

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Thursday, 08 December 2022
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:00-13:45

Members	Attendees	Apologies
Stephen Hughes Committee Chair	██████████ Internal Audit Manager - GIAA	Mark Thurston CEO
Roger Mountford Non-Executive Director	██████████ (item 11 only) Head of Financial Control and Governance	Sir Jon Thompson Non-Executive Director
	██████████ (from 12:30) NAO	
	██████████ (item 7 only) Head of Technical Assurance Services	
	Alan Foster (CFO) Chief Financial Officer (Interim)	
	██████████ (items 4 to 6 only) Risk Director	
	██████████ (item 11 only) Tax Manager	
	██████████ (item 5 only) Chief Security and Resilience Officer	
	Emma Head Delivery Director Technical Services	
	██████████ (item 10 only) Land and Property Director	
	██████████ (items 4 & 7 only) Quality and Assurance Director	
	██████████ (Minutes) Deputy Company Secretary	
	██████████ GIAA	
	██████████ (item 9 only) Commercial Delivery Director – Civils & Services	
	██████████ NAO (from 12:30)	

Members	Attendees	Apologies
	██████████ Finance Director	
	██████████ Government Internal Audit Agency (GIAA)	
	Non Owen Company Secretary	
	██████████ P-Rep	
	██████████ DfT	
	██████████ (item 5 only) Senior Information Security Assurance Manager	
	██████████ (item 5 only) Senior Data Analytics Manager	
	██████████ (until 12:50) GIAA	
	██████████ (item 5 only) Chief Information Officer (Interim)	

1 Welcome, Declarations of Interest and Values Moment

- 1.1 The Chair welcomed members and attendees to the meeting and confirmed a quorum was present.
- 1.2 Each member of the Committee confirmed that there were no additional conflicts of interest to be declared.
- 1.3 The Committee received a values moment on gender balance and domestic violence from the Delivery Director – Technical Services.
- 1.4 The Chair informed the Committee that the agenda had been revised and item 8 was no longer being presented. The Committee were invited to provide comments, none were received.

2 Minutes of the previous meeting and review of Action tracker (ARAC_22-033 and ARAC_22-034)

- 2.1 The Minutes of the meeting on 6 October 2022 were approved as a true record of that meeting.
- 2.2 The Committee noted the status of the actions.

3 Update from the Audit and Risk Assurance Panel on 22 November 2022 (ARAC_22-035)

- 3.1 The Committee reviewed and noted the minutes of the Audit and Risk Assurance Panel ('**ARAP/ the Panel**') held on 22 November 2022.
- 3.2 The CFO as Chair of ARAP, informed that the Panel focused their discussion on risk management and overdue assurance actions. Whilst the Panel were pleased there had been a reduction in the number of overdue actions, it was stressed that more needed to be done to enhance the culture to achieve a step change reduction.
- 3.3 The Committee noted the update from the CFO.

4 Risk, Control and Assurance Management Information Report (RCA Report) (ARAC_22_036)

- 4.1 The Quality and Assurance Director and Risk Director joined the meeting.
- 4.2 The Committee noted the overview from the Delivery Director – Technical Services, with the Risk Director highlighting:
 - 4.2.1 Programme Risks: The exposure for the period for Phase 1 had decreased since the previous period. The decrease had been driven by:
 - 4.2.1.1. Reduction from a quarterly review of Chief Engineering Risks.
 - 4.2.1.2. Closed or impacted risks.
 - 4.2.1.3. A net increase due to new or increased risks in main works civils contracts.
 - 4.2.2 The Committee noted the key phase 1 threats, which included prolongation.
 - 4.2.3 Phase 2a risks had reduced following the completion of the QCRA exercise.
 - 4.2.4 Phase 2b risks remained consistent to the previous period, the Golborne Link would be omitted.
- 4.3 The Committee undertook a detailed discussion requesting further clarity on whether the figures included were gross and the category of risks and uncertainties (trends). The Committee noted that draft trends were an early warning of an issue emerging, pipeline and pending trends recognised increasing levels of probability against the item taking place. The Committee had a robust discussion following which it was noted that the RCA report did not contain visibility of all the categories of risk and uncertainties due to internal responsibilities and legacy reporting systems. **An action was taken to ensure that the RCA report included all information to ensure that the Committee had full visibility of the complete risk and uncertainty environment.**

Action – [REDACTED]

- 4.4 The Quality and Assurance Director presented the assurance activity, where the Committee noted:
- 4.4.1 Efficiency for deliverables was tracking as 7% below HS2's L2 KPI target, however action was being taken to resolve this. The Committee were informed that an inconsistent approach was being used in applying metrics to assess 'Right First Time' deliverables. It was noted that training was being provided.
 - 4.4.2 The assurance plan activity was tracking as amber, which was driven by resource or planning issues potentially changing due to stakeholder feedback and business priorities.
 - 4.4.3 The Committee expressed that it was difficult to assess what a good result would be, in response the Delivery Director – Technical Services informed that there had been improvements, however more would be achieved in 2023. In response to a question on how deliverables were being assured, the Quality and Assurance Director informed that it was both individuals in HS2 and contractors. It was noted that where contractors were self-assuring, it would not usually result in a contractual consequence unless it impacted the schedule, however the Committee suggested that there maybe an opportunity to incentivise contractors on assessing deliverables right first time.
 - 4.4.4 The Committee were informed that in respect of categories of deliverables, the norm should be category 5 which was the lowest risk, however future reports would provide more granular information. The Committee noted that there had been changes in the team and questioned the impact. **The Quality and Assurance Director stated that the attrition in the team was not unexpected and there was other resource which could be utilised. The Committee referred to the Summary of updates slides and requested an update be presented to the Committee on the output from the reviews and lessons learnt from the assurance process.**

Action – 

- 4.5 The Committee noted the RCA report.
- 4.6 The Quality and Assurance Director left the meeting.

5 Senior Information Risk Owner – November 2022 Six Monthly Update (SIRO) (ARAC_22-037)

- 5.1 The Chief Information Officer (Interim), Chief Security and Resilience Officer, Senior Data Analytics Manager and Senior Information Security Assurance Manager joined the meeting.
- 5.2 The SIRO update was taken as read, the Committee questioned whether there were any highlights or concerns. The Chief Security and Resilience Officer confirmed that there were no concerns, however highlighted:
 - 5.2.1 The cyber security uplift project was due to complete at the end of the financial year.

- 5.2.2 The risk of potential energy supply shortages over winter was being reviewed. The review would assess any potential implications to information systems should any energy supply issues arise over the winter period.
- 5.3 Following consideration, the Committee noted the SIRO update.
- 5.4 The Chief Information Officer (Interim), Chief Security and Resilience Officer, Senior Data Analytics Manager and Senior Information Security Assurance Manager left the meeting.

6 Strategic Risk Management – Quarterly Update (Risk Paper) (ARAC_22-038)

- 6.1 The Risk Director presented the Risk Paper, which provided the current status of the Strategic Risk Register following the quarterly review of Individual Strategic Risk with the Executive Owners and Action Owners.
- 6.2 The Committee considered and noted the Risk Update.
- 6.3 The Risk Director left the meeting.

Item 12 on the Agenda was considered next.

12. Internal Audit Summary report 9 September – 10 November 2022 (ARAC_22-044)

- 12.1 The representative from the Government Internal Audit Agency (GIAA) presented the Internal Audit Update for period of 9 September 2022 to 10 November 2022, highlighting:
 - 12.1.1 All reviews but one was in planning or fieldwork.
 - 12.1.2 The review for the Design and Delivery Partner – HS2 Readiness was identified as moderate, and evidence provided from October 2022 would be evaluated and reflected in the final report.
 - 12.1.3 Commercial and Contract Management reviews for two contractors had been rated as amber, due to them being paused, however meetings had been planned in early 2023. Following a question on capacity and timing of the two audits, the GIAA advised that the internal audits were complementary to the day to day work and would bring a level of factual accuracy. The P-Rep questioned what the scope of the audit was, in response it was noted that the scope was around contract management.
 - 12.1.4 The Committee noted the interim finding of Moderate for the audit on the Design and Delivery Partner, specifically HS2 Readiness. It was noted that evidence provided in October 2022 would be evaluated and reflected in the final report.
 - 12.1.5 The Committee queried and challenged the GIAA on confidence to conclude and close out the Internal Audit activity in line with Financial Year End requirements. The GIAA

confirmed that there were no concerns to raise at the time of reporting to the Committee.

12.2 Following consideration, the Committee noted the Internal Audit Update for the period of 9 September 2022 to 10 November 2022.

7 Design Management and Technical Assurance Improvement Plan (Improvement Plan) (ARAC_22-039)

7.1 The Quality and Assurance Director and Head of Technical Services joined the meeting.

7.2 Following an overview from the Delivery Director – Technical Services, the Committee noted:

7.2.1 The rationale and timeline of the new design management process (including technical assurance) and the areas of improvement.

7.2.2 The Committee praised the ongoing work, with P-Rep recommending that contractor improvement be aligned with commercial mechanisms.

7.2.3 The Committee questioned whether the costs drivers would be picked up as part of the project, the Delivery Director – Technical Services informed that the Improvement Plan would be focused on assurance, however cost drivers could be included.

7.3 Following consideration, the Committee noted:

7.3.1 What Design Management and Technical Assurance was in HS2.

7.3.2 Feedback on this subject from the CEO's Forum in July 2022 and the overall problem statement.

7.3.3 The approach to developing an appropriate action plan.

7.4 The Quality and Assurance Director and Head of Technical Services left the meeting.

8 Update on the review of HS2's investment decision making model and process (ARAC_22-040)

8.1 The paper was not presented; however, the Committee had opportunity to review the paper and no comments were received.

9 Cost Verification Steering Group Update (CVA Paper) (ARAC_22-041)

9.1 The Commercial Delivery Director – Civils & Services joined the meeting.

9.2 The Committee noted:

9.2.1 The changes to the cost verification process which intended to improve the coverage and value of costs in major construction contracts across the Programme.

9.2.2 The establishment of the Cost Verification Steering Group and additional assurance levels when it came to reviewing costs.

9.2.3 The Committee questioned what proportion of costs would be evaluated, in response the Commercial Delivery Director – Civils & Services confirmed that a sample of [REDACTED] was being assessed with an aspiration to increase this figure over time. It was noted that through the revised cost verification process forecasted costs would be driven down. The Committee noted that further information would be presented in 2023 once the new cost verification process had been embedded.

9.2.4 [REDACTED]

9.2.5 The Committee discussed the supply chain and whether any resistance had been identified, it was noted there was a possibility, however it was a contractual right. Furthermore, some anomalies had already been found and was being investigated.

9.2.6 The Commercial Delivery Director – Civils & Services informed that reports from the Cost Verification Steering Group would be presented to the Committee on a regular basis.

9.3 Following consideration, the Committee:

9.3.1 Approved the formal link between the Cost Verification Steering Group and the Audit, Risk and Assurance Panel and the Committee.

9.3.2 Noted the formation of the cost verification strategy and the progress made to date on enacting the strategy, including the cost verification policy presented to the Committee.

9.3.3 Noted the cost verification findings to date.

9.4 The Commercial Delivery Director – Civils & Services left the meeting

10 Undertaking and Assurance (U&A) Non Compliance Incident (ARAC_22-042)

10.1 The Land & Property Director joined the meeting.

10.2 The Panel were informed:

10.2.1 [REDACTED]

10.2.2 [REDACTED]

10.2.3 [REDACTED]

10.2.4 [REDACTED] The HS2 Hybrid Bill team had been engaged to ensure that in future U&A's would be clearer.

10.2.5 The Committee noted that, in accordance with the Development Agreement, the CEO would be corresponding with the DfT to notify the DfT Senior Responsible Officer of the non-compliance incidents.

10.3 Following consideration, the Committee noted the non-compliance incidents and remedies proposed.

10.4 The Land & Property Director left the meeting.

11 Senior Accounting Officer (SAO) HMRC Tax Certificate for FY2021/22 (ARAC_22-043)

11.1 The Head of Financial Control and Governance and Tax Manager joined the meeting.

11.2 The Committee were notified that the annual Senior Account Officer Tax Certificate for the financial year 2021/22 was due to be submitted to HMRC by 31 December 2022.

11.3 The Committee noted:

11.3.1 The proposed tax certificate concluded that HS2 did have appropriate tax accounting arrangements throughout the financial year 2021/22.

11.3.2 The taxes which were covered in the tax certificate.

11.3.3 Two judgemental errors had been identified, however the recommendation by the auditors was that these did not need to be included as they were not process errors.

11.3.4 Two independent reviews on the process had also taken place.

11.4 The Committee reviewed and noted the proposed SAO Tax certificate presented to them. The SAO Tax certificate concluded that HS2 did have appropriate accounting arrangements through the 2021/22 financial year.

11.5 The Head of Financial Control and Governance and Tax Manager left the meeting.

13 NAO Update (Verbal) (ARAC_22-045)

13.1 The representatives from the National Audit Office (NAO) provided a verbal update.

13.2 The Committee were informed that a new audit methodology was in the process of being implemented. The HS2 Finance team had been involved in the planning process and confirmed that it was progressing well.

13.3 The Committee noted the verbal update commenting that they were looking forward to being presented with the report.

14 Committee Forward Look (ARAC_22_046)

14.1 The Committee reviewed and noted the Forward Look.

15 Any Other Business

15.1 There being no further business the meeting was closed.