

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Tuesday, 08 October 2024
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:00-13:00

Members	Attendees	Apologies
Keith Smithson Committee Chair	██████████ Chief Financial Officer (Interim)	Sir Jon Thompson Non-Executive Chair
David Goldstone Non-Executive Director	██████████ (item 7) Head of Financial Control and Governance	
Stephen Hughes Non-Executive Director	██████████ NAO	
	██████████ (item 3) Quality and Assurance Director	
	Alan Foster Chief Executive Officer (Interim)	
	██████████ (items 1-3) Risk Director	
	██████████ NAO	
	██████████ NAO	
	██████████ (item 9) Finance Director	
	██████████ GIAA	
	██████████ GIAA	
	Non Owen Company Secretary	
	██████████ (item 9) PwC	
	██████████ P-Rep	
	██████████ DfT	
	██████████ Head of Internal Audit	

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 Head of Internal Audit.

2 Minutes of the previous meeting and review of Action tracker (ARAC_24-042 and ARAC_24-043)

- 2.1 **The minutes of the meetings on 22 August 2024 were approved as a true record of the meeting subject to amendment of minute 7.2.4.**

Action: Non Owen

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

3 Risk Control and Assurance Management Information Report (ARAC_24-044)

- 3.1 The Quality and Assurance Director joined the meeting.
- 3.2 The Quality and Assurance Director and Risk Director presented to the Committee on the Risk, Control and Assurance Management Information Report ('RCA report').
- 3.3 The following key points were raised and noted:
 - 3.3.1 The Committee noted the key points of progress and watchlist items for the period.
 - 3.3.2 The Committee noted that there is a volume of work taking place on the Integrated Management System (IMS) following on from the reorganisation activity and user experience will also be factored into the project.
 - 3.3.3 **The Committee requested a review of the IMS dashboard to report a more up to date position at the next meeting.**

Action: [REDACTED]

- 3.3.4 The Committee discussed that P-Rep recommendations is still not at an acceptable position however a productive meeting has been held between P-Rep and HS2 Ltd to agree a revised process.
- 3.3.5 The Committee provided feedback that some of the P-Rep recommendations are outdated and requested that these be closed out. P-Rep advised that the areas of focus from the team can be quite strategic and so the way to close these can introduce a level of complexity.

- 3.3.6 **The Committee commissioned a P-Rep and Management discussion for closure of actions or clarity on what action has been taken and what clear and specific residual actions remain, with a date, and clear and appropriate accountability. The Committee reiterated that overdue high priority actions are not tolerated.**

Action: [REDACTED]

- 3.3.7 The Committee noted the risk summary as provided in the materials noting that activity continues on the risk transformation work which will be merged with broader controls activity.

- 3.3.8 **The Committee requested further detail for areas of the business who do not have a risk management performance plan and requested that the RAG status be changed to red to better reflect the position. The Committee also requested clarity of accountability for delivery of the plans.**

Action: [REDACTED]

- 3.3.9 The Committee received an update on the status of a Risk Appetite statement noting that this is tabled for discussion at the Executive Committee prior to a proposal being made.

- 3.3.10 Management confirmed that intent to bring a view of risk appetite, a strategic risk register, a full assessment of the control environment against these and the effectiveness of this control. This will be a matter submitted to the HS2 Ltd Board in Q1 2025.

- 3.3.11 The Committee commented on the timing to crystallise the risk documentation due to a number of risks being very live currently.

- 3.3.12 **It was agreed that the further detail on risk appetite would be shared, and the Committee requested each risk summarised to a page showing the current level of risk and controls and management plans in place but also a timeline for how to close between the gap and the target noting that zero risk tolerance is not practically possible or appropriate.**

Action: [REDACTED]

- 3.3.13 The Committee encouraged that the reporting of risk also does demonstrate the level of work and maturity which does exist.

- 3.3.14 The Committee noted the control assessment on fraud self-effectiveness reported in the materials and queried the strength of the outcome of this which would be a point discussed whilst considering the function holistically.

- 3.4 The Committee noted the RCA report.

- 3.5 The Quality and Assurance Director and Risk Director left the meeting.

4 NAO Update (ARAC_24-045)

- 4.1 The Committee received a verbal update from the NAO attendees.

4.2 The following key points were raised and noted:

- 4.2.1 The Committee welcomed and received an introduction to [REDACTED] following her appointment to the team to cover maternity leave.
- 4.2.2 The Committee noted that the replacement for [REDACTED] was anticipated to be made shortly.
- 4.2.3 **The NAO advised that a positive meeting had taken place with the HS2 Ltd finance team on lessons learned from the previous audit and that the findings of this would be reported to the next meeting.**

Action: Company Secretary to add to the forward look

4.3 The Committee noted the update.

5 Internal Audit Progress Report – September 2024 (ARAC_24-046)

- 5.1 The Head of Internal Audit introduced the Internal Audit Progress Report Paper, as included within the meeting pack.
- 5.2 The Committee were asked to note the activities of Internal Audit during the period 9 August to 25 September 2024. The Committee was also asked to endorse the proposed changes to the 2024/25 Internal Audit Plan as detailed in Annex A of the Paper.

The Committee noted progress against delivery of the 2024/25 plan, including:

- 5.2.1 Final issue of the Case Management – Disciplinary & Grievances audit as reported to the August ARAC meeting.
- 5.2.2 [REDACTED]
- 5.2.3 [REDACTED].
- 5.2.4 Four audits are at fieldwork stage.
- 5.2.5 Eleven audits are at various stages of planning, with fieldwork on seven of these due to commence by mid-November.
- 5.2.6 One audit is yet to be started.
- 5.2.7 The Committee noted and endorsed the below proposed changes to the 2024/25 Internal Audit Plan:

- 5.2.8 [REDACTED]
- 5.2.9 [REDACTED]

- 5.3 The Committee noted the update.
- 5.4 The Risk Director left the meeting.

6 Approach to ARAC Effectiveness Review (ARAC_24-047)

- 6.1 The Company Secretary introduced the ARAC Self-Effectiveness Review – Approach and Timeline Paper, as included within the meeting pack.
- 6.2 The Committee was asked to review and note the proposed approach and timeline for the internal effectiveness review of the Committee for financial year 2024/2025.
- 6.3 **The Committee agreed the proposed approach to the Self-Effectiveness Review however requested that the questionnaire be amended where the scope is covered by other Sub-Committees of the Board rather than ARAC.**

Action: Non Owen

- 6.4 **A discussion was held on whether there could and should be a greater level of emphasis applied from the Committee to the approach to Integrated Assurance Plans and an increase in scrutiny from the Committee to the same to ensure greater confidence in assurance so that greater reliance is placed on it. The Company Secretary agreed to reflect on this as part of the Effectiveness Review to report on findings.**

Action: Non Owen

7 Update on HM Treasury 'Dear Accounting Officer' (DAO) Letters (ARAC_24-048)

- 7.1 The Head of Financial Control and Governance joined the meeting.
- 7.2 The Chief Financial Officer (Interim) introduced the 'Update on HM Treasury 'Dear Accounting Officer' (DAO) letters, as included within the meeting pack.
- 7.3 The committee was asked to note the HM Treasury DAO guidance received since May 2023 and the steps HS2 has taken to comply and implement the guidance.
- 7.4 The following key points were raised and noted:
 - 7.4.1 The Committee noted that the Efficiency Framework referenced in the paper is yet to be defined so has been added to the watchlist.
 - 7.4.2 During the period since last reported, the Committee noted that seven letters have been received with no concerns to report and the Accounting Officer has been briefed.
- 7.5 The Committee commended the paper submitted and noted the update.
- 7.6 The Head of Financial Control and Governance left the meeting.

8 Undertakings and Assurances Sprint (ARAC_24-049)

- 8.1 The Stakeholder, Skills and Inclusion Director joined the meeting.
- 8.2 The Stakeholder, Skills and Inclusion Director introduced the Undertakings and Assurances (U&As) Sprint paper, as included with the meeting pack.
- 8.3 The Committee were asked to:
 - 8.3.1 The implementation plan based on the Change Impact Assessment, endorsed by the Executive Committee in August 2024.
 - 8.3.2 The internal communications to reinforce the role of HS2 Ltd Commitment Owners in managing their respective U&As
 - 8.3.3 The change in approach to the allocation of Commitment Owners (COs) for internal U&As with a shift to ownership at HS2 SLT level to provide consistency, seniority of oversight with appropriate risk appetite assessment and decision making.
- 8.4 The following key points were raised and noted:
 - 8.4.1 The Committee were reminded that this update was being submitted due to three audit reports with Limited outcomes received on U&As, and following which an Executive level sprint was commissioned for improvement.
 - 8.4.2 The Committee noted that the treatment of U&As has now taken a risk based approach rather than the historically taken blanket approach which has also removed the level of duplication which had been experienced.
 - 8.4.3 The Committee noted the three Executive Committee reviews of the approach and progress to the sprints which had been endorsed.
 - 8.4.4 The Committee were given some examples of the types of risk assessment applied to the U&As for example lower risk being applied to the establishment of a help desk and complaints strategy versus higher level risks for lorry movements and the point of escalation required for such a risk.
 - 8.4.5 The Committee noted that that U&As have all been inputted to a back office system and that the vast majority are medium and low in risk. Further activity will be to cleanse the data, including that received from the supply chain.
 - 8.4.6 The Committee noted that ARAC will continue to review escalation of U&As from a controls point of view and the Finance and Performance Committee will receive updates as and when required from a performance point of view.
 - 8.4.7 Management confirmed that despite the longevity of some U&As which would be transferred to a future Infrastructure Manager there was no view of risk for doing so.
- 8.5 The Committee thanked Management for the work and noted the update.
- 8.6 The Stakeholder, Skills and Inclusion Director left the meeting.

9 Actual Cost Assurance and Cost Verification Status Update (ARAC_24-050)

- 9.1 The Finance Director introduced the Actual Cost Assurance and Cost Verification Status Update, as included within the meeting pack.
- 9.2 The Committee was asked to note the initial findings of the ACA strategy development work, and the progress made to enhance HS2's oversight of cost verification activities. The Committee was also asked to note the progress of existing CV work.
- 9.3 The following key points were raised and noted:

9.3.1 The Committee received an overview and context of the work in the development of the ACA strategic framework [REDACTED]

9.3.2 The Committee noted that Management is into the third stage of the three stage approach to deliver the strategy but that this would be a living document. In parallel to development of the strategy there is also pursual of no regret and early actions which will begin the pathway for required Accounting Officer advice around final accounting.

9.3.3 The Committee discussed that the ACA work is critical to support the ultimate accountability of the Accounting Officer for Final Accounts for costs including the Value for Money (VfM) requirements

9.3.4 The Committee noted that whilst there are assurance and control points in the process, these are not necessarily connected to the invoice process for example, and this will need to be mapped.

9.3.5 **The Committee requested development of the materials to include a definition of each key test, a score or assessment of performance against the same, a map of actions to be applied and the evidence required to make payments and agree final account positions with the supply chain.**

Action: [REDACTED]

9.3.6 The Committee commented on the timescale for delivery of the work and cautioned Management not to over engineer the solution required for this to be successful.

9.3.7 [REDACTED]

9.3.8 Longer term it is recognised that there needs to be more core HS2 Ltd resource to support this. [REDACTED]

9.3.9 P-Rep made an offer to assist HS2 Ltd with the work, suggesting design management as an area they might help to test.

9.3.10 **The Committee requested a waterfall representation of the value being tested for the CVA work, with explanation of what is and is not in scope and the rationale for this.**

9.3.11 **The Committee requested that this matter be taken to the HS2 Ltd Board for update.**

Action: [REDACTED]

9.4 The Committee noted the update.

10 Committee Forward Look (ARAC_24-051)

10.1 The Committee noted the forward look.

11 Any Other Business

11.1 There being no further business, the meeting closed.