

Exhibit 2 – Audit Manager notes from meeting with Finance Director

Trains Pot Inc is one of the newer train service providers in operation and as such was only awarded a three year franchise to operate its routes, on the basis that if it delivered a timely service based on sound financial accountability that demonstrates good value for money to customers, it would be awarded a five year extension to the franchise. The existing franchise expires on 31 January 20X6.

The company operates out of a main depot and has access to the track operator's workshops via the terms of the franchise. Its main assets are the rolling stock of locomotives and carriages, most of which were obtained from the previous franchisee. These are currently carried at around \$48 million in the company's asset register.

Tickets for journeys are sold through ticket offices across the network and the income passed over on a weekly basis. Passengers can also book online via a national website run by a centralised agency. The agency boasts faster processing than any other provider, although its final certification by another assurance provider is still outstanding following its introduction at the start of the franchise. The industry's national regulator has introduced a new set of ticket types and tariffs designed to simplify the process of buying tickets which all franchisees were committed to implementing by 20X4. Trains Pot Inc has a charity initiative in place where for each \$10 of any ticket purchased, they will donate 1 cent to good causes.

All trains operate a team of employees on board, including a conductor who sells tickets on the train for passengers unable to acquire them before departure. Such tickets are usually sold without any of the discounts available for booking a number of days in advance. Around \$35 million of Trains Pot Inc's revenue comes from season tickets purchased in advance by regular commuters who can buy 3, 6 and 12 month tickets. Refreshments are available on all trains via trolleys, a buffet shop and the restaurant car – as with any ticket sales on board, they can be paid for by cash, cheque, credit or debit card. Inventories are currently stated at around \$1.5 million in the projected financial statements.

I asked about the general state of the company's finances and systems and was told that they are 'fine', although the company's Audit Committee has previously raised concerns about the Internal Audit function given its apparent '...revolving door...' staff turnover issues and whether or not they are on top of the regulator's stringent requirements for internal control reviews.

I also mentioned that I read in the press about an incident where one of the company's trains struck a maintenance crew in October 20X4, resulting in the deaths of four engineers. The Finance Director seemed angry about this, saying that '...the press are saying our driver was negligent...it's tragic, but the engineers did not let the national signal team know of their location, so there was no warning sign for the driver to respond to in time...I think they have it in for us because we are new to the market and are trying to do something good for the railways.'