

# Meeting minutes

## Audit and Risk Assurance Committee

**Meeting date** Monday, 15 June 2020

**Meeting location** MS Teams Meeting

**Meeting time** 10:00-13:15

Members	Attendees	Apologies
Ed Smith (Committee Chair) Non-Executive Director	Michael Bradley Chief Financial Officer	
Stephen Hughes Non-Executive Director	Allan Cook HS2 Ltd Chairman	
Roger Mountford Non-Executive Director	[REDACTED] Senior Business Manager	
	Nicole Geoghegan General Counsel	
	[REDACTED] Finance Director	
	[REDACTED] Phase 2b Senior Project Manager	
	Neil Hayward (item 09) HR Director	
	[REDACTED] National Audit Office	
	[REDACTED] National Audit Office	
	Kevin McGreal Interim Safety and Assurance Director	
	[REDACTED] Head of Finance Operations	
	[REDACTED] National Audit Office	
	Non Owen (minutes) Company Secretary	
	[REDACTED] HR Senior Business Manager	
	[REDACTED] P-Rep	
	[REDACTED] Head of Programme and Corporate Assurance	

	Mark Thurston Chief Executive Officer	
	██████████ Head of Internal Audit	

## 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 from the Head of Internal Audit, covering all of the values and referencing an accident witnessed in a previous workplace and the need to continually do the right thing at all times.

## 2 Minutes of the previous meeting and matters arising (ARAC\_20-015 and ARAC\_20-016)

- 2.1 The Committee agreed the minutes of the meeting of 21 May 2020 as a true record.
- 2.2 The Committee noted the status of the actions, commenting that there is a robust process to record and track actions to closure.

## 3 Update from the Audit and Risk Assurance Panel on 2 June 2020 (ARAC\_20-017)

- 3.1 The Committee noted the update from the Audit and Risk Assurance Panel held on 2 June 2020.
- 3.2 The following key points were raised and noted:
  - 3.2.1 There is ongoing work with the Integrated Project Teams (IPTs) to define and embed Full Operating Capability (FoC) so that this is something tangible and clearly understood (both between HS2 Ltd and the supply chain, as well as the DfT and wider stakeholders);
  - 3.2.2 Management have commenced work to improve the data in the Risk Control and Assurance Management Information report;
  - 3.2.3 The Internal Audit function are reviewing the replacement of the audit support partner, including a review and management of any potential or perceived conflicts of interest;
  - 3.2.4 **It was agreed that a review of the supporting partners engaged by the business would be conducted with a review of opportunities to bring in wider resource;**  
**Action: Michael Bradley**
  - 3.2.5 **The Committee were concerned to note the low statistics reported for completion of Mandatory Training on Counter Fraud and advised Management**

**of the expectation for a high level of escalation and confirmation of improved statistics to be reported back to the Committee as a matter of urgency;**

**Action: Nicole Geoghegan**

- 3.2.6 The Committee noted that the Counter Fraud and Business Ethics team are reviewing any risks emerging from the new remote ways of working;
- 3.2.7 It was noted that there is engagement and information sharing with the Cabinet Office for approaches being taken to fraud; and
- 3.2.8 **The Committee noted the update provided on outstanding actions from Notice to Proceed and requested the detail behind this. Management confirmed that this would be brought with the update on FoC.**

**Action: Kevin McGreal**

- 3.3 The Committee continues to commend the rigour of the Audit and Risk Assurance Panel and the challenge the forum provides to the business which is evidenced by the minutes submitted to the Committee.
- 3.4 The Committee noted the update.

## **4 Risk, Control and Assurance Management Information Report (ARAC\_20-018)**

- 4.1 The Committee received and noted the Risk, Control and Assurance Report.
- 4.2 The following key points were raised and noted:
  - 4.2.1 The Committee were pleased to note the work to adapt the Management Information and the data which is presented to the Committee;
  - 4.2.2 Management advised that there is ongoing work to review the underlying data which supports the report, and the level of quantitative data versus the narrative submitted;
  - 4.2.3 **It was agreed that the Non-Executive Board Members of the Committee will be engaged with the project to review and test the data. It was requested by the Committee that P-Rep are also part of the review;**

**Action: Kevin McGreal**

- 4.2.4 The Committee noted that the risk data will require the most level of attention and this will be developed with the review of the Strategic Risks;
- 4.2.5 The Committee noted the ongoing assurance activity to agree the methodology, format and content of the Quantitative Risk Analysis (QRA) which will be presented to the Board in July 2020;
- 4.2.6 The Committee noted the narrative on the importance of keeping the strategic message of the Programme relevant, following political and economic support, and during the pandemic;

4.2.7 The Committee referenced that the justifications for the Programme continue to evolve during its lifecycle and the narrative also needs to adapt including key messages on sustainability. **The Committee suggest that a fuller briefing session with the Board on environmental sustainability should be scheduled; and**

**Action: Non Owen**

4.2.8 **The Chair of the Commercial and Investment Committee (CIC) will consider the activities of the CIC and the ARAC for a view on whether there is the right balance of commercial assurance activity.**

**Action: Roger Mountford**

4.3 The Committee noted the update.

## **5 Internal Audit Update (ARAC\_20-019)**

5.1 The Head of Internal Audit provided a verbal update on Internal Audit activities since the last report presented to the Committee on 21 May 2020.

5.2 The following key points were raised and noted:

5.2.1 The Committee received a verbal update having received the Internal Audit annual opinion and quarterly report at the May 2020 meeting;

5.2.2 **The Committee referenced the previous discussion regarding engagement of support partners, and it was agreed that the Head of Internal Audit would engage with the Committee Chair on the approach;**

**Action:** [REDACTED]

5.2.3 The Committee noted the planned level of activity for Internal Audit, which is usually phased to avoid quarter 1 having too many audits given the level of activity required for year-end; and

5.2.4 The Internal Audit plan will be kept under review in the remote working environment.

5.3 The Committee noted the update.

## **6 NAO Update including NAO Completion Report (ARAC\_20-020)**

6.1 The Senior Business Manager for CFO Directorate and the Head of Finance Operations joined the meeting.

6.2 The Committee received and noted the Audit Completion Report, draft Letter of Representation and 2019-2020 Audit Certificate from the NAO.

6.3 The Committee were advised that in advance of the meeting there had been correspondence received from the NAO suggesting amendment to the Annual Report tone and increased content on the change in cost and schedule, reflected in the Baseline, and the significant work undertaken with the Main Work Civils Contractors.

- 6.4 The Committee discussed the correspondence and the NAO advised that the current document as drafted was not felt to sufficiently discuss the challenges of the business in the year and the key areas coming up in the year ahead.
- 6.5 It was noted that more detailed feedback on the Annual Report was still to be provided by the NAO to Management.
- 6.6 The Committee referenced the discussion held at the May Committee meeting regarding how the Annual Report content might change in the future to reflect the style and approach taken by private sector organisations (noting the requirements to report in line with the Framework Document).
- 6.7 The approach for previous Annual Reports has been focussed on reporting being fair, balanced and reasonable, however the Committee agreed that there is opportunity to reflect the feedback and Committee discussion.
- 6.8 The Committee and Management agreed that there would be a review of the Annual Report content sections, specifically:
- 6.8.1 Chairman Introduction;
  - 6.8.2 CEO Review;
  - 6.8.3 Highlights;
  - 6.8.4 Company Strategy;
  - 6.8.5 KPIs;
  - 6.8.6 Environmental Sustainability Report;
  - 6.8.7 Board Decision Making;
  - 6.8.8 Risk Management; and
  - 6.8.9 External Reviews.
- 6.9 The Committee requested that the changes made to the document be clear and subject to a further plain English proofread.
- 6.10 The Committee requested that there is the right level of balance to review the document so that it also reflects the achievements in the year.
- 6.11 The Committee noted the Audit Completion Report and raised the following points:
- 6.11.1 The Committee noted that at the time of reporting there were seven action areas for completion, of which two have received further information to close prior to the meeting;
  - 6.11.2 The Committee were encouraged to note that the year-end audit has moved away from a substantive based audit to a controls audit where reliance is now being placed on the controls in place;

- 6.11.3 The Committee noted the recommendation of the NAO on Purchase to Pay, however referenced the challenge to do so whilst following Cabinet guidance; and
- 6.11.4 The Committee confirmed agreement to the Management Response relating to reimbursement from third parties.
- 6.12 The Committee noted that Euston will be a future important area of review for accounts purposes, [REDACTED] It was suggested that Roger Mountford be engaged on the matter at the appropriate time to provide challenge and oversight to Management.
- 6.13 The Finance Director commended the work of the Finance Department to produce the Annual Report and Accounts, referencing the level of work as exemplary, particularly in a remote working environment. Management confirmed satisfaction with the findings of the NAO and recognise the good working relationship.
- 6.14 The Finance Director also reflected that continuous improvements to the process will continue to be reviewed.
- 6.15 The Committee recognised and commended the work of the Finance Department, referring to this as best in class.
- 6.16 The Committee received and noted the draft Letter of Representation which the Accounting Officer is required to sign on behalf of the Board.
- 6.17 The following key points were raised and noted:
  - 6.17.1 [REDACTED]
  - 6.17.2 [REDACTED] and [REDACTED]
  - 6.17.3 [REDACTED]
- 6.18 The Committee commended the work and engagement of the NAO to conclude the year end audit.

## **7 Audit and Risk Assurance Committee Chair Annual Report (ARAC\_20-021)**

- 7.1 The Committee received and noted the draft Committee Chair Annual Report which summarised the activities and findings of the Committee during 2019/20 to be presented to the HS2 Ltd Board on 24 June 2020.

- 7.2 Committee Members will provide any further observations on the report to the Committee Chair.
- 7.3 The report will be updated to reflect the meeting discussion and submitted to June Board meeting.

## **8 2019/20 Annual Report and Accounts (ARAC\_20-022)**

- 8.1 The Committee received and noted the update on the production of the Annual Report and Accounts document.
- 8.2 The discussion regarding the Annual Report and Accounts had been substantively covered with item 06.
- 8.3 Committee Members will provide detailed comments on the Annual Report and Accounts in correspondence to the Company Secretary.
- 8.4 Subject to the comments during the meeting and feedback submitted in correspondence from Committee Members, the Committee endorsed the Annual Report and Accounts for submission to the HS2 Ltd Board.

## **9 DEEP DIVE: HR Controls and Approvals (ARAC\_20-023)**

- 9.1 The HR Director joined the meeting.

[REDACTED]

- 9.3 The HR Director further explained that the people management control framework ‘Hire to Retire’ was implemented as part of the HR target operation model in 2018, and steps through the typical employee lifecycle from joining HS2 Ltd through to separation. The three areas considered as part of the review of HR controls were:

- 9.3.1 Recruit, Source & Select;
- 9.3.2 Manage HR Shared Services & Cases; and
- 9.3.3 Reward & Benefits.

9.4 The following key points were raised and noted:

9.4.1 The Committee noted the live workstream on [REDACTED]

9.4.2 The Committee noted the controls in place for benefits and rewards, noting that pay is managed in accordance with the controls set out in the HM Treasury guidance 'Managing Public Money' and HM Treasury guidance for approval of senior pay, when making decisions on individual reward packages and remuneration more generally;

9.4.3 The Committee noted the reduced freedoms and flexibilities currently in the organisation, which is a risk for the Programme, as it impacts the ability of HS2 Ltd to recruit the skills and calibre required to successfully deliver the Programme;

[REDACTED]

**Action: Ed Smith/ Non Owen**

9.4.5 The Committee noted the live workstream for the improvement of HR case management and the timeline to do so;

9.4.6 It was noted that the approach to staff engagement surveys has been adapted in response to the COVID-19 pandemic;

9.4.7 **The Committee noted the live workstream to launch line management role support in the organisation to assist line managers having productive engagement with teams. This work will be shared with Committee Members;**

**Action: Neil Hayward**

[REDACTED]

[REDACTED]

9.4.10 The HR Director thanked the Committee for the input and will reflect on the discussion in the context of the Strategic Risks.

9.5 The Committee thanked the HR Director for the update and reiterated the importance of the deep dives to understand the nature of the risks.

## **10 Phase 2b Baseline 2 Update (ARAC\_20-025)**

10.1 The Head of Programme and Corporate Assurance and the Phase 2b Senior Project Manager joined the meeting.

10.2 The Committee received and noted the progress update for the emerging Phase 2b Baseline 2, in advance of the July Strategic Assurance review by the Audit and Risk Assurance Committee (ARAC).



10.3 The Committee were asked to note:

10.3.1 The timeframes for [REDACTED] to support Phase 2b Baseline 2 submission; and

10.3.2 Progress with close out of actions arising from past assurances.

10.4 The following key points were raised and noted:

10.4.1 The Committee noted that the paper has been submitted to inform an advanced discussion ahead of a more detailed review at the planned July meeting;

10.4.2 The Committee noted [REDACTED]  
[REDACTED]  
[REDACTED]

10.4.3 It was noted that since the issue of the report, a checkpoint has been held, and following discussion with the DfT, it has been agreed that Phase 2b will use [REDACTED]  
[REDACTED]  
[REDACTED]

10.4.4 The focus of [REDACTED] has now changed to a [REDACTED]  
[REDACTED]

10.4.5 The Committee noted that the Assurance team have Management responses and plans in place for open actions which will be submitted to checkpoint reviews;

10.4.6 The Committee noted the level of work to conclude the Baseline work;

10.4.7 The Committee noted that there has been an updated piece of work on benchmarking which will be shared for the July meeting;

10.4.8 The Committee queried whether there is any level of continuity in the [REDACTED] team who have worked on HS2 Baselines. Management advised that teams are not the same but that the [REDACTED] partner and some of the analysts are the same, and there has been a handover of the methodology and approach taken previously;

10.4.9 **The Committee requested that the parameters for delivering the Baseline for Phase 2b is clear considering the ongoing work of the National Infrastructure Commission on the Integrated Rail Plan;**

**Action: Michael Bradley**

10.5 The Committee noted the update.

## 11 Forward Look (ARAC\_20-024)

11.1 The Committee noted the forward look.

11.2 The Committed noted the draft agenda for the proposed July meeting.

## **12 Any Other Business**

12.1 There were no additional items of business raised for discussion.