



Department for Business, Energy and Industrial Strategy (BEIS)

Post Office Limited: Sponsorship and Ownership by BEIS

Final Internal Audit Report

Date of issue: June 2022
Engagement reference: 2122-BEIS-004

Contents

Executive summary	3
Findings	5
Annex 1: Management action plan	24
Annex 2: Objective, scope and limitations	27
Annex 3: Our classification systems	29

This document has been prepared for BEIS and is only for, BEIS and staff. BEIS must consult with GIAA (pursuant to part 3 of the Secretary of State Code of Practice issued under section 45 of the FOI Act) at correspondence **GRO** before disclosing information within the reports to third parties. Any unauthorised disclosure, copying, distribution or other action taken in reliance of the information contained in this document is strictly prohibited. The report is not intended for any other audience or purpose, and we do not accept or assume any direct or indirect liability or duty of care to any other person to whom this report is provided or shown, save where expressly agreed by our prior consent in writing

Executive summary

Opinion

Moderate

Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control

Introduction

The current relationship between BEIS and Post Office Ltd (POL) is unique and is borne from the historical activities and actions of POL in relation to its flawed Horizon IT system and subsequent treatment of its sub-postmasters dating back as far as 1999. This cumulation has resulted in civil actions and criminal prosecutions that continue to attract national interest, as well as being hailed as the biggest miscarriage of justice in British legal history. The legal redress and the independent Post Office Horizon public inquiry are continuing.

In April 2020, a Framework Document was introduced, which describes certain parameters within which BEIS expects POL to operate, certain obligations with which POL is expected to comply, and sets out the relationship between POL, BEIS and UKGI (acting as the shareholder representative).

Neither BEIS nor UKGI have day-to-day involvement in the running of POL, but monitor performance, particularly the company's compliance with the minimum access criteria and the provision of specific services. The company's Chief Executive and Board of Directors, who are accountable to BEIS (via UKGI) for the overall performance of the business, are responsible for the day-to-day running of POL and for providing strategic oversight.

Our review specifically examined the arrangements in place in BEIS and UKGI to manage the shareholder relationship with POL, including the management of additional funding to assist with the Post Office Historical Shortfall Scheme (HSS) and the Overturned Criminal Convictions (OCC), and the processes in place to assure BEIS that funding is being used as intended – we did not examine arrangements within POL itself, or the controls and process operated by POL (for example, over the two compensation workstreams).

Key findings

We are providing a moderate opinion regarding adequacy of BEIS governance and oversight arrangements over POL and the compensation schemes. We acknowledge the ongoing efforts of BEIS and the shareholder representative, UKGI, in what we identify as a sensitive area of work which continues to attract political and public interest.

The review identified the following key areas as good practice:

- The governance structure implemented to demonstrate BEIS commitment to provide oversight and sponsorship over POL aligns to government good practice including 'Managing Public Money' and the 'Corporate Governance Code for Central

Government Departments'. The arrangements are proportionate and there are sufficient mechanisms in place to capture POL activity and developments and so minimise the potential for causing reputational damage to BEIS.

- BEIS has assurance that POL has established eligibility criteria to minimise the risk of ineligible applicants applying for the compensation schemes and arrangements are in place to drive appropriateness, fairness and consistency in the approach. No fraudulent payments (OCC interim payments) have been detected to date, and the arrangements satisfactorily protect the public purse.

We have also identified opportunities to build on the existing control environment to improve oversight, assurance and control. From our findings, we have raised six recommendations for management to consider and this includes: -

- The Quarterly Shareholder Meeting, HSS Operations agreement, HSS working group and Steerco terms of reference requires strengthening to ensure that roles and responsibilities are clearly defined and/or the agreed approach for leading and managing the oversight arrangements is fully outlined; and
- Improvements are required in the minutes of the shareholder meeting for BEIS to fully demonstrate its approach for challenge, scrutiny and maintaining oversight of POL.

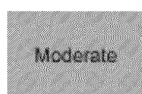
	High	Medium	Low
Recommendation(s)	-	1	4

Findings

Assessed risk

If the governance structures are not effective and BEIS does not have adequate oversight in place to prevent another situation like Horizon arising in future.

Opinion on management of risk



Our rating reflects the work that is required to close the control gaps and ensure the existing framework is fully robust. A governance structure, which aligns to good practice, is in place over Post Office Limited and provides an effective mechanism for maintaining oversight. Similarly, proportionate arrangements are in place to identify and/or capture any POL activity in the event it has the potential to cause reputational damage to BEIS.

However, we identified some areas of weakness particularly around sharing details about the governance structure, to ensure that organisational knowledge is maintained as well as demonstrating the efforts to build trust and transparency with stakeholders and other interested parties. Improvements are required to ensure that the narrative outlining the shareholder meetings promotes sufficient awareness of roles, responsibilities, and accountability.

Findings and implications

Documented Governance Framework

The overall design of the governance arrangements over the high-level and strategic activities within POL aligns with approaches we have seen used across wider government, for example, a framework agreement setting out the parameters for POL to operate and a letter from the Secretary of State setting out financial and strategic priorities.

The roles, responsibilities and accountability are clearly defined including how and when to escalate. The documents satisfactorily align with good practice guidance, including the 'Corporate Governance Code for Central Government Departments 2017'.

The collective governance structures in BEIS for maintaining oversight of POL have been formally documented, however, these have not been disseminated to relevant stakeholders. As the business takes on new starters and experienced team members move on, it is essential that organisational knowledge can be accessed as and when required, without the need for causing unnecessary disruption. Disseminating the governance structure is a mechanism to achieve this. **(Recommendation 1.1)**

BEIS governance over the Post Office Limited (POL)

Our review of the governance arrangements introduced to demonstrate how BEIS exercises its responsibility effectively confirmed that it includes: -

- *Letter from the BEIS Secretary of State (SOS) to the Chairman of the Post Office setting out POL strategic priorities.*

The letter dated 31 March 2021, sets out the high-level roles, responsibilities and accountabilities at a strategic level for example, 'fully engaging with the Post Office Horizon IT Inquiry' and 'working towards resolving historic litigation issues.

The format and content of the letter is pitched at the right level, outlines what is expected, and aligns with good practice. In our opinion the letter satisfactorily summarises the strategic priorities expected of POL and provides the basis for maintaining the control environment as part of a collective suite of governance and oversight mechanisms.

- *The Post Office Limited: Shareholder Relationship Framework Document*

The Framework Document effective from April 2020 drawn up by BEIS (the shareholder) and UKGI (the shareholders representative) in collaboration with POL documents the parameters within which POL is expected to operate, including:

- (i) Obligations with which POL is expected to comply,
- (ii) Aspects of the relationship between the Shareholder, and
- (iii) How the Shareholder, Shareholder's Representative and POL will interact.

Overall, we are satisfied that the Framework is broadly fit for purpose, with the document clearly and concisely setting out key activities to ensure oversight is maintained – including governance and accountability, key roles and accountabilities for POL's governance, and the shareholder undertaking towards POL. Arrangements for periodic review and revision of the framework are clearly documented with this being due in 2023.

The framework has the potential to be fully effective with its contribution to maintain the control environment, however we identified a control gap in relation to 'shareholder meetings' and have summarised and addressed this further along in this report.

- *UK Government Investments (UKGI) (the shareholders representative)*

The audit has given us a further opportunity to examine the role of UKGI in supporting BEIS ownership/sponsorship of its partner organisations in accordance with the memorandum of understanding (MOU) dated December 2019.

Our interviews with BEIS and UKGI representatives to establish the effectiveness of the working relationship was positive and consistent. The activities and actions to maintain oversight over POL are periodically monitored to ensure that the right balance is maintained, and we support the opinion that the balance is proportionate. We witnessed respectful and non-confrontational communications between both parties during joint-discussions and email communications. As a result, we are content that a good working partnership has been established.

Shareholder Meetings

The Framework Document outlines the frequency and membership of the shareholder meeting. We verified that the quarterly meetings are a formal forum where the shareholder can challenge and discuss POL performance, including against the priorities as set out in the Chair's letter from the Secretary of State. However, our review of the framework found:

- The purpose of the shareholder meeting has not been formally documented;
- Details of the chairperson, and how a deputy chairperson is nominated to cover during periods of un/planned absences has not been recorded;
- The arrangements to agree the agenda, as well as the mechanism to ensure that actions are recorded, managed and monitored have not been defined;
- A summary of how and to whom issues arising from the meeting can be escalated is not outlined; and
- Details of the representative or team responsible for undertaking the secretariat function have not been outlined.

We have made a recommendation for the senior leaders to address the gap in the control document (**Recommendation 1.2**)

We reviewed the supporting papers and minutes of the shareholder meetings and note that the meetings are convened at the agreed frequency and attendance is as should be. The shareholder quarterly briefing document produced by POL is presented and discussed and includes a comprehensive summary of the latest position in respect of POL activity, for example its financial performance, as well as the latest developments in the ongoing delivery of the historical shortfall scheme (HSS) and overturned criminal convictions (OCC).

The agreed minutes of the meetings is sufficiently detailed; however, in our opinion they do not demonstrate the level of scrutiny and challenge. As our fieldwork did not provide an opportunity to observe the shareholder meeting, we are unable to verify if the gap is as a result of the senior leaders failing to challenge or scrutinise POL or if the mechanism for recording the summary of the meeting requires enhancing. We have made a recommendation to strengthen the control environment (**Recommendation 1.3**)

Post Office Limited (POL): Quarterly update

The quarterly update document prepared following the shareholders meeting contains a high-level summary of the discussions relating to the latest POL activity and performance including litigation (HSS and OCC), financial and operational performance (spending review, trading update, investment spending). Appropriate arrangements are in place to ensure the update is approved before submission to the BEIS Minister and Permanent Secretary.

Our review of a sample of the updates found that they are sufficiently detailed, pitched at the right level and the summary recorded aligns with our discussions with key staff and documentary evidence evaluated as part of our fieldwork.

POL - Board meeting

UKGI provide a Shareholder non-executive director (NED) on the POL Board, providing an opportunity to oversee, scrutinise and challenge POL activities and performance.

The Shareholder NED and BEIS Senior Responsible Officer (SRO) meet prior to and following the Board meeting to discuss any concerns in respect of POL actions or activity as summarised or highlighted in the board papers or during the meeting respectively. For example, UKGI confirmed that the meetings have provided an opportunity to probe and discuss POL cashflow, which is fundamental to POL fulfilling its obligations to compensate sub postmasters as part of the Historical Shortfall Scheme. A formal review of the POL Board meetings was not agreed as part of the scope of our review, as a result we have not been privy to any documentary evidence to enable us to provide an opinion on its effectiveness. However, we can confirm that the UKGI and the BEIS SRO provided consistent responses during our interviews and questioning.

We are content that the quarterly update and information provided by the Shareholder NED demonstrates BEIS efforts to maintain proportionate high-level oversight of POL activity and performance.

Recommendations

- 1.1 A summary of the governance structure introduced to maintain oversight of POL is disseminated to relevant stakeholders.
- 1.2 Terms of reference for the quarterly shareholder meetings is written and agreed to include details of the purpose of the shareholder meetings, the chairperson(s), along with details of the arrangements for nominating a deputy to cover periods of agreed and/or unexpected absence, the representative or team responsible for fulfilling the secretariat function and the approach for recording, managing and monitoring actions and the arrangements for escalating issues arising from the discussions. In addition, the quarterly shareholder meetings are referenced within the Post Office Limited: Shareholder Relationship Framework Document as part of the work to refresh and revise its content.
- 1.3 Action is taken to improve the minuting of the shareholder meeting to demonstrate the degree of challenge and scrutiny exercised by BEIS/UKGI.

Assessed risk

If BEIS oversight arrangements are poorly designed or not applied effectively, there is a risk of failing to protect public money appropriately.

Opinion on management of risk

Moderate

BEIS has introduced regular meetings to maintain oversight of POL performance and activities including the Historical Shortfall Scheme (HSS) and Overturned Criminal Convictions (OCC) compensation schemes. In our opinion the arrangements are proportionate, attended by stakeholders who have the experience, seniority and authority to challenge, scrutinise and probe the matters at hand and in order to arrive at well-informed decisions.

We have identified opportunities to improve the control framework, and minimise the risk of disruption, ensure that those responsible for implementing the arrangements understood what is expected, accountability maintained, and transparency upheld. We have made recommendations to minimise the risks and strengthen the control environment.

Findings and implications

Oversight mechanisms on the Historical Shortfall Scheme (HSS)

The Historical Shortfall Scheme is a compensation initiative introduced by the Post Office in November 2020 to allow non-Group Litigation Order postmasters without convictions to have Horizon-related shortfalls investigated and be recompensed where appropriate.

POL and its legal advisor Herbert Smith Freehills (HSF) had estimated there to be up to 200 claims costing £9m; however, this was based on limited information, and so in July 2020 POL reforecast a total of £35m for c.500 claims during the financial year 2020/21.

In fact, the HSS, which was open from May to November 2020, was oversubscribed attracting in the region of 2,500 applications, of which c2,350 have been assessed as eligible. POL's lawyers have estimated that the eventual costs is likely to be £150m to settle the claims satisfactorily, although there is potential that the total settlement costs are higher (original estimates in the business case were £160m-£320m). POL has committed to fund up to £89m of the historical shortfall claims with BEIS contributing if the compensation financial threshold is exceeded.

The ongoing uncertainties about the final value of HSS claims illustrates the need for BEIS to establish proportionate oversight arrangements over HSS activity.

Our evaluation included a review of the following oversight arrangements:

- *The HSS Operations Agreement*

The agreement dated February 2021 documents the common understanding between POL and BEIS over the operation of the HSS. Our review confirmed that roles are defined as well as the key decision points for operation of the scheme.

Our sample testing of recorded activities to confirm completion at the correct frequency and agreed format, including the Quarterly Senior Responsible Officer Meeting (quarterly review meetings) and monthly monitoring meetings (Evaluated later in the report) found some revisions are required to ensure that details of activities recorded in the agreement are up to date, for example membership. This said, overall, we are satisfied that both parties are adhering to their documented commitments.

- *Quarterly Review Meetings*

These meetings which provide an opportunity for BEIS and UKGI to scrutinise and challenge POL performance. A summary of the meetings purpose is recorded and the HSS Quarterly review pack is also discussed. We have evaluated the pack in risk 4 (information and assurances).

We found a minor weakness in ensuring details of current membership is updated in the agreement, which highlights the HSS team and SRO whereas the minutes demonstrate representation including UKGI and the legal advisor from POL as attending. Action should be taken to resolve this control gap. **(Recommendation 2.1)**

Interviews with representatives from BEIS and UKGI verified that they understand what is expected of them. The minutes of the meeting are of a good standard and demonstrate the level of discussions including evidence of the response by POL to the questions challenging and scrutinising their performance, activities and progress. Overall, we are satisfied that there is a good control environment, and the meetings are operating as intended.

- *Monthly monitoring meetings*

Section 8 of the HSS operations agreement references the quarterly review meeting, explicitly highlighting that the purpose of the meeting is to discuss progress made during the operation of the HSS, including provision of updated monitoring information to BEIS within an agreed reporting template.

We found that the meetings are held at the agreed frequency, with a satisfactory record of the discussion maintained. The control environment over agreed actions requires improving as details of the process to monitor and follow-up actions has not been documented, which has the potential to result in poor accountability. Additional weaknesses include a failure to document details of the chairperson, arrangements to nominate a deputy to cover during planned or unexpected absences, and the person or team responsible for managing the secretariat function **(Recommendation 2.1)**

- *BEIS HSS working group*

The working group purpose and membership has been defined, meetings well attended, and the record of the discussion is satisfactory. The arrangements over agreed actions have been defined and is working as intended. But as with the monthly monitoring meetings, we found weaknesses in agreement to clearly outline details of the Chair, including the arrangements for nominating a deputy to cover during planned or unexpected absences and the individual or team responsible for managing the secretariat function.

- *HSS Steering Committee (SteerCo)*

The SteerCo is the decision-making body for HSS matters within BEIS, including approvals. We confirmed that its purpose and membership are recorded in an agreed TOR. The Historical Remediation Committee (HRC) serves as the equivalent decision-making body within POL. SteerCo meetings are held at the agreed frequency and are

minuted to an acceptable standard, permitting us to identify examples of scrutiny and challenge of POL performance and activities.

However, we identified two opportunities to improve the control environment including outlining the chairperson, arrangements to nominate a deputy during periods of agreed or unexpected absence, and the process by which the committee delegates/deescalates issues to lower tiers. **(Recommendation 2.1)**

- *Oversight mechanisms Overturned Criminal Convictions (OCC)*

In July 2021, the Government announced that they would award an interim payment of up to £100K to postmasters whose convictions had been overturned based on a short list of criteria. However, the Post Office has already committed all that it could financially to the HSS compensation scheme and so did not have sufficient funds to meet this financial liability and so turned to its shareholder for support for this and the Full compensation announced in December 2021.

Given that the payments are funded by public money, the design of the oversight arrangements needs to be appropriate and applied effectively to demonstrate the controls that have been introduced.

At the outset of our interviews we found BEIS and UKGI representatives were co-operative, transparent and up front, informing us that the work is ongoing to ensure that the oversight arrangements over OCC are designed, implemented and operating as well as those seen in operation over the HSS.

Our review included an evaluation of the following oversight arrangements that are in place over the OCC compensation scheme: -

- *OCC working group*

The OCC working group is responsible for the taking issues arising from the Historical Remediation Committee (a POL Board subcommittee) to develop them into proposals and decisions for consideration at the Post Office Overturned Criminal Conviction board (POCC). At the time of completing our fieldwork, a term of reference has not been developed and the meetings are not minuted.

The Grade 7 (PMO/OCC lead) who joins the BEIS team in June 2022, has been tasked with enhancing the secretariat arrangements for the key governance meetings including ToR, meeting notes and action logs. Given the circumstances, we agree that it is only fair that time is given to allow for a period of onboarding before attention is given to developing and improving the record of oversight arrangements. Our proposals from the HSS should be included in this work **(Recommendation 2.1)**.

- *OCC monthly monitoring and Quarterly OCC review*

These meetings established via the OCC Operations Agreement. As of the 3 March 2022, the monitoring meeting is now undertaken following the HSS quarterly review and retains its independence as a separate meeting.

The quarterly OCC review was established via the OCC Operations Agreement and there are no specific terms of reference for the quarterly OCC review and no meetings have convened to date. Weaknesses in the agreement include a failure to clearly document details of its membership, the Chair and the approach to nominate a Deputy Chair during periods of agreed or unexpected absence, the escalation process, the approach for agreeing, recording and monitoring actions and the arrangements for the secretariat function. We acknowledge the work that is underway to improve

governance and oversight arrangement over OCC and so advise that these meetings are considered as part of that work.

- *POCC (Post Office Overturned Criminal Convictions Board)*
The POCC remit includes ensuring correct decisions (including interim payments) are being made. It is also the strategic board looking at the principles, scopes, boundaries for agreeing compensation payments. Its membership, frequency and purpose is summarised in an agreed term of reference. Our review of the minutes confirmed that meetings are well attended, the record of the discussion is of a good standard and clearly demonstrates the approval of OCC interim payments as well as decisions over the approach for final compensation payments. We are satisfied that the control environment over the POCC Board is satisfactory.
- *Financial Reporting to the SRO*
Interim payments form part of the SRO budgetary responsibility, we confirmed that regular budgetary spend documentation is received including the total spend figure for interim payments. The SRO confirmed spend is regularly reviewed and this provides additional assurance as to the state of play over the OCC scheme.

Our opinion – OCC oversight arrangements

The control environment over review and approval of interim payments is robust and we are satisfied that there is sufficient oversight by BEIS, with the support of UKGI.

We acknowledge the efforts of the BEIS team and UKGI to take this work forward and fully support the plans for the Grade 7 to lead the work to improve governance and oversight arrangements. This will require further time to revise existing documented approaches as well as ensure that the arrangements not yet implemented, are given an opportunity to evolve and embed before their effectiveness is evaluated.

At the time of reporting, no full compensation payments have yet been made. BEIS and UKGI are actively working with POL subject matter experts and legal advisors to design a process which adequately addresses the full range of losses experienced by the postmasters and so ensure it is translated into a fair compensation package. We acknowledge this is a challenging piece of work given that there is no legal precedence over the estimated compensation values to be paid out. We have seen minutes of meetings demonstrating the ongoing activity and discussions to take the work forward in respect of full compensation payments.

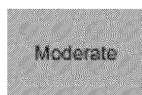
Recommendations

- 2.1 The HSS Operations agreement is revised to reflect the existing membership of the quarterly review meetings. Arrangements for the monthly monitoring meeting are summarised in a terms of reference document and include the agreed approach to lead the meetings, details of the representative or team responsible for fulfilling the secretariat function and the approach for recording, managing and monitoring agreed actions. Ongoing work to improve governance and oversight arrangements includes HSS and OCC activities to ensure consistency of approach and efficiency are maintained.

Assessed risk

For HSS and OCC; if there is insufficient evidence to demonstrate eligibility, there may be incidents where funds are being issued to ineligible recipients, therefore failing to protect public money.

Opinion on management of risk



BEIS, with the support of UKGI, have exercised appropriate governance over POL's design of the eligibility criteria for claimants in respect of the historical shortfall scheme (HSS), and the overturned criminal convictions (OCC) interim payments has been defined, discussed and approved. Oversight arrangements are in place and are operating at the agreed frequency, and the overall control environment is operating as intended. Our rating reflects the ongoing work to discuss, agree and finalise the eligibility criteria for OCC (final compensation payments).

Findings and implications

We reviewed the arrangements introduced by POL to ensure that only eligible applicants apply for the HSS and OCC compensation schemes, whilst ensuring that public monies are appropriately protected.

Historical Shortfall Scheme (HSS)

We have previously highlighted the uncertainties in respect of the total value of HSS claims, and so in our opinion there is a clear justification for the scheme to include eligibility criteria as a control to minimise fraudulent activity and demonstrate that the scheme is being administered fairly, consistently and that in the event that public monies are used it is seen to be appropriate.

Eligibility criteria for applicants to claim under the HSS has been drafted, approved and are available via the POL website. However, we note that the scheme closed for new applications in November 2021. Our review of the criteria confirmed they are clear, logical, and easy to understand.

Assuming appropriate verification activity by POL, requirements to satisfy the criteria would (in our opinion) be difficult to replicate by an ineligible recipient, for example, demonstrating that you have, or have previously had, a contract directly with Post Office and your application and time with Post Office must not involve or relate to any criminal conviction(s). Our opinion is limited to the reasonableness of approach as well as the risk of inappropriate use of public monies. We are unable to comment on the potential for legal challenge (of the criteria) given that we are unqualified in this area.

A summary of the HSS claims process, including the agreed activity to verify the eligibility of a claim, has been recorded and comprehensively outlined in the HSS business case. We note that the activity undertaken by POL includes verifying the claimant's identity, dates of service and contract with POL, confirmation that the claimant has no criminal conviction, bank account details and a check to prevent duplicative claims.

Further activity to demonstrate the effectiveness of the control environment and minimising the risk of unfair advantage and/or fraudulent activity includes the HSS Case Assessment Guidance which was written, discussed, and approved to bring consistency to the way that claims are processed. We note that the arrangements, which included input from BEIS, UKGI and POL were reviewed, challenged, and approved using the existing oversight and governance arrangements.

In addition, POL's legal adviser leads on claim processing, liaising with the Independent Panel, further strengthening the control environment. Documents relating to shortfall losses and consequential losses are requested and analysed, the Independent Panel reviews the claims to consider and agree a proposed outcome before final review and approval by POL.

Our evaluation of key documentation including the HSS business case, case assessment guidance and minutes of the HSS working group and steering committee demonstrated that the existing arrangements and approach in place to verify the eligibility of a HSS claim is of a good design and we found no weakness in the existing system of control. We also confirmed that there have been no reports of fraudulent or fictitious claims adding further strength to our opinion about the robustness of the existing arrangements that are in place.

The HSS quarterly review document (February 2022) includes a summary of the total HSS spend, which as of February 2022, was just under £4.1M, and so fits comfortably within the total compensation budget committed by POL (£89M). The document also includes a summary of HSS eligibility outcomes and status (eligible, partially eligible, illegible, confirmation pending, and query/approval required). We are satisfied that these headings and the detail recorded provide the basis for proportionate oversight and/or challenge of the latest developments by BEIS.

HSS compensation spend is monitored at the agreed frequency by senior level representatives (BEIS and UKGI, the shareholder representative). Our interviews with a sample of the representatives as well as review of key documentation including the quarterly review document and minutes of the review meeting leads us to conclude that the control environment over HSS, including progress in respect of eligibility and the risk to public money is proportionate and operating satisfactorily. Should POL HSS compensation payments be exceeded and BEIS assumes responsibility for paying out the remaining claims, we are confident that the existing arrangements are sufficient to instigate challenge, scrutiny and oversight whilst maintaining sufficient control over public monies.

Overturned Criminal Convictions – Interim Payments

A detailed summary of the OCC interim payments process is documented in the OCC Board and working group draft terms of reference. In keeping with the approach to determine eligibility for claims under the HSS, POL's legal advisor has prepared a set of principles covering the legal issues relating to the claims and various heads of loss likely to be applied for under scheme. Our review of the principles and key documentation confirmed that they are logical and demonstrate rational and reasoned recommendations for OCC interim payments. The principles have been approved by BEIS, and arrangements are in place to agree revisions as and when the need arises.

To minimise the risk of payments to ineligible applicants, on confirmation of an overturned conviction the POL legal advisor is proactive in contacting and advising applicants of their eligibility to apply for payment under the scheme. We confirmed that there has been no evidence of fraudulent claims being submitted to the scheme.

Applications are assessed by the Post Office's legal advisors to ensure claims have been quantified based on the principles and balance of probability. Claims are subject to approval by the Historical Remediation Committee (HRC), a POL Board subcommittee chaired by a NED with legal expertise, responsible for overseeing compensation for historical matters relating to PO postmasters. The Post Office Overturned Criminal Convictions Board (POCC) must also approve the release of the agreed compensatory amounts.

We reviewed a sample of OCC claims through the approval process confirmed that the claims and subsequent summary produced by HSF demonstrate eligibility criteria had been met. A summary of progress of OCC interim payments is also reported in the monthly UKGI OHC: Interim Payments Monthly Monitoring document. Our evaluation of a sample of the documents found an easy-to-understand summary which includes a breakdown of eligible claims, total spend to date and details of the latest developments for ongoing claims. Our interviews with BEIS staff responsible for reviewing the document verified it is produced at the agreed frequency and content is sufficient to ensure oversight over eligibility as well as overall scheme progress including payments is maintained.

We confirmed the joint efforts of BEIS, the shareholder representative and POL in the design and implementation of a process for eligible postmasters to claim the OCC interim payment. The process is proportionate, with regular reporting and oversight. Our testing also confirmed a satisfactory control environment reducing the risk of ineligible applicants.

OCC – Final compensation Payment

At the time of reporting (May 2022), no final payments under the OCC compensation scheme had been agreed or paid. But we acknowledge the collaborative efforts of BEIS, UKGI and POL in taking forward the work to design the criteria and process to demonstrate consistency, reasonableness, and fairness, given the unique challenges that the teams (as a collective body) face including the lack of a legal precedence for a case of this description, size and compensatory value. That said, work completed to date includes:

- The assurance plan for OCC (dated December 2021), reported to the POCC outlining an overview of high-level assurance options and more detailed options for the live assurance of Settlement Advice and Recommendation (SARS).;
- The full business case, summarising the proposed approach for full OCC compensation payments; and
- The Operations Agreement OHC, providing a common understanding between POL and BEIS of how compensation for OHC will be delivered.

Whilst we were unable to evaluate a fully embedded process for OCC final payments, the summary of activity is sufficiently documented and comprehensive for us to confirm that it aligns with the structured and controlled environment demonstrated as part of the HSS and OCC (interim payments) compensation schemes. The governance and oversight arrangements are also sufficiently designed to provide appropriate direction and control over the OCC final payments activity. But given the terms of the BEIS/UKGI MoU, both organisations should monitor the OCC and HSS decision making arrangements to ensure they remain appropriate.

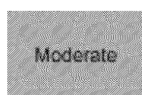
Recommendations

We have no recommendations to make under this section.

Assessed risk

If insufficient, inaccurate information and assurances are provided to BEIS to confirm that the compensation schemes are being used as intended, leading to inadequate decision being made.

Opinion on management of risk



Data and management information to demonstrate HSS and OCC activity is received regularly at the agreed frequency and format. Discussions with BEIS and UKGI representatives was positive and consistent across the board confirming the effectiveness of content that is received. Whilst we are satisfied that the controls in this area are operating as intended, improvements are required for BEIS to demonstrate it is assured over the accuracy and timeliness of HSS and OCC compensation payments made by POL to claimants

Findings and implications

Agreed data and management information requirements collated, analysed and reported on a regular basis is a common mechanism used by senior leaders in an organisation to monitor progress, trends and challenge actions and activities and so assure themselves that a system or process is operating as intended and use this as a basis for arriving at well informed decisions. We evaluated the data and management information arrangements that are in place over the HSS and OCC compensation schemes.

Management information - compensation schemes

UKGI worked jointly with POL to agree data and management information and assurance requirements so that BEIS can maintain oversight of performance and activity in respect of the compensation schemes. A summary of the requirements, including their frequency is sufficiently documented within the HSS and OHC Operations agreement documents. We are content that the process to agree management and assurance requirements is as we would expect to see a collaboration between both parties, and so we have no further comments to add.

The weekly HSS management information pack produced by POL is reviewed and any comments are either picked up with POL directly or incorporated into the larger monthly monitoring discussion. The latest developments in respect of OCC is summarised in the OHC: Interim Payments Monthly Monitoring document. We confirmed that the documents are received at the agreed frequency and format. We reviewed samples of the HSS MI Pack and OHC: Interim Payments Monthly Monitoring document and are content that they contain a detailed summary of the latest performance, activity and developments in respect of the compensation schemes.

Data and information from the weekly HSS MI pack is used to produce the HSS Quarterly Review pack, which is discussed at the Quarterly Review Meeting. In our opinion, the quarterly review pack is comprehensive, covers a range of issues, is easy to navigate and there is just the right balance of analysis a view also echoed by BEIS and UKGI

representatives. We were also informed that an adequate summary of the latest case developments is provided. Similar observations were provided for the OHC: Interim Payments Monthly Monitoring document. We confirmed that the documents are produced at the agreed frequency and format, enabling the review and evaluation of progress to drive conversations which lead to well-informed decisions. Based on our discussions and review of a sample of the documents, we wholly support this opinion.

Assurance that the compensation schemes are used as intended

There are a number of mechanisms that senior leaders use to gain assurance that the compensation schemes are being used as intended, including:

- Scheduled and ad-hoc discussions with BEIS, UKGI and POL representatives,
- Discussion, approval and sign-off of HSS/OCC performance, activity and compensation payments at monthly monitoring meetings, Steering Group and Quarterly Senior Responsible Officer Meetings,
- Shareholder Meetings,
- POL: Quarterly Update Report,
- Reporting from the media and wider public,
- OCC – Assurance approach approved by the POCC Board and documented in the operations agreement,
- Regular monitoring of the risk register,
- SRO monthly meeting, and
- Financial Reporting to the SRO.

We have evaluated and provided an opinion on the effectiveness of the assurance mechanisms in risks 1 and 2. We are content that the senior leaders have sufficient oversight and assurance over the design and operation stages of the compensation schemes, including arrangements to approve payments and are satisfied that these arrangements are proportionate, this has been demonstrated during our discussions with BEIS and UKGI representatives, who provided consistent responses to our questions and challenge, and the review of supporting documentary evidence.

There is, however, scope for improvement around providing additional assurance at the point that payments are remitted to claimants to ensure they are accurate and have been made on a timely basis. We have reported and summarised this in more detail, further along in the report as part of risk number 6.

Recommendations

We have no recommendations to make under this section.

Assessed risk

If payments to claimants into the HSS and OCC are not appropriately, consistently or fairly awarded to claimants, causing a failure to protect public money.

Opinion on management of risk

Substantial

A framework of controls, aligned to independent expert advice is in place to drive appropriate, consistent and fair awards to claimants

Findings and implications

The Post Office Horizon IT Scandal has been hailed as the biggest miscarriage of British legal justice, and so with the scrutiny over the historical actions of POL and ongoing compensatory activities it is only fair that BEIS as the 100% shareholder has an independent opinion to assure themselves that the payments to claimants through the compensation schemes are appropriate, consistent and fairly awarded, and where necessary public money is protected. Our fieldwork evaluated the arrangements that are in place to ensure the control environment is maintained.

Mechanisms to drive appropriate and fair payments to claimants

We established that POL contracted an independent legal advisor (Herbert Smith Freehills, HSF) to design the eligibility criteria, and consequential loss principles to assist with the assessment of claims and maintain day-to-day responsibility for administering the compensation schemes. BEIS and its shareholder representative (UKGI) were invited to comment and review the arrangements to enable BEIS to satisfy itself that the proposals are reasonable, fit for purpose and align with best practice. We have reviewed the arrangements and previously reported that the controls and assurances over the compensation schemes are operating satisfactorily and the risk of ineligible applicants applying for the scheme is sufficiently minimised, and so are content that the risk to public money is appropriately minimised.

As part of our fieldwork, we verified that HSF has a wealth of experience assisting organisations in the UK and across the globe with their legal risks, challenges using local insight and the global perspective. Similarly, UKGI, the government's centre of excellence, and shareholder representative fulfils a challenge function in respect of corporate governance and corporate finance leading us to conclude that there is sufficient challenge over POL's processes.

Mechanisms to encourage consistency in the awards to claimants

The mechanisms introduced to promote consistency within the HSS includes the HSS Case Assessment Guidance paper which summarises legal principles for the case assessors to apply when they assess HSS claims. We note that the guidance (and approach) prepared by HSF (legal advisors to POL) was also scrutinised by BEIS and UKGI before being formally submitted for approval to the HSS Steering Committee. We reviewed the guidance and are content that it is reasonable and comprehensive.

OFFICIAL - SENSITIVE

BEIS and UKGI has fulfilled a critical friend / challenge role to encourage and steer POL thinking during the process to design the dispute resolution guidance and principles. Our review of the challenge and questions posed by BEIS and UKGI verified that they were fair, reasonable and in our opinion provides the basis for building on the existing system to create consistency of approach within the OCC process. BEIS attend fortnightly meetings with the “post offer” team (developers of the dispute resolution procedure). POL shares their lessons learned with BEIS, and presents their latest statistics, direction of travel, and responses to previous input from BEIS/UKGI at each meeting. BEIS/UKGI provides encouragement or challenge, as appropriate.

HSF have prepared a set of “Principles” incorporating provisions reflecting legal advice provided to BEIS covering the legal issues relating to the OCC claims and the various heads of loss which are likely to be claimed. The principles are used to assess OCC (interim payment) claims in order to arrive at a rational and reasoned interim compensation payment recommendation. We reviewed a blank application form, which has details of the headings which are used by the claimants and subsequently assessed by HSF, the details as recorded are reasonable. Unfortunately, despite several requests, we were not furnished with a copy of the underlying principles to support the assessment of the claim to verify its content in order to provide an opinion on its effectiveness.

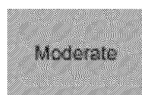
Overall, we are satisfied that the control environment to ensure that payments to claimants in respect of HSS and OCC are appropriate, can be demonstrated by the criteria that has been agreed and implemented to assess and verify a claimant’s eligibility. Further, mechanisms introduced to drive consistency and fairness in the awards to claimants include the schemes being led by an independent legal firm, who has a wealth of experience advising UK and global businesses, as well as the ongoing input and constructive challenge from BEIS and UKGI’s expert and specialist service provide the basis for ensuring that actions and activities in respect of corporate governance and finance are operating satisfactorily and align to best practice.

OFFICIAL - SENSITIVE

Assessed risk

If payments to claimants into the HSS and OCC are inappropriately delayed by complex and burdensome approval processes and governance structures, causing further reputational damage to BEIS.

Opinion on management of risk



Proportionate and regular approval and governance structures are in place, and we did not find any evidence that they are burdensome or delay payments to claimants. However, improvement is required for senior leaders to assure themselves that interim payments to OCC claimants as completed by POL, are accurate and undertaken in a reasonable timeframe, and in so doing minimises the risk of reputational damage to BEIS.

Irrespective of our findings, media scrutiny of the Horizon case remains high and retains the potential to cause reputational damage to BEIS should delays materialise in the future.

Findings and implications

Our review of the HSS and OCC compensation schemes has confirmed that proportionate approval and governance structures have been introduced, and the arrangements are effective at ensuring that the risk of public monies being claimed inappropriately is sufficiently minimised.

However, we are concerned that BEIS may not be requesting/receiving sufficient information from POL to ensure timeliness in the processing of claims and payment of compensation:

- the business update delivered by the Secretary of State on 22 July 2021 outlined that there is an expectation that the Post Office issues offer letters for interim payments within 28 days of receiving a claim from eligible postmasters. Our review of the UKGI OHC: Interim Payments and Full & Final Settlements Monthly Monitoring document found that whilst a summary of the offer letters issued is recorded, including whether the target (28 days) has been achieved, no further analysis is completed to measure the average time period that an interim payment has been made following approval,
- there are no agreed arrangements to measure, or for BEIS to be assured that, the compensation payments to claimants (paid by POL and reimbursed by BEIS) are accurate and have been paid promptly once the claimant accepts their offer letter
- Whilst we acknowledge that BEIS receives information on OCC open cases (i.e., where a claim has been submitted, but an offer/rejection letter has not been issued) – the narrative does not clearly outline when the 28-day target expires and so BEIS may not be aware of cases that have exceeded as the case is not measured until the letter has been issued.

We acknowledge that BEIS has not been informed of any known disruptions at POL and its payment process, and we did not find any evidence of reporting in the media or across the public domain to indicate that any sub-postmasters have experienced a delay in receiving

payment or the amounts received are inaccurate. However, our concern is that as the actions and activities of POL continue to be regularly scrutinised and reported, there remains a residual risk of reputational damage to BEIS if a planned or unexpected delay or action impacts on POL's ability to determine a claim or remit a payment to a claimant. And since this information is not currently included or reported as part of the existing system of control, appropriate steps or action cannot be taken to minimise the risk from materialising (**Recommendation 6.1**).

Our interviews with BEIS representative and review of documentation did not identify any actions or activity which we would construe as being complex or burdensome. In our opinion, the uncertainties that have arisen as a result of the POL and the flaws of the Horizon system illustrates the need for robust and proportionate oversight and governance mechanism and we are confident that the existing system of control is achieving this. Allied to this, we acknowledge the ongoing activity underway to agree the mechanism for completing full and final payment under the OCC. And so, the existing arrangements provides the basis to test and refine the process so that BEIS are equipped to deal with these claims and any challenges that present along the way.

Recommendations

- 6.1 BEIS to seek assurance that open cases are resolved. Where weaknesses are found, appropriate and timely action is taken to address the issue and/or concerns. BEIS and POL discuss and collaboratively agree a proportionate mechanism to report and monitor the historical and current targets for issuing OCC (interim) payments to a claimant. In the event that anomalies are found, senior leaders consider further action such as a deep dive to identify any ongoing issues and/or a solution to improve the process or efficiency going forward.

Assessed risk

If cashflow is poorly managed by POL on HSS and/or OCC, this could result in BEIS being subject to fines by HMT, causing reputational damage

Opinion on management of risk

Moderate

POL cashflow is reported to senior leaders using various mechanisms. Sufficient evidence of the discussion that has ensued is recorded, however some improvements are needed to demonstrate the level of challenge and scrutiny over cashflow by the senior leaders.

We did not identify any weaknesses which would indicate that cashflow is being poorly managed or that BEIS is exposed to a risk of reputational damage. Whilst we are satisfied that there are regular mechanisms to maintain oversight of POL cashflow, our rating reflects the improvements that are required to record and therefore demonstrate direction, control and leadership.

Findings and implications

POL has committed to finance liabilities of £89M to compensate victims as part of the Historical Shortfall Scheme. In additional BEIS, as 100% shareholder of POL has agreed to fund interim payments under the OCC compensation scheme and confirmation of this is recorded in the funding commitment letter, dated 22 July 2021 issued to the POL Board. We reviewed the arrangements that are in place to ensure that POL cashflow is managed and monitored to minimise the risk of further distress to the sub postmasters or reputational damage to BEIS.

At a strategic level, details of POL strategic financial responsibilities have been recorded and issued in a formal letter to the POL Chief Executive from the BEIS Secretary of State. We note that the document references the expectations that include ensuring that there are robust controls and rigorous monitoring by the Board and so outlines what is expected of POL. The content of the letter defines the roles, responsibilities and accountabilities.

POL cashflow is reported, reviewed and monitored by: -

- The Director at UKGI sits as a Shareholder NED on the POL Board meetings and so has direct access to up-to-date information and insight in respect of the latest progress on POL finances including cashflow. The NED regularly communicates and/or highlights any concerns reported in the board papers or arising from the discussions to the BEIS SRO.
- The Quarterly Shareholder Meetings are a formal forum for BEIS to challenge and discuss POL performance for example, against the agreed financial strategic priorities as set out in the annual Chair's letter issued by the BEIS Secretary of State). The Shareholder Quarterly Briefing document, produced by POL reviewed and discussed during the QSM includes a comprehensive summary of the latest position in respect of its activity, financial performance and compensation settlements (HSS and OCC). We saw a detailed line-by-line breakdown of progress on budget, costs and revenue (cash

flow) and the minutes of the meeting demonstrate the record of discussion that has ensued including financial performance.

- The POL Quarterly Update produced jointly by BEIS and UKGI following the Quarterly Shareholder meeting includes a summary of POL financial performance including budgets. The update is approved by the BEIS SRO before formal submission to the BEIS Minister and Permanent Secretary for oversight. Our evaluation of a sample of updates confirmed that a high-level summary of POL financial performance is recorded.

We are satisfied that QSM, and quarterly updates provide a regular opportunity for BEIS senior leaders to review, monitor and challenge the latest position on POL financial performance and satisfy themselves that sufficient cash flow is available to honour POL financial commitments.

- The HSS Quarterly review pack, which is discussed and monitored regularly at the quarterly review meetings, includes a summary of the total HSS compensation spend to date. At the time of reporting, the amounts paid out to claimants total £4.1M and so sits comfortably within POL's commitment to fund the first £89M of these costs. In our opinion, the document provides an opportunity for BEIS to maintain regular oversight, monitor compensation spend and where necessary challenge any amounts which appear to be out of place.

OFFICIAL - SENSITIVE

Annex 1: Management action plan

	Recommendation(s)	Priority	Action agreed	Implementation date	Owner
1.1	A summary of the governance structure introduced to maintain oversight of POL is disseminated to relevant stakeholders	Low	BEIS policy and UKGI to share the governance overview with POL. BEIS policy will also share the document in requests received on details about the oversight/governance arrangements that are in place over POL	30 June 2022	Amisha Patel
1.2	Terms of reference for the quarterly shareholder meetings is written and agreed to include details of the purpose of the shareholder meetings, the chairperson(s), along with details of the arrangements for nominating a deputy to cover periods of agreed and/or unexpected absence, the representative or team responsible for fulfilling the secretariat function and the approach for recording, managing and monitoring actions and the arrangements for escalating issues arising from the discussions. In addition, the quarterly shareholder meetings are referenced within the Post Office Limited: Shareholder Relationship Framework Document as part of the work to refresh and revise its content.	Low	Further details on the Quarterly Shareholder Meeting should be documented appropriately in a separate Terms of Reference which should be referenced in the Framework Document when updated in 2023	30 June 2022	Amisha Patel

OFFICIAL - SENSITIVE

OFFICIAL - SENSITIVE

	Recommendation(s)	Priority	Action agreed	Implementation date	Owner
1.3	Action is taken to improve the minuting of the shareholder meeting to demonstrate the degree of challenge and scrutiny exercised by BEIS/UKGI.	Low	BEIS/UKGI will ensure minutes capture scrutiny and challenge	30 June 2022	BEIS/UKGI policy team (Annie Carpenter)
2.1	(a) Arrangements for the monthly monitoring meeting are summarised in a terms of reference document and include the agreed approach to lead the meetings, details of the representative or team responsible for fulfilling the secretariat function and the approach for recording, managing and monitoring agreed actions. (b) Ongoing work to improve governance and oversight arrangements includes HSS and OCC activities to ensure consistency of approach and efficiency are maintained.	Low	(2.1.a) Terms of Reference for HSS Working Group (WG), Steering Committee, Monthly Monitoring Meeting (MMM) and Quarterly Review (QR) Meeting to be updated, working with UKGI who in particular lead on the agendas and chairing of the WG and MMM. These actions address the recommendation on the Operations agreement as the ToRs are more appropriate for updating this information. (2.1.b) The potential for consistency enhancements from cross-referencing good practice and lessons learned on governance and oversight arrangements in both workstreams will be considered and any subsequent amendments proposed for further action (timescales TBC at the time, given scale of work required)	(a) 31 July 2022 (b) 31 August 2022	(a) Harry Fallowfield (b) Emily Snow

OFFICIAL - SENSITIVE

	Recommendation(s)	Priority	Action agreed	Implementation date	Owner
6.1	BEIS to seek assurance that open cases are resolved, and interim payment letters issued within 28 days. Where weaknesses are found, appropriate and timely action is taken to address the issue and/or concerns. BEIS and POL discuss and collaboratively agree a proportionate mechanism to report and monitor the historical and current targets for issuing OCC (interim payments to a claimant. In the event that anomalies are found, senior leaders consider further action such as a deep dive to identify any ongoing issues and/or a solution to improve the process or efficiency going forward.	Medium	BEIS to ask POL to provide BEIS, within the MI pack, with a list of outstanding interim payment claims, with dates of claim included on a monthly basis. All recent payments should be included so that BEIS policy team can check to see that payments have been made within the 28 days timetable.	30 June 2022	Emily Snow

OFFICIAL - SENSITIVE

Annex 2: Objective, scope and limitations

Objectives

The objective of this audit is to provide assurance that there is an adequate and effective control framework in place to ensure effective management of POL, in line with central guidance, including the management of additional funding to assist with the HSS and OCC. In particular the design and operation of these funding controls, we are looking to provide assurance that:

- There is an operational and effective governance framework in place for the company broadly and for HSS and OCC specifically; and
- BEIS has the appropriate reporting mechanisms in place to obtain assurances that the funds for the compensation schemes are being used appropriately.

Scope and limitations

We will review the adequacy and effectiveness of the control framework in place including a review of the governance and monitoring arrangements of POL. We will also look for assurance that processes are in place to ensure that post office compensation funds are being spent in accordance with the conditions set.

Our review will focus on:

- The design and operating effectiveness of the Governance framework in place, including plans and deliverables
- Management information and reporting assurance obtained by BEIS
- the oversight approach for the HSS compensation scheme and the OCC compensation process. Making an assessment on the oversight undertaken between BEIS/UKGI i.e., is it proportionate and fit for purpose
- the assurances provided by POL to BEIS/UKGI on HSS, OCC, and operational matters, and test whether the reporting is accurate (what checks POL undertake), timely and will provide BEIS with an appropriate view of progress and issues/risks

Distribution

Carl Creswell	Director, Professional Business Services, Retail and Post, BEIS
Eleanor Brooks / Beth White	Deputy Director of Post Office Policy and Sectors Briefing Hub, BEIS
Rob Brightwell	Deputy Director, Response to Post Office Horizon Inquiry, BEIS
Eleanor Beal	Head of Post Office Policy, BEIS
Tom Cooper	Director, UKGI
Edward Emerson	Executive Director, UKGI
Robert Mackie	Executive Director, UKGI
<u>Final report only:</u>	
Sarah Munby	Permanent Secretary, BEIS

OFFICIAL - SENSITIVE

David Bickerton	Director General, Business Sectors, BEIS
Charles Donald	CEO, UKGI
Ian Coates	BEIS Group Chief Internal Auditor, GIAA
Steve Collins	Senior Audit Manager, GIAA
Ali Morgan	Director, NAO
Internal Controls	BEIS

OFFICIAL - SENSITIVE

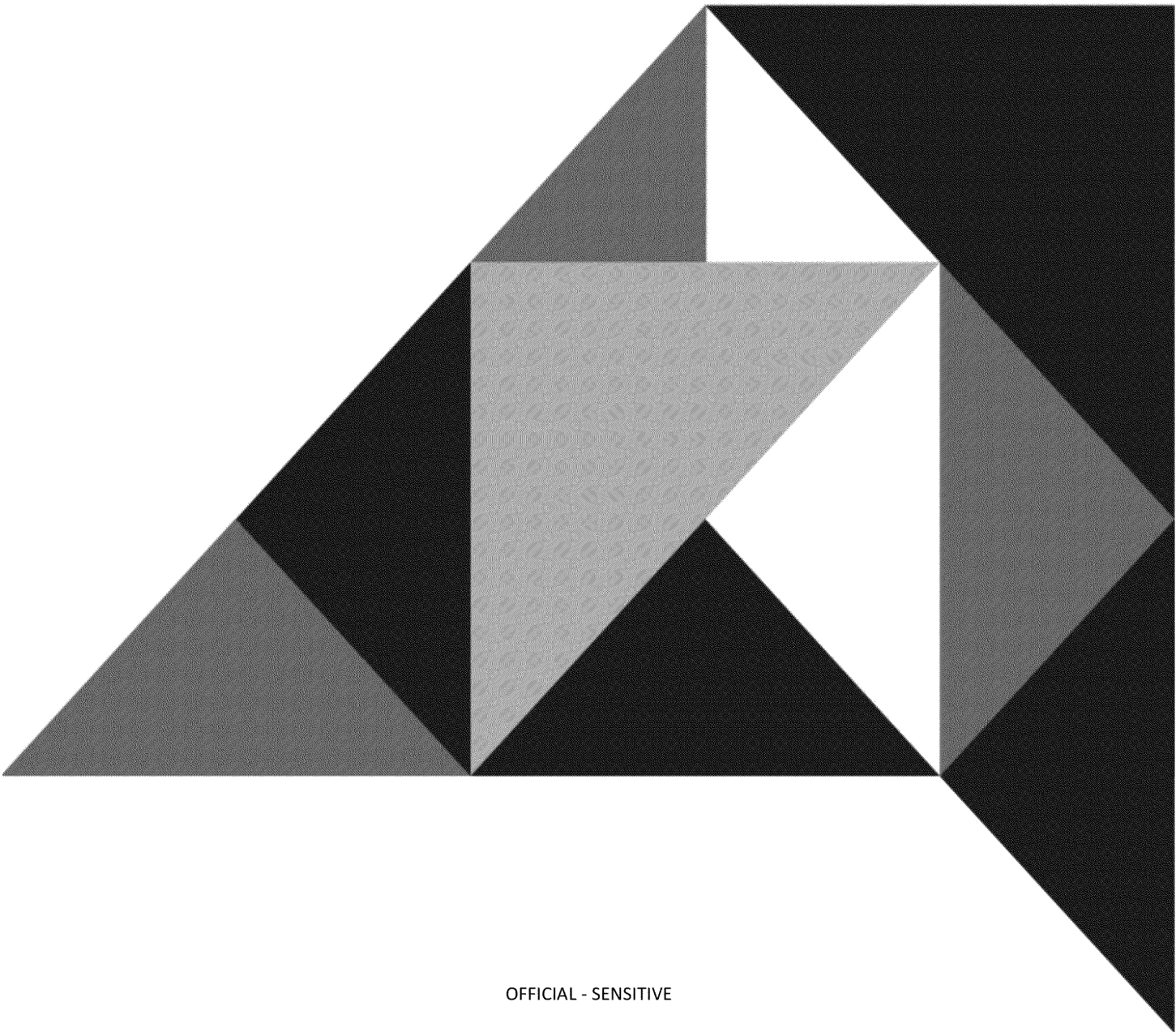
Annex 3: Our classification systems

Substantial	<p>Substantial</p> <p>The framework of governance, risk management and control is adequate and effective.</p>
Moderate	<p>Moderate</p> <p>Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.</p>
Limited	<p>Limited</p> <p>There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.</p>
Unsatisfactory	<p>Unsatisfactory</p> <p>There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.</p>

Recommendation

Priority	Definition	Action required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

OFFICIAL - SENSITIVE



OFFICIAL - SENSITIVE