

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Wednesday, 01 May 2019
Meeting location Room 3.12/3.13 Two Snowhill
Meeting time 10:00-13:00

Members	Attendees	Apologies
Ed Smith (Committee Chair) Non-Executive Director	Michael Bradley Chief Finance Officer	Emma Head Safety & Assurance Director
Roger Mountford Non-Executive Director	Nicole Geoghegan General Counsel and Company Secretary	Mark Thurston CEO
	██████████ Finance Director	
	██████████ National Audit Office	
	██████████████████ National Audit Office	
	██████████ National Audit Office	
	██████████ Deputy Company Secretary	
	██████████ National Audit Office	
	██████████ (Deputy for Emma Head) Head of Programme and Corporate Assurance	
	██████████ Head of Internal Audit	

Signed

Chair Ed Smith

Date

1 Welcome, Declarations of Interest and Values Moment

1.1 There were no additional declarations of interest made.

- 1.2 The Committee noted the values moment provided by the Chief Financial Officer on leadership following a successful year end performance review calibration. The Committee noted the improved position of 95 per cent completion of end of year results versus 52 per cent the previous year.
- 1.3 The Committee commended the result as an indicator of the improving trust and culture in the organisation.

2 Minutes of the previous meeting and matters arising (ARAC_19-001) and (ARAC_19-002)

- 2.1 The minutes of the meeting on 04 March 2019 were agreed as a true record
- 2.2 The status of the actions was noted with the following updates provided:
 - 2.2.1 The Committee noted the updated 2019/20 internal audit plan;
 - 2.2.2 The Committee noted the paper to close actions 18/025 and 18/035 with regard to the scoring of risk on Health, Safety and Security following Committee observation the score appeared high and potentially inconsistent to the Management Assurance Statement.
 - 2.2.3 The Committee noted the copy of the Executive Committee paper providing the approach of HS2 Ltd to respond to changes to the UK Corporate Governance Code 2019. A further paper will be submitted to the Executive Committee to confirm implementation and will be shared with the Committee.
 - 2.2.4 The Committee noted the provisions and principles referring to the Remuneration Committee and suggested that the Terms of Reference might be reviewed to capture some of the principles.
 - 2.2.5 **It was agreed that Audit and Risk Assurance Panel paper on corporate oversight of risk will be shared with the Committee.**

Action: Company Secretariat

3 Summary/ key points from the Audit and Risk Assurance Panel (ARAC_19-003)

- 3.1 The Committee noted the verbal update from the Audit and Risk Assurance Panel meeting held on 23 April 2019.
- 3.2 The Panel had considered items 04, 05, 06 and 08 on the agenda for the Committee meeting.
- 3.3 The Panel had further considered the review of the effectiveness of the control environment and progress made to date in communicating and embedding new ways of working following the introduction of the Integrated Management System (IMS).

- 3.4 There have been actions assigned to Management to develop initial findings from the IMS audit and a steering group has been established to support this.

4 Risk, Control and Assurance Report (ARAC_19-004)

- 4.1 The Committee noted the Management Information for March 2019.
- 4.2 The following key points were raised and noted:
- 4.2.1 The Committee noted that the 2019/20 Integrated Assurance and Approvals Plan (IAAP) has been finalised, however system issues have prevented Management from being able to present the data by dimension. The IAAP will be submitted to the September Committee.
- 4.3 The Committee noted the update and commended the improving information presented and requested that it continue to evolve to escalate key issues for the Committee's attention.

5 2018/19 Annual Report and Accounts (ARAC_19-005)

- 5.1 The Committee received the latest draft of the Annual Report and Accounts.
- 5.2 The Committee Chair requested a developed document be circulated in good time ahead of the meeting on 03 June 2019.
- 5.3 The financial statements will continue to be shared and agreed with the National Audit Office.
- 5.4 The Committee noted the Annual Report and Accounts intend to be a sober, balanced, measured and transparent report.
- 5.5 The Committee requested visibility of the key risks, challenges and opportunities the organisation faces over the next 12 months in the document.
- 5.6 The Committee requested the Chairman and CEO introductions be included as soon as possible.
- 5.7 The HS2 Ltd Board is responsible for and legally charged to sign off the accounts and so it is key for these to be fair, balanced and understandable.
- 5.8 The Committee discussed requirements for reporting in the FTSE market, noting that these are not all the same requirements for HS2 Ltd, but requested consideration of what aspects might be included.
- 5.9 **The Committee strongly encourage appropriate resources and time is allocated to this task and that a further iteration is delivered to the Audit and Risk Assurance Committee 5 days in advance of the meeting.**

Action: Company Secretariat

6 Internal Audit Annual Opinion, 2019/20 Internal Audit Plan and Audit Update (ARAC_19-005, 19-006 and 19-007)

6.1 The Committee received the internal audit annual opinion for 2018/19 to be given over the HS2 control environment.

6.2 The following key points were raised and noted:

6.2.1 Results from an internal audit on interim staffing has resulted in a review of recruitment and interim positions. Management advised that there has been progress made, however reviews with budget holders and costing totals continue.

6.2.2 The Committee commented that there is work to develop the cultural aspect as well as process.

6.2.3 The Committee discussed the internal audit annual opinion noting that the moderate rating has more convergence than the previous financial year.

6.2.4 **The Committee queried whether any comparable arms length bodies had a substantial rating.**

Action: [REDACTED]

6.2.5 **The National Audit Office confirmed that there could be discussion and examples of controls-based audits at the next meeting and it was suggested that it might be beneficial for the Head of Internal Audit to test an audit area against an outcomes approach.**

Action: [REDACTED]

6.3 The Committee expressed thanks to the Internal Audit team for the work provided and timeliness of recommendation.

6.4 The Committee discussed some of the accounting treatments which will be reflected in the next draft of the accounts, including Land and Property transactions and reconciliations, and sealed bid provisions.

6.5 The Committee discussed the relationship between the National Audit Office and HS2 Ltd and the importance of anticipation and early close out of such accounting treatments with good time to reach agreement ahead of financial year end.

6.6 The Committee approved the change to the internal audit plan for 2019/20 following a request from the Committee to include an audit of Board information.

6.7 The Committee noted the Internal Audit Update for February to March 2019.

7 National Audit Office Update including progress on 2018/19 Audit (ARAC_19-008)

7.1 The Committee received the National Audit Office progress and update as part of item 06.

8 Management Assurance Statement Action Plans (ARAC_19-009)

8.1 The Committee received action plans for the Management Assurance Statement following challenge from the Committee that the organisation should aspire to have substantial ratings of assurance where possible.

8.2 **The Committee requested visibility of prioritisation for actions.**

Action: Emma Head

8.3 The Committee commented on the improved level of information and usage of the Management Assurance Statement.

8.4 The action plans and timescales will be tested further.

8.5 The Committee noted the update.

9 National Audit Office Value for Money Update (ARAC_19-010)

9.1 The Committee noted the briefing note on the future National Audit Office Value for Money study.

9.2 The Committee noted that there is still an engagement letter to be issued and agreement of scope and timetable for the study.

9.3 The Committee requested to be kept up to date and informed so to be able to respond in parallel to other activities and requirements for the organisation.

9.4 **The Committee noted there is a Group Audit and Risk Assurance Chair circular which can be shared with the Committee Chair together with other relevant reports.**

Action: [REDACTED]

9.5 **The Committee noted that the National Audit Office report on Crossrail is due to conclude imminently and this will be shared with the Committee.**

Action: [REDACTED]

9.6 The Committee received a verbal update on the themes contained in the National Audit Office report including: [REDACTED]

[REDACTED]

9.7 The Committee discussed that a balance of political pressure and public sector dynamic also affects projects such as HS2 Ltd.

9.8 The Committee reiterated the need for the Board to be robust and transparent in such climate.

10 Reflections from Lessons for the Sponsorship of Major Projects (ARAC_19-011)

- 10.1 The Committee referenced the recent briefing received at the HS2 Ltd Board regarding lessons learned from major projects.
- 10.2 The Committee discussed that large projects working to strict published completion dates have been seen to drive the wrong behaviours.
- 10.3 The Hybrid Bill process also sets some deliverables for programmes which have wider implications than Delivery Into Service (DIS).
- 10.4 The Committee commented that the work and cost to inform, advise and educate Parliament for the hybrid Bill process is complex.
- 10.5 The Committee commented that the lessons learned reflect the importance of openness and honesty on deliverable milestones and budgets.
- 10.6 There should be satisfaction and positive balance implications for the Business Case for major projects.
- 10.7 The Committee discussed the number of reviews and reports conducted into Crossrail and other major projects. Management confirmed that a formal response will be issued. Not all of the findings and recommendations fall within the gift of HS2 Ltd and there are some omissions in published reports.

11 Forward Look (ARAC_19-012)

- 11.1 The Committee noted the forward look for the June Committee meeting.

12 AOB

- 12.1 There Committee Chair confirmed that no meetings were required between Non-Executive Directors and the internal or external auditors.