Audit and risk committee report

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Chair, audit and risk committee
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I'm pleased to present the report into the key activities undertaken during 2025/26. On behalf of the Board the committee oversaw assurance and internal audit, risk management activity across the business and the integrity of its financial statements. It reviewed internal controls and developed the approach to the future Board assessment of material control effectiveness under Provision 29 of the UK Corporate Governance Code. The committee's focus was on understanding business risks, their likelihood, and testing with management that effective preventions, mitigations and controls were in place.

The committee met five times during 2025/26. 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.

Committee attendees

The committee is supported by regular attendance from key members of executive management including the chief financial officer, the group director of risk and internal audit, and the group general counsel and company secretary. Representatives from the National Audit Office (NAO) also attend each meeting. To preserve independence and encourage open dialogue, time is set aside at each meeting for the NAO representatives and the group director of risk and internal audit to meet privately with committee members, without executive management present.

In addition to its core attendees, the committee draws on a breadth of expertise throughout the year to strengthen its effectiveness. This includes input from an independent external adviser, contributions from other Board members where they bring relevant specialist knowledge, such as in cyber security, and engagement with external experts, including representatives from the National Cyber Security Centre. Committee members also attend discussions of other Board committees where there is overlap in subject matter; for example, members participated in the environment and sustainability committee's review on resilience and climate risk.

Role and responsibilities of the committee

The committee plays a central role in supporting the Board in fulfilling its responsibilities for the integrity of financial reporting across the Company, its major subsidiaries, and the Group as a whole. It provides independent oversight of the effectiveness of internal control and risk management systems, and evaluates the performance and independence of both internal and external audit functions. In doing so, it also supports management and the accounting officer in discharging their respective responsibilities.

Following each meeting, the Board receives a written summary of the committee's activities, key discussions, and principal findings.

Principal activities during the year

In 2025/26 the committee:
- maintained oversight of risk management and internal control systems, internal audit activity, the integrity of financial reporting (including interim statements), and the external audit process
- reviewed region-specific risks with presentations from three regional managing directors on the key risks influencing delivery of their business plans, and it continued to monitor governance, assurance, and improvement activity, including oversight of the capital delivery programme and cyber security risk management
- considered findings from the internal audit of CP7 regional capital delivery models, noting improvements in the consistency of risk management practices and strengthened commercial assurance
- reviewed the organisation's response to Provision 29 of the 2024 UK Corporate Governance Code, including piloting the annual management assurance exercise to support the Board's assessment of material control effectiveness
- monitored regulatory developments and management's response to emerging concerns
- completed its annual governance effectiveness review, identifying strengths and opportunities for further enhancement, including closer collaboration with the DfT Operator audit and risk committee during the transition to GBR.

In addition the committee undertook its routine governance responsibilities, including an annual review of the group's ethical framework including its Code of Business Ethics, and six-monthly reviews of counter-fraud activity and whistleblowing trends.

Fair, balanced and understandable

Following its review of the annual report and financial statements for 2025/26, the committee confirmed that they present a fair, balanced and understandable assessment of the company's position and performance, and provide the necessary information for stakeholders to evaluate its business and strategy. The committee therefore recommended the report to the Board for approval.

As to the financial statements the committee assessed the appropriateness of accounting policies, the reasonableness of key estimates and judgements, and the clarity and balance of disclosures.

Particular attention was given to the following areas of judgement:
- **valuation of the rail network:** The committee reviewed management's methodology and assumptions within the revaluation model, alongside the external auditor's independent assessment. It was satisfied that the resulting valuation was appropriate
- **capital accruals (COWD):** The committee examined management's approach to estimating the cost of work done, including internal validation processes and external audit testing, and concluded that the methodology was robust
- **deferred tax:** the committee reviewed and confirmed the treatment under IAS12 of recognising a deferred tax asset offsetting the Group's deferred tax liability.
- **pension assumptions:** Key actuarial assumptions and valuation methodologies were reviewed, with assurance taken from both management and the external auditor. The committee also reviewed asset valuation uncertainty and confirmed that recognition of a pension surplus was appropriate.
- **investment property valuation:** The committee concluded that fair value assessments were based on consistent and appropriate methodologies, supported by external valuation specialists.

The committee also considered the risk of management override of controls, including IT systems, and was satisfied, based on external audit findings, that controls were operating effectively.

External audit

The Comptroller and Auditor General (C&AG), supported by the NAO, continued as Network Rail's independent auditor, reflecting the organisation's status as a public sector body. While this precludes compliance with certain corporate governance provisions on audit tendering, the committee remains satisfied that appropriate safeguards are in place to protect auditor independence and objectivity.

Audit fees for NAO services totalled £759k in 2025/26, with a further £299k paid to PricewaterhouseCoopers (PwC) for the audit of smaller subsidiaries. Forvis Mazars (formerly Mazars) served as the auditor of Platform4 Rail Regeneration Limited, with audit fees of £407k incurred in the year.

Following its annual effectiveness review, the committee concluded that the external audit process had operated effectively and that the auditor had performed to the expected standard.

Risk management and internal controls

The committee reviewed and approved the Group's risk appetite statement and was satisfied that robust arrangements were in place to identify, monitor, and mitigate risk.

Key areas of focus during the year included risks associated with the transition to GBR, cyber security resilience, network resilience to power supply disruption, and capital delivery risk.

Internal audit

The committee approved and regularly reviewed the Internal Audit plan, ensuring alignment with strategic risks. It also endorsed the Internal Audit Charter, with minor updates to reflect organisational changes and reinforce independence.

Internal audit continued to deliver a combination of assurance and advisory work, with a growing focus on identifying root causes of control weaknesses. Key themes included opportunities to strengthen processes, governance, and alignment of incentives.

The committee monitored progress against audit actions closely, ensuring that identified improvements were implemented effectively.

Business ethics

The committee oversaw the company's ethical framework, including its ISO 37001-certified anti-bribery management system, whistleblowing arrangements, and Code of Business Ethics. Regular reporting provided insight into ethical performance, including training, declarations, and Speak Out activity.

The Speak Out policy was updated during the year, reinforcing the company's commitment to transparency and accountability.

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/**

Planned activities for 2026/27

Looking ahead, the committee will continue to focus on key strategic risks and governance priorities, including:

- ongoing oversight of risks associated with the transition to GBR
- review of cyber security risks, including those arising from artificial intelligence
- approval of the Internal Audit plan
- review of the annual assurance process to support the Board's statement on material controls in line with the 2024 UK Corporate Governance Code.