

**High Speed Two (HS2) Ltd Audit and Risk Assurance Committee**  
**Meeting held on 12 July 2017**

**Minutes**  
**Room 6.1, 2 Snowhill, Queensway**

<b>Members</b>	<b>In Attendance</b>	<b>Apologies</b>
Neil Mason (Committee Chair) Non-executive Director	Steve Allen Chief Financial Officer	Nicole Geoghegan General Counsel and Company Secretary
Roger Mountford Non-executive Director	[REDACTED] Head of Financial Governance & Treasury	
Jo Valentine Non-executive Director	Stuart Curl (item 04) Finance Director	
	[REDACTED] Risk and Assurance Director	
	[REDACTED] National Audit Office	
	[REDACTED] Deputy Company Secretary	
	[REDACTED] National Audit Office	
	Gerry Skelton (item 04) HR Director	
	[REDACTED] Head of Assurance	
	Mark Thurston CEO	
	[REDACTED] Head of Internal Audit	

**1. WELCOME AND DECLARATION OF INTERESTS**

- 1.1 There were no declarations of interest other than those already recorded in the register.
- 1.2 The Committee Chair welcomed the members and attendees to the meeting and emphasised the importance of this forward looking meeting which would contribute to the paper to the HS2 Ltd Board on 03 August with an action plan and formal response to the 2016/2017 year end audits and Annual Report and Accounts.

**2. MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING**

- 2.1 The minutes of the meeting of 09 March 2017, 03 May 2017 and 23 June 2017 were agreed as a true record and signed by the Committee Chair.
- 2.2 The Committee noted the status of the actions and the following updates:
  - 2.2.1 17/50 – The Committee agreed that this action will remain open and is due to be closed out by the September Committee;
  - 2.2.2 17/66 – The Committee noted that there are five open audits awaiting management response. It was agreed that the latest update will be sent

to the Executive Committee with a view to a closed report by the September ARAC;

- 2.2.3 17/20 – It was agreed that this action will remain open and be reassigned by the Deputy Company Secretary ahead of the next meeting; and
- 2.2.4 Action 17/36 –The Committee agreed that this action should remain open but be assigned as a Board action.

### 3. RESPONSE TO THE MANAGEMENT ASSURANCE STATEMENT

- 3.1 This item was dealt with in item 04.

### 4. MANAGEMENT RESPONSE TO THE NAO ARA AUDIT

- 4.1 The Committee dealt with this section of the meeting in order to review the 2016/2017 internal audit, the National Audit Office audit and the Annual Report and Accounts.
- 4.2 The Committee received an update on the process for the Annual Report and Accounts (ARA) and closing out the process to lay these before Parliament.
- 4.3 At the time of reporting the timeline to lay the accounts to Parliament is 18 July 2017.
- 4.4 The Committee noted the circulation of the final report from the Comptroller and Auditor General.
- 4.5 The Committee received an update from the National Audit Office (NAO) who will publish their audit report together with a press release on laying of the accounts to Parliament.
- 4.6 **It was agreed that a copy of the NAO press release will be circulated to Committee members.**  

**Action: Steve Allen**
- 4.7 The Committee received a tabled outline of the conversation to be had and agreed that this was an accurate reflection of the issues outlined in audit findings.
- 4.8 The following key points were raised and noted as to the issues outlined by the audit, any immediate response, and the work in progress:
  - 4.8.1 **Redundancy schemes:** The Committee noted that there is a need for stability in the organisation which includes a review of the permanency of leadership roles to support any response to actions required;
  - 4.8.2 It was noted that there are a number of quick fixes which can be made in this area together with longer term solutions;
  - 4.8.3 The issue with regard to the redundancies was in part misalignment of permissions on the processes entered into. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4.8.5 An initial lessons learned has identified misunderstanding and interpretation of information over a period of time, due in part to changing personnel involved;

4.8.6 The Committee discussed the governance arrangements around the interim and ongoing solutions noting that the Remuneration Committee held on 05 July 2017 considered this matter with the DfT Observer present. The CEO is keeping the HS2 Ltd Board Chairman informed on matters;

4.8.7 The Committee discussed the possibility that the Remuneration Committee should have a formal role in this process, noting that this matter is in the meantime covered by the Framework Agreement;

4.8.8 The Framework Agreement was implemented in 2014 and has not been reviewed or updated since then and it is apparent that the awareness of content needs improvement;

4.8.9 **It was agreed that a timeline for the revision of the Framework Agreement should be developed and that part of this should include a review of what could be formally agreed/ reassigned as the Remuneration Committee remit.**

**Action: Steve Allen/ Nicole Geoghegan**

4.8.10 **The Committee noted the action to define “formality of process between DfT and Hs2, and within HS2” and agreed that this should be split out into two parts, so to define processes within Hs2 but also be aware of those processes within the DfT;**

**Action: Steve Allen**

4.8.11 The Committee discussed the actions which the DfT are going to undertake given that the lack of formality is across both HS2 Ltd and DfT The NAO advised that this will be a point of review for address;

4.8.12 The NAO enquired as to the level of change to the Framework Document advising that the requirement to managing public money will remain. Management are aligned to this. There have been agreed points where HS2 Ltd has departed from the Document. There is a statement of principle agreed with the DfT which will form the basis to update the Framework Document;

- 4.8.13 [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- 4.8.14 The Committee requested that the work to develop and increase awareness of the Framework Document is not treated as the solution to the redundancy issues identified. There are separate issues, being the management of public money and that of controls; and
- 4.8.15 The Committee noted the further initial response from Human Resources has been to formalise a single document repository and the appointment of a data controller for management of access and ownership of information.
- 4.8.16 ***Conflicts of interest and related party transactions:*** The Committee noted that there is an established conflict of interest (COI) panel chaired by the General Counsel of HS2 Ltd;
- 4.8.17 The Committee referenced that with regard to a potential conflict over a procurement issue, the processes of the panel proved robust;
- 4.8.18 Management acknowledge that there is work to be done to increase the flow of information between Company Secretariat and the Finance Department on related party transactions and that there will be development of this;
- 4.8.19 Management will also implement a 'positive checkpoint' with regard to conflict of interest, as part of lessons learned.
- 4.8.20 The Committee commented that as a generalisation in the public sector, conflicts of interest is an area of uncertainty. Management advised that the approach will be to share as much information as possible across all interested parties for future procurements and works.
- 4.8.21 ***Loan to National College of High Speed Rail:*** The Committee noted the ongoing work to agree loan terms with the National College in line with the instruction from the DfT.
- 4.8.22 ***Controls environment – Accounts Payable:*** The Committee noted that the interim finance director is leading on work to: review the controls process with the finance team and input from [REDACTED] assess the appropriateness of the controls in place and how well these are understood by internal and the supply chain, with development of how these controls are enforced;
- 4.8.23 Management are also developing exception reporting which will be accompanied by internal audit activity later in the year;

- 4.8.24 The Committee discussed the timescale and process for the recruitment of the permanent Finance Director in light of minute 4.8.1 and noted that the interview process has begun with appointment of a permanent role anticipated to cross over with the timescale of the interim; and
- 4.8.25 The Committee emphasised the importance of robust controls and procedures for Land and Property payments given the extra dimension of sensitivity in this area.
- 4.8.26 **Control Environment- Human Resources:** The Committee noted that [REDACTED] have been commissioned to review the internal controls of Human Resources (HR) which will review a wide range of processes and controls running in parallel to the enterprise resource planning (ERP) system to ensure the building in of capabilities;
- 4.8.27 Management will also clarify policies for ease of navigation and alignment of a single policy rather than a suite of specific event policies;
- 4.8.28 The Committee requested that the introduction of the neutral vendor is heavily considered in this review as whilst this could act as an enhancement it could equally make more challenges for system and process alignment;
- 4.8.29 **It was agreed that the approach and planning for the neutral vendor will be added into the management planning; and**  

**Action: Steve Allen**
- 4.8.30 The Committee asked as to how developed the suite of tools and processes currently is. Management are developing a people strategy, and acknowledge that a more mature organisation would have stronger establishment in this area. In the meantime HS2 will build a framework into the employment position.
- 4.8.31 **Controls Environment – Finance:** The Committee noted the immediate approach to introduce a month end assurance exercise to assure the financial reporting of bank reconciliation and accruals;
- 4.8.32 The Committee discussed the changes which HS2 and the finance team have experienced and the Committee requested work be developed further up the chain into contract management workshops in review of controls;
- 4.8.33 The Committee referenced the NAO report regarding behaviours and culture which was responded to in the initial management response. Management are prompted to refer to and develop this in relation to how changes are approved and fed into the central system; and

- 4.8.34 It is key for an explicit control environment around the inputs to be assured that the output is right. The Committee noted that the Head of Assurance is part of workshops to develop this for a 'right first time' approach.
- 4.8.35 **Capitalisation of infrastructure assets:** The Committee discussed the need for a clear set of rules regarding allocation of cost across the business which is being developed with a review of the systems which support this; and
- 4.8.36 There is recognition of the cumbersome interim systems which have been in place. Implementation of the new ERP will be achieved by the beginning of next financial year. In the meantime there will be changes between now and that implementation.
- 4.8.37 **Review of IT systems:** The Committee noted the changes of organisation which has not been reflected in systems or adapted to the changes in personnel.
- 4.8.38 The Committee noted that the organisational change has been mapped into SAP including allocation of cost centres, the structure and movement of legacy purchase orders. Work over the next three weeks will involve movement of people costs to complete the transfer;
- 4.8.39 The Committee were pleased to note this and that revised delegations letters have been issued as at 03 July which are mapped into SAP. The Committee would like to draw the Board's attention to this.
- 4.8.40 The Committee discussed the previous cloud based system for which HS2 were restricted from moderating or configuring, resulting in manual workarounds. Management are working on the new Oracle implementation with IBM on site to support;
- 4.8.41 The Committee noted the [REDACTED] work picking up absence management, people management and personnel security to develop a more robust vetting system of personnel.
- 4.8.42 The Committee were advised that [REDACTED] have been commissioned to assist with finance and HR reviews which was subject to Cabinet sign off. This was approved on an initial scope of work and so there will be the need to review this initial commitment; and
- 4.8.43 The Committee are keen that the scope and terms of reference for [REDACTED] has the appropriate level of compliance around it.
- 4.9 The Committee discussed the development of the above and management action plan for onward submission to the HS2 Ltd Board and noted that there will also be

a section for the Board report to capture behaviours and culture which is then to be communicated to the wider organisation.

- 4.10 **The Committee Chair requested that a test of all the initial management responses is captured in the paper to the Board.**

**Action: Steve Allen**

- 4.11 The Committee discussed development of the 'carrot approach' in the organisation so that there is active encouragement and empowerment to flag any issues.
- 4.12 The Committee discussed the avoidance of unnecessary bureaucracy and less time commitment to audit queries.
- 4.13 The Committee moved their discussion to the internal audit actions and the limited opinions which came out at year end.
- 4.14 The Committee noted the plan for the 2017/2018 audit and agreed that the plan should not only capture identifications made by the NAO but should address key outputs of the 2016/2017 findings whilst noting that some of this is around maturity.
- 4.15 The Head of Risk updated on a new approach to test the value of closed actions.
- 4.16 The Committee Chair requested that the Board report covers the summary of limited opinions against the 16/17 internal audit, being: Land and Property, business planning, Management Information, organisational design, and core HR and Finance controls with emphasis on HR.
- 4.17 The Committee requested development of the mapping of governance arrangements and involvement of the Board utilising sub-committees and particular Non-executives where relevant.
- 4.18 The Committee highlighted that whilst the 10 day payment has been successful to date, the manual process to achieve this has resulted in unreconciled purchase orders and as the quantity increases this will need to be closely managed.
- 4.19 The Committee discussed the management bandwidth to deal with the work involved to address improvements.
- 4.20 **The Committee Chair requested that this is an ongoing management issue and should be a standing item to the ARAC with an integrated tracker.**

**Actions:** [REDACTED] **Steve Allen**

## **5. ASSURANCE CORRECTIVE ACTION TRACKING 2016/2017 AUDIT OUTCOMES**

- 5.1 The Committee noted the paper summarising the status of actions from HS2 Ltd Compliance Audits, HS2 Ltd Contractor Audits, Internal Audits (GIAA), Annual Management Assurance Statement and NAO Statutory Account Audit.

## **6. PERIODIC REVIEW OF RISK APPETITE STATEMENT, STRATEGIC RISK THEMES AND DEP DIVE SCHEDULE**

6.1 The Committee noted the paper with the updated Risk Appetite Statement and draft Risk Policy Statement.

6.2 The Committee noted that the deep dive topics will be asked to apply the risk appetite.

6.3 **The Committee endorsed the risk appetite statement and risk policy statement subject to edits from Roger Mountford and a check of content with the Strategic Communications Adviser.**

Action: [REDACTED]

6.4 The Committee noted the strategic risks which are for onward approval by the HS2 Ltd Board. The Committee asked where Land and Property sit within the risks and that this be considered prior to Board submission.

Action: [REDACTED]

6.5 The Committee endorsed the proposed deep dive schedule subject to the above clarification.

## 7. **NAO UPDATE**

7.1 The National Audit Office had no further matters to raise.

## 8. **INTERNAL AUDIT ACTIVITY REPORT MARCH – JUNE 2017**

8.1 The Committee noted the report for March to June 2017 on internal audit activity.

## 9. **17/18 INTERNAL AUDIT PLAN AND KEY THEMES**

9.1 The Committee noted the report on the 2017/2018 internal audit plan.

9.2 The Committee noted the volume of work outstanding as at 31 March 2017 and that this is not to be repeated for the next or further financial years of audit activity.

9.3 The Committee commended the new format of Internal Audit report.

9.4 The Committee asked for confirmation that both sides of management understand the requirement to fulfil the resource needs for the audit. Management confirmed that this has been highlighted.

9.5 The Committee noted that the proposal is for fewer but more in depth audits.

9.6 The Committee discussed the governance and stakeholder interaction and discussed the development partly through the governance review and the development agreement refresh to formalise communication points between HS2 and the DfT.

9.7 **The Committee requested that the work on procurements aligns with lessons learned from procurements to date and it was agreed that Roger Mountford will be consulted for the terms of reference for this work.**

Action: [REDACTED] Roger Mountford



- 9.8 The Committee discussed the aspiration to see a set of uniform strategic risks sitting across the organisation.
- 9.9 The Committee discussed the movement of staff given the head office relocation and subsequent transition of staff. There will be an element of competitive business and loss of corporate knowledge and data. The Committee are keen to have an archive of the knowledge and data to avoid the possibility HS2 has to 'buy this back'.
- 9.10 The Committee suggested that the 2017/2018 plan be reviewed with a gap analysis prior to coming back to the Committee.
- 9.11 **The Committee provided management with the challenge to test if the contingency identified in the plan is robust.**

**Action:** [REDACTED]

- 9.12 Subject to the above inputs the Committee endorsed the internal audit plan.

**10. IAAP SCHEDULE AND ASSURANCE DASHBOARD**

- 10.1 The Committee noted the Internal Audit and Assurance Plan (IAAP) and assurance dashboard.
- 10.2 The Committee advised management that at the next meeting there is an expectation to have a complete and robust dashboard.

**11. DRAFT COMMITTEE FORWARD LOOK**

- 11.1 The Committee noted the forward look.

**12. ANY OTHER BUSINESS**

- 12.1 There were no additional items of business raised.

**13. DATE OF THE NEXT MEETING**

- 13.1 The date of the next in cycle meeting is 13 September 2017.

**Signed:**

**Date:**