts. [Exhibit 5](#) sets out the key stages in the annual audit process but the dates for each stage are still to be agreed. Management has advised that it should be in a position to provide the date for the provision of the unaudited annual report and accounts by the end of May 2023. Once this date is confirmed we will agree the rest of the timetable for the 2022/23 audit.

Exhibit 5

Annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of unaudited annual report and accounts with complete working papers package	To be agreed
Latest date for final clearance meeting with Chief Executive and Financial Controller	To be agreed
Agreement of audited annual report and accounts for consideration by Audit and Risk Committee / Board	To be agreed
Issue of Proposed Annual Audit Report to those charged with governance (along with Letter of Representation and proposed independent auditor's report)	To be agreed
Audit and Risk Committee meeting to consider Proposed Annual Audit Report and audited annual report and accounts	To be agreed
Board meeting to approve and sign audited annual report and accounts	To be agreed
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	To be agreed

Source: Audit Scotland

37. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

38. 2022/23 is the first year of operation of SRH and therefore we have no historic experience of auditing any similar organisation with a very significant subsidiary and outstanding key judgements over significant assets / liabilities. 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 have agreed a fee of £30,000 for the 2022/23 audit. This takes into account the identified risks and the planned management assurances in place.

39. We will review the audit fee level in 2023/24, on the basis of our experience of actual resources employed to complete the 2022/23 audit.

Other matters

Internal audit

40. It is the responsibility of SRH to establish internal audit arrangements appropriate to its requirements. During 2022/23, the single entity element of SRH has not had any internal audit input and management are considering SRH's requirements for internal audit input going forward.

41. SRT has established internal audit arrangements, which includes revenue auditors, and appointed an Audit Risk and Compliance Manager to oversee the delivery of the internal audit function's annual plan of work. We don't plan to place formal reliance on this work for the SRH 2022/23 audit, but will consider the findings of SRT's internal auditors as part of our wider code of audit practice responsibilities.

Independence and objectivity

42. 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.

43. 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.

44. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for SRH is Brian Howarth, Audit Director. We are not aware of any such relationships pertaining to the audit of SRH.

Audit Quality

45. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

46. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the

2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

47. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) has been commissioned to carry out external quality reviews.

48. 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.

Appendix 1. External audit team

49. The audit team involved in the audit of SRH has significant experience in public sector audit as detailed below.



Brian Howarth, Audit Director

Brian is the appointed auditor for a portfolio of central government, health, pension funds and local government bodies, including three Scottish Councils. The current portfolio includes Scottish Rail Holdings, Scottish Canals and the Crown Office and Procurator Fiscal. He is a member of the Chartered Institute of Management Accountants and has over 30 years experience of public sector audit with Audit Scotland and was the appointed auditor for Transport Scotland between 2011/12 and 2015/16.



Richard Smith, Senior Audit Manager

Richard is the Senior Audit Manager for the Scottish Rail Holdings audit. He is a member of the Chartered Institute of Public Finance Accountants and has over 20 years experience of public sector audit with Audit Scotland covering central government, health and local government audits. This has included involvement in a range of central government audits including Transport Scotland, Education Scotland, Scottish Canals and the Scottish Criminal Cases Review Commission.



Lauryn Graham, Qualified Auditor

Lauryn joined Audit Scotland's Professional Trainee scheme as a school leaver in 2017 and has recently qualified as a member of the Institute of Chartered Accountants of Scotland (ICAS). During 2021/22 she worked on the NHS Fife, Fife Council, and Fife Pension Fund audits. Prior to this she worked on a number of central government audits including the Scottish Government audit.

50. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Rail Holdings Limited

Annual Audit Plan 2022/23

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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk