

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Monday, 21 September 2020

Meeting location MS Teams Meeting

Meeting time 10:00-13:00

Members	Attendees	Apologies
Ed Smith (Committee Chair) Non-Executive Director	[REDACTED] Head of Phase 2 Project Controls	Nicole Geoghegan General Counsel
Stephen Hughes Non-Executive Director	Michael Bradley Chief Financial Officer	Mark Thurston Chief Executive
Roger Mountford Non-Executive Director	[REDACTED] Stations Client Director	
	Allan Cook HS2 Ltd Chairman	
	[REDACTED] Finance Director	
	[REDACTED] National Audit Office	
	[REDACTED] National Audit Office	
	Kevin McGreal Interim Safety and Assurance Director	
	[REDACTED] National Audit Office	
	Non Owen (minutes) Company Secretary	
	[REDACTED] P-Rep	
	[REDACTED] Head of Programme and Corporate Assurance	
	[REDACTED] 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 Company Secretary regarding integrity.
- 1.3 The Committee noted that the DfT had not felt it necessary to attend this meeting.

2 Minutes of the previous meeting and matters arising (ARAC_20-035 and ARAC_20-036)

- 2.1 The Committee agreed the minutes of the meeting of 21 July 2020 as a true record.
- 2.2 The Committee noted the status of the actions.
- 2.3 The Committee received a verbal update from the Chair of the Commercial and Investment Committee (CIC) regarding action 20-015, following a request that a review of the remit between the two Committees on Commercial Assurance be considered.
- 2.4 The Chair of the CIC advised that there is an ongoing review of the CIC effectiveness and the Terms of Reference, due to be concluded at the October meeting. A draft report had been circulated between the CIC Chair, the ARAC Committee Chair and the HS2 Chairman prior to the meeting.
- 2.5 The report has subsequently been shared with wider ARAC Committee Members and relevant Management (including Head of Internal Audit) in order to provide comment ahead of the CIC meeting. The outcome of the report will review whether there is clear accountability between the two sub-Committees of the Board and assess if there are any gaps identifiable.
- 2.6 The Committee noted that there is an Executive level exercise being run to review Commercial Assurance and the Committee agreed that this work should be completed to inform the response.
- 2.7 ARAC is also due to undertake a review of its effectiveness and this work will be considered in that review.
- 2.8 **The Committee queried whether there was any opportunity to review tender evaluation processes and whether there was any legal implication for doing so.**

Action: Nicole Geoghegan

3 Update from the Audit and Risk Assurance Panel on 07 September 2020 (ARAC_20-037)

- 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 Items which were due to be presented to the Committee at the meeting, considered by the Panel were taken as noted;

- 3.2.2 The Panel continue to provide feedback and challenge on the Management Information (MI) for Risk, Control and Assurance. The Panel have challenged Management to further develop the MI so that there is sharper commentary provided in the MI which can drive discussion and areas of focus for both the Panel and Committee;
 - 3.2.3 The Panel had considered the previously referenced Commercial Assurance review and the Panel Chair advised the Committee of the objectives for the review, being:
 - 3.2.3.1. To embed a 'right first time' approach;
 - 3.2.3.2. To adopt a risk-based, proportionate approach to drive accountability in the line;
 - 3.2.3.3. Streamline business and strategic assurance; and
 - 3.2.3.4. Fast-track lead times for the delivery of major procurements.
 - 3.2.4 The Panel had additionally considered an update on a completed Internal Audit into Governance and Delegations Findings and the four findings to be addressed, with the current Management responses.
 - 3.2.5 The Committee queried the finding regarding the content and consultation of governance papers, commenting that the Board are keen to see how financial information contained in Committee and Board level papers will evolve to better align with MI. Management confirmed that this is within the scope of the review and an action has been set by the Panel for a further update.
- 3.3 The Committee noted the update.

4 Risk, Control and Assurance Management Information Report (ARAC_20-038)

- 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 commended Management on the improvement in quality of the MI, as providing a better level of transparency and comprehensiveness. In line with Panel feedback, the Committee are keen to see further improvement to this report, including development of Board accessibility/ visibility of the report;
 - 4.2.2 The Committee noted the update on strategic risks and the planned Board workshop to review the current status of strategic risks;
 - 4.2.3 The Committee discussed with any list of strategic risks, the importance of being able to derive the top four or five issues which the Board should be aware of;
 - 4.2.4 **The Committee noted the monthly P-Rep report is reported to the HS2 Ltd Programme Review and DfT Client Board. It was agreed that report will also be shared with the Committee to review from an audit and risk assurance lens.**

Action: Company Secretariat

- 4.2.5 **Of the information reported in the MI to the Committee, the Committee requested:**
 - 4.2.5.1. **Prioritisation of assurance action tracking;**
 - 4.2.5.2. **A fuller update on the status of Integrated Management System (IMS) Control Effectiveness;**
 - 4.2.5.3. [REDACTED]
 - 4.2.5.4. [REDACTED]

Action: Kevin McGreal/ Emma Head

4.3 The Committee noted the update.

5 Internal Audit Update (ARAC_20-039 and ARAC_20-040)

- 5.1 The Committee received and noted the paper providing and update on the activities of Internal Audit in the period April to June 2020.
- 5.2 The following key points were raised and noted:
 - 5.2.1 The Committee noted that in a continued remote working environment, audits are taking longer to complete, and are therefore running behind schedule, in comparison to how they would in a more stable environment;
 - 5.2.2 The Committee noted the deferral of the audit on the Gifts and Hospitality Policy to 2021/2022 and agreed that in the current circumstances there is limited hospitality on offer which would impact the sample size;
 - 5.2.3 **The Committee noted [REDACTED] [REDACTED] It was agreed that this finding would be discussed with the Senior Information Risk Owner (SIRO) function to explore if they wished to comment;**

Action: [REDACTED]
 - 5.2.4 **The Committee noted the planned internal audit on the Integrated Project Teams and requested that the timing for this is aligned to the Committee deep dive on this topic;**

Action: [REDACTED]
 - 5.2.5 **The Committee requested a review of the remit and value of an internal audit on the West Coast Partner and what engagement would be appropriate from the DfT;**

Action [REDACTED]

- 5.3 The Committee received and considered the Internal Audit Charter which sets out the obligations, authority and responsibilities of Internal Audit and HS2 to provide the framework within which GIAA delivers the internal audit service to HS2.
- 5.4 The content of the Charter is largely prescribed by the Public Sector Internal Audit Standards and Institute of Internal Auditors best practice. The document underpins the independence and objectivity of the HS2 Internal Audit function.
- 5.5 The following key points were raised and noted:
- 5.5.1 The Charter has not been reviewed formally by the Committee since 2017, and since that time, the Board and Committee Membership has changed significantly;
 - 5.5.2 There has additionally been fundamental progress of the HS2 Programme and major governance and organisational restructuring; and
 - 5.5.3 The Committee agreed that the Internal Audit Charter be presented for signature by the Accounting Officer (CEO of HS2 Ltd), ARAC Chair and Head of Internal Audit.

6 NAO Update (ARAC_20-041)

- 6.1 The Committee received and noted an extract from the Audit Completion Report presented to the Department for Transport's Group Audit and Risk Committee (GARAC) presenting the findings of the National Audit Office (NAO) audit work on High Speed 2 Land and Property, including the management letter.
- 6.2 The NAO provided feedback from the GARAC that the report had been positively received, particularly concerning unadjusted misstatements.
- 6.3 The Committee noted that the NAO have summarised this as significant improvement, reflecting primarily the higher quality of reconciliation work this year.
- 6.4 The NAO advised the Committee that the outcome was testament from the work by HS2 Ltd including detailed data cleansing and expressed thanks to Management for the level of effort and the collaboration.
- 6.5 Management confirmed recognition of further areas of continued improvement and confirmed that actions identified are underway.
- 6.6 **It was agreed that the Committee will commend to the HS2 Ltd Board the success and the level of effort from both Land and Property and Finance colleagues.**

Action: Ed Smith

- 6.7 **It was agreed that the Chair of the Committee would write a note of recognition to the teams involved.**

Action: Ed Smith

7 Quarterly Counter Fraud Update (ARAC 20-042)

7.1 The Committee received and noted the quarterly update from the Head of Counter Fraud on the work undertaken by the Counter Fraud & Business Ethics team in the period 1 May 2020 to 31 July 2020.

7.2 The following key points were raised and noted:

7.2.1 The Head of Counter Fraud provided a verbal update on the detail of specific speak out referrals and closed, current and live investigations;

7.2.2 The Committee were pleased to note the increased completion rate for mandatory training at 96%. Management advised that this is comparable to other mandatory training modules;

7.2.3 The Committee were encouraged to see progress made with award of the fraud risk assessment contract, recruitment activity for a Fraud Data Scientist, and a proof of concept for data analytics;

7.2.4 **It was agreed that Management will review appropriateness to embed some of this technology into the HS2 Ltd procurement process;**

Action: [REDACTED]

7.2.5 The Committee noted that [REDACTED]
[REDACTED]
[REDACTED]

7.3 The Committee noted the update and welcome future detail on execution.

8 DEEP DIVE: Project Management Enterprise Capability to achieve Level 4 (ARAC_20-043)

8.1 The Stations Client Director joined the meeting.

8.2 At the start of 2020, the Committee had commissioned a series of deep dives. The second of those deep dives was allocated following the identification of this capability area as one of the key critical areas by the HS2 Improvement Programme. Further, the organisation has defined this capability area as key to the success of HS2 and has been tasked with achieving Level 4 capability.

8.3 The Committee received and noted the paper providing an overview of the plans in place to achieve Level 4 in Project Management Enterprise Capability.

8.4 The following key points were raised and noted:

8.4.1 At the time of reporting to the Committee, the capability assessment is 3.1. The Committee received a verbal update from the Stations Client Director providing context of the capability review, having been appointed capability lead in June 2020;

- 8.4.2 The Committee noted that PM activities have been strongly focussed on construction, having identified that most PM's sit within construction. A pulse survey was issued in August 2020 and following this Management have reviewed and developed the plan to achieve L4 for both construction and Enterprise wide capability by January 2021;
- 8.4.3 The Committee noted the ongoing activities to support achievement of L4 including a PM Framework, capability development via competency assessments and mentoring, and a PM community of practice.
- 8.4.4 Key workstreams to reach L4 capability have been identified as:
- 8.4.4.1. Embedding the project management framework;
 - 8.4.4.2. Professional project management excellence; and
 - 8.4.4.3. Growing the project management community.
- 8.4.5 The Committee welcomed the update commenting that at the time of reporting, this is at a highly input driven level;
- 8.4.6 **The Committee requested further visibility of outputs, for example behaviours and how the execution of Project Management execution will change;**
- Action:** [REDACTED]
- 8.4.7 **The Committee referred to the commissioned deep dive into Integrated Project Teams and requested a review to what extent Project Management is being embedded with these teams;**
- Action:** [REDACTED]
- 8.4.8 It was noted that data collection has begun on how the Delivery Directorate can share experience and practices with wider Directorates, with briefings and newsletters being shared in parallel; and
- 8.4.9 The Committee were encouraged to note the appointment of a Head of Programme Management Capability whose role will include leadership of the provision of professional standards, collaborate in order to increase capability and share best practice with other organisations.

8.5 The Committee noted the update.

9 Six Monthly update on Strategic Lessons from Crossrail (ARAC_20-044)

- 9.1 Following an interim update provided to the Committee at the July meeting the Committee received and noted a paper providing an update on HS2 Ltd's response to Strategic Lessons Learned from Crossrail 12-months on from the original assessment.
- 9.2 The Committee had requested a further submission from Management to review the status of the review of the Crossrail findings in order to provide confidence to internal and external

stakeholders that HS2 Ltd has considered the lessons learned from other major projects and has effective and appropriate controls in place.

9.3 The following key points were raised and noted:

9.3.1 Management continue to rigorously review the updates to the findings, but due to competing workstreams there is further work to be done to provide a conclusive view to the Committee;

9.3.2 **It was agreed that the Committee will further review this work at the December meeting;**

Action: Kevin McGreal/ Emma Head

9.3.3 The NAO provided feedback that when Crossrail made early decisions including business operations and procurement, these were not kept in focus. Examples were given around incentives which over time led to perverse consequences as the Programme and complexities progressed;

9.3.4 The NAO recommend continued clarity and communication by HS2 Ltd of the rationale to apply exclusions and exceptions to Reference Class Forecasting (RCF) and Quantitative Cost Risk Analysis (QCRA) and the work to model Secretary of State (SoS) owned risks;

9.3.5 It was noted that reports produced, have been done so at a moment in time and that the NAO intend to issue a follow up report in 2021 on what has developed since the initial review;

9.3.6 P-Rep welcomed the work and analysis conducted by HS2 on lessons learned and echoed that due the complexity of Programmes such as Crossrail and HS2 Ltd, the level of focus from Executive and Board needs to be kept on the early decisions which have implications in the future and as the Programme matures;

9.3.7 P-Rep advised that recommendations for Crossrail included more streamlined reporting and clarity of progress being made against Key Performance Indicators (KPIs), milestones and Earned Value. This lack of clarity meant senior leaders in the business were not able to review progress and productivity in the supply chain;

9.3.8 The Committee discussed the ongoing review of HS2 Ltd MI, the format of the Board meeting, allocating sufficient time to the review of delivery performance, and commissioning of the Integrated Project Teams to report back on their operating capabilities;

9.3.9 Management reflected on the importance of culture as a theme from the reports on Crossrail and advise that an Executive Committee session will be held with Crossrail attendance;

9.3.10 **The Committee discussed the number of findings from the analysis (111) and requested Management provide a view on the key issues which Board Members should be aware of so that this can be used almost as a checklist/ reminder for decision making;**

Action: 

- 9.3.11 In line with the previous discussion, it is also important that this is kept under review and refreshed as the Programme develops;
 - 9.3.12 Management are due to conduct a workshop to understand how this work can be linked to the Integrated Assurance and Approvals process; and
 - 9.3.13 The stage of delivery for Crossrail at the time of review and the resultant analysis of lessons has been conducted at a very different stage to where HS2 Ltd is currently, at the start of construction which needs to be factored in.
- 9.4 The Committee noted the update and thanked Management for the rigorous work done to date.

10 Phase 2a Baseline Assurance Progress Update (ARAC_20-045)

- 10.1 The Head of Programme and Corporate Assurance and the Phase Two Project Controls Director joined the meeting.
- 10.2 The Committee noted the timetable for Phase 2a Baseline 2 assurance and agreed that an extraordinary meeting would be held to consider the assurance.
- 10.3 The Committee noted the update.

11 Forward Look (ARAC_20-046)

- 11.1 The Committee noted the forward look.

12 Any Other Business

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