



POST OFFICE LIMITED

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

Title:	Audit, Risk and Compliance (ARC) Committee Evaluation 2022/23	Meeting Date:	16 May 2023
Author:	Marie Molloy, Senior Assistant Company Secretary	Sponsor:	Simon Jeffreys, ARC Chair

Input Sought: Noting, Discussion & Decision

The Committee is asked to:

- NOTE and DISCUSS the ARC Committee Evaluation for 2022/23 (**Appendix 1**).
- APPROVE the recommended areas and actions to address points raised for improvement.

Previous Governance Oversight

- The Nominations Committee approved the 2022/23 ARC evaluation questionnaire at its meeting on 6th December 2022.
- An externally facilitated evaluation was conducted of the Board and its Committees for 2020/21 and will be undertaken again in 2023/24¹.

Executive Summary

The 2022/23 ARC evaluation questionnaire mirrored that of 2021/22 to allow like for like comparison. The ARC Members as at February 2023 and the Group CFO, General Counsel, Director of Compliance, Head of Risk, Director of Internal Audit and Risk Management and Head of External Audit were invited to complete the questionnaire².

Across all evaluation areas the effectiveness of ARC was rated³ as 'very good' which is broadly in line with prior year ratings:

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|--|----------------------------|
| • Skills, experience, diversity, knowledge | Average score 4.6 (LY 4.4) |
| • Leadership, ways of working, time management | Average score 4.4 (LY 4.5) |
| • Information and Support | Average score 4.0 (LY 3.8) |

The evaluation feedback was that the Committee continues to remain effective, despite the headwinds and challenges faced by the Post Office. Positive comments were made regarding the interaction and engagement with the external auditors and the internal audit function. The approach of the committee in relation to providing an effective challenge to management and holding them to account, whilst still being supportive was remarked upon.

The two areas which may require further focus and improvement are:

- Assuring that compliance with the regulatory landscape is adequately managed and reported (score 3.6 (LY 3.8)); and
- Quality of papers and presentations received by the Committee (score 3.9 (LY 3.5)).

¹ The UK Corporate Governance Code and the Corporate Governance Code for Central Government Departments both stipulate that there should be an annual evaluation of the Board and its Committees which should be externally facilitated at least once every third year.

² Recently appointed ARC Chair and a non-executive Director were therefore excluded.

³ Key 5 = Excellent 4 = Very good 3 = good/ at required standard 2 = Requires development 1 = Requires significant development



The actions arising from the 2021/22 ARC evaluations have all been addressed.

Report

How do the responses of 2022/23 compare with 2021/22?

The overall average evaluation scores at 'very good' were broadly in line with prior years, and all scores were of or above 3.6 (3 = "good/ at required standard").

The Membership of the Committee and the executive contributors had been stable during the period in which the evaluation questionnaires were undertaken in, so the pool of questionnaire participants was very similar.

The higher scoring questions are summarised below:

Sections	Question	22/23	21/22
B Leadership, ways of working, time management	How would you assess the Chair's encouragement of debate within the Committee, including ensuring that all members are able to contribute to the discussion?	4.8	5.0
A Skills, experience, diversity, knowledge	How would you rate the Committee's understanding of the following areas of the Business:		
	i. Financial reporting and management	4.8	4.3
	iv. Internal Audit	4.7	4.3
	v. External Audit	4.7	4.3
	How appropriate is the composition of the Committee for the requirements of the business?	4.7	4.5

The lower scoring questions are summarised below:

Sections	Question	22/23	21/22
C Information and Support	How comfortable are you that compliance with the regulatory landscape is adequately managed and reported?	3.6	3.8
	How would you rate the quality of papers and presentations received by the Committee?	3.9	3.5

The lower scoring questions and comments in our opinion reflect the challenge of addressing the range and breadth of ARC topics across Post Office and should be read in conjunction with the positive approach adopted by the Committee in providing an effective challenge to management and holding them to account, whilst still being supportive.

The timing of the December 2022 and January 2023 ARC were commented upon as being too close together. The proposed re-scheduling of the ARC dates to 27 November 2023 and 29 January 2024 will allow a sufficient gap to facilitate branch support, contractor furlough and leave during this period.



Proposed actions

Whilst acknowledging the ARC has been evaluated as 'very good', we have proposed the following actions to address the areas of relative lower scores and constructive feedback:

- i. ARC coverage to ensure all key risk areas are reviewed to provide a holistic view of the control and operational risk environments within POL, particularly those exposed legal and regulatory environments;
- ii. Strict enforcement of templates and ensuring papers in the reading room are appropriately cross referenced and or summarised in the main pack.

In addition, to continuously improve the effectiveness of ARC, the following changes are to be considered:

- i. Enhance coverage of lines of defence to ensure this is adequate to provide early warning/lead indicators;
- ii. whether a balanced scorecard regarding Postmaster detriment should be developed;
- iii. The Committee formally review the 'Forward Plan' on a 6 monthly basis to ensure this remains in line with the risk profile of POL.

Actions and status from the Committee Evaluation 2021/22

The actions from the Committee Evaluation 2021/22 and their status are as follows:

1. Deep dives on key areas are continued to ensure the Committee is appropriately sighted, with the Committee to consider whether Deep dives are attended by the first line as well as the second line to widen the perspective.

Status: Completed - Deep Dives completed on an annual basis. Head of Internal Audit and Interim Group Compliance Director attend ARC to widen the perspective.

2. The Committee Members engage in an annual dialogue to agree where the Committee's focus areas for the coming year should be.

Status: Completed – ARC 'Forward Plan' is created and presented to ARC in every meeting.

3. The Committee review the calibre of materials provided by management and consider requesting management to provide revised reporting templates.

Status: Completed - Updated paper template and guidance provided. The materials are also reviewed by the RCC to assess quality.

4. The Committee review their Annual Work Plan to assess for any areas of refinement

Status: Completed - The Company Secretariat continues to utilise and develop the forward plan, which is included as an item for noting at each ARC meeting.

Next Steps

If the Committee accepts the recommendations in the report, it will be asked to consider incorporating the recommendations into the forward plan for the Committee at its next scheduled periodic meeting on 10 July 2023.



Appendix 1 - ARC Evaluation Questionnaire 2022/23

Key:

5 = Excellent	4 = Very good	3 = good/ at required standard	2 = Requires development	1 = Requires significant development
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	Question	2021/22 Average	2022/23 Average
A.	Skills, experience, diversity, knowledge		
1.	How appropriate is the composition of the Committee for the requirements of the business?	4.5	4.7
2.	How would you rate the Committee's understanding of the following areas of the Business:		
i.	Financial reporting and management	4.3	4.8
ii.	Operational and Financial Risk Management	4.3	4.2
iii.	Compliance	4.5	4.2
iv.	Internal Audit	4.3	4.7
v.	External Audit	4.3	4.7
B.	Leadership, ways of working, time management		
3.	How would you assess the Chair's encouragement of debate within the Committee, including ensuring that all members are able to contribute to the discussion?	5.0 1 - N/A	4.8
4.	How effective is the Committee at focussing on the right issues?	4.2	4.3
5.	How effective is the Committee at providing both challenge and support to management?	4.3	4.0
C.	Information and Support		
6.	How effective is the Committee at testing the information provided by management and external advisers?	3.8 1 - N/A	4.1
7.	How would you rate the quality of papers and presentations received by the Committee?	3.5	3.9
8.	How comfortable are you that compliance with the regulatory landscape is adequately managed and reported?	3.8	3.6
9.	How would you rate the management information received by the ARC and its timeliness (i.e. is it the right information at the right time to provide you with the assurance you need and the understanding of the business you need)?	3.2 1 - N/A	4.0
10.	How would you rate the access you have to any additional information and support you need to fulfil the requirements of your role (i.e. from management, secretariat or from	4.2 1 - N/A	4.4



		external advisers, where required)?		
11.		Are the frequency and length of ARC meetings appropriate?	Yes = 6 No = 0	Yes = 8 No = 1
12.		Are issues brought to the ARC at an appropriate time?	Yes = 5 No = 1	Yes = 9 No = 0
13.		Are there any issues or topics <i>that are not discussed</i> that should be considered at the Board?	Yes = 1 No = 3 N/A = 2	Yes = 1 No = 8
14.		Does the ARC have sufficient time in private to discuss matters of concern?	Yes = 2 No = 0 N/A = 4	Yes = 7 No = 2
		Additional Comments - It is a really well chaired and run committee. - ARC agendas are very full. And the papers are voluminous. This places significant demands on members of the ARC to read and digest the papers. - I think the frequency of the ARC meetings is too frequent, in particular the timing of the december and january ARC, December is a very busy period with focus on time away from the office to provide branch support, christmas break and the reports are required immediately following the Christmas break, it places a lot of pressure on colleagues to respond to actions, progression of actions can be slow at this time of the year, factoring in change freeze, contractor furlough - This year we have had issues with regulatory compliance staffing (now sorted) which appeared to come as a surprise and I think resulted in weaker oversight from ARC. We had a similar issue with cyber controls being de-prioritised. Under the new head of compliance I can see better reporting starting but I worry that ARC do not have an effective line of sight when control frameworks aren't working as designed. - Compliance rating reflects that fact that we do not have adequate 2nd line of defence and are having to make compromises due to funding - ARC has a large agenda and has to deal with a wide array of risks. Some risk areas seem to fall outside of ARC and go to the Board which might perhaps get more focus at ARC - examples include IDG (CIJ/HIJ compliance), major projects. Both are areas of significant ongoing concern. It is also noteworthy that data management, which seems to have been under-invested in for years, has now become a focus for the organisation perhaps as a result of the Inquiry - should this issue have been a bigger focus for ARC? - While the frequency and length of ARC meetings are appropriate for the complexity of the business, I think that some topics / agenda items could be presented less frequently to allow for deep dives into other matters. For example, the risk update, internal audit update and compliance update could be reduced to alternative meetings or with shorter exception reporting only at alternative meetings. - Carla has been an outstanding Chair and Board director. Zarin provides insightful observations. I am concerned about the capability and expertise once both of those directors leave the business.		
15.		Please comment on the effectiveness of the interaction with Internal Audit.		
		- From our perspective the IA interactions are effective, and they highlight the key issues through their papers. - Good. Cannot comment in any detail. - Excellent - good interaction and clear reporting providing transparency of audit reports/actions - Good - reports and recommendations are much more clearly articulated and combining risk with JA has strengthened the team. "Always open, honest and clear. iA are independent and it is a solid function that adds		



		• value to the organisation and the committee. They are trusted and respected • The co source operations is effective " • The interaction is good. I wonder however whether IA calls out loudly or persistently enough the issues it finds. • I believe that the committee has unrestricted, open and honest interaction with Internal Audit. The Head of Internal Audit has unrestricted access to all members of the committee and regular private sessions with the chair (every second month) and with the full committee (every 6 months). • Excellent. ARC takes considerable interest and reviews Internal Audit at every meeting without fail.
	16.	Please comment on the effectiveness of the interaction with External Audit.
		• They attend the sessions and are always happy to provide their opinions on wider control issues. • There are regular sessions with the ARC Chair and the PwC partner/ director ahead of every ARC meeting. This ensures that the ARC Chair is well briefed on all external audit related issues - and has the opportunity to challenge / ask questions. This works well. • Excellent • good interaction and engagement with regards to External auditors • PwC provide a thorough audit and they provide a good and detailed audit report on the key estimates and judgements. The team at PwC have been very supportive in what has been a tricky year for the annual accounts. • Open and honest dialogue with clear decision points and transparent communications. Expectations of both organisations are well managed and EA make a full contribution at committee meetings. The team are strong • Overall good • From what I have observed, the interaction with External Audit is unrestricted and effective. The committee also holds private sessions with the external auditors at least every 6 months. • Very effective particularly PWC. ARC should encourage the use of more external audits particularly on NBIT, IDG operational and cultural improvements, HMU... those areas where parties outside of POL are unlikely to just accept a POL position given the historical issues.
	17.	Please include any thoughts you have about the operation of the Committee and any ideas for its future operation.
		• I know this may be in process, but areas of concerns (operational risk, regulatory risk and inquiry related risk) should be subject to regular deep dives. • The retirement from the Board of the current AC Chair means that the ARC is losing a highly diligent, thoughtful and effective ARC Chair. Given the breadth and depth of the current ARC remit - finding someone to continue this significant and detailed work will not be easy. • With Carla and Zarin leaving we have a massive understanding gap on financial matters with no one who know how to run a business of the size of POL • The frequency to be reviewed, consideration of financial year end, summer break and Christmas period • As I said last year the ARC has a very extensive agenda and I would recommend that we think about developing a forward agenda that prioritises discussion time on the biggest issues and does the rest through shorter papers or by exception only. The big topics coming at us are NBIT governance and assurance which is weaker than it should be, regulatory compliance, cyber controls and effective operational controls around PM policies



	• The committee will need to respond to the fact that the company is operating outside of risk tolerance due to the funding. There are also fewer resources internally to provide oversight. • See above • The operation of the committee continues to be effective, despite the headwinds and challenges faced by Post Office. The committee has adjusted its focus and appetite in line with changing circumstances and risk profile of the business. The committee (and in particular the new members of the committee) will benefit from having deep dive presentations at the ARC meetings by key areas of the business on a rotational basis. With so many challenges being faced by the business, I think the committee has managed to adopt an approach that is effective in challenging management and holding them to account, whilst still being supporting and understanding. More of Carla, Zarin and Ben....
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