

# Audit and risk committee report



I'm pleased to present the report into the key activities undertaken during 2024/25. The committee oversaw audit, assurance, and risk management processes, monitored financial statement integrity, and reviewed internal controls. The focus was on understanding business risks, their likelihood and ensuring effective mitigations and controls to provide assurance to the Board.

The committee met five times during 2024/25. Members collectively have a broad range of finance, commercial, transport, rail and public sector expertise that enables them to provide effective oversight of financial, operational and risk matters and to advise the Board accordingly. All members of the committee are independent non-executive directors, and the chair has recent and relevant financial experience.

During 2024/25, the committee further strengthened the breadth and depth of skills and experience with the co-option of Dr Ilona Blue as an independent external advisor (see page 122 for her biography). Carolyn Battersby was an observer at meetings from September 2024 until her formal appointment as a member in November 2024 (see page 115 for her biography). The committee thanks Michael Harrison and Rob Brighthouse for their service.

**Mark Bayley CBE**  
Chair, audit and risk committee  
18 July 2025

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## Committee attendees

The chief financial officer, director of risk and internal audit, and the group general counsel and company secretary attend meetings of the committee by invitation. Representatives from the National Audit Office (NAO) also attend each meeting. Time is set aside for the representatives

from the NAO and the director of risk and internal audit to meet with committee members without executive management present. Ismail Amla attends the meeting by invitation when matters related to cyber security are discussed.

Audit and risk committee members may also attend specific items on other committees. For example,

members attended the environmental sustainability committee's item on sustainability, weather resilience and climate risk.

## Role and responsibilities of the committee

The committee assists the Board with meeting its responsibilities for the integrity of the financial reporting of the company, major subsidiary undertakings and the group as a whole. We review the effectiveness of the internal control and risk management systems and assess the effectiveness of internal and external auditors. We also assist management in discharging their responsibilities and the responsibilities of the accounting officer.

Following each meeting, the chair provides oral and written summaries of the committee's activities, main discussion points and findings to the next Board meeting.

## Principal activities during the year

Presentations were received from four regional managing directors on the key risks affecting their business plans. Updates were provided on cyber security, capital delivery risk, winter power disruption, weather resilience and climate change, the counter-fraud programme, train service delivery, whistleblowing and the Code of Business Ethics and inflation risks.

At each meeting the committee receives business updates from Group Finance, Internal Audit, Group Risk, and the independent external auditor. In addition to regular updates, the committee considers the emerging and principal risks facing the business and whether appropriate policies and controls are in place for the detection and mitigation of these risks. The committee elevates matters to the Board where necessary. Further information on principal risks is on pages 98 to 103.

## Areas discussed by the committee in the year

With the support of the NAO, the committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and whether disclosures were balanced and fair. The main areas of focus during 2024/25 set on the next page.

The committee conducts an annual evaluation of its effectiveness, details of which are provided below.

In the 2024/25 financial year, the committee:

- Reviewed and challenged how principal risks were reported, resulting in a shift to applying a qualitative test aligned with both the intent and spirit of the company's risk appetite statements. Previously only a numerical threshold of risk score as a proxy of inside or outside risk appetite was applied.
- Considered the Network Rail internal audit charter, updated to reflect changes in the Global Standards for Internal Audit, guidance for worldwide professional practice of internal auditing issued by the Institute of Internal Auditors on 7 May 2024.
- Provided oversight of the risk management and internal controls systems and internal audit, monitoring the integrity of the financial statements including the interim statements, and reviewing the external audit process.
- Adapted the structure and focus of meetings to reflect the current risk landscape, including inflation, macroeconomic and geopolitical uncertainties, national politics and governance, future risks from industrial action, recovery of passenger numbers, climate change and environment and sustainability, industry reform, the advent of CP7 and other key challenges facing the organisation and wider industry.
- Provided oversight of the risks specific to each region and continued monitoring of their governance, risk, assurance and improvement activity; assurance of the capital delivery programme; and assurance of cyber security risk management.

## Fair, balanced and understandable

Following a review, the committee confirmed that the annual report and financial statements for 2024/25 presents a fair, balanced and understandable overview and provides the information necessary to assess the company's position, performance, business model, and strategy. The committee therefore proposed the document for approval to the Board.

Accounting judgments	How the committee addressed those judgements
Valuation of rail network and compliance with regulatory requirements	The committee reviewed reports from management on the key estimates and the methodology applied to the revaluation model. The committee also reviewed the work of management and findings of the external auditor in respect of the reasonableness of key judgements and estimates of the forecast for CP7, impact of inflation and appropriateness of the associated disclosures in the financial statements. After this review, the committee confirmed the valuation derived from the estimates, key judgments and valuation methodology.
Capital accruals	The additions to property, plant, and equipment are valued at an estimate of the cost of work done (COWD) in the year to 31 March 2025. To the extent that the COWD is greater than the invoiced amount, fixed asset accruals are recognised based on expected amounts required to settle contractual obligations. To value the COWD on capital projects appropriately, commercial managers with the appropriate level of experience assess the progress to completion of the project at the expected cost. Reports on management's approach to measuring cost of work done were reviewed alongside details of internal validation and the external auditor's report on sample testing.
Deferred tax	Following a challenge raised by the National Audit Office (NAO), the committee discussed whether to recognise a deferred tax asset despite the committee not being satisfied that the asset could be exchanged for economic benefits. The committee asked the Chief Financial Officer and the Group Finance Director to resolve the recognition criteria for the deferred tax asset with the NAO. The Chief Financial Officer and the Group Finance Director concluded that the recognition of a deferred tax liability satisfies the probability threshold required for recognising a deferred tax asset in respect of unused tax losses. While the Chief Financial Officer and the Group Finance Director acknowledged that this accounting treatment aligned with how interpretation of IAS 12 (Income Taxes) has evolved, they expressed concern that the outcome does not accurately reflect the economic substance of Network Rail. Nonetheless, in accordance with IAS 12, the asset has been recognised for unused tax losses.
Pension assumptions	The group operates defined benefit and defined contribution pension schemes. Valuation of the defined benefit schemes is dependent on certain key assumptions and complex actuarial calculations. The committee discussed the key assumptions, including the degree to which these were supported by professional advice from the actuaries. The independent auditor also focussed attention on this area and provided reporting to the committee on this matter. The committee considered the valuation of the scheme assets, noting the estimation uncertainty associated with level 3 assets such as private equity holdings. This included a consideration of the work of management and the auditor to take account of movements to the year end, and the focussed work of the auditor in respect of higher risk assets. The committee considered the accounting treatment of the surplus and was satisfied that it was appropriate to recognise a pension asset.
Revenue recognition-network grants	Network Rail receives revenue grant from DfT and Transport Scotland in lieu of track access charges. Grants can be drawn down flexibly to meet our working capital requirements. To the extent that they are drawn down in advance of expenditure, to meet temporary working capital requirements, they are then deferred until that expenditure is incurred. The deferred income is then released to profit/loss as the related expenditure is incurred. Grants drawn down to meet working capital movements that are not considered to be temporary in nature are recognised in revenue.

Accounting judgments	How the committee addressed those judgements
Valuation of investment properties	Investment properties are stated at fair value. The valuations are based on assumptions and estimates that require judgement. The committee agreed that appropriate methodology had been used. The methodology was consistent with prior years and included valuations and additional assistance from external valuation specialists. The valuations were reviewed by management and the external valuation specialists.

Risk of management override of internal controls was also considered by the committee. The independent auditor focussed attention on this area and provided satisfactory reporting to the committee.

The committee is required to review any correspondence received from regulators in respect of financial reporting. No correspondence has been received from the Financial Reporting Council (FRC) or ORR in relation to Network Rail's financial reporting during the 2024/25 financial year.

## Committee performance

The committee participated in the independent performance review conducted by Independent Audit as described on page 127. The review concluded that the committee operated effectively, and no further changes were proposed.

## The approach taken to the appointment of external auditor

The Comptroller and Auditor General (C&AG), supported by the NAO, was appointed as Network Rail's independent auditor in 2015. In addition to providing an opinion on the group accounts, the C&AG also audits the individual accounts of Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Limited and Great British Railways Transition Team Limited (the companies).

The obligation to appoint the C&AG as Network Rail's independent auditor is a direct result of the classification of Network Rail as an arm's-length government body and consistent with standard arrangements for other public sector bodies. Hence, the company is unable to comply with either the Competition and Markets Authority's Order or the UK Corporate Governance Code 2024 in respect of tendering prior to the appointment of an auditor. This will remain the company's position for the foreseeable future.

PwC LLP acted as the independent external auditors for the remaining subsidiaries in 2024/25.

## Objectivity and independence of the external auditor

The NAO is independent of Network Rail in accordance with the ethical requirements relevant to the audit of financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities. The committee has put in place safeguards to maintain the independent auditor's objectivity and independence. To enhance independence, and in line with established auditing standards, the senior statutory auditor of the independent auditor is regularly rotated, along with other key audit principals within that firm.

The committee has established a policy whereby employment of the independent auditor on work for the company is prohibited without prior approval by the committee, other than for audit services or tax compliance services. Such requests are unlikely as the NAO does not offer non-audit services. The NAO does carry out value for money assessments for Network Rail, but this does not represent a service to Network Rail as it is performed under statute and on behalf of Parliament.

In 2024/25 the fee for audit services was £731k (£729k in 2023/24). This includes the NAO's cost of auditing Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Limited, Great British Railways Transition Team Limited, the regulatory accounts and review of interim financial statements of Network Rail Limited and Network Rail Infrastructure Finance plc. It excludes the cost of the audit of some smaller subsidiaries which are audited by PwC.

The fee paid to PwC for auditing the smaller subsidiaries was circa £274k in 2024/25 (£270k in 2023/24).

## Effectiveness of the external auditor

A review of the independent auditor's performance and effectiveness is undertaken as part of the overall effectiveness review of the auditing process. Following the conclusion of the 2024/25 reporting cycle, the auditing process was assessed. The independent auditor was also invited to comment on what worked well and where improvements could be made. The committee was satisfied that the independent auditor was fully effective and performed as expected in discharging its duties and obligations.

## Evaluating the effectiveness of internal control and risk management systems

The committee regularly reviews the risk profile, including the rationale for movements in the group risk profile, and reviews and approves any changes to the enterprise risk management framework. During 2024/25 the committee reviewed Network Rail's risk appetite statement to ensure it remained appropriate to deliver the company's strategy. The committee was satisfied that a robust risk process was in place to manage and mitigate risks with appropriate plans and monitoring. Where risks have been identified, appropriate actions are being taken to manage the impact on the organisation and our customers. The committee had oversight of the process and assessment of the group's prospects to carry on its business under severe but plausible scenarios undertaken in support of the viability statement. Further details of the analysis/scenario testing for the viability statement can be found on pages 104 to 106.

## Internal audit

The committee approved the annual internal audit plan and reviewed it through the year, ensuring alignment with the group's strategic priorities and key risks. Safety, health and environmental compliance elements of the audit plan were approved by the safety, health and environmental compliance committee. Throughout 2024/25, the director of risk and internal audit provided regular

updates on changes to the plan, notable audits, overdue actions and emerging themes. The audit programme was reviewed and adjusted as needed to reflect Network Rail's risk profile, maintaining an appropriate level of assurance. The committee endorsed the internal audit charter, which defines internal audit's purpose, authority, responsibility, and position within the company. During year, the charter was updated to reflect the 2024 changes to global internal audit standards.

In addition to delivering formal risk-based audits, independent advisory reviews were conducted to respond to emerging risks and issues. These reviews included train performance analysis capability, national road fleet transformation programme and improvement programme assurance.

Internal Audit continues to apply a root cause framework to identify recurring themes and areas, for improvement for consideration by the committee. Over the last year, the leading root cause themes have included:

- **Process and procedures:** audits found opportunities to strengthen key processes for consistency and effectiveness. Enhancements were recommended in risk management for capital investment delivery, reporting of environment & sustainability metrics and the prioritisation procedure for workforce safety improvement plans.
- **Governance:** while governance structures were generally found to be in place, our audits identified opportunities to improve their application in crime prevention and management, the Old Oak Common project, TransPennine Route Upgrade, and national road fleet transformation programme.
- **Systems:** audits highlighted opportunities to enhance the management of systems, with recommendations raised for cyber security monitoring, railway crime data collection, and train performance analysis.

Where areas for improvement have been identified through audit activity, these are actively managed, and the improvements closely monitored by the committee.

## Risk management and internal controls

The Board has ultimate responsibility for Network Rail's risk management and internal controls but it delegates oversight to the committee which reports its



findings and makes recommendations to the Board. This covers all material controls (financial, operational, and compliance) and the risk management framework. Risk management systems and internal controls are designed to manage rather than eliminate risk and provide reasonable, but not absolute, assurance that the group's risks are being appropriately managed and mitigated. The delegated responsibilities for risk management and internal control are detailed in 'Role and responsibilities of the committee' on page 141.

The committee reviews the current status of existing risks and progress against agreed action plans to manage them. Detailed oversight of safety and weather-related risks, including physical security, is delegated from the Board to the safety, health and environmental compliance committee.

Network Rail's approach to risk identification and management, its risk appetite, and an assessment of its principal and emerging risks is provided on pages 98 to 103.

In addition to regular updates, the committee reviews the emerging and principal risks that require particular attention. During 2024/25, these included:

- supply chain risk
- capital investment delivery approach to risk and assurance activities
- the risk of the railway not meeting expected levels of train service delivery
- CP7 review
- progress with the governance, risk, assurance and improvement (GRAI) model and the improvements gained across the business

## Business ethics

Network Rail has an anti-bribery policy and anti-bribery management system. The ISO37001 standard we operate to provides external assurance that our control framework adheres to international best practice. As a large organisation which spends billions of pounds, we recognise that we are at risk of being offered bribes. To mitigate this there are a number of controls in place including: carrying out anti-fraud and anti-bribery risk assessments, providing good governance through our delegation of authority policy and having mandatory training so that our employees understand the law and ethical standards we expect. Additionally we have a Speak Out line which employees and third parties can use to report any concerns in this area.

The committee reviews and makes recommendations to the Board on the company's whistleblowing (Speak Out) procedures and arrangements for the independent investigation and follow-up of such matters. It discusses major findings of internal investigations and management's response to them.

The code of business ethics, policies and ethical decision-making tool are accessible on all company mobile devices via 'EthicsApp'. Periodic dashboards are also produced to monitor ethical performance across the organisation. These cover: e-learning, gifts, hospitality and conflicts of interest declarations and Speak Out cases.

The Speak Out policy which identifies the channels available for those wishing to raise concerns and how Network Rail endeavours to respond to investigating whistleblowing allegations, was also updated. More information on our whistleblowing policy and code of business ethics can be found on our website: [www.networkrail.co.uk/who-we-are/transparency-and-ethics/ethics/](http://www.networkrail.co.uk/who-we-are/transparency-and-ethics/ethics/)

## Planned activities for 2025/26

- review of the company's approach to material controls and alignment with the UK Corporate Governance Code 2024
- review of company's annual assurance questionnaire and process
- internal audit plan
- supply chain disruption and cyber security
- review of rail industry reform transition risks