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Exhibit WITN00740132

POLARC13 (6th)
13/36 - 13/45

POST OFFICE LIMITED
(Company no. 2154540)
(the **Company**)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on Tuesday 19 November 2013 by conference call**

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director

In attendance:

Paula Vennells	CEO
Chris Day	CFO
Chris Aujard	General Counsel (GC)
Alwen Lyons	Company Secretary
Sarah Hall	Head of Financial Control and Compliance
David Mason	Head of Risk Governance
Malcolm Zack	Head of Internal Audit
Lesley Sewell	Chief Information Officer (Minute 13/40 only)
Jeremy Midkiff	Senior Manager, Ernst & Young (Minute 13/42 only)

POLARC
13/36

INTRODUCTION

A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.

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13/37

MINUTES OF THE LAST MEETINGS AND MATTERS ARISING

- (a) The Committee approved the minutes of the meetings held on 12 September 2013 for signature by the Chairman of the Committee.
- (b) The Committee noted the actions list dated 12 November 2013.

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13/38

RISK MANAGEMENT – TOP COMPANY RISKS

- (a) The Committee had received an ExCo report on key risks from David Mason, Head of Risk Governance, in the papers for the meeting. The CFO explained that further work had been undertaken since publishing the papers and asked that this be the focus of the Committee's discussions.
- (b) The Committee discussed the top six risks as identified by the Business:
 - Allegations relating to the integrity of the Horizon system;
 - Failure to deliver top line growth in line with strategic plans;
 - Operating Model fails to deliver requisite cost savings;

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Exhibit WITN00740132

- Inadequate people capability or capacity to deliver transformational change and the strategic plan;
 - Non-delivery of Network Transformation Programme; and
 - Strike action within Supply Chain could damage ability to distribute cash to network (Industrial Relations/the CWU)
- (c) In addition to the above risks, the Business identified three further risks which would be monitored:
- the risk of regulatory action or reputational damage from FS mis-selling;
 - the risk of not maintaining the security and integrity of Post Office data; and
 - the risk of unsuccessful delivery and operation following IT transformation
- (d) The CEO explained that the Business had owners for all the risks and was reviewing the actions and assurance processes which were in place to reduce the risks. The Business would also be reviewing the top risks at the ExCo on a quarterly basis.
- (e) The Committee thanked the CEO, noted that a lot of progress had been made on risk identification and review and applauded the proposed approach. The Committee acknowledged that although good progress had been made to date it stressed the need for further progress to be delivered at a rapid pace.
- (f) It was agreed that the Chairman of the Committee would update the Board at the next meeting. The detail of the risks presented was captured in an update for the Board which is shown as an addendum to these minutes and would be discussed at the next Board meeting.
- ACTION:**
Alasdair Marnoch
- (g) The Chairman asked that the Business go back 18 months and review the 6 top risks and the 3 further risks to see how many would have been identified at that stage.
- ACTION:**
Dave Mason
- (h) The Committee noted and supported the developing approach to risk management in the Company.

POLARC
13/39

CORPORATE AND NETWORK AUDIT

- (a) The Committee received a paper from Malcolm Zack, Head of Internal Audit, outlining the principles of internal auditing and options for the future, including assurance that a plan was in place to deal with the issues raised.
- (b) The CFO explained that the Business had recognised the need for additional resource in the Internal Audit (IA) function but also the need to commission a short piece of external work to look at IT risk and audit. The Committee supported that approach as the IT transformation was

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Exhibit WITN00740132

complex and an external audit would give the Business assurance.

ACTION:
Chris Aujard

(c) The Committee asked Chris Aujard, General Counsel, to undertake a risk review of FS compliance, with input from Tim Franklin, to ensure the Business is responding to changes in regulations and the Mortgage Market Review. A paper should be brought to the next ARC highlighting the Business' compliance scorecard and the work carried out to date.

ACTION:
Nick Kennett

(d) The Committee asked that the Director of Financial Services also be invited to the next ARC for this discussion.

(e) The Committee agreed that the Risk Management and IA teams should be focussed on the top 6 risks and 3 further risks and that enough resource should be provided to fulfil this requirement. The CFO explained that the structure for internal network audit would also be reviewed but that this would be done at a later date and did not stop the Business moving on strengthening the corporate IA function.

(f) The Committee noted the plan outlined in the Committee paper.

POLARC
13/40

IT AUDIT FINDINGS – SOFTWARE LICENSING AND IDENTITY ACCESS MANAGEMENT

(a) The Committee welcomed Lesley Sewell, Chief Information Officer, to the meeting.

(b) The Committee received a paper from Malcolm Zack summarising the most recent internal audit reports on Identity and Access Management and Software Licensing and assurance that an action plan was in place to deal with the issues raised.

ACTION:
Malcolm Zack

(c) The Chairman thanked the Head of Internal Audit for the frank reports which clearly identified the areas of concern. The Committee asked that future reports included deadlines for all actions identified.

(d) Lesley Sewell explained that both audits were important as a baseline for the Business as it separated from Royal Mail Group suppliers and would enable her to ensure the new suppliers fulfilled the audit recommendations as they took over the service.

(e) The Committee noted the outcomes of the reports.

(f) Lesley Sewell left the meeting.

POLARC
13/41

PROJECT SPARROW AND PROSECUTING AUTHORITY

(a) Chris Aujard, General Counsel, updated the Committee on the approach to prosecutions brought by the Post Office. He explained that, currently, the Post Office brings criminal prosecutions under s.6(1) of the Prosecution of Offences Act 1985, which empowers any individual or company to bring a private criminal prosecution. He sought the Committee's views on potential changes to the prosecutions policy and further work proposed before any formal recommendation could be made for any changes to the prosecutions policy.

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Exhibit WITN00740132

- (b) The Committee discussed the alternative approaches to prosecution but were concerned that if any changes were agreed the timing might influence the mediation process by raising questions on previous prosecutions.
- (c) Chris Aujard explained that one of the issues was the perception that subpostmasters had of the Post Office bringing prosecutions for false accounting rather than theft, which was easier to establish. The Committee asked whether the business would still be able to recover branch losses through the Civil Courts. Chris Aujard explained that this would still be open to the Business but it may be slower and not recover as much. He explained that the Business was working to put in controls to support subpostmasters and stop any debts escalating. The Committee supported this but was nervous about changing the approach to prosecutions as in their view this acted as a deterrent.
- (d) The CEO thanked the Committee for the helpful challenge. She stressed that the Business was not saying that it would never bring prosecutions, but that it would be more circumspect in the cases it chose to take. She agreed that the current approach was a deterrent but explained that there were other deterrents such as suspension or termination of contract.
- (e) The Committee noted that it expected that the number of prosecutions would reduce over time regardless, as a result of the Business' improvements in the overall control framework around the branch network and the provision of support to sub-postmasters, in line with Project Sparrow and Network Transformation.
- (f) It was suggested that the decision on the Company's prosecuting policy should be taken to the January Board.
- (g) The CEO updated the Committee on Project Sparrow. She explained that the lesson learned review was complete and the report would be available late November/early December. The CEO drew the Committee's attention to two risks to the delivery of the Project.
- (h) The first risk highlighted was that the Business had envisaged that the final number of cases would have been under 100, but as the scheme neared the deadline for application the number of applications was nearer 150, with nearly 50 received in the last couple of days before applications closed. As a result, the timetable will have to be extended as each case will need individual investigation and Second Sight will need to be with us for longer. There will also be a resource cost to the Business which the CFO is aware of.
- (i) The second risk that had arisen concerned the compensation that subpostmasters believed they were entitled to. It had become clear from the applications for mediation that there was an expectation gap which the Business needed to mitigate where possible.
- (j) The Committee emphasised the need to reach conclusion as quickly as possible and to constrain the costs. It was noted that the Board would receive an update at the November Board meeting.

ACTION:
Chris Aujard

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Exhibit WITN00740132

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13/42****INTERIM REPORT REVIEW AND ERNST & YOUNG HALF YEAR
REVIEW FINDINGS**

- (a) The Committee welcomed Jeremy Midkiff (JM), Senior Manager, Ernst & Young to the meeting.
- (b) Chris Day, CFO, invited the Committee to review the Company's Interim Report and Condensed Financial Statements for the 2013-14 half year.
- (c) The Committee also received a report from Ernst & Young (EY) on the Company's Half Year Results 2013 – 2014. JM welcomed discussion on this report.
- (d) JM explained the scope of EY's review of the Company's interim financial statements. He noted that this was the first time that the Company had issued interim results under IAS 34 and therefore the scope of EY's review was in accordance with ISRE 2410 and designed to give negative assurance over the interim financial information.
- (e) JM indicated that the scope of the review and focus areas were similar in nature to the prior year full audit with focus areas being revenue recognition, counterparty credit risk, pensions, classification of exceptional costs on the income statement and review of corporation tax. Based on the review to date, no findings were highlighted to the Committee except for the reclassification SAD (summary audit difference) related to the presentation of business transformation payments on the balance sheet similar to the prior year end.
- (f) JM noted that subsequent events procedures and management enquiries will need to be updated to the expected date of sign-off and that a management representation letter will be required for the interim results.
- (g) Finally, whilst specifically not highlighted in the EY interim report, JM highlighted the exceptional credit of £30m in the interim financial information as a result of utilising part of the current year non-network subsidy grant to offset costs which were incurred in the previous financial year. Whilst there is no issue with the accounting treatment adopted by the Business, EY wanted to highlight that this was an area of focus during the interim review as it looked 'odd' to have a gain in the current period financial statements for this specific matter.
- (h) No other issues or findings were specifically highlighted to the Committee for their consideration.
- (i) Sarah Hall responded that the use of the 2012-13 additional grant had been specified in a designation letter from BIS into amounts for capital and agents' compensation with the balance being available for other spend. Although 2012-13 expenditure was below the total level of the grant, the mix was different and about £30m was spent above the grant level for expenditure that was transformational but neither capital nor agents' compensation. In setting the designation letter for the 2013-14 grant, this issue had been discussed with BIS and the 2013-14 letter allocated a lower level to capital and agents' compensation leaving a greater balance for other transformational spend to cover the amounts in the prior year that had not been covered by the 2012-13 grant as well as

Strictly Confidential

Exhibit WITN00740132

expenditure in 2013-14. The Shareholder Executive team is aware of this treatment and of the use of the grant to date.

- (j) SH highlighted the key changes since the Board had reviewed the Interim Report which mainly arose from the review by the Shareholder Executive team and noted that there would be further changes required should the funding announcement be made before the Interim Report was finalised. It was agreed that these changes would be reviewed by the Board Subcommittee which would be arranged for a date in the last week of November or first week of December.
- (k) The Committee noted the Interim Report Review and thanked Jeremy Midkiff.
- (l) Jeremy Midkiff left the meeting.

**POLARC
13/43**

**FINANCIAL SERVICES UPDATE, INCLUDING BANK OF IRELAND
(UK) PLC CAPITAL AND LIQUIDITY**

**ACTION:
Nick
Kennett**

- (a) The Committee considered the report received from Nick Kennett, Financial Services Director.
- (b) The Committee asked for a note to update them on the effect of the Bank of Ireland strategy on the savings portfolio and its position as value for money for customers compared to the rest of the savings market.

**ACTION:
CEO**

- (c) There was concern that the Current Account rollout was delayed and the Committee asked for a fuller update at the Board.
- (d) The Committee noted the update.

**POLARC
13/44**

PAPERS FOR NOTING

**ACTION:
CEO**

- (a) The Committee noted the Information Security and Assurance Group Specific Update on Brands Database. The CEO said that she would check again that we had the right controls in place for the Brands Database. The Committee asked the Business to test whether information security for international payments was covered by the FCA.

**ACTION:
Chris Aujard**

- (b) The Committee noted the Internal Audit activity update, status of agreed actions.
- (c) The Committee noted the report on the Committee's first self-assessment.
- (d) Finally, the Committee noted the report on the annual review of the Committee's terms of reference and the Internal Audit Charter and agreed that:

- the terms of reference be ratified; and
- the Charter be approved with the changes detailed in the report.

**POLARC
13/45**

CLOSE

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Exhibit WITN00740132

There being no further business, the meeting was declared closed.