

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Thursday, 08 February 2024
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:30-13:30

| Members | Attendees | Apologies |
|--|--|-----------|
| Stephen Hughes Committee Chair | [REDACTED] (item 6) Principal IT Security Manager | |
| Keith Smithson Non-Executive Director | [REDACTED] (observer) NAO | |
| | [REDACTED] (observer) Head of Integration Strategy & Capability | |
| | Alan Foster Chief Financial Officer | |
| | [REDACTED] (item 6) Chief Security and Resilience Officer | |
| | [REDACTED] Risk Director | |
| | Emma Head Chief Railway Officer | |
| | [REDACTED] (items 4 & 9) Quality and Assurance Director | |
| | [REDACTED] NAO | |
| | [REDACTED] Programme Controls Director | |
| | [REDACTED] Finance Director | |
| | [REDACTED] GIAA | |
| | [REDACTED] GIAA | |
| | Non Owen Company Secretary | |
| | [REDACTED] NAO | |
| | [REDACTED] P-Rep | |

| Members | Attendees | Apologies |
|---------|--|-----------|
| | ██████████ (item 7) Integration Director | |
| | Sir Jon Thompson Executive Chair | |
| | ██████████ DfT | |
| | ██████████ GIAA | |
| | ██████████ (item 6) Chief Information Officer | |

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.

2 Minutes of the previous meeting and review of Action tracker (ARAC_23-042 and ARAC_23-043)

- 2.1 The minutes of the meeting on 20 November 2023 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 24 January 2024 (ARAC_23-044)

- 3.1 The Committee received and noted the report from the Audit and Risk Assurance Panel ('ARAP') held on 24 January 2024.
- 3.2 The CFO as Chair of ARAP provided a summary of the meeting, which had considered the matters on the agenda for Committee business and therefore proposed to deal with matters as they arise during the course of the Committee meeting.

4 Risk, Control and Assurance Management Information Report (ARAC_23-045)

- 4.1 The Risk Director and Quality and Assurance Director attended the Committee to present on the Risk, Control and Assurance Management Information Report ('RCA report').
- 4.2 The Committee noted the work in progress to evolve the RCA report, however provided feedback that as currently received there was a lot of information being compacted into the slides, together with differing criteria and as such it is unclear from a Committee perspective as to where the areas of focus should be.
- 4.3 It was noted that a similar discussion had been held at the Panel level, together with what information reports to this Committee versus the Finance and Performance Committee going forward.
- 4.4 The Committee discussed overdue assurance actions, noting a number of high actions stem from P-Rep. This has been recognised at Management level and is under review which is considered as progressing which is recognised by P-Rep.
- 4.5 Part of this review is also aiming to strengthen accountability of open and overdue actions to individuals and increase the robustness of setting closure dates.
- 4.6 **The Committee also asked to see detail of what outstanding risk action is being taken to address open and overdue actions.**

Action: [REDACTED]

- 4.7 The Committee noted the RCA report.
- 4.8 The Quality and Assurance Director left the meeting.

5 Risk Management Transformation Programme (ARAC_23-046)

- 5.1 The Risk Director presented the Committee with an outline of the Risk Management Transformation Programme and an update on the progress made to date.
- 5.2 The following key points were raised and noted:
 - 5.2.1 The Committee noted the updated governance model which had been previously discussed with NEDs and that some positive feedback has been received following deep dive sessions with Civils and Systems colleagues.
 - 5.2.2 The Committee referenced that good progress was being seen on the strategic risk register, however commented that at the time of reporting, the severity of all of the strategic risks were marked as to be confirmed. Management advised that this is a work in progress with the Senior Leadership Team and that a further iteration would be brought through February governance.

5.2.3 The Committee noted that the colour coding relates to the functional owner of the risk, rather than on severity and it was requested by the DfT that a cross check be undertaken for alignment to the DfT risk register.

5.2.4 The Committee noted that next steps will include the process to demonstrate delivery/ construction risks and which ones have been retired or materialised and provide visibility of this in the Management Information.

5.3 The Committee noted the update.

6 Cyber and Innovation Maturity Assessment (ARAC_23-047)

6.1 The Chief Security and Resilience Officer, Principal IT Security Manager and Chief Information Officer joined the meeting.

6.2 The Committee received and noted the Cyber and Innovation Maturity Assessment paper, as included within the meeting papers.

6.3 The Committee were asked to note:

6.3.1 The outcome of the review.

6.3.2 That as part of the transition of the SIRO (Senior Information Risk Owner) role from the Chief Railway Officer to the Chief Financial Officer, further work over the short term will produce a full roadmap to assimilate the review recommendations with existing and planned work.

6.4 The following key points were raised and noted:

6.4.1 As requested by the Executive Chair, an external review has been conducted on HS2 Ltd level of Cyber and Information Security maturity and this concluded in December 2023.

6.4.2 The Committee noted the accompanying materials providing a readout on the conclusions of that review [REDACTED]

6.4.3 The Executive Chair referenced an example of data loss in a different organisation and as such the commission of the work is important following progress made in Government departments since.

6.4.4 The Committee noted that the remit of the work was to identify any areas of risk and mitigate to get to end state railway.

6.4.5 The Committee noted that penetration testing continues to be done as business as usual and that the level of resilience continues to be viewed as good as part of the review.

[REDACTED]

Action: [REDACTED]

- 6.5 The Committee noted the update.
- 6.6 The Chief Security and Resilience Officer, Principal IT Security Manager and Chief Information Officer left the meeting.

7 HS2 [REDACTED] – Summary and next steps (ARAC_23-048)

- 7.1 The Integration Director joined the meeting.
- 7.2 The Committee received and noted the HS2 [REDACTED] – summary and next steps paper, as included within the meeting papers.
- 7.3 The Committee were asked to:
 - 7.3.1 Note, with the benefit of hindsight, the summary of the [REDACTED] reports lessons learned.
 - 7.3.2 Note the timing and next steps.
- 7.4 The Committee received and noted the materials provided for this review and a verbal summary of why the work was commissioned, namely:

7.4.1 [REDACTED]

7.4.2 Following the Prime Minister’s decision to cancel the funding of Phase 2, the need for lessons learned to inform the management of Phase 2 contracts has gone. However, the need to learn lessons to inform the management and [REDACTED].

7.4.3 [REDACTED]

7.4.4 [REDACTED]

7.4.5 **Management advised that the paper presented to the Committee was to provide initial interpretation of the findings and that a Management response would be prepared as part of the next steps.**

Action: [REDACTED]

7.4.6 The Committee noted that an attempt to provide quantification into the report had taken place, [REDACTED]
[REDACTED]
[REDACTED]

7.4.7 **Management advised of the intent to produce an 'industry friendly' Executive Summary in order to share the lessons learned publicly and whilst noting the commercial position, the Committee encouraged that specific examples were needed rather than a summary which was more thematic. The NAO offered support and assistance to capture any materials/ evidence already in the public domain and to support with quantification.**

Action: [REDACTED]

7.4.8 Management advised that some of the findings of the review have already been identified and are being actioned, e.g., consents and pre-construction planning.

7.4.9 **The Committee requested that this matter be drawn to the HS2 Ltd Board attention and so it was agreed that the materials presented be shared with the Board in the Reading Room.**

Action: Non Owen

7.4.10 The Committee were advised that this is one in a series of topics intended to be used publicly in terms of what can be learned from Major Programmes from a HS2 Ltd perspective and that a further update would be brought to provide visibility of the index of topics to be explored and why.

7.4.11 **Finally, the Committee noted some queries from the DfT with regard to concern on the characterisation of schedule (due to historic addition of time and cost granted to the Programme) and [REDACTED]
[REDACTED] as specific examples. These queries will continue to be worked as part of the [REDACTED] work.**

Action: [REDACTED]

7.5 The Committee noted the update.

7.6 The Integration Director left the meeting.

8 Cost Verification Assurance (ARAC_23_049)

8.1 The Committee received and noted the Cost Verification Assurance paper which summarised the status of the Cost Verification Assurance (CVA) Programme and the developing plans to industrialise the process learning lessons from experience to date.

8.2 The following key points were raised and noted:

8.2.1 The Committee received an update on the Cost Verification Assurance (CVA) exercise (an exercise which had been commissioned and started through the previous Chief

Commercial Officer Directorate in order to pilot a sample of costs which were being received from the supply chain and to validate these are allowable or otherwise).

8.2.2 This was a necessary piece of work and following the Executive level changes has been transferred to the Finance Director for leadership to allow for a better level of independence to be applied to the process. As such this was the first update to the Committee since December 2022.

8.2.3 [REDACTED]

8.2.4 The Committee noted that in the intervening period there has been work undertaken to provide resolution of the open issues remaining across the previous CVA audits.

8.2.5 The Committee noted [REDACTED]

8.2.6 [REDACTED]

8.2.7 [REDACTED]

8.2.8 The Committee noted that of [REDACTED]

8.2.9 The Committee noted that the sample taken is broadly half of the spend and so was there intent/ appetite to pursue the remaining spend. Management advised that this was an option which could be exercised if felt appropriate to do so and it was noted that the sample taken was done on a risk basis approach. **The Committee requested that this be made clearer in the materials.**

Action: [REDACTED]

8.2.10 [REDACTED]. Furthermore, a more systematic approach will need to be implemented to the process.

8.2.11 **The Committee commended the work done to date and requested visibility of the principles applied for allowable and disallowable costs together with some of the root cause analysis for the types of discrepancy.**

Action: [REDACTED]

8.2.12 It was noted that the work from the CFBE function needs to be aligned with the CVA work.

8.2.13 The NAO queried whether there was any accounting implication with regard to capitalised costs and that this will be subject to further audit activity discussion.

- 8.2.14 Management advised that the data source is on an open book relationship with access into Tier 2 and Tier 3 if needed.
 - 8.2.15 The Committee discussed what learnings are being taken on controls and noted that this will be one of the previously referenced series of lessons learned for the Programme to reflect on.
 - 8.2.16 Management advised on the challenge [REDACTED] for this kind of activity with reliance on good culture and the onus to find very much on HS2 Ltd.
 - 8.2.17 The Committee noted that there is an ongoing GIAA audit and so linkage on thematic findings will be brought into ongoing discussions.
 - 8.2.18 The Committee noted the reporting will link to the [REDACTED] work and is part of the savings identified and Management were asked to consider how to give visibility to the Finance and Performance Committee.
 - 8.2.19 The GIAA commented that benchmarking will also be useful to strengthen the work.
- 8.3 The Committee welcomed the paper and discussion.

9 HS2 Ltd Integrated Assurance & Approval Plan (IAAP) for 2024/25 (ARAC_23_050)

- 9.1 The Quality and Assurance Director joined the meeting to present the HS2 Ltd Integrated Assurance & Approval Plan (IAAP) for 2024/25 paper, as included within the meeting papers.
- 9.2 The Committee were asked to:
 - 9.2.1 Provide feedback on the draft IAAP for FY2024/25 and the first six months of FY2025/26.
 - 9.2.2 Approve the IAAP for FY 24/25
 - 9.2.3 Note that the assurance reviews are in the plans for both HS2 Ltd and GIAA for which a 'best athlete' decision will be taken nearer the time.
- 9.3 The following key points were raised and noted:
 - 9.3.1 The Committee noted that the process to agree the IAAP is well matured and that this is an annual DfT requirement which has been developed in collaboration with the GIAA.
 - 9.3.2 **The Committee queried whether there had been alignment of the IAAP with audit plans and strategic risks. Management confirmed that there had been but there was a further level of work required to the strategic risk register. The Committee requested that the mapping to the strategic risks be shown on the IAAP.**

Action: [REDACTED]

- 9.3.3 The Committee noted that that there are some assurance reviews in the plans for both HS2 Ltd and GIAA for which a 'best athlete' decision will be taken nearer the time which will be led by GIAA to decide.
- 9.3.4 The GIAA advised the Committee that the HS2 IAAP is considered as standout.
- 9.4 The Committee approved the IAAP for FY 2024/2025 in line with their delegations to do so and noted the assurance reviews which are in the plans for both HS2 Ltd and GIAA for which a 'best athlete' decision which will be taken nearer the time.
- 9.5 The Quality and Assurance Director left the meeting.

10 Areas of Focus for the FY 23-24 Annual Report and Accounts and NAO Update (ARAC_23-051)

- 10.1 The Finance Director presented the Areas of Focus for the FY 23-24 Annual Report and Accounts (ARA) paper, as included within the meeting papers.
- 10.2 The Committee were asked to note:
 - 10.2.1 Impacts of the Network North announcement on 4 October 2023.
 - 10.2.2 Management response to the audit findings from FY 22-23.
 - 10.2.3 Other key judgements and matters arising.
- 10.3 The Committee received and noted materials from the NAO including:
 - 10.3.1 Management letter on the 2022 23 financial statements audit.
 - 10.3.2 Audit planning report on the 2023-24 financial statements audit.
 - 10.3.3 NAO Audit Paper – updated risk assessment and interim update.
 - 10.3.4 Update on NAO VFM and wider work.
- 10.4 The following key points were raised and noted:
 - 10.4.1 The Committee noted that at the time of reporting, Management were nearing the end of the interim audit process and key judgements from a HS2 Ltd perspective, a review of Network North (NN) impacts and reviewing NAO audit findings from the previous year and any additional judgements.
 - 10.4.2 **The Committee noted additional complexity of removal of Phase 2 and that there is remaining uncertainty of what level of impairment is to be included. The Committee have requested a note from Management on the approach which will be taken to impairment.**

Action: [REDACTED]
 - 10.4.3 The Committee noted a further live issue being worked to review the recovery of VAT on Phase 2.

10.4.4 It was noted that Keith Smithson had provided comments in advance to Management in advance of the meeting and these would be factored into the review.

Action: [REDACTED]

10.4.5 The Committee noted the need to articulate what level of Management judgment has been added to the accounts and the economic benefits and there will need to be a level of evidence to support this.

10.4.6 The Committee noted that the team are also reviewing technical studies in order to drive scope clarity and that at the time of reporting, formal instruction was still outstanding. It was noted that the Secretary of State has made decisions on most of the tranches of scope.

10.4.7 The DfT advised that there has been early engagement which has been positively received and advised that this will draw a high level of interest from Ministers and so the timing for this engagement should also be factored.

10.4.8 The Committee noted that not only the accounts need to be robust but that the report itself will need to be balanced and the wording will be critical.

10.4.9 The Committee discussed the requirement for Going Concern noting that guidance will be followed from the government financial reporting manual (FRoM), and the Companies Act.

10.4.10 The Committee noted [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

10.4.11 The Committee noted that there are complex matters to be worked and the requirement for consistency of the numbers with the report to submit a fair, balanced and reasonable view.

10.4.12 The NAO thanked Management for engagement and support to date on the business-as-usual interim work also.

10.5 The Committee noted the update.

11 Internal Audit Update, including proposed Internal Audit Plan (ARAC_23-052)

11.1 The Head of Internal Audit from the Government Internal Audit Agency (GIAA) presented the Internal Audit Update, including proposed Internal Audit Plan, as included within the meeting pack.

11.2 The Committee were asked to:

11.2.1 Note the internal audit work and findings.

11.2.2 Approve, subject to any amendments agreed, the Proposed Internal Audit Plan – 2024/25.

11.3 The following key points were raised and noted:

11.3.1 The Committee received an update on the summary of the work in progress to close out 2023/2024 audit activity but noted that there is a backload of audits to get to financial year end.

11.3.2 Management advised that the annual opinion still needs to be determined and whilst the team are in a strong position from a controls capability point of view, they are not designed to deal with this level of ambiguity in the Programme.

11.3.3 The Committee noted that there is also a risk that the 2024/2025 will be back end loaded and that an election will also add risk to this.

12 Committee Forward Look

12.1 The Committee noted the Forward Look.

13 Any Other Business

13.1 There being no further business, the meeting closed.