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INTERNAL AUDIT & RISK MANAGEMENT (IA&RM) - ROYAL MAIL CONFIDENTIAL

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TERMS OF REFERENCE – PRIVILEGED PREPARED IN CONTEMPLATION OF LITIGATION

Post Office Ltd – Review of Horizon System Controls

Background

The Post Office Limited network of some 11,000 branches processes client and business transactions in excess of £100 billion annually. The majority of transactions are conducted on behalf of other parties, for example, receiving payment for domestic utility bills and paying out National Savings.
Customer transactions are captured through the Horizon electronic point of sale system in branches and transmitted to central systems (utility payment, external banking and Post Office finance systems) throughout the day. On a nightly basis, daily summaries are transferred into the central accounting system, POL SAP (a SAP package). The translation process between the two systems is enabled by the Reference Data System (RDS).

Objectives & Scope

The overall objective of the review is to provide assurance that suitable internal controls operate over Horizon transactions, the extraction of these for central systems and that appropriate IT management disciplines provide a stable IT platform.

To assess the adequacy of internal controls over transactions, specific processing risks and associated key controls will be identified, and walkthrough of some transactions will be undertaken to corroborate the accuracy of this analysis. Specifically:

- Master data is accurately input to the system.
- Transaction data input to the Horizon system at branches is validated for product, volume and value and confirmed by customer where appropriate.
- The rules in SAP Middleware for processing branch summary financial transactions are reviewed regularly to ensure that they incorporate and provide for all combinations of data; and that the Middleware software is monitored during processing to detect blockages in queues in order that transactions are not discarded and that appropriate data is uploaded into POL SAP.
- Batch updates are completed timely and accurately for interfaces to other systems.

To assess the suitability of IT management disciplines we will review processes that ensure:

- Access to software (Horizon, translation and Middleware) is restricted to relevant staff, i.e. genuine branch staff, central Post Office and Fujitsu technical support staff.
- Functional changes are initiated through an agreed process and thoroughly tested before approval and migration into the live environment.
- Capacity for processing is monitored and adequate resources are provided for future processing.
- There are support arrangements to ensure its ongoing availability and for disaster recovery.

The review will also assess the degree to which the issues raised in the 2011 Ernst & Young Management Letter regarding the Horizon control environment have been addressed by management.

Timescales

Assignment fieldwork is due to commence in September 2011and be completed in October. A draft report will be agreed with stakeholders, prior to final publication, in November. The final report will be distributed to relevant stakeholders in the business and will contain an IA&RM overall level of assurance rating for the areas audited.