

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Wednesday, 05 December 2018

Meeting time 12:00-15:00

Meeting location 3.9 Two Snow Hill, Birmingham

Members	Attendees	Apologies
Ed Smith (Committee Chair) Non-Executive Director	[REDACTED] Head of Counter Fraud	
Roger Mountford Non-Executive Director	Michael Bradley Chief Finance Officer	
	Nicole Geoghegan General Counsel and Company Secretary	
	[REDACTED] Finance Director	
	Emma Head HSSE Management Director	
	[REDACTED] Chief Security and Resilience Officer	
	[REDACTED] National Audit Office	
	[REDACTED] National Audit Office	
	[REDACTED] Deputy Company Secretary	
	[REDACTED] National Audit Office	
	[REDACTED] Head of Assurance	
	Mark Thurston CEO	
	[REDACTED] Head of Internal Audit	

1 Welcome, Declarations of Interest and Values Moment

1.1 There were no declarations of interest other than those already recorded in the register.

- 1.2 The Committee noted the values moment provided by the Safety and Assurance Director with regard to safety and leadership following a positive Gold Response event with the Executive.

2 Minutes of the previous meeting and matters arising (ARAC_18-35 & ARAC_18-36)

- 2.1 The Committee approved the minutes of the meeting of 30 August 2018 as a true record subject to a correction in the attendance record.
- 2.2 The Committee noted the status of the actions.
- 2.3 The Committee discussed the following matters arising:
- 2.3.1 The Committee discussed the Undertakings and Assurances (U&A's) following a status report received at the August meeting. This will be an area of continued focus for assurance, to review that there is the appropriate level of awareness and compliance with U&A's in the required areas of the organisation. It is important that the evaluation of the commitments is built into financial projections where relevant and, as appropriate, active work is pursued to mitigate their cost.
- 2.3.2 The Committee were encouraged to note the newly established Audit and Risk Assurance Panel (ARAP), a sub-group of the Executive, and further noted that the duties to be discharged through the Accounting Officer role will also receive scrutiny here. Future ARAP discussion and actions will form part of the Committee papers.

3 Audit and Risk Assurance Report (ARAC_18-37)

- 3.1 The Committee received, with enthusiasm, the new Management Information (MI) to report on Risk, Control and Assurance. As the data matures, trending will be introduced for review. It is important that this information and the underlying data forms part of management's overall assessment of risk, control and assurance.
- 3.2 **The Committee discussed the approach to reporting the status of strategic risks, which is in a newly reported format. There is a new Head of Corporate Risk who will input into the reporting further for the next time this is presented.**
- Action:** [REDACTED]
- 3.3 It was suggested that there should be the aim for a forward looking view factored in consistently to risk and that further work should be pursued on key risks by management and then by the HS2 Ltd Board.
- 3.4 The National Audit Office (NAO) recognised the MI as improved and were encouraged to see the level of action tracking.

- 3.5 The report will be further refined to condense the content and synthesise key points in the executive summary.

4 Head of Internal Audit Report (ARAC_18-38)

- 4.1 The Committee received an update on the activities of Internal Audit in the period August 2018 to October 2018.
- 4.2 The Committee approved proposed changes to the 2018 internal audit plan as follows:
- 4.2.1 [REDACTED]
- 4.2.2 Two additional pieces of work were completed in the period: 1) Pre go-live commentary for the ERP Steering Committee and 2) Assurance over the implementation of recommendations from the IAP for the HS2 Improvement Project;
- 4.2.3 HS2 Improvement Project (LOD2 Assurance); and
- 4.2.4 [REDACTED]
[REDACTED]
- 4.3 The Committee noted that the process shows on track for a moderate audit opinion outcome at the time of reporting.
- 4.4 The Committee discussed a three-year planning cycle of internal audit activity for review, factoring value and ability to produce a robust three-year plan given the stage cycles of the organisation. **Management will review in the first instance, a 24 month look ahead which also provides flexibility for other items on an as and when needed basis. This will be brought to the March Committee meeting.**

Action: [REDACTED]

- 4.5 The Committee discussed the open actions in the report, noting that these are open until the closure of the action is reviewed and validated. It was confirmed that the non-closure status does not give exposure to the control.

5 HS2 Ltd Improvement Programme Assurance Approach (ARAC_18-39)

- 5.1 The Committee received the proposed Terms of Reference for the second Line of Defence (LoD 2) work to assure the outcomes of the HS2 Improvement Project (HIP).
- 5.2 The Committee was asked to approve the proposed work to be completed in accordance with the proposed timeline.
- 5.3 The Committee discussed the process and approach suggested for assurance and agreed that this is appropriate.

- 5.4 The expectation of the third Line of Defence (LoD 3) is that when ARAC are satisfied with LoD 2, a letter will be issued from the Chair of the ARAC as another level of reassurance to the process. This letter will be shared with the Independent Assurance Panel (IAP) and the Department for Transport (DfT). The Chair of ARAC will write shortly to the Chair of the Independent Panel setting out the assurance process for LoD 2.
- 5.5 The Committee reviewed the timing of the HIP programme activity commenting that this should be contemporaneous and should look at 'interim' reviews where appropriate to test the process.

6 Audit planning report on the 2018-19 (ARAC_18-40)

- 6.1 The Committee received the audit planning report on the 2018-2019 financial statement audit from the National Audit Office.
- 6.2 The Committee discussed the summary of the approach and themes to the financial statement audit noting areas of interest in:
 - 6.2.1 International Financial Reporting Standard (IFRS) 16: operating leases which Finance confirmed is in active discussion with the DfT;
 - 6.2.2 Finance are agreeable and engaged with the approach. There will be a move towards a controls based audit going forward;
 - 6.2.3 The planning report was commended as thoughtful, perceptive and succinct;
- 6.3 It was agreed that there will be thought given to the narrative on Management Impairments in terms of both accounting and handling strategy. This should be for now and also in future reporting periods as decisions are made on scope and delivery;
- 6.4 The NAO advised that a Value for Money (VfM) review would be likely late in the next calendar year and Management will liaise with the NAO on 'helpful scope'.
- 6.5 The Committee noted that the Chief Financial Officer (CFO) is the Senior Responsible Officer (SRO) for the Annual Reports and Accounts. Work has begun to scope this and will be taken to the ARAC for visibility.

7 Strategic Risks and Reporting (ARAC_18-41)

- 7.1 The Committee received the update on the ongoing activity to review the Strategic Risks.
- 7.2 The Committee reviewed the approach to Strategic Risks which have been assigned an Executive owner and will be taken to Executive Panels and Board Committees for review.
- 7.3 The Board remain the controlling forum for the accountability of Strategic Risks. The development of this, and in particular assurance mechanisms, will be taken to the next ARAC and in conjunction worked with the incoming Chair of the Board.

- 7.4 The Committee discussed the accountability of cross cutting risks, emphasising the need for clarity of where this sits centrally in DfT and with relevant Arm's Length Bodies (ALBs).
- 7.5 The Chair of the Commercial and Investment Committee (CIC) will review with Chief Operating Officer (COO) the supply chain and capacity risks so that there is appropriate capture of capacity, appetite and financial health.
- 7.6 The Executive have away days on 13 and 14 December where strategic risks will be further reviewed.

8 Senior Information Risk Owner (SIRO) Report (ARAC_18-42)

- 8.1 The Committee noted the paper and was provided with a six month update on key issues and areas of progress to be aware of covering Information Risk Management in HS2.
- 8.2 [REDACTED]
- 8.3 **It was agreed that Identity Access Management (IDAM) will return to ARAC following a management review for a status update.**

Action: [REDACTED]

9 Counter Fraud Update (ARAC_18-43)

- 9.1 [REDACTED]
- 9.2 The Committee noted the new Government Functional Standards for Counter Fraud released in October 2018. The March ARAC will receive an update on government standards and HS2 compliance/ response.

- 9.3 [REDACTED]

Action: [REDACTED]

- 9.4 The NAO reiterated the requirement for whistleblowing and fraud in the Annual Report governance statement.
- 9.5 **The NAO will share details of whistleblowing and fraud experiences with HS2.**

Action: [REDACTED]

- 9.6 The Committee Chair will work with Company Secretariat and the incoming Chair on assigning NED responsibility for whistleblowing.

10 Forward Look (ARAC_18-44)

10.1 The Committee noted the forward look.

11 Any Other Business (ARAC_18-45)

11.1 Management Assurance Statement (MAS): The Committee noted the timeline for the annual MAS process and endorsed this as a key component of the annual Governance processes.