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Project Spire

Supplementary Information
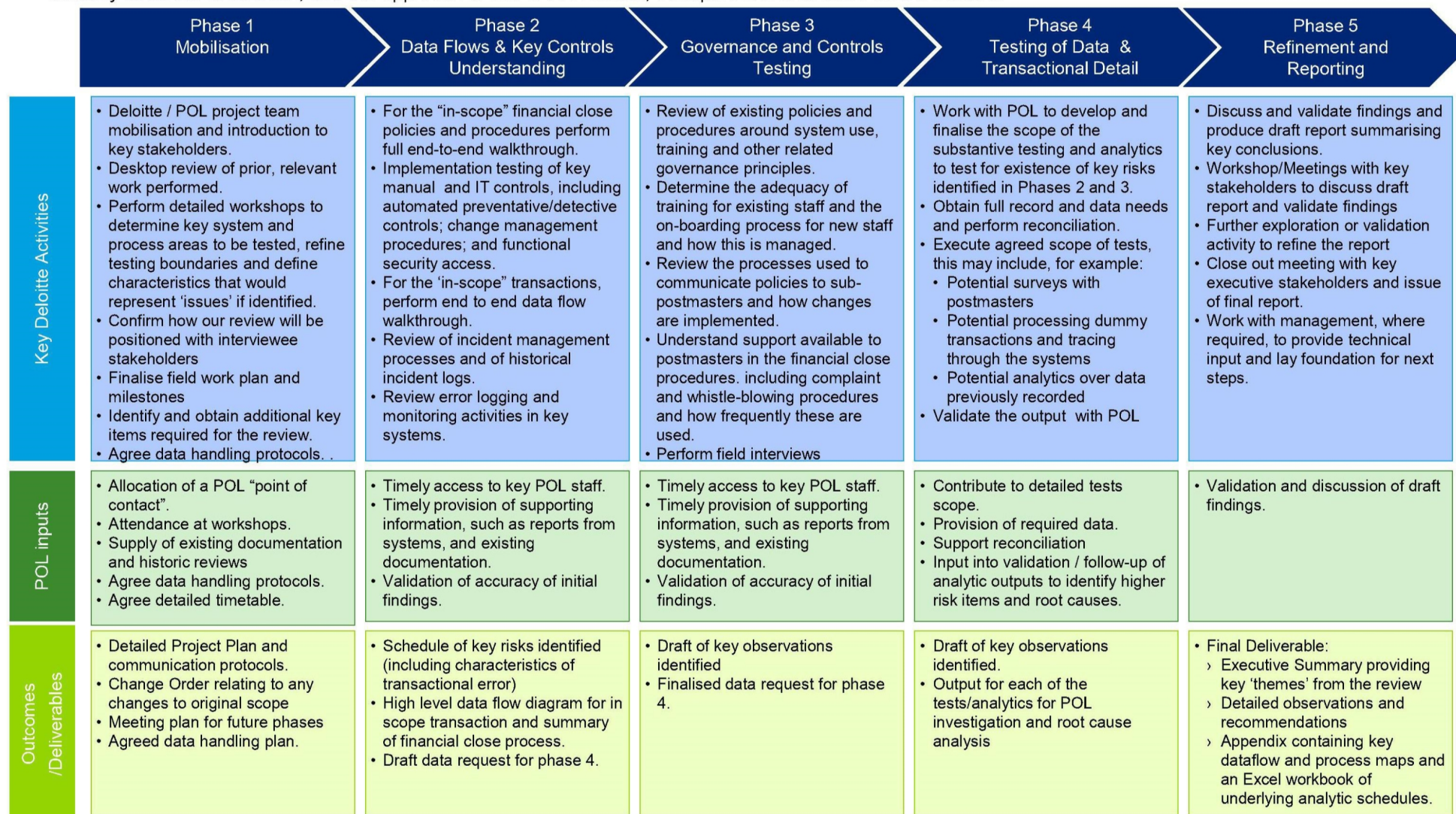
May 2012

Contents

Our Approach

Our suggested approach is shown again below. We would like to take this opportunity to highlight for you that every Phase of our approach is coordinated closely and interactively with both yourselves and your legal team. Our extensive experience in working under legal privilege will not impair this pragmatic and constructive approach in forming factually accurate conclusions. All of our draft observations from Phase 3 and 4 will be shared with you, for validation and debate as appropriate, and you will kept regularly informed of the status of any key conclusions which we draw as part of our Phase 5 activities. Our goal is to reach a factually accurate conclusion, and our approach to this is both robust, transparent and iterative where needed.

|	Phase 1 Mobilisation	Phase 2 Data Flows & Key Controls Understanding	Phase 3 Governance and Controls Testing	Phase 4 Testing of Data & Transactional Detail	Phase 5 Refinement and Reporting

Key Deloitte Activities	• Deloitte / POL project team mobilisation and introduction to key stakeholders.
	• Desktop review of prior, relevant work performed.
	• Perform detailed workshops to determine key system and process areas to be tested, refine testing boundaries and define characteristics that would represent 'issues' if identified.
	• Confirm how our review will be positioned with interviewee stakeholders
	• Finalise field work plan and milestones
	• Identify and obtain additional key items required for the review.
	• Agree data handling protocols. .
		• For the "in-scope" financial close policies and procedures perform full end-to-end walkthrough.
		• Implementation testing of key manual and IT controls, including automated preventative/detective controls; change management procedures; and functional security access.
		• For the 'in-scope' transactions, perform end to end data flow walkthrough.
		• Review of incident management processes and of historical incident logs.
		• Review error logging and monitoring activities in key systems.
			• Review of existing policies and procedures around system use, training and other related governance principles.
			• Determine the adequacy of training for existing staff and the on-boarding process for new staff and how this is managed.
			• Review the processes used to communicate policies to sub-postmasters and how changes are implemented.
			• Understand support available to postmasters in the financial close procedures. including complaint and whistle-blowing procedures and how frequently these are used.
			• Perform field interviews
				• Work with POL to develop and finalise the scope of the substantive testing and analytics to test for existence of key risks identified in Phases 2 and 3.
				• Obtain full record and data needs and perform reconciliation.
				• Execute agreed scope of tests, this may include, for example:
				  • Potential surveys with postmasters
				  • Potential processing dummy transactions and tracing through the systems
				  • Potential analytics over data previously recorded
				• Validate the output with POL
					• Discuss and validate findings and produce draft report summarising key conclusions.
					• Workshop/Meetings with key stakeholders to discuss draft report and validate findings
					• Further exploration or validation activity to refine the report
					• Close out meeting with key executive stakeholders and issue of final report.
					• Work with management, where required, to provide technical input and lay foundation for next steps.

POL inputs	• Allocation of a POL "point of contact". • Attendance at workshops. • Supply of existing documentation and historic reviews • Agree data handling protocols. • Agree detailed timetable.	• Timely access to key POL staff. • Timely provision of supporting information, such as reports from systems, and existing documentation. • Validation of accuracy of initial findings.	• Timely access to key POL staff. • Timely provision of supporting information, such as reports from systems, and existing documentation. • Validation of accuracy of initial findings.	• Contribute to detailed tests scope. • Provision of required data. • Support reconciliation • Input into validation / follow-up of analytic outputs to identify higher risk items and root causes.	• Validation and discussion of draft findings.

Outcomes /Deliverables	• Detailed Project Plan and communication protocols.
	• Change Order relating to any changes to original scope
	• Meeting plan for future phases
	• Agreed data handling plan.
		• Schedule of key risks identified (including characteristics of transactional error)
		• High level data flow diagram for in scope transaction and summary of financial close process.
		• Draft data request for phase 4.
			• Draft of key observations identified
			• Finalised data request for phase 4.
				• Draft of key observations identified.
				• Output for each of the tests/analytics for POL investigation and root cause analysis
					• Final Deliverable:
					  › Executive Summary providing key 'themes' from the review
					  › Detailed observations and recommendations
					  › Appendix containing key dataflow and process maps and an Excel workbook of underlying analytic schedules.

Our Experience

Processing integrity review at a large UK Corporate

Deloitte led a review at a large UK corporate business to confirm the validity and accuracy of transactional outcomes through their complex technology and process landscape, after a small number of high profile issues were publically reported. Despite the number of issues being a small % of total transactional activity, the accusation was that the processing environment was systemically "flawed".

In anticipation of defensive legal actions around key contracts, the client appointed Deloitte to perform a legally privileged, independent 'end to end' review of the integrity of the processing environment to report the extent and detail of any issues identified, including:

• all key aspects of governance and control, relating to data flow integrity, people, process and technology

•detailed substantive testing of a large, statistically based, sample of transactions.

Our work not only gave the client confidence to make statements on the integrity of their systems, but also identified a number of areas of improvement at a very detailed level, leading to both compliance and efficiency improvements in the client's business when remediated.
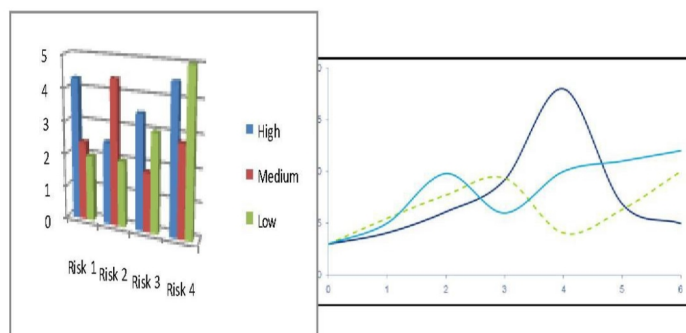
Sanctions reviews at large global financial institutions

Deloitte is a Global leader in the provision of processing integrity services relating to sanctions compliance and has led reviews, under legal privilege, at several global financial institutions over the past four years.

The institutions were required to perform retrospective reviews to confirm the integrity of processing of transactions and to determine if payments had been made in violation of sanctions legislation.

Deloitte assisted the institutions with a global end to end review of relevant transactions, touching on all types of error risks, whether manual or technological at their root cause. Deloitte performed:

• detailed reviews of customer and correspondent banking relationships to identify potential violations of US sanctions;

• mapping and visualisation of the payment systems, data flows, key applications and hubs from source into the payment network;

• analytic interrogation of the transactional population for characteristics of violation; and

• reporting into external legal counsels who conducted investigations, including root cause identification and remediation..
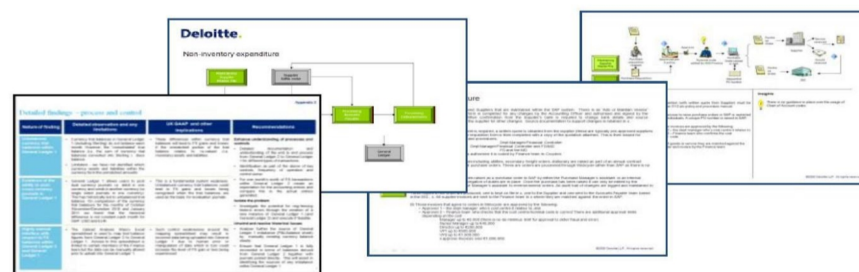
Our Experience

Mobile Operator and the Home Office

The EU Data Retention Directive obliges member states to store citizens' telecommunications data in order to support criminal prosecutions. In practice, member states require access to IP addresses and time and use of email, phone calls and text messages sent or received. The UK Home Office sets out quality standards that all operators must satisfy to fulfil this obligation.

Increasingly, telecommunications data is being used to associate criminals to a specific location as part of a prosecution case. Defending lawyers commonly call into question the veracity of the data used, in order to challenge the prosecution.

Mobile operators must therefore demonstrate strict adherence to data governance, data quality and processing integrity standards set out by this directive. Failure to do so not only undermines private and public prosecutions, but is a failure to meet the Home Office's expectations.

The mobile operators and the Home Office look for support to both meet the standards and perform testing against them. Deloitte has worked with both the operators and government alike to design, implement and assure against robust data governance, quality and processing integrity standards so that the integrity of the facts that the data represents stands up to the challenge of questioning in court.

Have Confidence in Deloitte – Key points

Deloitte regularly works with clients under legal privilege where the client is seen through external counsel. Our entire team identified for this engagement are familiar with the obligations of working under privilege and what needs to be done for this to be maintained.

We are frequently asked to support our clients when they are subject to actual or anticipated criminal prosecutions, regulator examination or contract challenges. We understand the importance of reporting our findings in a format that is in our clients' best interests which often means sharing preliminary findings for validation and full discussion ahead of final documentation.

Our data analytic and controls assurance teams are market leading, both in terms of their size and experience. These teams routinely deliver some of the UK's most complex challenges and engagements, and we pride ourselves in our ability to achieve this.

Our clients include all market sectors, government bodies and national and supra-national regulators. We welcome the chance of bringing this experience to bear in support of this engagement.

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Communications Data Retention.

CDR: Are you compliant?

May 2008

Audit .Tax .Consulting .Corporate Finance.

Our Experience

London-based Higher Education Institution

Deloitte were engaged by a University, following very high profile issues, relating to processing integrity which lead to a £36 million funding claw back by HEFCE, the University regulator.

Our team performed an independent 'end to end' review over key matters such as governance arrangement, end to end data flows and processing integrity through their system, key controls testing and data accuracy testing, in order to determine the factual basis for issues which had arisen and been alleged.

Working closely with both our client and their regulator, the project included:

- Data analysis specialists to interrogate key systems data at various stages of its processing lifecycle, highlighting potential exceptions, concerns and insights; and support the identification of root causes of issues and symptoms of key control failure leading to the errors in regulatory submissions.

- Mapping of key data flows and corresponding manual processes and controls involved in the collection of data, the reporting of information and the compilation of external returns,

- Interviewing key stake holders to assess governance arrangements and determine their role in key processes and understand their views on system functionality and areas for improvement

- Reviewing policies, procedures and the validation and sign off processes of both key reports and summary documents for those with the ultimate responsibility of delivering the return and for maintaining good governance over processing integrity.

Large outsourcing company

Deloitte are currently working with an outsourcing company which manage portfolios of financial assets for their clients. The company had been challenged on the processing integrity and accuracy which underpinned some of the key calculations which could potentially lead to specific charges applied to products being erroneous.

Due to extreme complexity of the client systems, and the subject matter in hand, Deloitte were engaged to perform an end-to-end processing integrity review, focussing on error risks in this specific calculation area. Our work included:

• Mapping key data flows, to a granular data asset level, through systems to determine origin and nature of data assets

• Independently building models to reperform the high risk calculations, and performing detailed client system code assessments to investigate sources of variance

• Interviews with staff to understand the level and frequency of human interaction and intervention with the calculation.

•Review of system audit logs to understand and document important changes in the system code, functionality and user base.
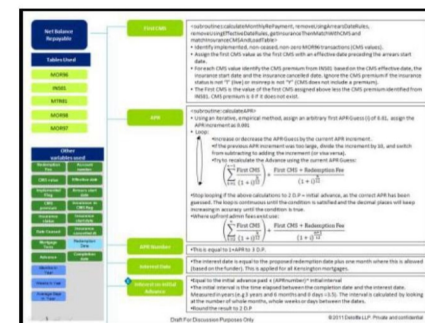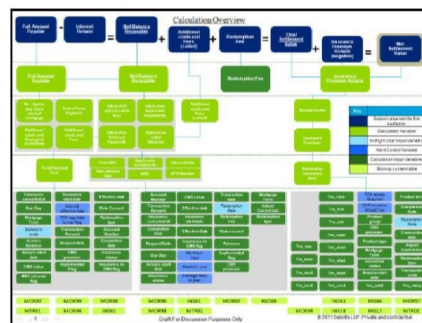
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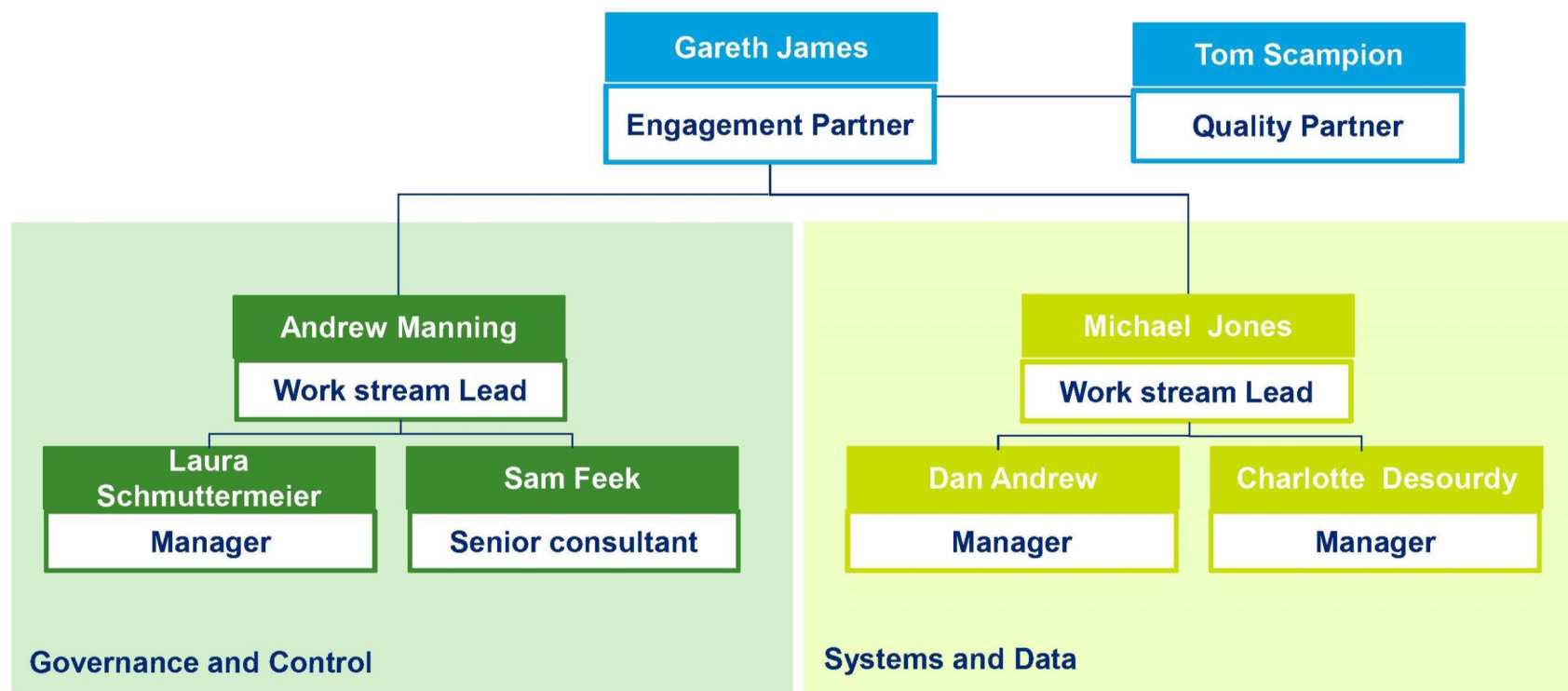
Engagement Partner

Gareth James, Partner	
Background GRO	Gareth, a chartered accountant, is a Partner in our Enterprise Risk Services practice specialising in system controls and data analytics. He has over 15 years experience in delivering risk related assurance and advisory engagements to clients across multiple industry sectors, and leads our Audit and Finance Analytic team in the UK. Gareth has lead a number of engagements relating to processing integrity assessments. His experience and skills provide him with a unique ability to join up 'top down' governance, control and technology matters in an organisation, with real world insight derived from 'bottom up' data analytics. This enables Gareth to provide his clients with unique and insightful perspectives on their organisation's true state of compliance and performance, along with commercially prioritised suggestions for improvement.
Relevant Experience	• Gareth is the Risk Services lead partner for Post Office, and he has delivered engagements over the past 3 years relating to IT controls, data analytics and security. Of particular note, Gareth lead the team that designed, built and implemented a number of ACL based analytic systems for POL's finance teams in Chesterfield, which delivered significant improvements in the management and performance of various financial processes, including stock adjustments, automated payment systems and retail stock management. • Gareth led a review, under legal privilege, at a large UK corporate business to confirm the validity and accuracy of transactional outcomes through their complex technology and process landscape, after a small number of high profile issues were publically reported. Despite the number of issues being a small % of total transactional activity, the accusation was that the processing environment was systemically "flawed". The client appointed Deloitte to perform an independent 'end to end' review of the processing environment to report the extent and detail of any issues identified, including: • all key aspects of governance and control, relating to data flow integrity, people, process and technology • detailed substantive testing of a large, statistically based, sample of transactions. • Our work not only gave the client confidence to make statements on the integrity of their systems, but also identified a number of areas of improvement at a very detailed level, leading to both compliance and efficiency improvements in the client's business when remediated.

Quality Partner

Tom Scampion, Partner	
Background	Tom leads the Data Analytics practice in the UK, specialising in delivering solutions to address the challenges of financial crime. He has worked for over 16 years in the fields of data management, data quality and information integrity, supporting clients in the delivery of risk, customer and regulatory compliance engagements.
GRO	Before joining Deloitte, Tom worked for a number of UK and US technology and services companies, developing a wide selection of business propositions and then ensuring their effective implementation. Before joining Deloitte he led the European division of the largest data quality vendor in the market, responsible for over 100 clients. He has spoken frequently on the challenges of data quality at industry events and, more recently, the technical challenges of achieving financial crime compliance.
Relevant Experience	Typical projects he has managed include: • The implementation of technology and business processes to deliver sanctions screening solutions to ensure regulatory compliance. This included the evaluation, selection and configuration of AML/sanctions technology to filter and review payment messages. • Major retrospective sanctions payment reviews to establish historical compliance to OFAC, HMT and other regulatory authorities' stipulations. These involved processing multiple millions of payment messages, complex data matching/linking and significant data analysis to categorise potential breaches. • Creation of operational single customer views across multiple channels to ensure the creation of a consolidated picture of customer activity. These typically involved significant business rule development and technology configuration/integration. • Information Quality Assessments to understand the value of enterprise data. These involved business level workshops to define data ownership, policy and practice as well as the use of a variety of market leading data profiling technologies. • Data governance assessments and policy formulation across multiple international locations. • Data quality work stream project management as part of broader technology implementations such as within CRM, ERP and regulatory compliance. • Project management of data migrations including source data assessment in relation to business objectives at the target. Definition and roll-out of a top-down, target driven approaches to reduce overall risk. • IT and Business reviews of data-related initiatives to ensure that the business objectives will be realised.

Governance and control workstream

Andrew Manning, Director	
Background	As a Director in Enterprise Risk Services practice, Andrew has over 20 years experience in the field of governance, controls transformation, risk, and counter fraud working in the public and private sectors. From working with regulators such as the Civil Aviation Authority, The Pensions Regulator and UK Anti-doping to leading large investigations and lessons learned exercises at Environment Agency, FirstGroup and QinetiQ, Andrew comes with extensive experience of working with organisations to develop and improve their control environment. In addition, Andrew has led complex end to end process reviews to evaluate the adequacy of the control environment and has designed testing strategies to assess the effectiveness with which the controls are being applied. Andrew currently leads on our business process delivery to central government organisations and is a chartered internal auditor and an accredited counter fraud specialist. He come with extensive experience of working with many organisations in the design, implementation and evaluation of business processes.
Relevant Experience	• Leading on a control transformation project looking at the structure and delivery of the Single Payment Scheme (SPS) at the Rural Payments Agency. This involved a detailed examination of the end to end processing of all claims made under the SPS which accounted for £1.8 billion of payments each year, from claims receipt through to payment and accounting (including the month end close process) • As interim Head of Internal Audit for the British Council, Andrew undertook a post implementation review/lessons learned assessment of their global SAP implementation at their regional finance hub in South Africa. This work led to a restructure of the implementation programme and a new strategy to their global SAP platform. • At the Department for Transport, Andrew led a high profile assessment of their Management Development programme looking critically at the six work streams of the programme and how they were contributing to the overall objective of developing leaders for the future. • Andrew has led on number of fraud investigations with an extensive number of clients from NHS institutions to large Government departments. These have often involved liaising direct with Police to ensure that the investigations lead to a successful criminal conviction.

Governance and control workstream

Laura Schmuttermeier, Manager	
Background	Laura is a Manager within our Enterprise Risk Services practice in London with more than five years of experience. She is a qualified chartered accountant. Laura has participated in many national and international assignments and has gained significant experience in the private and public sectors, delivering internal audit and risk management services as well as fraud related assignments. These include fraud awareness training sessions, fraud risk assessments and the assessment of anti-fraud control environments. As a result of this, she frequently works with the Data Analytics team, Deloitte's Forensics and Dispute Services as well as external law firms and gained experience in working under legal privilege. Laura has gained an in-depth knowledge in various processes such as Financial Controls, Financial Close, Cash & Bank, Accounts Payables and Receivables, Procurement, Tendering & Receipting, Treasury Management, Sales and Marketing and Management of business relationships, such as Joint Venture s.
Relevant Experience	Recently Laura was responsible for the development of an anti-fraud control framework for the travel and expense claims process of an international law firm. This included the identification of relevant fraud risks within the process, the development of appropriate anti-fraud control objectives, documentation of existing mitigating controls, and the assessment and prioritization of gaps in the existing framework. Going forward she will assist the client with the design and implementation of control activities which address the gaps identified. On an ongoing basis Laura delivers fraud training to companies across a variety of industries as well as within Deloitte. These training sessions assist employees and management to gain an understanding as to what constitutes fraud, the regulatory landscape, the roles and responsibilities of individuals for the detection and prevention of fraud and the specific internal control framework in regards to the prevention and detection. Laura worked on an investigation into allegations of public bribery and corruption at a European communications and technology conglomerate. Retained by external US counsel, our work focussed on a number of high-risk country operations across a range of segments of the business. As part of our work we liaised with both the U.S. Department of Justice and the Securities and Exchange Commission, as well as a number of local European country prosecutors. Laura was involved in a Controls Transformation Project for a large European manufacturing company. In her role she was responsible for the design of an improved monitoring framework of internal controls. This required her to consider the global presence and multi divisional structure of the client to ensure the designed framework fits with the current structure.

Governance and control workstream

Sam Feek, Senior Consultant	
Background GRO	Sam is a Senior Consultant within our Enterprise Risk Services practice with over three and half years of experience and is a qualified certified chartered accountant. Sam has significant experience in the private , public and third sectors, delivering internal audit, risk management, controls advisory services as well as fraud related assignments. These include fraud risk assessments and the assessment of anti-fraud control environments as well as reviews completed upon request from the US Department of Justice. Sam has worked on individual business cycle internal audits including AP/AR, treasury management, budgeting, payroll, cash & banking, recruitment and others) for a number of clients in the public and private sector in the UK and abroad.
Relevant Experience	Recently Sam worked as part of a controls transformation for a global FTSE 100 technology company in response to bribery allegations. This work included an assessment of the supply chain and corresponding financial controls in place to mitigate specific bribery and ethical compliance risks. Sam assisted in the development of an anti-fraud control framework for a shared services centre of a large construction firm in response to internal fraud allegations. This included the identification of fraud risks within the process, the development of appropriate anti-fraud control objectives, documentation of existing mitigating controls, and the development of remediating actions in order to strengthen the existing control framework. . Sam has also gained significant experience in assessing third party risks and carrying out contract compliance reviews including stress testing anti-bribery controls in relation to Joint Ventures. Most recently this includes an ABC readiness review for an international property development, investment and fund management group. Sam worked on a financial controls project in relation to a franchising operation for a FTSE 250 beverage manufacturer. This involved reviewing compliance with the franchise agreement, testing of key financial controls to provide assurance over figures submitted over financial close process as well as revenue recognition and franchise fee calculations.

Systems and data workstream

Michael Jones, Director	
Background	Michael is a Director in the Data Analytics group within Deloitte's Enterprise Risk Services (ERS) practice. He leads the Financial Crime data team in Deloitte with a focus on the use of data and data analytics to enhance client's abilities to detect and prevent criminal activity. The Financial Crime team has a wide range of experience and has used multiple tools and technologies including SQL, Trillium, DataFlux, SAS, Actimize, Informatica, Teradata, FircoSoft and Datanomic. He is a qualified Chartered Accountant with more than 15 years experience assessing and improving processes, systems, controls and data across multiple industries.
Relevant Experience	•Seconded to the Group Audit function of a major UK bank as Head of Audit for Financial Crime. He was responsible for identifying, planning and delivering audits of sanctions, Anti Money Laundering and Fraud across all banking divisions. He was the audit representative on the Group Financial Crime steering committee and the Group Risk Sanctions, AML and Fraud steering committees. He liaised regularly with Group Financial Crime and key business stakeholders in the financial crime space. •Establishing and leading a data team of c.20 consultants in support of a sanctions retrospective review. This was a major analysis of business transactions for a global financial services organization with operations in over 74 countries, operating 69 payment systems and 81 customer repositories across multiple business clusters. The review looked at payment and transactional data over a 7-year period. Initial scoping focused on determining the relevant systems and therefore the relevant transactions. In-scope transactions totalled over 100 million records spanning 8 systems across 3 continents. Each dataset had specific data protection rules, business processes and data models to consider. •Assessing key controls in a financial spread betting business through the use of data analytic tools and techniques.

Systems and data workstream

Daniel Andrew, Manager	
Background	Daniel is a Manager in our ERS Data practice and joined Deloitte in 2006 and has over 10 years experience working in the field of data quality, data analysis and audit data assurance support. Daniel has a well developed expertise in complex data management solutions with clients of all industry sectors. Daniel is a member of the ERS Financial Services and Consumer Business industry group teams and with a focus on Financial Crime and Anti Bribery and Corruption

Relevant Experience	•Daniel was the project manager on an international retrospective trade sanctions review for a global bank. The review spanned the Bank's corporate and retail arms in six global jurisdictions. Over 50 back-office and payment systems were analysed to identify potential US dollar transactions to one of six sanctioned countries. Daniel has lead various work streams, including:
	  • System mapping – understanding the flow of payment data through back office systems to the SWIFT network and identifying points of possible manual intervention.
	  • Management Information – Implementing an automated solution, using SSRS to map the flow of review cases through the transaction review and support the investigation team with ad hoc MI requests.
	  • Payment filtering – mapping the Bank's historic message monitoring and filtering solutions over the period of the review
	
	•Delivered an end-to-end shrink and point of sales review at a major High street retailer to identify data trends, exceptions and risk patterns in procurement, Inventory and point of sales data which indicate areas of potential shrinkage and fraud.

Systems and data workstream

Charlotte Desourdy, Manager	
Background	Charlotte is a manager in our Enterprise Risk Services practice, specialising in data analytics. She has over five years experience of performing and enhancing reviews at organisations, using sophisticated data analytics tools to quickly and efficiently profile, analyse and report upon large volumes of data. Charlotte also has a vast experience of performing mapping exercises to document and understand key data flows in a business including underlying processes and supporting controls. Charlotte is a qualified chartered accountant and has SC security clearance.
Relevant Experience	•Supporting the design, build and implementation of analytic systems to improve the management and performance of various financial processes, including stock adjustments, automated payment systems and retail stock management. at Post Office Ltd. •Working alongside the security and fraud team at Post Office Ltd to help demonstrate the value of data analytics by leading the design and build of bespoke fraud data analytics pilot , focussing on two key areas of fraud in the Credence and SAP HR systems. •Leading a work stream to identify errors and processes weaknesses at a large stock broker. This involved mapping complex data flows and transactions and tracing them through relevant systems to understand key areas of risk and potential for error. •Leading the design and development of an automated matching and reconciliation tool for a funding platform to identify and quantify FSA related breaches within a large UK savings and investments company, over a period of three years, in preparation for a FSA review. The tool allowed the efficient and effective quantification of breaches alongside observations and recommendations to improve the process and control environment. This required a high level of knowledge around the operation of the funding platform and the practical application of relevant FSA rules. •Using sophisticated data analytics to review a complex provision calculation for a large retail bank to provide assurance over the completeness and accuracy of the calculation. This led to the bank releasing over £1.3m from the provision.

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