

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Wednesday, 09 June 2021
Meeting location MS Teams Virtual Meeting
Meeting time 10:00 - 13:00

Members	Attendees	Apologies
Ed Smith Committee Chair	[REDACTED] Internal Audit Manager, Government Internal Audit Agency	Stephen Hughes Non-Executive Director
Roger Mountford Non-Executive Director	Michael Bradley Chief Financial Officer	
	Allan Cook Board Chair	
	[REDACTED] Head of Information Security	
	[REDACTED] Senior Business Manager, CFO	
	[REDACTED] Chief Information Officer	
	Nicole Geoghegan General Counsel	
	[REDACTED] Finance Director	
	Emma Head Safety and Assurance Director	
	[REDACTED] Chief Security & Resilience Officer	
	[REDACTED] Director, UK National Audit Office	
	[REDACTED] UK National Audit Office	
	[REDACTED] Head of Finance Operations	
	[REDACTED] Audit Manager, UK National Audit Office	
	Non Owen Company Secretary	
	[REDACTED] Project Representative	

	Marl Thurston Chief Executive Officer	
	██████████ Head of Internal Audit	
	██████████████████ Secretariat Secondee	

1 Quorum, Declarations of Interest and Values Moment

- 1.1 The Chair noted that apologies had been received from Stephen Hughes and that a quorum was present.
- 1.2 The Committee noted that there was no DfT representation to the meeting on this occasion.
- 1.3 Each member of the Committee confirmed that there were no additional conflicts of interest to be declared.
- 1.4 The Committee received a values moment from the General Counsel regarding integrity and the ways in which deceitful behaviour could be hidden as depicted in the film 'Bad Education'.

2 Minutes of the Previous Meeting and Matters Arising (ARAC_21-021 and ARAC_21-022)

- 2.1 The minutes of the meeting held on 24 May 2021 were approved as an accurate record of that meeting.
- 2.2 The Committee reviewed the Action Schedule, as included in the meeting papers, and noted the updates provided for open actions and those actions which had been closed.
 - 2.2.1 **20-060 Supply Chain Cyber Security Report:** It was noted that a report on cyber security in the supply chain would be provided in the Cyber Security Information Officer's ("CISO") six-monthly update that was being presented during the meeting. **Action Closed.**
 - 2.2.2 **20-070 Board Session on P-Rep Consideration:** It was noted that the action to consider allocating Board time to holding a session on P-Rep had been superseded by a review that was currently being undertaken jointly by HS2 and the Department for Transport ("DfT") with respect to approvals process. **Action Closed.**
 - 2.2.3 **It was requested that an update on the joint review of the approvals process review, including Line of Defence 3 ("LoD 3") assurance, be provided in due course.**

Action: Michel Bradley
 - 2.2.4 **21-001 IMS Demonstration:** It was reported that Board members had expressed a desire to receive a demonstration of the Internal Management System ("IMS"). A demonstration was therefore to be scheduled for a Board briefing session and it was agreed that the Committee action could be closed. **Action Closed.**

- 2.2.5 **21-004 RCA Open and Overdue Actions Update:** It was confirmed that an update on the progress to closed open and overdue Risk, Control and Assurance (“RCA”) actions would be provided during the meeting. **Action Closed.**
- 2.2.6 **21-005 RCA Report P-Rep Actions:** It was confirmed that for future reports the HS2 management narrative in respect of P-Rep Actions would be reviewed and agreed by P-Rep ahead of circulating in the Committee papers. It was noted that the next quarterly review was to report to the Committee in September 2021 and the frequency of P-Rep Action reports was considered. It was noted that HS2 Management held regular meetings with P-Rep and it was agreed that quarterly reporting was considered to be appropriate, with any material items outside of this cycle escalated to the Committee Chair as per the current process. **Action Closed.**
- 2.2.7 **21-009 Counter Fraud Data Analytics Review Progress and Resource Update:** It was reported that a data scientist had been recruited with a start date of August 2021, who would oversee the data analytics review for potential fraud identification. The Committee were advised that PwC had been engaged for three months to expedite the process by supporting the data scientist with the data to be targeted and that analytics to be undertaken. The engagement and investment by the Main Works Civils Contractor (“MWCC”) Joint Ventures in fraud reduction through the Reduced Actual Costs Forum and gainshare incentivisation was noted. It was agreed that further updates on this matter would be included in business as usual reporting. **Action Closed.**
- 2.2.8 **21-014 Phase 2b Baseline 2.1 (Western Leg) Reference Class Forecasting:** It was noted that reference class forecasting took into account [REDACTED]
[REDACTED]
[REDACTED] **Action Closed.**

3 Update from the Audit and Risk Assurance Panel (ARAC_21-023)

- 3.1 The Committee reviewed and noted the minutes of the Audit and Risk Assurance Panel meeting held on 19 May 2021, as included in the meeting papers.
- 3.2 The Committee received an overview of the discussions held with respect to:
- 3.2.1 The RCA Management Information Report, including; the strategic risk review, supply chain capacity risk, supply chain cost inflation, and PwC process improvement reviews for [REDACTED];
 - 3.2.2 The HS2 Internal Audit update and annual Internal Audit Opinion;
 - 3.2.3 The Senior Information Risk Owner (“SIRO”) update and penetration testing outcomes;
 - 3.2.4 The counter fraud update;
 - 3.2.5 The Communications and Stakeholder Engagement deep dive;
 - 3.2.6 The Assurance in IPTs deep dive; and

3.2.7 The Annual Report and Accounts progress update.

- 3.3 The action to consider creating an in-house operational efficiency team was highlighted and the positive examples of similar in-house teams in other organisations was noted. It was explained that the plan was for in-house capability to be developed in the medium term once the process was more mature, with transfer of skills specifically included as part of the PwC engagement. It was suggested that at the appropriate time management might consider holistically the most effective methods for developing staff capabilities.
- 3.4 The Committee were informed of the role that the Collaborative Procurement Hub would undertake in mitigating the strategic supply chain risks. The need to ensure that collaborative procurement was embedded into the Phase 2a Programme was noted and it was confirmed that the Board would receive Phase 2a update reports, which would include details on this topic.

4 Risk, Control and Assurance Management Information Report (ARAC_21-024)

- 4.1 The Committee reviewed and noted the Risk, Control and Assurance Report for April 2021, as included in the meeting pack.
- 4.2 It was reported that the two pilots developed by efficient processes workstream, being; Schedule Change Control and Document Control, had been positively received by the teams. It was noted that the opportunity analysis, which would validate and prioritise the other thematic areas, was progressing and due to report in June 2021. The Committee was informed that a toolkit was to be developed for control owners to be able to utilise the same methodology to identify and capture improvements in other processes.
- 4.3 [REDACTED]
[REDACTED]
[REDACTED] It was confirmed that plans to close each of the actions was in place and being monitored by the Assurance team. The Committee reiterated their request that focus be placed on closing the overdue actions.
- 4.4 It was reported that, further to the update with respect to the LoD3 assurance rating of the [REDACTED] [REDACTED] included in the paper, following further review the assurance rating [REDACTED] was being progressed for formal approval.
- 4.5 The Committee were informed that PwC had issued their final LoD2 report for the Phase 2b Baseline 2.1 (Western Leg) (Phase 2b BL2.1 (W)), [REDACTED]. The Committee were reminded of the discussions with respect to ensuring that Phase 2b BL2.1 (W) and the assurance undertaken upon it was understood as being [REDACTED]. It was confirmed that Management had reviewed Phase 2b BL2.1 (W) with DfT and that it would be presented at the Board briefing being held in June 2021, ahead of tabling for formal approval at the July 2021 Board meeting.

4.6 Attention was drawn to the Strategic Risk Overview and it was proposed that [REDACTED] be added as a key strategic risk. The Committee considered the proposal, noting the impact on schedule, including the reduction of schedule float for in-contract delays, the resultant increased costs, both in terms of actual contract and internal resource costs taken to re-plan activities, and the impact on staff wellbeing. **It was agreed that [REDACTED] be added to the strategic risk register and appropriate mitigations be agreed and actioned.**

Action: Michael Bradley

5 HS2 Internal Audit Update and Head of Internal Audit Annual Opinion (ARAC_21-025 and ARAC_21-026)

5.1 The Senior Business Manager, CFO Directorate, joined the meeting.

5.2 The Committee reviewed and noted the Internal Audit Summary Report for the period 1 January to 31 March 2021 and the Head of Internal Audit Annual Opinion 2020 - 2021, as included in the meeting papers.

5.3 The Internal Audit activity forward look was highlighted and it was reported that the second stage of the Land & Property End of Powers review had been deferred until the Interim Land and Property Director was further embedded in post.

5.4 The proposal to defer the internal audit reviews of Project Management Capability and Controls and Effectiveness of Assurance in the IPTs to the 2021/22 plan was discussed and, after consideration, it was AGREED that the deferrals be approved, and the 2021/22 plan be updated accordingly.

5.5 The Committee noted that there had been [REDACTED] The summary reports for these reviews, as detailed in the paper, were reviewed and the management response to resolve the key findings noted by the Committee. In response to a question regarding [REDACTED] it was confirmed that regular testing exercises were undertaken throughout the organisation. **The Committee requested that updates on the progress to complete the Management actions agreed in response to the findings of the [REDACTED]** [REDACTED] [REDACTED] [REDACTED] [REDACTED].

Action: Emma Head

5.6 It was noted that HS2 governance, risk and control environment had been rated 'Moderate' for 2020-21 by the Head of Internal Audit. It was explained that this was considered positive given that no material control deficiencies had been identified whilst in the context of the organisations transition and COVID-19 impacts. The Committee were advised that the challenge for the

organisation was in respect of the environment of continuous change and the forward looking nature of the project.

5.7 The Committee were advised that, due to the [REDACTED] [REDACTED] however, an audit would be scheduled once processes had been embedded.

5.8 The Committee expressed their thanks regarding the work undertaken by the Internal Audit team throughout the year.

6 National Audit Office Update (ARAC_21-018)

6.1 The High Speed Two Ltd Audit Completion Report for the 2020-21 Financial Statements Audit (the "Auditor's Report"), as included in the meeting papers, was reviewed and noted by the Committee.

6.2 The Significant Audit Risks and Areas of Audit Focus were presented to the Committee. The updates noted in particular were in relation to; [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

6.3 The Committee's attention was drawn to the outstanding audit activities, being International Financial Reporting Standard (IFRS) 16 embedded leases and accruals. It was confirmed that a final Auditors Report and Letter of Representation (the "Letter of Representation") would be circulated to the Committee once the outstanding activities had been completed. It was noted that learnings from the 2020/21 audit would be taken when designing the 2021/22 audit plan.

7 Audit and Risk Assurance Committee Chair Annual Report (ARAC_21-028)

7.1 It was reported that the Committee Chair Annual Report would be circulated after the meeting for review and comments.

8 2020/21 Annual Report and Accounts (ARAC_21-029)

8.1 The Committee reviewed and noted the 2020/21 Annual Report and Accounts (the "FYE21 Accounts"), as included in the meeting papers.

8.2 It was noted that Committee comments received prior to the meeting had been incorporated.

8.3 It was AGREED that Committee Members would receive the final iteration, ahead of submission to the HS2 Ltd Board, of the:

8.3.1 the Letter of Representation; and

8.3.2 the FYE21 Accounts.

8.4 The Committee thanked the Finance team for their work in producing the FYE21 Accounts and **it was requested that HS2 be nominated for the Building Public Trust Awards for the FYE21 Accounts.**

Action: Michael Bradley

8.5 The Senior Business Manager, CFO Directorate, left the meeting.

9 Counter Fraud Six-Monthly Update (ARAC_21-030)

9.1 The Committee reviewed and noted the Counter Fraud and Business Ethics Update, as included in the meeting papers.

9.2 The Closed and Current Live Investigations were highlighted, and the recommendations narrative noted.

9.3 It was reported that a Fraud Data Analytics pilot completed by SAS had identified [REDACTED] [REDACTED] It was noted that further updates would be provided in due course.

9.4 The Committee, notwithstanding the deferral of finalising the Fraud Strategy [REDACTED] [REDACTED] **requested that the Fraud Risk Strategy be circulated for comments ahead of presenting at the August 2021 Committee meeting.**

Action: Nicole Geoghegan

9.5 **It was requested that confirmation of the response to the [REDACTED] [REDACTED] to the Committee for reference.**

Action: Nicole Geoghegan

9.6 It was noted that [REDACTED] [REDACTED] It was confirmed that no concern had required escalation to the Senior Independent Director responsible for Whistleblowing.

10 SIRO Six-Monthly Update (ARAC_21-031)

10.1 The Chief Information Officer, Chief Security & Resilience Officer and Head of Information Security joined the meeting.

10.2 The Committee reviewed and noted the Senior Information Risk Owner Six-Monthly Update, as included in the meeting papers.

10.3 It was reported that the risk management of data and information was compliant with legislation and the Government's Security Policy Framework and within HS2 risk appetite.

10.4 [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

10.5 It was noted that representatives of the National Cyber Security Centre would be invited to present the latest developments to the Board at a future meeting.

10.6 The Committee were advised that the increase in [REDACTED]
[REDACTED]
[REDACTED] It was confirmed that processes had been updated accordingly.

10.7 [REDACTED]
[REDACTED]
[REDACTED]

10.8 The Committee noted the Identity and Access Management (“IDAM”) Update and, noting that the mitigation activities for this risk had been in flight for a long time, **requested that the implementation of the IDAM tool be prioritised and completed by October 2021.**

Action: [REDACTED]

10.9 [REDACTED] and findings was tabled and presented to the Committee.

10.10 It was explained that [REDACTED]
[REDACTED]
[REDACTED]

10.11 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

10.12 It was noted that Key Performance Indicators were to be developed for transparency and oversight and that assurance [REDACTED]

10.13 The Chief Information Officer, Chief Security & Resilience Officer and Head of Information Security left the meeting.

11 Forward Look (ARAC_21-012)

11.1 The Committee reviewed the Forward Look paper, as included in the meeting pack, and noted the items scheduled for discussion at future meetings.

12 Any Other Business

- 12.1 The Committee and Management commended the work of internal and external auditors.
- 12.2 The Head of Internal Audit confirmed that no closed session with Committee Members was required.
- 12.3 A closed session with the external auditor was held following the meeting, which was noted as a helpful session.