



POST OFFICE LIMITED

MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE OF POST OFFICE LIMITED HELD ON TUESDAY 19th MAY 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 09.30 AM (VIA CONFERENCE CALL)¹

Present:	Invited Attendees:
Carla Stent (Chair)	Caroline Scott (Portfolio Director – Organisational Effectiveness): Item 2 (CS)
Ken McCall (SID) (KM)	Martin Hopcroft (Head of Health & Safety): Item 2 (MH)
Tom Cooper (NED, UKGI) (TC)	Rod Williams (Head of Legal – Dispute Resolution) – item 4 (RWi)
Zarin Patel (NED) (ZP)	Amanda Bowe (Post Office Insurance ARC Chair) – items 6 & 7 (AB)
Regular Attendees:	Ian Holloway (POI Director, Risk & Compliance) – item 7 (IH)
Tim Parker (Chairman, POL) (TP)	Tom Lee (Head of Finance Financial Accounting and Controls): Item 9 (TL)
Alisdair Cameron (Group CFO) (AC)	Jeff Smyth (Interim Group Chief Information Officer): Item 10.1 (JS)
Ben Foat (Group General Counsel) (BF)	Tony Jowett (Chief Information Security Officer): Item 10.2 (TJ)
Andrew Paynter (Audit Partner, PwC) (AP)	Sherrill Taggart (Interim Legal Director) – items 11 & 12 (ST)
Sarah Allen (Senior Audit Manager, PwC) (SA)	Barbara Brannon (Procurement Director) – item 13 (BB)
Johann Appel (Head of Internal Audit) (JA)	
Mark Baldock (Head of Risk) (MB)	
Jonathan Hill (Compliance Director) (JH)	
Rebecca Whibley (Assistant Company Secretary) (RW)	
Apologies:	
Nick Read (Group Chief Executive Officer) (NR)	

		Action
1.	Welcome and Conflicts of Interest	
1.1	A quorum being present, the Chair opened the meeting and noted that participation was solely by conference call given the current Government guidance on home working. However, given the requirements of the Company's Articles of Association, the location of the meeting was agreed to be the Company's Registered Office.	
1.2	The Directors declared that they had no new conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.	

¹ Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chair's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.



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2.	COVID-19 Response Update	Action
2.1	<i>Caroline Scott and Martin Hopcroft joined the meeting.</i> Mark Baldock introduced the paper, which was taken as read. He noted that a COVID-19 response programme team had been set up under Caroline Scott. Over the last couple of months, the scope of the work had grown with significant implications for network coverage and financial and trading patterns. Therefore the implications were far wider than purely health and safety and the response programme reflected this. The risk work had paralleled the response programmes' phases: phase I (crisis), phase II (resilience), phase III (recover), and phase IV (Neo/Reimagine). The risk work has been two stage process: team looked at industry risks and then tested these with the business to ensure they were appropriate and all encompassing. This led to the identification of around 50 risks which have been grouped into short, medium and long term, largely mirroring the phases of the response programme. Thankfully, no areas of risk were identified by the team that were not already being picked up by the response programme team.	
2.2	Mark Baldock further highlighted the achievements of the response programme: - Decisions can be taken quickly, for example, the business moved quickly and effectively to home working for all support staff including call centres and payroll. - Network coverage has been a reduction of around 10% and the branch closure figure was now stable and reducing, allowing the Network team to focus on branches closed for a number of days. - There have been patches of absence among colleagues and Postmasters, but the figure has largely stabilised. The COVID-19 related absence for colleagues stood at around 190 (which included those who were caring for a vulnerable individual or had COVID-19 symptoms themselves). - Project Neo has been set up, led by Owen Woodley. This project was to look at the longer term operational structure, target operating model and the future products and services offer. The risk team were also feeding into this work to ensure the mitigation of longer term risk.	
2.3	Caroline Scott explained that the governance around the COVID-19 response programme had ensured its efficiency. Initially, there were daily Rapid Response Team (RRT) and SteerCo meetings with all actions, decisions and risks being documented. Dashboards were used to ensure that data was the driver of decisions. A review was undertaken shortly after Easter and it was decided to move to three meetings a week for RRT and SteerCo in light of feedback from the RRT, SteerCo and GE with a focus on an integrated plan concentrating on risks. For example, much focus has been given to frontline colleague risk and extensive work has been done to identify appropriate personal protection equipment (PPE), taking into account feedback from colleagues. There has also been a focus	

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	on the product offering and the Drop & Go product launch was accelerated in response to customers having to queue for long periods of time as branch opening hours had been curtailed and increasing social media pressure. It was also a pain point for Postmasters who felt that some customers were not posting essential items. Furthermore, the response programme team identified that opening hours information was a vital thing to get right for customers, Royal Mail (for mail collection) and Supply Chain (for cash delivery and collection). Branch Hub therefore went live as a way to communicate with branches and functionality was added to enable them to communicate their opening hours which would automatically update the branch finder tool on the customer website. Confirmation of opening hours was added as a condition of payment of top up remuneration for Postmasters in June to further drive conformance. This has driven significant adoption of the tool. 50% of Postmasters were now registered on Branch Hub and the goal was to achieve 100% by the end of the month. Such rapid adoption has been enabled by the crisis response. The Chair congratulated the team on their hard work and asked the Committee for comment.	Action
2.4	Tom Cooper noted that the work seemed to be all positive, and therefore queried why the reaction from the National Federation of Sub-Postmasters (NFSP) had been less than positive. Al Cameron explained that the NFSP had had an emotional reaction to the idea of linking remuneration to behaviour, however they had been talked down. He explained that conformance and, particularly cash declarations (which were another condition of remuneration payment) were a key part of our strategy and ultimately, if branches consistently did not complete cash declarations, they would be stopped from trading. It was noted that more recently, cash declarations from open branches had been slightly better than before the COVID-19 crisis. Work was also being done to consider how to support those Postmasters who cannot register on Branch Hub without creating an exception which could be used by those who can register on the system. Tom Cooper further noted that the code name of Project Neo was already known to the Minister as it had been mentioned by a contact from the Communication Workers' Union (CWU). In response, Al Cameron explained that he did not see this as an issue as it was to be expected that any business would be considering its future strategy and operating model in light of the current crisis, plus it was something that was looked at in the ordinary course of business. However, it was agreed that Al Cameron would flag this to Nick Read and Owen Woodley (Group Chief Commercial Officer).	AC
2.5	At the request of the chair, Martin Hopcroft explained that there was also a team looking at how colleagues could return to the workplace and risk assessments were being undertaken. Agency branches had been supplied with risk assessment proformas to enable them to undertake their own assessments where they have five or more employees. Post Office has undertaken risk assessments for Directly Managed Branches (DMBs). It was further noted that the Committee should be aware that as additional testing becomes available, there may be more positive tests and the	

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	business would need to react to this. Al Cameron explained that a colleague in the Glasgow cash centre had tested positive for COVID-19 over the weekend. The response had been swift with the centre being closed for a deep clean on Monday 18 May and reopening the next day. Those who had been in contact with the colleague were traced, advised to isolate and were to be tested. In response to a question from Zarin Patel, Martin Hopcroft confirmed that the CWU had raised issues surrounding health and safety, mainly round DMB managers working on the public side of the counter. However, this was being managed with daily calls with the CWU health and safety representatives. It was recognised that this could be a further challenge as the lockdown eases.	Action
2.6	The Chair thanked Caroline Scott, Mark Baldock and Martin Hopcroft for their work on the COVID-19 response and noted that the Post Office needed to be pragmatic in its response over the next couple of months. Accordingly, the Committee NOTED the update on Post Office's response to the COVID-19 crisis. <i>Caroline Scott and Martin Hopcroft left the meeting.</i>	
3.	Governance	
3.1	<i>Internal Audit Plan 2020/21</i> The Chair reminded the Committee that the plan had been considered at its March meeting, but that it had been requested that the plan be revised to consider the COVID-19 crisis and particularly, identify the top five priorities. Johann Appel introduced the revised Internal Audit Plan 2020/21 paper, which was taken as read. He explained that the top five priorities had now been designed and built around Post Office being able to continue to operate safely and compliantly in the current crisis. Audit proposed to examine new processes developed for the crisis response which may have relaxed controls or developed work arounds. The plan also brought forward audits that the Audit team considered to be high priority. The top five priority audits were outlined as: - <u>COVID-19 Programme Assurance</u>: This audit was being done in phases. A review has been done on set up and the governance of the programme, with the first interim report issued last week (this was rated green). - <u>Maintain Minimum Control Standards</u>: This audit has kicked off and phase 1 was to end this week. It was to ensure that any relaxed controls have been signed off appropriately and any new processes were being properly controlled. The audit had first considered cash controls and was now moving to financial and IT controls. - <u>Cyber Security Maturity</u>: This was to look at where the business has increased vulnerability (particularly from phishing attacks and hacking). This was to be done in short rapid phases with an interim report being issued. - <u>Health and Safety</u>: This review was in the planning stage to understand where the focus should lie.	

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	- <u>Effectiveness of the Second Line during COVID-19</u>: This audit was to ensure that where we have redeployed second line employees into first line roles, we have not been weakening second line and this was still working as expected. Johann Appel noted that the plan brought priority elements so there was an element of duplication in places.	Action
3.1.1	Zarin Patel questioned whether the Belfast Exit and PCI Compliance Programmes should be higher up on the priority list. Johann Appel agreed that they should be, but that these programmes were running slowly so had not been included in the top priorities at present. When the time was right, these would be brought forward. Zarin Patel further noted that rules had been relaxed around passwords and access and questioned what was being done to guard against branch losses to ensure there would not be future issues. Johann Appel explained that this was part of the Cyber Security Maturity review but that any changes to password rules and access had been signed off at the appropriate levels. A review of financial controls was also being undertaken. Al Cameron confirmed that his team were very active in monitoring losses and these were being tracked carefully. In response to a question from Ken McCall, it was further explained that as yet, there was no comparative data to ascertain whether branch losses were better or worse during the COVID-19 crisis. The team was focussing on the branches with the highest risk profile. At the start of the crisis, there was around IRRELEVANT sitting in closed branches that was not being returned to Post Office. However, since branches have started to reopen, this figure was down to IRRELEVANT. There has been a reduction in burglaries and robberies. The Committee asked to see the team's list of high-risk branches and this was to be circulated by Al Cameron.	AC
3.1.2	The Chair highlighted that this was clearly a plan that may require ongoing adaption. As such, the Committee NOTED the internal audit priorities during the COVID-19 crisis and APPROVED the re-prioritised internal audit plan for 2020/21.	
3.2	<i>Internal Audit Charter Review</i> Johann Appel introduced the revised Internal Audit Charter paper, which was taken as read. He explained that the Charter was reviewed bi-annually and as it was last approved in March 2018, it was due for review. There had been minor changes to the Charter reflecting a change in reporting lines within the Audit team. It was also confirmed that the Charter was shared with Deloitte, the internal audit co-source, who also complied with it.	
3.2.2	Ken McCall highlighted that a track changed version would be useful in future and that he felt that the plan should specifically call out cyber security and cash in the Role and Scope paragraph as these were particularly important at the moment. Johann Appel explained that arguably these could be read into the operational, financial and management controls as listed. He further explained that the Charter just	



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	gave Internal Audit a mandate and that its remit can ultimately be as wide as necessary with the Committee's approval. However, the Committee agreed that the elements of cash and cyber security should be specifically called out by example within the Charter. Johann Appel was asked to update this in the Charter and circulate to the Committee. In response to a question from Zarin Patel, Johann Appel also confirmed that the new Internal Audit Code of Practice had been considered when reviewing the Charter and there had been some debate as to whether to refer to this new Code or the International Standards of Internal Auditing. Ultimately, it was decided that the Charter should refer to the International Standards, although a reference to the Code and the Internal Professional Practices Framework could be added.	Action JA
3.2.3	The Committee NOTED the Internal Audit Charter, which was updated to reflect new reporting lines and APPROVED the Internal Audit Charter for continued use for the next two years, subject to the Charter being amended to: - specifically include cash and cyber security within its Role and Scope (paragraph 3); - move the explanation of the process to track and report audit actions from paragraph 6 to paragraph 5; and - add reference to International Professional Practices Framework and The Internal Audit Code of Practice (paragraph 11).	JA
3.3	<i>Review against Terms of Reference</i> The Chair introduced the paper which was taken as read. It was highlighted that the responsibilities under the Terms of Reference had largely been met with two outstanding items being approved in the present meeting. Accordingly, the Committee APPROVED the outcome of the review against the Terms of Reference, confirming that the responsibilities under the Terms of Reference for financial year 2019/20 have been met, with the exception of the review and approval of the Internal Audit Charter and the approval of the Internal Audit Plan, both of which were approved on 19 May 2020 and NOTED the new Terms of Reference for the Committee adopted by the Board on 8 April 2020 to reflect the new Governance Framework.	
3.4	<i>Committee Evaluation Report</i> The Chair introduced the Committee Evaluation Report, which was taken as read. It was noted that there were improvements on last year and the following was highlighted: - Compliance with the regulatory landscape was a lower scoring element and a paper was now being presented (see item 12) on Law & Treads. The Committee agreed this addressed the gaps in this area. - As to the receipt of information and timeliness, it was noted that management had been good at submitting reports, even in the	

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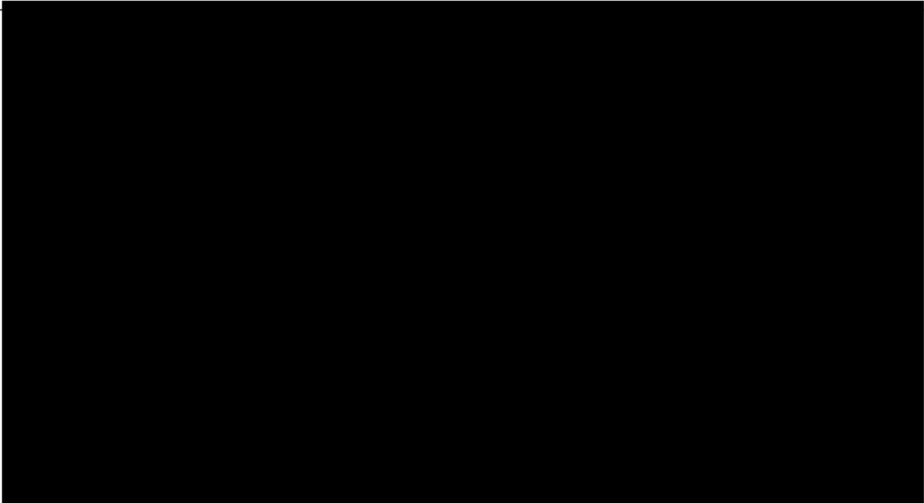
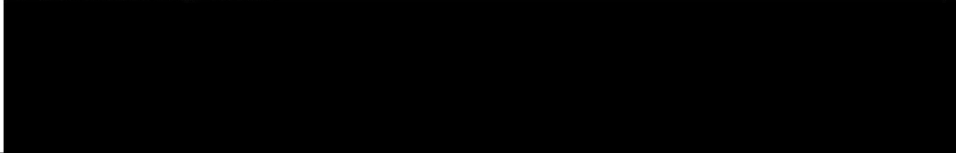
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	current crisis period, however this was a general point that had also come up in the Board evaluation. - Tom Cooper suggested that there should be a regular discussion on legal risks relating, particularly, to contract management, Postmaster contracts, Starling and procurement. In response, it was highlighted that Starling and Postmaster contracts (as part of the Group Litigation Order work (GLO)) were Board level discussions. Procurement risk was addressed at item 13 and contract management was at item 11. It was agreed that the Annual Legal Report could be produced on a quarterly or half yearly basis, but this should focus on areas other than Starling and GLO. This would be added to the forward plan. Where possible, existing BAU reporting and processes should be used to avoid too much extra work. The legal risks should also be included in the regular Risk report and on Archer. Moreover, a Law & Trends forum would be established to proactively manage new and emerging legal and regulatory requirements. A Law & Trends report has now been prepared to report to Risk & Compliance Committee and the Committee of the new and emerging requirements. - It was agreed that the right pattern of meetings was in place and noted that a specific meeting to review the Annual Report and Accounts was scheduled in June 2020. - Work would be done to publish the Committee's forward plan and consider the timings of meetings. - The lack of IT expertise was specifically being addressed by the recruitment of Lisa Harrington (new Non-Executive Director) whose induction included a specific focus on IT.	Action BF/RWi To do: RW RW
3.4.1	The Committee NOTED the outcome of the Committee Evaluation for 2019/20 and APPROVED the recommended actions to address points raised and areas which may require development.	
4.	Co-operation with Law Enforcement Agencies and Addressing Suspected Criminal Misconduct Policy	
4.1	Ben Foat introduced the paper, which was taken as read. He explained that further work was needed on the policy to operationalise the processes and review the policy optically, considering how it would be received should it become public in the future. In summary, the policy set out how Post Office should respond to requests for information from law enforcement bodies, regulators or industry-accredited associations. It outlined that:	

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		Action
	The Committee was asked to approve the suggested approach and discuss the policy.	
4.2	The Chair questioned whether this policy should ultimately be approved by the Board given its links to GLO. Tim Parker agreed this was a Board level decision.	
4.3	 was highlighted that the Horizon judgement stated that HNG-A was robust and that the business needed to ensure that it remained robust. Zarin Patel highlighted that the Horizon judgement stated that HNG-A was "relatively robust" and the business needed to be really clear on why it believed it was robust. She further highlighted that she had concerns about the conditions on reporting crime as the crime potentially related to public money and so should be reported. The Committee agreed that the wording needed to be double and triple checked before final approval in consideration of how the policy might be perceived if it were to be made public.	BF/RWi
4.4	Accordingly, the Committee APPROVED the approach proposed in the "Group Policy: Co-operation with Law Enforcement Agencies and Addressing Suspected Criminal Misconduct," subject to the comments relating to the wording of the policy as outlined in the minutes. The Committee AGREED that the final policy should be approved by the Board.	BF/RWi
4.5	Post meeting note: 	

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		Action
5.	Previous Meetings	
5.1	The minutes of the meeting of the Audit and Risk Committee held on 24 March 2020 were APPROVED and AUTHORISED for signature by the Chair.	
5.2	Progress against the completion of actions as shown on the action log was NOTED and the following actions were closed: - Action 6 (x 2) from 24 March 2020 relating to the Annual Legal Risk Report, the due diligence approach and revised contract management plan (addressed in item 11); - Action 7 from 24 March 2020 relating to the Internal Audit plan (addressed in item 3.1); - Action 10 from 24 March relating to the Contract Management Framework Update (addressed in item 11); - Action 11 from 24 March 2020 relating to Managing Procurement Relationships (a paper was provided to the Board on 8 April 2020 and this item was further addressed in item 13); - Action 13.1 from 24 March relating to PCI-DSS and the regular confirmation from the Fujitsu and Ingencio CEOs; - Action 15 relating to the Audit Update and the implementation of Archer (addressed in item 8.1); - Action 4.7 from 28 January 2020 relating to FRES review of systems; - Action 4.8 from 28 January 2020 relating to Joiners, Movers and Leavers; - Action 11.9 from 28 January 2020 relating to cookies; - Action 11.11 from 28 January 2020 relating to GDPR and Contracts Governance. - Action 5.3 from 25 November 2019 relating to Contract Management and the top 50 contracts (addressed in item 11); - Action 7.5 from 25 November 2019 relating to Commercial Partner Contingency; - Action 5.6 (x 3) from 23 September 2019 relating to PCI-DSS. Action 12 from 24 March relating to Selling Regulated Products in the branch Network was to remain open as it had been agreed that an Action	To do: RW Action

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	Plan would be created and this was still in train. There was an update on this in item 8.2. Jonathan Hill explained that the team was working on a plan to enable Pin Pad validation for mails contents and in the meantime, training was being undertaken and Area Managers were monitoring compliance with training requirements as a priority. Ken McCall requested that Jonathan Hill speak to McKinsey as a matter of priority about this Action Plan. All other actions remained open.	JH
5.3	The draft minutes of the Risk and Compliance Committee held on 06 May 2020 were NOTED. Al Cameron highlighted four items from the minutes: - <u>An independent review of suspense accounts as part of the GLO work</u>: This work was being undertaken by KPMG to look at suspense account processes. A report was being prepared under legal privilege, but the initial view seemed to be that the process was good and no concerns were being flagged. There was some advice on how to make the process better including a formal policy on how debits are resolved when they have passed through all resolution stages and still haven't been resolved and ensuring that the credit back log does not build up (this was to be actioned immediately). - <u>An independent review of stamps and whether any GLO implications</u>: A third party team was reviewing this to check if money was lost. This was difficult to ascertain and the work was ongoing. - <u>CBRE performance issue</u>: HSL have previously audited Post Office's health and safety procedures and have been complementary. They have now examined property compliance, which was largely outsourced to CBRE, with whom the business has had issues in the past. The audit has shown that CBRE is unreliable and the business has been relying on them. Notably, they had failed to complete a lift inspection in Chesterfield on time. The HSL view was that this was incompetency rather than fraud. Work was being undertaken to review the contract and consider options to exit them as a contractor. - <u>Work ongoing to validate historical final salaries for the defined benefit pension scheme</u>: It has been discovered that there were some errors in the calculations under the final defined benefit pension scheme. Towers Watson have agreed that there were errors. In 2014, final salaries were capped under the scheme as way of reducing cost, and the manual process determined the final salary. The process was very complicated and there could be 70 different possible allowances which had to be considered. The process was not automated and had limited oversight, however there has not been a compliant or challenge on the amount determined in the period. The assumption therefore was that we have inclined towards being generous and we have asked for this to be quantified. The time period in question was from 2014 to present. The outcomes were uncertain and there was, as yet, no	AC/BF AC/BF /RWi AC AC

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	sense of materiality, but the work was progressing with urgency. It was highlighted that there was some discretion over the final salary amount and if need be, we would correct any under payment. The business needed to consider what to do if it was found that overpayments had been made. It was explained that there is a surplus in the scheme whose purpose was to pay the liabilities, but it may be argued by the trustees that more should be paid. However, this would need to be examined once the review was complete. Audits had been done on the scheme previously, but this element was excluded from the scope because the scheme was closed and we had done a buy-in. It was further noted that the Pensions Regulator did not need to be informed provided the issue was resolved. Al Cameron would produce paper for the Committee's next meeting in July 2020.	Action
6.	Update from Subsidiaries:	
6.1	<i>Post Office Insurance (POI) Audit, Risk & Compliance Committee (ARC)</i> <i>Amanda Bowe joined the meeting.</i> Amanda Bowe provided a verbal update from the POI ARC. The focus in last week's meeting was on COVID-19 and the risks to POI. The business has done a fantastic job delivering the Nemesis Project (home re-engineering) and the BAU environment was operating well. Reverse stress tests have been developed to consider what COVID-19 means for performance, and then operational and customer facing risks were discussed. In addition to COVID-19 focus, there was an update from the external auditors who have a couple of questions regarding goodwill. There were also BAU updates on Internal Audit and changes were agreed to the Internal Audit plan in light of the current circumstances. The POI ARC also approved regulatory return to the Financial Conduct Authority (FCA) and received a routine update on Financial Crime. The POI was due to meet on 20 March 2020 for a deep dive on protection strategy and further discussion about potential financial mitigations. The Committee NOTED the verbal update from the POI ARC.	
7.	Deep Dive: POI Risk and Compliance Update	
7.1	<i>Ian Holloway and Ed Dutton joined the meeting.</i> Ian Holloway introduced the paper which was taken as read. He highlighted the following: - The primary concern was the customer base and the need for flexibility towards customer needs during the current crisis, for example change in driving habits, travel to different and unexpected places and cancellation of travel policies without penalty. - POI stopped selling travel products in March 2020 as it was felt these could not give cover for COVID-19 risks and were largely not	



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	needed as travel was not permitted. It was hoped that these products could be sold again in June 2020. - Cash flow was being monitored as there were no travel sales and sales of protection were lower. If sales were to continue in this trajectory, there may be a need to delay or reduce commission payment to Post Office. However, the key focuses for the business over the next few months were getting travel sales back up and running and to improve the protection strategy to maximise sales. - Aside from these risks, POI was also monitoring their third party suppliers to ensure service levels and financial performance were maintained. It was noted that so far, all had transitioned well to home working. Project Nemesis had also been completed, despite the crisis.	Action
7.2	In response to a question from Ken McCall on the write down of good-will, Ed Dutton explained that required ongoing monitoring. There was IRRELEVANT of tangible goodwill assets from the original purchase of the IRRELEVANT IRRELEVANT IRRELEVANT It was reviewed every year by the auditors. It is not affected by travel so there should not be an issue. Some adjustments have been made to commission rates paid to Post Office to ensure the statutory entity of POI is stable. Al Cameron further explained that all impairments were being reviewed across the organisation. There were some impairments in IT which may be written off, but otherwise there were no issues. However, post-COVID-19, we may need to consider if there would be broader business impairments. He confirmed commission rates were being reviewed already in light of the fact that there were now lower branch sales than were originally envisaged when POI was first set up. Andrew Paynter confirmed these were very live issues and that intangible assets may need to be examined again.	
7.3	Tom Cooper questioned POI's approach to fairly dealing with customers. Amanda Bowe explained that the POI ARC and Board had discussed IRRELEVANT rebate. Ed Dutton further explained that there was an issue of practicality: POI was not an underwriter and did not, therefore, benefit from customers driving less. There have been discussions with the underwriter as to whether rebates could be offered, but there was also a budgetary intermediary between this relationship. Admiral were in a better and easier position to offer rebates, being a monoline insurer. Otherwise, only LV were also offering rebates, with others only reflecting rates to panels. The issue would continue to be monitored along with the budget to see if this could be offered in the event there was a more market wide response. It was highlighted that travel had been withdrawn from sale and these policies had been refunded. All aspects of the FCA guidance was being adhered to, including offering three months forbearance. Management was comfortable that it had done as much as it could in the circumstances.	



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7.4	On People risk, Ed Dutton also outlined that morale seemed high in POI, although many would like to return to some kind of normality. A drop in productivity had not been seen but there were some of the usual concerns about colleagues with more difficult home working set ups. POI was aligned with Post Office on its People surveys and support.	Action
7.5	The Committee NOTED the report on the POI Risk and Compliance Update. <i>Amanda Bowe, Ian Holloway and Ed Dutton left the meeting.</i>	
8.	Consolidated Report from Risk, Compliance and Internal Audit	
8.1	<i>Risk Report, including update on internal controls software</i> Mark Baldock introduced the paper, which was taken as read. The COVID-19 risk response was dealt with at item 2 above. COVID-19 risks were now wrapped into non-COVID-19 risks with 15 enterprise risks identified, alongside the 54 linked intermediate risks. The key enterprise risks were outlined as: - <u>Commercial</u>: Post Office's commercial proposition may be unattractive because the existing products were too complex or confusing, new products were cost ineffective, unable to be scaled and unattractive to the market; - <u>Legal</u>: Post Office may be unable to comply with legislative and regulatory changes. - <u>Financial</u>: Post Office may have insufficient funding and/or uncontrolled costs in the short, medium and long-term. - <u>Technology</u>: Post Office was heavily reliant on third party suppliers and has an ageing IT infrastructure on both hardware and software components. - <u>Marketplace</u>: Post Office services and products across the various sectors may decline and/or loyalty to the Brand reduce resulting in loss in attractiveness for Postmasters, loss in revenue and reputational damage	
8.1.2	On the implementation of Archer, all risks were expected to be on this software by the end of May 2020. This would offer greater visibility around strategic risks and the aspiration was that the next report to the Committee would be dashboard based as generated from Archer. In response to a question from Zarin Patel, it was confirmed that there were three elements of ratings for risks (inherent where there were no controls, residual risks where there was an element of judgement and a target RAG status). This would allow trends to be reported over time.	MB
8.1.3	Al Cameron explained that the Risk team had also been asked to review the Risk Appetite Statement which was last approved by the Board in January 2015. It was proving difficult to articulate statements which could be agreed and would help the decision-making process. Once this Statement was approved, this could be built into Archer and linked to the risks and trends.	MB



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8.1.4	The Chair raised the potential risk associated with the sudden departure of the Royal Mail CEO, noting that we were presently negotiating a new contract. Al Cameron confirmed this has been discussed with Nick Read, Owen Woodley (Group Chief Commercial Officer) and Mark Siviter (Managing Director, Mails & Retail). The view was that we should carry on as normal as we are close to securing a new contract and should not look to take advantage of the situation. Tim Parker agreed, noting that it was best not to draw attention to the negotiations and hope that any replacement CEO would not turn the negotiations on their head. It was agreed that at this stage, there did not need to be a change in approach but this would be monitored.	Action AC/ NR
8.1.5	The Committee NOTED the Risk update, specifically: - the status of the current enterprise risks and intermediate risks; - the status of the current COVID-19 risk position; and the latest position on the implementation of the Post Office's Governance, Risk & Compliance tool (Archer).	
8.2	<i>Compliance Report, including the Mails Dangerous Goods Compliance Action Plan</i> Jonathan Hill introduced the paper, which was taken as read. The following was highlighted: - <u>Regulators</u>: None were stepping back from compliance in the current circumstances but they were being more understanding about the timing of reporting. There has been an increased focus on vulnerable customers and critical services across the board. - <u>Ofcom</u>: Telco has now been asked to provide weekly updates on capability and service standards during the COVID-19 crisis. The rating on metrics for regulatory notifications has therefore been pushed out to Amber as these reports needed to be provided alongside focusing on service provision and business sale. - <u>Telecoms Commitments</u>: These have been requested by the Government in light of COVID-19 and Post Office was meeting these commitments relating to free and low cost calls for vulnerable customers, working with customers who may be struggling with debt, removal of data caps, priority fault repairs for those who are self-isolating or provision of an alternative means of communicate and support for NHS workers. - <u>PSD2</u>: The business had confirmation from Fujitsu that a solution will be in place by August 2020. This was not the neatest solution but would ensure full compliance. A draft letter was being prepared to the FCA to update them on the latest position .They have already indicated they are happy with our approach. Once the solution was in place, the business may apply for an Electronic Communications Exemption (ECE). - <u>European Electronic Communications Code</u>: The Department of Culture, Media and Sport (DCMS) were seeking to hold businesses to a compliance deadline of 21 December 2020. However, Ofcom	JH

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	was working to clarify timings and push the deadline into next year. This was a watching brief. - <u>Use of Cookies on Internet and Apps</u>: The commercial impact of being fully compliant was understood but it had been previously agreed that we want to be "in the middle of pack." This has been achieved and customers could choose which cookies are on/off and could change their selections. - <u>Lost HR files</u>: ICO has confirmed that it will not take any further action in respect of the loss of at least 13 Personnel boxes. This was a significant win for the business. However, work was being undertaken to ensure those who have been impacted were supported and training procedures were being refreshed. The ICO's advisory comments would be implemented as appropriate. - <u>Belfast Data Centre Exit and move to the Cloud</u>: IT Strategy was to exit the Belfast Data Centre in 2021 and move Horizon to a cloud based solution. IT have selected AWS as the partner of choice and contract negotiations were due to commence over the next two weeks. A lot of work has been done to find the right approach in respect of data protection and the team was now working with the upstream provider and the relevant contract owners. It was confirmed that whilst this work was due to complete in September 2021, it appeared in the 2020/21 budget as work needed to start in the current financial year to ensure the completion deadline was met. - <u>Her Majesty's Revenue and Customs (HMRC) Fit & Proper Registration Fees</u>: Post Office has requested, via contacts with Her Majesty's Treasury (HMT) and the Department of Business, Energy and Industrial Strategy (BEIS) that HMRC either cancels the annual registration fee for 2020/21 or that it allows Post Office to delay payment until it has been able to de-register approximately 3,000 branches that were not now commercially viable for Travel Money and assessed the impact of COVID-19 on the remaining Travel Money branches. However, HMRC have today refused to allow anything other than deferring payment until 1 December 2020, with payment being based on branches registered in June. Tom Cooper noted that the Minister was about to send a letter to HMRC on this issue and questioned if it was now required. Jonathan Hill explained that the letter could not hurt as a further discussion about fees was being scheduled for three weeks' time. - <u>Mails - Dangerous Goods Action Plan</u>: This was discussed under the actions log as outlined in item 5.2 above.	Action
8.2.1	The Committee NOTED the Compliance update, the impact of COVID-19 on the approach to compliance, the deferment of the HMRC branch registration fees and the update on the Mails Dangerous Goods Action Plan.	
8.3	<i>Internal Audit Report</i> Johann introduced the paper, which was taken as read. It was noted that last year's audit plan was substantially completed with one audit report	



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	being cleared with management. This report would be circulated to the Committee once complete. The Committee raised the following points in relation to the four other audit reports presented: - Postmaster Onboarding: Ken McCall questioned whether feedback had been sought from branches on the process. It was felt that this was critically important due to the sensitivities surrounding this topic. Johann explained that the audit looked at the implementation of procedures post-GLO and there had been a survey element, but that he would need to check the extent and nature of the survey. - Fit & Proper: Johann Appel confirmed that the Fit & Proper process remediations were due to be implemented by the end of August. The Committee questioned whether there was annual rechecks of critical individuals and noted that there should be, at least, rechecks every three years for all staff and contractors. Johann Appel confirmed that there was no process for rechecking of vetting once an individual had entered the business, but there were rechecks for Fit & Proper. All vetting was done prior to an individual joining and having access to systems. Johann Appel was asked to confirm the time periods for rechecking.	Action JA JA
8.3.1	The Committee noted the progress being made with delivery of the Internal Audit programme and completion of audit actions.	
9.	Annual Report and Accounts & Audit Update	
9.1	Al Cameron introduced the paper, which was taken as read. He outlined that we had substantially, but not wholly, completed the subsequent events procedures. The PwC audit process was running smoothly, and this would flow into a June Committee meeting and a draft of the accounts would be circulated shortly. Realistically, the accounts would not be signed quickly as the funding position with Government needed to be addressed. This would improve impairment assessment and inform our going concern assessment. Work on the GLO disclosures and any potential provisions was being held off until the funding position was confirmed. Andrew Paynter confirmed there were substantial issues that needed to be picked up later but there were practical issues of leaving these key decisions until the summer	
9.2	As to the status of the audit work, Sarah Allen confirmed this was going well but there were areas that needed to progress quicker. However, on the whole, it was impressive how the teams have adapted to working and conducting the audit remotely. For example, cash counts were brought forward so they were completed before the lockdown. The IT work was now complete, and the team were a good way through their sampling and checking. Areas around revenue generation were more challenging as there were so many different revenue streams. In some instances, manual adjustments have been made outside of Horizon and these have to be added together to get to the ledger position. The Chair highlighted that the Committee needed to understand how the revenue and adjustments tie into agent remuneration and requested assurance on this matter. It	PwC/ AC

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	also suggested an independent review be undertaken. Al Cameron explained that the issue was the same last year and it was not particularly controversial. Andrew Paynter also confirmed it was a complexity issue for the audit and that there were only around eight complaints on agents pay per month, amounting to less than 1% of payments that give rise to complaints. It was agreed that this issue would be discussed in detail at the June meeting given the sensitivities around agent remuneration and GLO.	Action To do: RW
9.3	The Committee NOTED the PwC update on their audit of the Company for financial year 2019-20 and the status of the FY19/20 close and proposed plans for the Annual Report and Accounts ("ARA") signing.	
10.	PCI-DSS and Cyber Security Update	
10.1	<i>PCI-DSS, including broader Fujitsu relationship</i> <i>Jeff Smyth joined the meeting.</i> Jeff Smyth introduced the paper, which was taken as read. The following was highlighted: - Ingenico & Post Office PCI DSS Executive Call was held on 16 April 2020. - Banking API specification has been signed off; - Point to point specification has started its 12 week accreditation cycle; - COVID-19 has had no significant impact on the overall programme critical path delivery timeline at this stage. Overall, the programme was on target and delivering against its milestones. The next significant milestone was the retail accreditation from Global Payments, which would give assurance on retail side of transactions. It was hoped that the end to end banking transaction process would commence in September with accreditation in December 2020.	
10.1.1	The Chair noted that there was really good progress on this programme and Tom Cooper requested that Jeff Smyth share the presentation from the CEO to CEO session with Ingenico with the Committee.	JS
10.1.2	It was further outlined that a broader piece of work was being undertaken to look at the Fujitsu relationship across the business, particularly in relation to PCI – DSS, Telco and Freedom of Information Requests. This work was being undertaken with Lisa Harrington (Non-Executive Director) and McKinsey have done a deep dive into the Fujitsu contract. The work was looking at where the relationship was heading and where the business wants it to go (feeding into Project Neo). The work would be brought to the May and June Boards.	JS To do: RW
10.1.3	The Committee NOTED the PCI-DSS programme progress in the last reporting period.	
10.2	<i>Cyber Security</i> <i>Tony Jowett joined the meeting.</i>	



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	Tony Jowett introduced the paper, which was taken as read. The following points were highlighted: - <u>Cyber Security Maturity</u>: The business was close to maturity and Deloitte were re-testing the maturity levels at present. This was to be focussed on 20 of the 34 cyber capabilities where there has been major progress in the maturity model. An update on the actual achievement, re-baseline of the target level maturity and plans for any gap remediation would be shared with the Committee once the audit was complete. - <u>COVID-19</u>: The operating model of the back office has changed beyond recognition. Controls needed to be loosened over a short period of time to facilitate home working, and the team has also been responding to the UK National Cyber Security Centre's (NCSC) guidance on specific threats. These related largely to phishing, malware distribution and registration of new website domains (as good copies of official websites). A phishing awareness campaign was run internally with a fake attack being sent, with follow up comms including the results of the test. - <u>Joiners/Movers/Leavers</u>: The COVID-19 crisis took some manpower away from this project but the enhanced automation process was still due to be completed by July 2020. - <u>Protecting ourselves on social media</u>: It was highlighted that it was important that all Committee members reviewed their social media presence in light of the guidance circulated to the Group Executive and Board (and contained within the paper) so as to protect themselves and the business.	Action TJ TJ
10.2.1	The Committee NOTED: - the status and plans regarding our pursuit of agreed target maturity levels; - the status and plans regarding our response to the Cyber-related threats associated with COVID-19; - the status and plans regarding the reduction of risk associated with Joiners, Movers and Leavers (JML); and - the guidance for all Risk and Compliance Committee and Committee members regarding the secure use of social media.	
11.	Contract Management Framework Update	
11.1	<i>Sherrill Taggart joined the meeting.</i> Ben Foat introduced the paper, which was taken as read. It was highlighted that the Contract Management Framework (CMF) had initially identified 50 material contracts, however it was now understood that there were in fact 142. The proposal was to reallocate the funding for external accredited training for contract managers to roll out the Framework to all the material contracts. For other contracts, the Framework would be applied to them over the ordinary contract life cycle. A further tranche of work to bring contracts into the Framework could be considered later when the financial position allowed. There were around 1500 contracts that would be incorporated as they come up for renewal which would be a	



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	period of a maximum of three years. Application of the Framework would be expediated where possible. Sherrill Taggart highlighted that the Committee should not lose sight of the new contracts coming into play which were not yet under the Framework. There were around 300 new contracts since October 2019 and there would be ongoing annual costs of IRRELEVANT as new and existing contracts were brought onto the Source to Settle system. Al Cameron explained that the process for new contracts needed to be confirmed with funding allocated so to ensure they were under the Framework. It was also confirmed that the list of 1500 may reduce as data was added to Source to Settle but that the business did have a lot of contracts due to the many different business lines.	Action
11.2	The Committee NOTED that: - The implementation of the pilot of the Contract Management Framework ("CMF") was to complete, as planned, on 19 May 2020; - The projected final costs of the pilot; and - The costs, timeframes and residual risk associated with the post pilot options for the implementation of CMF across the Post Office Group as presented within the paper. The Committee APPROVED the recommended approach, as outlined: - While internal training has been provided, accredited external training would <u>not</u> be provided to identified contract managers for material contracts, accepting the risk that this may result in a baseline level of capability not being established amongst this group of individuals. - Reallocating IRRELEVANT of the IRRELEVANT originally included in the budget to provide external training in order to complete the upload and mapping of <u>all</u> remaining contracts identified by the Group Executive ("GE") as being material in terms of strategic and financial value by the end of June 2020 ("Material Contracts"). - The implementation of CMF across those contracts not identified as being material by the GE ("Other Contracts") be done outside of this project through the natural 'lifecycle of a contract' e.g. as they are renewed, cease or new agreements are entered into. This will take significantly longer, through BAU resource and processes, but release IRRELEVANT from the 20/21 Change Portfolio Budget.	
12.	Law & Trends Update	
12.1	Ben Foat introduced the paper which was taken as read. He explained that it ensured the proactive management of legal and regulatory risks and was an extension of the Law & Trends Forum which had been implemented by the Legal, Compliance and Governance Function. This was a cross-functional forum that identifies new and emerging regulatory and legislative requirements and considers how to operationalise the conformance within Post Office. A number of areas were highlighted in the paper: - Streamlined Energy and Carbon Reporting Update;	



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	- Morrisons Supreme Court Appeal; - IR35 'Off-Payroll' Rules Update - Employment Legislation Update; and - Business Area Update.	Action
12.2	The Committee NOTED the new or proposed material changes to laws and regulations this month. <i>Sherrill Taggart left the meeting.</i>	
13.	Supplier Contracts out of Governance	
13.1	<i>Barbara Brannon joined the meeting.</i> Barbara Brannon introduced the paper, which was taken as read. The Chair noted that the decision of the Board on 8 April 2020 was that all PCR exceptions (whatever the value) should be approved by the Board. It was agreed by the Committee that these would be reported straight to the Board from the Risk & Compliance Committee and did not need to be noted by this Committee. Barbara Brannon explained that the paper sets out (for completeness) the exceptions approved by the Board on 8 April 2020. The following pipeline contracts were highlighted: - <u>End User Computer Services (EUC)</u>: A project has been initiated to re-procure End User Computer services for both Branch and Colleague Services. The current plan was to have a new supplier(s) in place before the end of the current contract [April 2021 with 2 years exit services] with a targeted migration by April 2021. This was due to be discussed at the GE on 22 May 2020, however it looked like the contract would be compliant. - <u>Common Digital Platform</u>: This was a tactical 2 year DOS contract which was agreed in June 2018, with a compliant six month extension option to Dec 2020 on a short term basis to allow for cloud migration and long term strategy adoption. At 31 December 2020, there would be a hard stop with no exit assistance period. Discussions were underway with the supplier to trigger the compliant six-month extension option while procurement process(es) were run. This was due to be discussed at the GE on 20 May 2020. - Contracts for Brands/Rep, Identity Services and ATM were risk items that were being reviewed given the current COVID-19 environment.	
13.2	The Chair noted that the Identity Services contract was of particular concern given additional work being generated in this area by the COVID-19 crisis. Barbara Brannon explained that the current contract with Digidentity expires in October 2020 and negotiations were on-going to	

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	agree a six month extension to March 2021 in line with the expiry of the Verify contract. There was a question as to whether we proceed with the OJEU or take a different strategic approach. A six-month extension would provide additional time to consider this. This would be discussed at GE and Board in due course. Tom Cooper noted that there have been discussions in the past about whether Digidentity were the appropriate partner and Al Cameron was asked to raise this with Nick Read and Owen Woodley to ascertain exactly what was being done with respect of this work.	Action AC
13.3	In response to questions from the Committee, Barbara Brannon confirmed that there were pipeline plans for procurement over the next 3 – 5 years covering strategy, transition, technical and other risks. The procurement team hold monthly meetings with the relevant stakeholders to discuss contracts in the pipeline. Al Cameron confirmed that extensive work was being done on this and that it was just not visible to the Board. Accordingly, the Committee requested that the paper requesting approval of PCR exceptions by the Board included a 12 month overview of pipeline contracts.	BB
13.4	The Committee NOTED the contents of the Supplier Contracts out of Governance Report. <i>Barbara Brannon left the meeting.</i>	
14.	AOB	
14.1	There being no further business, the meeting was closed at 12:41.	

GRO

Chair

22/09/2020 18:04

Date

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David Parry

From: no-reply@GRO
Sent: 22 September 2020 18:04
To: David Parry
Subject: The vote has been passed for '20200519_POL_ARC_MIN_APPROVEDBYCHAIR.docx'

The vote has been passed for the Voting Document entitled
'20200519_POL_ARC_MIN_APPROVEDBYCHAIR.docx' in book 'ARC Minutes for signature'.

Vote Response	Count	(%)
For	1	100
Against	0	0
Abstained	0	0
Not Cast	0	0

Voter Status

Carla Stent For 22/09/2020 06:04 PM GMT Standard Time

Comments have been added to this vote.

1 votes were required to pass the vote.