

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Thursday, 20 June 2024
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 13:00-16:00

Members	Attendees	Apologies
Stephen Hughes Committee Chair	[REDACTED] Head of Counter Fraud and Business Ethics	[REDACTED] DfT
Keith Smithson Non-Executive Director	[REDACTED] Deputy Chief Financial Officer	
	[REDACTED] NAO	
	[REDACTED] (item 8) Quality and Assurance Director	
	[REDACTED] (item 6) CFO Business Manager	
	Alan Foster Chief Financial Officer	
	[REDACTED] Risk Director	
	[REDACTED] NAO	
	[REDACTED] NAO	
	[REDACTED] Finance Director	
	[REDACTED] GIAA	
	[REDACTED] (item 9) DfT	
	[REDACTED] (item 6) Head of CFO Office Special Projects	
	[REDACTED] GIAA	
	Non Owen Company Secretary	
	[REDACTED] P-Rep	

Members	Attendees	Apologies
	██████████ DfT	
	Jon Thompson Executive Chair	
	██████████ 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 Deputy Chief Financial Officer.

2 Minutes of the previous meeting and review of Action tracker (ARAC_24-018 and ARAC_24-019)

- 2.1 **The minutes of the meetings on 09 April 2024 and 14 May 2024 were approved as a true record of the meeting subject to some minor amends to be agreed with Keith Smithson.**

Action: Non Owen

- 2.2 The Committee noted and agreed the status of the actions.

3 NAO Audit Completion Report (ARAC_24-020)

- 3.1 The Engagement Manager, UK National Audit Office (NAO) introduced the NAO Audit Completion Report for the 2023-24 financial statements audit and provided a summary of the key points from the report.
- 3.2 As part of the findings from the audit of the 2023/2024 financial statements, the Committee were asked to:
 - 3.2.1 Review the findings set out in the report, noting the extended auditor report and draft letter of representation including the key audit matters will be presented in the final audit completion report once audit work has been finalised.
 - 3.2.2 Consider whether the unadjusted misstatements, set out in the identified misstatements section (pages 22 to 25) should be corrected. The Audit Committee minutes should provide written endorsement of management’s reasons for not adjusting misstatements.

- 3.2.3 Consider the adequacy of the going concern disclosures included in the draft financial statements and conclude on whether this is a fair assessment. The NAO request that this consideration is included in the letter of representation to the Comptroller and Auditor General (C&AG).
- 3.2.4 Note that NAO will issue a separate management report of findings for 2023/24, and progress on prior year recommendations at the Audit Committee meeting in August.
- 3.3 The Committee noted the thanks extended to the team involved in the audit process.
- 3.4 The Committee noted that materiality has increased since planning owing to increased gross expenditure compared with the forecast.
- 3.5 The Committee were orientated to the key audit findings and status of the same within the materials, noting that at the time of reporting there were outstanding evidence requirements for:
 - 3.5.1 **MWCC expenditure.** The Committee noted that at the time of reporting some samples for MWCC expenditure and CVA remain outstanding. The NAO noted this as an area of audit which has involved a large amount of work to pull the information together and from an accounting view there is no challenge observed for the true and fair rule. It is however noted that the technicality and post payment verification identifies claim back and this is being checked with the technical team and relies on the Pof6 work.
 - 3.5.2 The NAO provided a level of confidence that a pragmatic view would be achieved, however reserve the right to conclude the work.
 - 3.5.3 The Committee debated the merits of first and second line of defence in the CVA process.
 - 3.5.4 [REDACTED]
 - 3.5.5 It was agreed that this should be added to the list of matters considered by the Committee who agree with the view.
 - 3.5.6 **Provisions and Contingent Liabilities** however the view of the NAO was that this would be resolved in coming days.
- 3.6 The Committee discussed the timetable and route for approval being sought at the Board the following week and agreed that approval would be subject to the finalisation of work from the NAO including judgements and Ministerial review.
- 3.7 Management referred the Committee to the paper included in the materials which provided the update and was seeking approval of 2023/24 accounting judgements. Management summarised that these matters had not had any material change since the position reported to the May meeting [REDACTED]

r [REDACTED] and that NAO checks continue in parallel which may result in an increase to the value of the provision.

3.8 The Committee requested that due to the materiality of accounting judgements which have been applied, that a summary of these would be submitted to the HS2 Ltd Board.

Action: [REDACTED]

3.9 The Committee noted that a review of overspecification had been raised at the DfT GARAC and it was concluded that overall, the Phase 1 route continues to be delivered as intended (with the exception of Euston) and so was not considered as over specified. The Committee note that there is difficulty to assign Value In Use. The Committee agreed that bar Euston there is nothing fundamentally different to the delivery of Phase 1.

3.10 Management confirmed that the NAO report and opinion provides a fair and balanced summary, with some actions to follow up on and non-material differences of opinion. Management are in agreement with the outcome and will take away lessons learned for continuous improvement.

3.11 The Committee noted that the government financial reporting manual (FReM) does not provide explicit guidance as to what an exit payment is and so guidance is being sought in line with contractual requirement.

3.12 The Committee noted the report and:

3.12.1 Confirmed that the findings set out in the report had been considered in full, noting the extended auditor report and draft letter of representation including the key audit matters will be presented in the final audit completion report once audit work has been finalised.

3.12.2 Endorsed management's reasons for not adjusting misstatements, set out in the identified misstatements section (pages 22 to 25).

3.12.3 Confirmed that there has been consideration of the adequacy of the going concern disclosures included in the draft financial statements and concluded that this is a fair assessment.

3.12.4 Noted that NAO will issue a separate management report of findings for 2023/24, and progress on prior year recommendations at the Audit Committee meeting in August.

3.13 The Committee thanked the NAO for the engagement and work involved during the year.

4 GIAA HS2 Annual Opinion and Report 2023/24 (ARAC_24-021)

4.1 The Head of Internal Audit from the GIAA introduced the HS2 Annual Opinion and Report 2023/24.

4.2 The Committee received and noted the report, as included in the meeting pack.

4.3 The following key points were raised and noted:

- 4.3.1 The Committee noted that for financial year 2024/2025 audit activity, that progress is being made, although there have been challenges around mobilisation, due to the various and concurrent workstreams also in flight.
- 4.3.2 The Committee noted the improved rating of Moderate for the 2024/2025 audit on Case Management – Disciplinary and Grievance follow up.
- 4.3.3 The Committee were asked to approve the four proposed changes to the 2024/2025 Internal Audit Plan, namely:
- 4.3.3.1. Removal of the ‘Follow-up Audit’ included in the original plan. This line in the Plan was included on the assumption there would be a requirement to follow-up some audits completed, after agreement of the Plan, in Q4. None of the Q4 audits require an additional follow-up review and it is proposed that this review is therefore deleted from the Plan.
 - 4.3.3.2. Addition of two audits, replacing the above Follow-up Audit. These audits are:
 - 4.3.3.3. IPED Process Sample Testing – this audit, which would commence in late Q2, follows on from work undertaken in our recent Programme Efficiencies audit. Following implementation of the IPED process, this audit will enable testing of the application of that process.
 - 4.3.3.4. Foreign Exchange – this audit, which would take place in Q2, would consider Foreign Exchange controls and governance. The audit, which has been discussed with the Group Finance Director, would provide assurance ahead of any potential Foreign Exchange Advisory Board review.
 - 4.3.3.5. Bringing forward the Incident Management audit from Q4 to Q2/Q3. This change to the Plan, which has been discussed with management, would help reduce the risk of any Q4 delivery problems and assist GIAA scheduling.
- 4.3.4 The Committee approved the changes to the plan however requested involvement in the drafting of the Terms of Reference for the Incident Management audit, cautioning that the scope of such an audit may become inadvertently too broad.
- 4.3.5 **The Committee requested an update on the status of Undertakings and Assurances noting that the accountability of this activity had been reassigned in line with the Organisational Design review and this was a matter now with Executive Committee oversight. It was agreed that an update would be tabled to a future Committee meeting.**

Action: Company Secretariat for scheduling

- 4.3.6 The Committee received a verbal update in support of the materials submitted on the GIAA annual opinion for 2023/2024, noting this as Moderate. This opinion has been informed by the increase in the number of Substantial and Moderate audit findings and a decrease in Limited audit findings. The Committee noted that a good level of resilience has also been observed in response to the changed environment HS2 Ltd operates within.

4.3.7 The Committee queried the reporting of the EAC forecast within the Executive Summary of the opinion.

4.3.8

[REDACTED]

4.3.9 The Company Secretary confirmed that [REDACTED] had been circulated to the HS2 Ltd Board in January 2024.

4.4 The Committee summarised that a Moderate opinion was a positive outcome and thanked the GIAA for the engagement and work involved during the year.

5 Update and Approval of 2023/24 accounting judgements (ARAC_24-022)

5.1 The Finance Director introduced the Update and Approval of 2023/24 accounting judgements paper, as included within the meeting pack.

5.2 The Committee were asked to endorse the key judgements made by management and recommend these to the Board and Accounting Officer.

5.3 The Committee noted the updates, endorsed the key judgements made by Management and recommend these to the Board and Accounting Officer.

6 Annual Report and Accounts (ARA) 2023/24 (ARAC_24-023)

6.1 The Head of CFO Office Special Projects and CFO Business Manager joined the meeting.

6.2 The Committee received and noted the Annual Report and Accounts (ARA) 2023/24, as included within the pack.

6.3 The Committee were asked to:

6.3.1 Note the progress made in delivering this year's ARA.

6.3.2 Comment on the near-final version of the ARA.

6.3.3 Endorse for onward submission to the HS2 Ltd Board on 26 June 2024.

6.4 The following key points were raised and noted:

6.4.1 The CFO Business Manager reminded the Committee of the process which has been followed in the completion of the ARA and advised that a further version would be updated for submission to the HS2 Ltd Board. The Committee noted that Keith Smithson had sent a more detailed note in correspondence, and this would be factored into the update.

- 6.4.2 The Committee discussed the Key Performance Indicator (KPI) outturn for Delivery into Service (DiS) and requested that a check be made on the reporting of this. ¹
- 6.4.3 **The Committee requested separation of the Equality, Diversity and Inclusion (EDI) KPI into two, as there are two separate measures involved.**
Action: [REDACTED]
- 6.4.4 The Committee reflected that the Executive Chair report provided a balanced commentary.
- 6.4.5 The Committee requested that should there be any further material changes made to the ARA that these be reported back to the Committee in a digestible way.
- 6.5 Subject to the discussions held during the meeting, the Committee endorsed the ARA for onward submission to the HS2 Ltd Board on 26 June 2024.
- 6.6 The Head of CFO Office Special Projects and CFO Business Manager left the meeting.

7 Draft Audit and Risk Assurance Committee Chair Annual Report (ARAC_24-024)

- 7.1 The Committee Chair presented the Draft Audit and Risk Assurance Committee Chair Annual Report, as included within the meeting pack.
- 7.2 The following key points were raised and noted:
- 7.2.1 The Committee noted that the report would be submitted onto the HS2 Ltd Board in support of the approval for the ARA.
- 7.2.2 **It was agreed that there would be strengthening of the activity around CVA and CFBE activity as discussed in the meeting and as per the exchanges with Committee Members and the Company Secretary.**
Action: Non Owen
- 7.2.3 **It was agreed that an effectiveness review of the Committee would be planned as soon as possible.**
Action: Non Owen/ Committee Chair
- 7.2.4 **The Committee requested that in the Board submission a summary of the significant accounting judgments and the activity undertaken to scrutinise these is included.**
Action: [REDACTED]
- 7.3 Subject to the above comments, the Committee endorsed the report onto the HS2 Ltd Board.

¹ POST MEETING NOTE: This was a discussion held at the HS2 Ltd Board meeting and whilst it was agreed that there is an optics point, it was agreed to report the KPI consistently with the previous year. This matter is also being considered as part of the revised metrics to monitor the performance in the organisation.

8 Risk Control and Assurance Management Information Report (ARAC_24-025)

- 8.1 The Quality and Assurance Director joined the meeting.
- 8.2 The Risk Director and Quality and Assurance Director presented to the Committee on the Risk, Control and Assurance Management Information Report ('RCA report').
- 8.3 The following key points were raised and noted:
 - 8.3.1 The Committee noted the risk summary and risk management performance metrics noting that contractor risks are not in the remit of this reporting, and there is a limitation to the control HS2 Ltd has on how the supply chain manages its risk. It was noted that there is a review underway of the Works Information and whether better information might be available. The Committee noted that [REDACTED].
 - 8.3.2 The Committee noted that the information as reported indicates a proportion of risks (including of high severity) without a plan and queried the reason for this. Management advised that this was most likely to be a timing point with some of the risks identified over the last month.
 - 8.3.3 The Committee noted the strategic risks and control effectiveness review with Management advising that there was a good level of coverage observed across the Integrated Management System (IMS) which can be managed. The Committee observed that there are not only the strategic risks to review from a controls environment and that there are other pieces of information required.
 - 8.3.4 Management advised there is also a risk function assurance review taking place and this is what the Committee should monitor as to whether this reduces and addresses residual risk over a period of time.
 - 8.3.5 The Committee noted areas of further progression within the reporting and welcomed the direction of travel to date.
- 8.4 The Committee noted the RCA report.
- 8.5 The Quality and Assurance Director left the meeting.

9 Actual Cost Assurance Strategy (ARAC_24-026)

- 9.1 The Head of Counter Fraud and Business Ethics and Chris Olsen of the DfT joined the meeting.
- 9.2 The Deputy Chief Financial Officer (CFO) introduced the Actual Cost Assurance Strategy paper, as included within the meeting pack.
- 9.3 It was noted that the newly appointed Deputy CFO will take on overall responsibility for both existing CVA and Counter Fraud activities under the proposed revised organisational structure

and as part of this, the Finance Director has been assigned to a taskforce approach of progressing the CVA workstream through a temporary change of responsibility.

9.4 The Committee received this update positively after championing the need for a higher profile on this work and feel that it is important for the Finance Director to have the appropriate level of resource to support the work.

9.5 The Committee are keen that this work is dealt with as a continuum and incorporates commercial levers as well as cost control.

9.6 The Committee recognise the good work of CVA and CFBE workstreams to date and support the need to do more.

9.7 The following key points were raised:

9.7.1 The Committee noted that [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

9.7.2 [REDACTED]
[REDACTED]

9.7.3 The Committee noted that the Public Sector Fraud Authority (PSFA) has made a commitment to the Public Accounts Committee (PAC) to develop the High Fraud Risk Portfolio (HFRP); designed to identify and decide which areas of public spend are considered to have the highest exposure to the risk of fraud.

9.7.4 The Committee note this as a positive thing and the Director of Fraud and Error in the NAO has stated that this is due to HS2 Ltd being able to have a lot of impact, hence this development.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

9.7.6 The Committee noted that there has been progression on the disclosure of cost pressures in the Programme adopted and that it is transparent and right that these matters be given serious consideration and any lessons learned taken from such reviews.

9.7.7 The Committee noted that correspondence would be issued from the NAO on the observations made. The Committee confirmed that there was willingness to engage on receipt of this.

9.8 The Committee noted the update.

9.9 The Head of Counter Fraud and Business Ethics and Chris Olsen of the DfT left the meeting.

10 Senior Information Risk Owner – Six monthly Update (ARAC_24-027)

10.1 The Committee received and noted the Senior Information Risk Owner –Six monthly Update, as included within the meeting pack.

10.2 **It was agreed that this paper would be deferred and placed at the start of the agenda at the next meeting to allow the time to discuss fully.**

Action: Company Secretariat for scheduling

11 Minutes from the Audit and Risk Assurance Panel 20 May 2024 (ARAC_24-028)

11.1 The Committee reviewed and noted the minutes of the Audit and Risk Assurance Panel ('ARAP') held on 20 May 2024.

12 Committee Forward Look (ARAC_24-029)

12.1 The Committee noted the forward look.

13 Any Other Business

13.1 There being no further business, the meeting closed.