

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Tuesday, 07 February 2023
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:00-12:45

Members	Attendees	Apologies
Stephen Hughes Committee Chair	██████████ Internal Audit Manager - GIAA	Mark Thurston CEO
Roger Mountford Non-Executive Director	██████████ NAO	
Sir Jon Thompson Non-Executive Director	Alan Foster (CFO) Chief Financial Officer (Interim)	
	██████████ (items 4 & 5) Risk Director	
	██████████ NAO	
	Emma Head Delivery Director Technical Services	
	██████████ (item 6) Head of Delivery Sponsorship	
	██████████ (item 4) Quality and Assurance Director	
	██████████ GIAA	
	██████████ (10:00-11:10) Project Controls Director	
	██████████ NAO	
	██████████ Finance Director	
	██████████ Government Internal Audit Agency (GIAA)	
	Non Owen Company Secretary	
	██████████ P-Rep	
	██████████ DfT	

Members	Attendees	Apologies
	██████████ GIAA	
	██████████ (item 7) General Counsel	

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 from the Quality and Assurance Director with regard to mental health and wellbeing.

2 Minutes of the previous meeting and review of Action tracker (ARAC_22-047 and ARAC_22-048)

- 2.1 The Minutes of the meeting on 8 December 2022 were approved as a true record of the meeting.
- 2.2 The Committee noted and agreed the status of the actions.

3 Update from the Audit and Risk Assurance Panel on 12 January 2023 (ARAC_22-049)

- 3.1 The Committee reviewed and noted the minutes of the Audit and Risk Assurance Panel ('ARAP') held on 12 January 2023.
- 3.2 The CFO as Chair of ARAP, informed the Committee of the following points which the Panel had focussed their discussion on:
 - 3.2.1 In the usual way, the agenda for the Panel remains broadly consistent to that of the Committee and so discussion and queries would be taken against each item.
 - 3.2.2 Management provided the Committee with the status of overdue assurance actions and continued as the numbers remain high and needs to continue to have attention. On query from the Committee on the level of confidence to reduce the number of overdue actions, Management advised that whilst there is an appropriate level of transparency, there are capacity and process issues to resolve.
 - 3.2.3 In addition, it has been observed that there is a behavioural tendency for action owners to set 'predictable and arbitrary' closure dates (i.e., the end of the calendar year) and it

was agreed that this should be addressed/ stopped in setting closure dates going forward.

3.2.4 Committee Members commented that introduction of a date for the plan to complete the action, followed by the target completion date might prove useful.

3.2.5 The Committee will continue to review this matter.

3.3 The Committee noted the update.

4 Risk, Control and Assurance Management Information Report (RCA Report) (ARAC_22-050)

4.1 The Quality and Assurance Director and Risk Director joined the meeting.

4.2 The Committee received and noted the Risk, Control and Assurance Management Information, as included within the meeting pack.

4.3 The following key points were raised:

4.3.1 The Committee commented that the presentation of the Management Information was becoming more difficult for Committee Members to decipher and asked for improvement here.

4.3.2 Further to feedback provided at Board, Committee and Panel levels the Committee were encouraged to receive an updated approach to the risk section of the RCA report. Reporting captured all categories of Trends, although additional feedback has been provided on areas of improvement the Committee wish to see. Management accept this and advised that this was the current view of the refresh of content. A session will be held with the Executive Committee prior to Board engagement, however time had not allowed for this prior to the Committee meeting.

4.3.3 Risk reporting has been updated to include coverage of Strategic, Phase 1, Phase 2a, Phase 2b and Business Wide.

4.3.4 Management advised that since last reporting, there has been the addition of three black forecasted risks (score 25), namely:

4.3.4.1. Impact of timely decisions by Government on HS2.

4.3.4.2. External factors, such as COVID, Inflation and other factors impact on scope or reduced future availability of funding.

4.3.4.3. Construction labour/ plant/ materials cost escalation.

4.3.5 These risks are reported on the heatmap of the forecasted threats position and the Committee discussed other risks identified in the heatmap and the placement of the same against impact and likelihood.

4.3.6

4.3.7 The Committee were encouraged to see Consents escalated as a strategic risk, rather than a business as usual risk and suggested this might be an area which the NAO and/

or DfT might want to review as an issue in consideration of the hybrid Bill process. The DfT Observer confirmed that this is an area of focus in the DfT.

- 4.3.8 The Committee discussed further amendments and changes required to risk reporting including:
 - 4.3.8.1. A review of whether identified risks are reported at the right level of impact and likelihood.
 - 4.3.8.2. A review of the naming/ descriptors for the risks e.g., integration.
 - 4.3.8.3. The possibility to add a risk on the timeliness and quality of information received from contractors.
 - 4.3.8.4. Clarity of trends, including the quantum of risk identified in Baseline (BL) 7.1.
 - 4.3.8.5. The time it takes for risks to progress through the process and therefore be understood in total.
- 4.3.9 The Committee advised that more needs to be done to reconcile all of the different measures of risk that are being used, to provide a comprehensive view. Current reporting details quantum of risk against BL7.1 as updated and amended by Management.
- 4.3.10 This excludes a full representation of inflation risk, plus three types of trends (pending, pipeline and draft).
- 4.3.11 The Committee discussed that, as only one of these risks, as currently presented, is used to assess how close the project is to the funding envelope this does not give assurance and view of full performance. There has been an additional request by the Committee, that the prices are shown consistently (e.g., Q3 2019 versus current).
- 4.3.12 The CFO acknowledged these issues and has undertaken to resolve and return to a later meeting with a more comprehensive presentation of the issues.
- 4.3.13 The Committee were grateful to receive a definition and lifecycle slide but provided observation that the draft trends are not visible at Board level at the stage where there is still opportunity to influence, reduce and avoid risk. The Committee would also like better oversight of how trends are being challenged rather than accepted.
- 4.3.14 The Committee discussed and noted Management Information for Delivery Performance and the comparison of efficiency versus effectiveness performance, noting that there is generally a downward trend during December due to less activity. Management will review whether a 12 month moving average might be more appropriate.
- 4.3.15 The Committee will receive revised Management Information for Quality following the introduction of the same as a Key Performance Indicator (KPI) and this will have more information available on metrics such as right first time for design.
- 4.4 The Committee noted the RCA report.
- 4.5 The Quality and Assurance Director and Risk Director left the meeting.

5 Risk Management – Proposed Improvements Report (ARAC_22-051)

- 5.1 The Committee received and noted the Risk Management Proposed Improvements Report, as included in the meeting pack.
- 5.2 The Committee were asked to note the planned improvements to Risk Management along with the associated key activities and their milestone.
- 5.3 The following key points were raised and noted:
 - 5.3.1 Further to discussions raised during the course of the meeting, the Committee received and noted the Risk Management Proposed Improvements Report, as included in the meeting pack.
 - 5.3.2 As discussed, since the previous meeting the team have sought to update a live reporting period and integrate some learning. Following this there needs to be comprehensive implementation of the proposed improvements to risk management reporting.
 - 5.3.3 The Committee noted the proposed activity across five areas, namely:
 - 5.3.3.1 Increase in the frequency of the review of risks.
 - 5.3.3.2 Provide a Board level report on a quarterly basis on key Phase risks and emerging uncertainties.
 - 5.3.3.3 Integrate cost and risk reporting.
 - 5.3.3.4 Define and deliver active risk management.
 - 5.3.3.5 Invite Non-Executive Board Members to be Strategic Risk Champions.
 - 5.3.4 Together with the proposed changes, Management are aware that behavioural changes are also required.
 - 5.3.5 The Committee received the proposed changes positively, however reflected that the previous use of Board Members as “Champions” was not considered effective and so this should be reconsidered.
 - 5.3.6 The Committee note the timing of action implementation due for the end of the current financial year.
 - 5.3.7 The Committee Chair has requested to be engaged and involved in the planning of the Strategic Risk Workshop to be held with the Board.
- 5.4 The Committee noted the update.
- 5.5 The Project Controls Director and Risk Director left the meeting.

6 [REDACTED] recommendations update (ARAC_22-052)

- 6.1 The Head of Delivery Sponsorship joined the meeting to present the [REDACTED] recommendations update.
- 6.2 The Committee were asked to:
 - 6.2.1 Agree the closure of three recommendations (recommendations 4, 6 and 10) which have now become business as usual.
 - 6.2.2 Note the Review's recommendations in Annex A and their current implementation status.
- 6.3 The Committee were encouraged to see the closure of three recommendations which have become business as usual and noted that four more are anticipated to close in time for the next update.
- 6.4 The Committee commended the report, which has concluded with a strong set of recommendations, for which the Committee will continue to receive status updates on a six-monthly basis.
- 6.5 The Head of Delivery Sponsorship left the meeting.

7 Counter Fraud and Business Ethics Update (ARAC_22-053)

- 7.1 The General Counsel joined the meeting and presented the Counter Fraud and Business Ethics Update, as included within the meeting pack.
- 7.2 The Committee was asked to note the work undertaken by the team over the reporting period 1 July 2022 to 30 November 2022.
- 7.3 [REDACTED]
- 7.4 The following key points were discussed:
 - 7.4.1 The Committee noted that there had been a positive six months in the department, with the team increasing in size and engagement with the business and Arms Lengths Bodies for induction and training purposes.
 - 7.4.2 [REDACTED]
 - 7.4.3 On commission by the Committee, the paper also included a case study into details of the Spanish High Speed Rail and Management confirmed that there is sufficient overlap for a pause and reflect of preventative measures which might be taken by HS2 Ltd.

- 7.4.4 **It was suggested that this might be a suitable topic for the Commercial and Investment Committee to consider with regard to lessons learned and receive the view of the Chief Commercial Officer on this matter. A discussion will also be held as to what level of review of fraud avoidance the supply chain is asked to provide during the tender process.**

Action: Company Secretariat for scheduling

- 7.4.5 The Committee noted that [REDACTED] which has recently been acquired will be key in prevention and minimisation of fraud, bribery and corruption. The Committee noted that a case study is being sampled and the output will be available at a future meeting.

- 7.4.6 **The Committee have requested visibility of benchmarking of unsubstantiated investigations at a future meeting.**

Action: [REDACTED]

- 7.5 The General Counsel left the meeting.

8 Internal Audit summary report 8 December – 26 January 2023 (ARAC_22-054)

- 8.1 The Head of Internal Audit from the Government Internal Audit Agency (GIAA) presented the Internal Audit Update in the period 8 December 2022 to 26 January 2023.
- 8.2 The Committee noted the HS2 Internal Audit Update.
- 8.3 The following key points:
- 8.3.1 The Committee discussed the Limited finding on the Stations Integrated Project Teams (IPTs) to assess the design and operating effectiveness of the contract management policy, processes and controls HS2 has in place to manage the BBVS IPT Old Oak Common Station Contract, with a particular focus in regard to reporting on project risk and compliance with design management processes. It was agreed that the report would be shared with the HS2 Chair.
- 8.3.2 The Committee noted that actions have been agreed with Management to resolve issues raised and reflected on the observation that there has been a lot of work from the HS2 side in order to upskill the resource in the IPT to provide the required information.
- 8.3.3 The Committee received an update on the interim arrangements following the departure of the Head of Internal Audit noting that the current incumbent will have completed the 2023/2024 Internal Audit Plan for the Audit and Risk Assurance Panel prior to departure.
- 8.3.4 The Director of Technical Services will liaise with the Government Internal Audit Agency (GIAA) Head of the Internal Audit Profession through the interim period.
- 8.3.5 The Committee received the GIAA report supplement providing updates in:

- 8.3.5.1. Functional Standards, including the updated GovS 009 Internal Audit Functional Standard.
 - 8.3.5.2. ARAC members events.
 - 8.3.5.3. The GIAA quality assurance and improvement programme.
 - 8.3.5.4. An overview of the recent Insights 2022 report.
 - 8.3.5.5. Technical resources for ARAC members, with recently published material.
- 8.3.6 The Committee noted the Cross-Government Insights Report on hybrid working and it was agreed that the content would be considered by Management and an update be provided to a future Committee.
- 8.3.7 The Committee recognised and thanked the Head of Internal Audit for her contribution and engagement during tenure. The Head of Internal Audit thanked the Committee for engagement and support during tenure.

9 NAO Update (ARAC_22-055)

- 9.1 The Committee received and noted the Audit Planning report on the 2022-2023 financial statements audit, as included within the meeting pack.
- 9.2 The Committee welcomed [REDACTED] the incoming Engagement Manager in the National Audit Office (NAO) team.
- 9.3 The Committee noted the summary of how the key business process and operational risks identified by HS2 may impact on the Annual Report and Accounts and give rise to significant risks and areas of focus for the audit, namely:
- 9.3.1 Management override of controls
 - 9.3.2 MWCC expenditure
 - 9.3.3 Assets under construction: Impairments
 - 9.3.4 Contingent liabilities: Undertakings and assurances
- 9.4 The Committee noted new methodology will be applied to Undertaking and Assurances.
- 9.5 Other matters:
- 9.5.1 Capitalisation of infrastructure costs
 - 9.5.2 IR35 liabilities
 - 9.5.3 Provisions and contingent liabilities: Litigation
- 9.6 The Committee noted the audit fee quote based on the anticipated cost of delivering the audit work. The NAO detailed the increase in fee, [REDACTED] compared to the previous financial year and the drivers for this. The Committee referenced the fee as Value for Money.
- 9.7 The Committee queried the significance of risk anticipated with judgements and estimates, with the NAO advising on the key areas where this would be anticipated.

9.8 **The Committee noted that the NAO will bring an update to the next meeting on the National Standards and view of the quality of external audits conducted by the NAO.**

Action: NAO

9.9 The Committee were alerted to the changes in the NAO risk assessment procedures and invited to discuss:

9.9.1 Whether the assessment of the risks of material misstatement to the financial statements is complete.

9.9.2 Whether Management's response to these risks is adequate.

9.9.3 The proposed audit plan to address these risks.

9.9.4 Whether the financial statements could be [REDACTED], and communicate any areas of concern to management and the audit team.

9.10 Management confirmed that there were no material concerns to flag for attention of the Committee in response to this.

9.11 The Committee:

9.11.1 Noted the NAO update and approved the remuneration and terms of engagement for its external audit services by the National Audit Office.

10 Committee Forward Look (ARAC_22_056)

10.1 The Committee reviewed and noted the Forward Look.

10.2 It was agreed that the Committee will continue to receive updates on the Risk Management Improvement plan and actions.

10.3 A review of 2023 Committee focus and attention will be considered with the Committee Chair.

10.4 It was suggested that a review of comparator 'best in class' Annual Report and Accounts be considered ahead of the production of the Annual Report and Accounts.

11 Any Other Business

11.1 There being no further business the meeting was closed.