

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Wednesday, 19 April 2023
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:00-13:00

Members	Attendees	Apologies
Stephen Hughes Committee Chair	██████████ DfT	Mark Thurston CEO
Roger Mountford Non-Executive Director	██████████ Internal Audit Manager - GIAA	
Sir Jon Thompson Non-Executive Director	██████████ NAO	
	Alan Foster Chief Financial Officer (Interim)	
	██████████ (items 4 & 5) Risk Director	
	██████████ NAO	
	Emma Head Delivery Director Technical Services	
	██████████ (items 4, 6 & 10) Quality and Assurance Director	
	██████████ (item 9) Senior Business Manager, CFO	
	██████████ NAO	
	██████████ Finance Director	
	██████████ GIAA	
	Non Owen Company Secretary	
	██████████ P-Rep	
	██████████ GIAA	
	██████████ GIAA	

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 Chief Financial Officer (Interim) regarding Integrity Values Week.

2 Minutes of the previous meeting and review of Action tracker (ARAC_23-001 and ARAC_23-002)

- 2.1 The minutes of the meeting on 7 February 2023 were approved as a true record of the meeting.
- 2.2 The Committee noted and agreed the status of the actions and the following update:
 - 2.2.1 **Action 22/010: Deep dive on assurance actions:** It was agreed that this action would remain open until reported to the August Committee meeting.

3 Update from the Audit and Risk Assurance Panel on 15 March 2023 (ARAC_23-003)

- 3.1 The Committee reviewed and noted the minutes of the Audit and Risk Assurance Panel ('ARAP') held on 15 March 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 The CFO, as Chair of the Panel provided a summary of the meeting, which had largely considered the matters on the agenda for Committee business. In addition to the items on the Committee agenda, the Panel had considered an update from a recent review of the Integrated Management System (IMS) and associated management system records. The review has been conducted in order to determine if the IMS continues to be suitable, adequate and effective in meeting the needs of the organisation.
 - 3.2.2 The Committee noted the review and challenge provided from the Panel on the outcome of the review and in particular the number of recommendations which had been made and tasked Management to rate and prioritise the recommendations together with providing visibility of reporting through the Risk, Control and Assurance (RCA) Management Information.
 - 3.2.3 The Committee noted that the Panel had additionally considered options and a recommendation for managing the outstanding loan made to the National College for Advanced Transport & Infrastructure (NCATI) and treatment in the 2022-23 Year End accounts.

3.2.4 In February 2023 HS2 Ltd were notified that a consultation process had been launched by NCATI regarding its future operating model. The Panel were therefore asked to consider three options for the accounting treatment, namely:

3.2.4.1. Adjust the fair value of the asset to nil (write down) and at the time of the meeting was the recommended option.

3.2.4.2. Do nothing (and await the outcome of the consultation process).

3.2.4.3. Write off the loan completely.

3.2.5 Since the Panel meeting (where there was consensus to accept the recommended option), there have been two further developments:

3.2.5.1. 23/03/23 – NCATI wrote a letter to Mark Thurston requesting that HS2 waive their loan (or if there is a new operating model then realignment of the terms of the loan).

3.2.5.2. 04/04/23 – NCATI confirm publicly that it will cease direct delivery and wind down by 31/07/23.

3.2.6 Due to the developments, the recommended option is now to write off the loan completely and this will require agreement of the DfT and HM Treasury.

3.2.7 The Committee expressed disappointment on the [REDACTED]. The Committee went on to discuss whether there were any other salvageable training opportunities, further use of equipment etc, rather than approach this from a reclaimable aspect. The Committee noted that the CEO and Members of the Executive have been engaging with NCATI to offer support where possible.

3.2.8 **It was agreed that the NCATI history and context would be reported to the HS2 Ltd Board.**

Action: Stephen Hughes

3.2.9 The Committee went onto to discuss the continued review from the Panel on assurance actions and noted specifically the number of actions from P-Rep and the fact that there is a slightly differing process, not subject to the same iteration as the internal audit actions.

3.2.10 It was agreed that the process will be reviewed and the outcome reported back to a future meeting. The P-Rep Observer agreed with the suggestion of a new process, commenting that there will be further activity required to embed this.

3.3 The Committee noted the update.

4 Risk, Control and Assurance Management Information Report (RCA Report) (ARAC_23-004)

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 Following robust discussion from the Committee it was agreed that the Strategic Risk update be withdrawn from consideration. The Committee noted the line of travel of the Strategic Risks but that the Management Information (MI) is reporting behind events which have occurred in recent weeks.
- 4.4 **It was noted that agreement of the current Strategic Risks list was still required and this would be discussed at the following Board meeting.**

Action: Alan Foster

- 4.5 The Committee noted that efficiency performance is trending below target in period but that the end of year position is better but with work to do on consistency.
- 4.6 Effectiveness continues to report an upward trajectory.
- 4.7 The Committee queried the DfT concern on Railway Systems, with Management advising that this related to readiness and how Management are setting the criteria to assess this. Management are using the model from Notice to Proceed (NTP) and Phase 1 Baseline 7. A live discussion continues with the DfT on the approach and evidencing.
- 4.8 The Committee and Management discussed that the success of the Rail Systems Alliance will need to be closely monitored and is dependant on the onboarding of other parties, readiness of the Client, the incentive model etc. and so this is not only an area of concern for the DfT that this is successful.
- 4.9 Management confirmed that all requested information on COVID cost has been shared with the DfT.
- 4.10 **Management will report back to the Committee on outstanding actions related to the HR Directorate.**

Action: [REDACTED]

- 4.11 The Committee noted the RCA report.
- 4.12 The Quality and Assurance Director left the meeting.

5 Risk Management Improvements – Update report (ARAC_23-005)

- 5.1 The Committee received and noted the Risk Management Improvements Update report, as included in the meeting pack.
- 5.2 The Committee were asked to note the progress made to the Risk Management improvement activities along with the next steps and the ongoing Risk Improvement Programme.
- 5.3 The following key points were raised and noted:

- 5.3.1 Management summarised that the paper was submitted to provide an overview and summary of work in flight to improve on risk management but noted the discussion on the RCA report that events have somewhat overtaken the position .
 - 5.3.2 Management discussed that the review has found that there is an overly complex process to report risk and the three categories of trending are not fit for purpose. Instead, there needs to be simplification to allow for better understanding and so that non-risk professionals are able to have the right conversation on proactive risk management.
 - 5.3.3 It was agreed that examples of risks which have been trended and those which were unexpected events are to be modelled to provide better visibility of the improvement. The provision applied to these categories and the overall outcome (risks retired, for example) needs to be clear and auditable. The revised process needs to be supported by training and a cultural shift to move away from the previous approach.
 - 5.3.4 The Committee queried the rationale to apply a timescale on assessing trends, with Management advising that there needs to be an internal deadline for this, but that there will be an exception process to avoid this becoming too overly mechanical.
 - 5.3.5 The Committee commented that the process through the MI focusses to delivering on increasing certainty of a new cost to complete, however whilst emerging issues may be an unexpected event, they may also be that the cost of doing something has grown and becomes unacceptable. The Committee queried what the approach would have been if given a set level of funding from Government and asked what could be delivered to this value and that the approach to risk and some more radical methods to mitigate needs a change of mindset.
 - 5.3.6 Management explained that the revised approach is a commitment for creation of increased visibility of issues emerging to the Board. It was agreed that this was a matter to be further worked and then reported back to the Board.
- 5.4 The Risk Director left the meeting.

6 2022/23 Management Assurance Statement (MAS) (ARAC_23-006)

- 6.1 The Quality and Assurance Director joined the meeting.
- 6.2 The Committee received and noted the 2022/23 Management Assurance Statement (MAS) paper, as included within the meeting pack.
- 6.3 The Committee were asked to:
 - 6.3.1 Review the draft MAS provided and identify any differences in opinion on proposed ratings.
 - 6.3.2 Endorse submission of the assessment to DfT.
- 6.4 The following key points were raised and noted:
 - 6.4.1 The Delivery Director for Technical Services summarised the process and work to produce the MAS, referencing that in the normal way, there are a set of specific (and in

some instances, narrow) questions. Management advised that there is now a well defined mature and sophisticated approach to the process and where any responses report lower than previously, Management follow up on the explanation for this.

- 6.4.2 The Committee queried sections of the MAS which don't apply, noting that reporting elsewhere and via the DfT are examples of reason for exclusion.
 - 6.4.3 The Committee discussed a lower rating given against Cyber from the MAS assessment versus the opinion given from Internal Audit (providing a Substantive opinion), and that the incoming Chief Information Officer (CIO) is providing a more cautious view of controls. It was agreed that the GIAA will cross check the Terms of Reference for differences in areas of review, however the Committee were content to endorse the view and that being less optimistic internally feels right.
 - 6.4.4 The Committee further noted that third party independent assurance for Cyber is being reviewed by Management and this will report back to the Committee.
 - 6.4.5 The Committee, having reviewed the categories, requested a cross check of the GIAA report on audit and noted the discussion on the risks and controls to manage Workforce Planning, but endorsed the MAS for signature by the CEO and onward submission to the DfT.
- 6.5 The Quality and Assurance Director left the meeting.

7 Internal Audit Summary Report 9 March – 6 April 2023, including Proposed 2023/24 Internal Audit Plan (ARAC_23-007)

- 7.1 The Head of Internal Audit from the Government Internal Audit Agency (GIAA) presented the Internal Audit Update in the period 9 March 2023 to 6 April 2023.
- 7.2 The Committee noted the summary of discussion which had been held at the Panel, namely:
 - 7.2.1 Management advised that due to the balance of audit findings and the Limited Findings which have occurred through the year there is a risk that the outcome of the audit could be Limited overall. The Committee and Management discussed the environment and in some instances complexity of the audits and the findings. Management have commissioned a Star Chamber, with the GIAA in attendance in order to hold themselves to account on 21 April 2023. The Committee and GIAA are encourage to note this level of focus from Management.
- 7.3 The Committee discussed the following key points:
 - 7.3.1 The Committee discussed emerging themes in particular findings on the quality of Works Information from a contractor being out of date and in some instances, inaccurate. **The Committee challenged whether enough Commercial levers are available and being used with the supply chain and commissioned a review by the Commercial and Investment Committee of the Market Intelligence report with proposals from Management for future interventions.**

Action: Ruth Todd/ Company Secretariat for scheduling

7.3.2 **The Committee noted a finding regarding Cyber, and in particular refresher training and agreed that a further update would be provided to the Committee in June with the SIRO report. It was requested that this be coordinated with the review of third party assurance so to capture information, physical and asset security.**

Action: Emma Head

- 7.4 The Committee were asked to approve, subject to any amendments that ARAC may require, the proposed 2023/24 Internal Audit Plan.
- 7.5 The Head of Internal Audit confirmed that the Plan is aligned to strategic risk and business processes covering areas across Programme Delivery, Stakeholders, the Supply Chain and Health and Safety.
- 7.6 The Plan has been profiled in order to mitigate too much Q4 activity and allow consistency of delivery through the year.
- 7.7 The Committee noted that [REDACTED] and that this will be a living Plan with any changes in the year reported to ARAC should they occur.
- 7.8 Committee Members provided some comment and suggestions to refine wording and remit of some of the proposed audits which would be reviewed and revised.
- 7.9 The Committee discussed potential reviews for future years, namely Land and Property Compensation Schemes, noting that this would be a DfT led review (with HS2 Ltd providing evidence towards) and that the description might be reviewed to better show the value of the review.
- 7.10 The Committee discussed that effectiveness of cost controls will be the number one priority of the Executive and the Board.
- 7.11 Subject to the discussion and some slight amends, the Committee endorsed the Annual Plan and associated fee to deliver.

8 NAO Update (ARAC_23-008)

- 8.1 The Committee received and noted the Interim Audit Progress report on the 2022-2023 financial statements audit, as included within the meeting pack.
- 8.2 The Committee noted that at the time of reporting there were no significant findings to date. The NAO continue to review treatment of some items namely:
- 8.2.1 Income from Third Parties: noting that there is permissible accounting treatment for a netting off position and recognising this as negative expenditure rather than income.
- 8.2.2 Undertakings and Assurances (U&As): reviewing how these are recognised and valued, noting that there are differing types and nature of U&As. Engagement between HS2 and the NAO has been strong and the NAO will also look to the DfT for technical information.

- 8.3 The NAO note that key deadlines and sampling requests are being met.
- 8.4 The Committee queried the following areas of accounting treatment:
 - 8.4.1 Contingent Liability: noting that the NAO are asking for more information on this area than previously, based on the change in approach and increase in focus, but that this is largely how the items will be categorised.
 - 8.4.2 Capitalisation of Infrastructure: the Committee held a robust discussion on this matter, which was simpler when there was only one Phase of the Programme to account for and queried whether there should be a change in the way that HS2 capitalises corporate costs. Management are using the previous model at the date of reporting but acknowledge this is an acceptable area to review due to the complexity. The Committee support a change in approach and that the cost of the company could be reviewed as to whether this is the right size and not allocate this across Phases.
 - 8.4.3 IR35: The Committee noted that the decision to settle remains with HMRC but Management continue to pursue this.
- 8.5 The Committee further noted the update on the National Standards and view of the quality of external audits conducted by the NAO. The Committee noted that the NAO report below target and that there is improvement being sought. The Committee offered any support to the NAO to help improve this position.
- 8.6 The NAO commended the level of effective challenge which is observed at the Committee.
- 8.7 The Committee received an update on the Euston Value for Money Report and the upcoming Public Accounts Committee (PAC). The Committee noted that the recommendations of the report will be published every six months or so and will be published externally and updated through the ARAC.
- 8.8 The Committee noted the other recent NAO publications of note including the Insights from the Auditor General (speech) and Lessons learned: resetting major programmes.
- 8.9 The Committee noted the updates.

9 Annual Report and Accounts (ARA) 2022/23 (ARAC_23-009)

- 9.1 The Senior Business Manager, CFO joined the meeting.
- 9.2 The Committee noted the update on the progress made to the Annual Report and Accounts (ARA) 2022/23, as included within the meeting pack.
- 9.3 The Committee were asked to:
 - 9.3.1 Note the latest progress with developing the Report.
 - 9.3.2 Review and comment on the working draft document.
- 9.4 The following key points were raised:

9.4.1 **Noting that the Committee will be asked to sign off the ARA at the June 2023 meeting to the HS2 Ltd Board, it was requested that the near final document be shared with Committee Members in advance of publishing remaining meeting pack documents to allow for inclusion of feedback in good time.**

Action: Alan Foster

9.4.2 The Committee discussed the decision that needs to be made on whether or not to report on the 'Taskforce on Climate related Financial Disclosure' (TCFD) in this year's ARA and what level of disclosure is adopted. The Committee noted that further to a discussion at the Panel, this will be tabled to the Environmental Performance Review and Environmental Sustainability Committee.

9.4.3 The Committee agreed with the Management recommendation not to include reporting on this occasion whilst recognising the tension that there will be a level of expectation to report on this regardless of this being voluntary until 2025.

9.4.4 The Committee discussed the environment of a globally shifting set of proposals but nevertheless, European Union and United States have and are in the process of making commitments in this area. Even so, the Committee confirmed that they were in support of Management's recommendation.

9.4.5 The Committee further noted that HS2 Ltd has been approached by HM Treasury to share the review of the year as a best practice example.

9.5 The Committee noted the updates.

9.6 The Senior Business Manager, CFO left the meeting

10 HS2 Ltd Integrated Assurance & Approval Plan (IAAP) for 2023/24 (ARAC_23-010)

10.1 The Quality and Assurance Director joined the meeting.

10.2 The Committee received and noted the HS2 Ltd Integrated Assurance & Approval Plan (IAAP) for 2023/24 paper, as included within the pack.

10.3 The Committee were asked to approve the draft IAAP for FY 2023/24 and for the first six months of FY 2024/25.

10.4 The Committee noted the overview and process to draft the IAAP for approval including the challenge given from the Panel which resulted in a reworked paper drawing out critical decisions, the link to Strategic Risks and focus on protecting the control environment within HS2.

10.5 **The DfT Observer requested that the full document be shared with the DfT for alignment of activities.**

Action: [REDACTED]

10.6 **The Committee requested that a summary of completed activities be appended to the RCA Report to summarise findings.**

Action: [REDACTED]

10.7 The Committee commended the plan as comprehensive and approved the draft for FY 2023/24 and the first six months of FY 2024/25.

10.8 The Quality and Assurance Director left the meeting.

11 Committee Forward Look (ARAC_23_011)

11.1 The Committee noted the forward look and that the next meeting will be predominantly focussed on the Financial Year End and outcomes. It was agreed that there should be a discussion on the areas of deep dive required from the Committee and this will be co ordinated with Board and other Committee activities.

12 Any Other Business

12.1 The Committee noted the meeting as the final in attendance for Roger Mountford as a Non-Executive Director of the Board and commented on the value which has been added to the Committee and vast contribution during tenure.

12.2 The Committee further noted the meeting as the final in attendance of [REDACTED] from the GIAA who will be moving to a new role and thanked him for support and engagement.

12.3 There being no further business the meeting was closed.