



POST OFFICE LIMITED

AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Accountable Person	Meeting Date:	27 November 2023
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Input Sought: Noting

The Committee is asked to note:

- i. the responsibilities of the Accountable Person; and
- ii. how those responsibilities have been met for year ended 26 March 2023 ("FY22/23") and as such why the Annual Report and Accounts ("ARA") can be approved.

Previous Governance Oversight

- None

Executive Summary

This paper has been prepared to outline the responsibilities of the Accountable Person ("AP"), in line with the principles of His Majesty's Treasury's ("HMT's") Managing Public Money ("MPM") and describe how these responsibilities have been met during FY22/23 and continue to be met thereafter up to the point of signing the FY22/23 ARA, which is planned for December 2023.

The AP has a number of responsibilities which are focused around the key principles of MPM (notably section 3.4 of the MPM) and the standards expected of the AP with regard to projects and proposals. These include a number of items, with this paper focusing on the below which are of key relevance in respect of the ARA approval:

- Regularity – ensuring adherence to legislation and regulations;
- Propriety – ensuring good governance;
- Feasibility – ensuring affordability and sustainability; and
- Value for money – ensuring that value for the business and the exchequer as a whole is met.

Adherence against some of these requirements cannot be easily monitored and assessed due to their subjective and behavioural nature. However, the current governance, reporting, control (including Financial Reporting Controls) and decision-making frameworks in place at the Post Office ensure that all relevant aspects are understood within the business and complied with. This includes the roles of business areas such as the Risk, Compliance, Assurance, Internal Audit and Company Secretariat ("CoSec"). Further specific requirements, such as signing the ARA, including a Governance statement, will be achieved following approval of the FY22/23 ARA and subsequent signature by the Group Chief Executive Officer ("CEO").



Post Office utilises its Internal Audit function and the findings of the External Auditors, along with its 2nd line functions (including Central Risk, Central Compliance and Group Assurance), to drive change and ensure internal systems of controls and governance are adequate and meet all regulatory and statutory requirements. These areas of activity also provide further comfort as to Post Office's compliance with the key principles of Value for Money. It is the AP's responsibility to ensure the requirements are met, however the information within this paper around organisational structure and processes in place, is prepared to assist with this and provide sufficient assurance that the ARA for FY22/23 can be signed, subject to finalisation of the relevant disclosures and financial postings.

Questions addressed

1. What and who is the Accountable Person at the Post Office?
2. What are the responsibilities of the Accountable Person?
3. How have the responsibilities been met?
4. Are there any departures from expected governance and, if so, what are the associated mitigations?
5. Can the FY22/23 ARA be approved by the AP?

Report

What and who is the Accountable Person?

6. Under MPM Public Corporations like POL are required to be subject to levels of control and governance deemed appropriate by their sponsor department, agreed in the context of a framework document and approved by HMT, and while compliance with MPM can be imposed, it is not always a default position.
7. Where conformance with MPM is deemed appropriate – as is the case with POL – the Public Corporation's CEO is typically considered to be an AP, in a role that mirrors that of the Accounting Officer ("AO") for central government bodies. This paper therefore considers the role of AP and AO interchangeable for the purposes of MPM.
8. The AP is a singular designated individual within an organisation who is accountable for both the operations of the organisation and the preparation of its Annual Report and Accounts. Nick Read, Group CEO, is the AP as at the time of presenting this report.

Responsibilities of the Accountable Person

9. The primary responsibilities of the AP are outlined within the MPM guidance, which states that the AP should ensure the organisation abides by, and delivers on, a number of defined standards designed to help meet the overall objective of the role. These are outlined in Appendix 1.
10. Many of the standards required in the MPM represent desired behaviours and ways of working which are difficult to formally monitor and assess. However, the way in which POL is governed helps to ensure that these standards are met and the role of the AP is delivered.



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11. More formally the AP is required to sign the ARA, taking personal responsibility for delivery against the MPM standards. Within the ARA, the Governance report lists the key structures, actions and committees in place that help to meet the desired standards of the AP.
 12. When making key decisions or assessments, several standards can and should be used to assess whether an initiative meets the VFM guidance and therefore whether the AP can justify the decision to parliament as required. These standards are:
 - a) **Regularity:** Proposals have sufficient legal basis, parliamentary authority, and Treasury authorisation. They are compatible with the agreed spending budgets;
 - b) **Propriety:** Proposals meet the high standards of public conduct and relevant Parliamentary control procedures and expectations;
 - c) **Value for Money:** In comparison to alternative proposals or doing nothing, the proposal delivers value for the Exchequer as a whole (i.e. in terms of suitability, effectiveness, prudence, quality, good value); and
 - d) **Feasibility:** The proposal can be implemented accurately, sustainably, and to the intended timetable.
 13. In addition to the above standards, for which the AP is considered personally responsible, the AP is also expected to take personal responsibility for several other areas. These are:
 - a) **Control:** Personally approve all Cabinet Committee papers (i.e. Board papers in the context of POL) and sign off all major initiatives;
 - b) **Management of Opportunity and Risk:** Achieve the right balance for POL's risk appetite;
 - c) **Learning from experience:** Both using internal feedback (e.g. through managing projects and programmes), and from external sources; and
 - d) **Accurate Accounting:** For the organisation's financial position and transactions to ensure published financial information is transparent and up to date, and that the organisation's efficiency in the use of resources is tracked and recorded.
 14. When the AP is unavailable for a significant period of time, the role should be deputised to another senior member, with any significant absences being highlighted to UKGI in order to appoint a temporary AP as required.

Assessment of how these responsibilities were met during FY22/23

15. The below outlines how POL conforms to MPM wholistically with these items providing comfort of conformance in aggregate.
16. Within the draft FY22/23 ARA there is a dedicated governance section. The draft ARA has been reviewed by the External Auditor and Deloitte (specific review activities, see 'ARA Approval' paper, with no material inconsistencies noted. Final



approval of the ARA by the External Auditors will evidence that the requirements around accurate accounting have been formally met for FY22/23.

17. Formal processes, detailed within this section, are in place to ensure the requirements are met on an ongoing basis so that they can be attested to annually.
18. POL's internal Financial Planning and Analysis team ("FP&A") are responsible for governance of budgeting and forecasting across POL. The Board is kept up to date on budgeting and forecasting through quarterly Board reporting, as well as ad hoc communications with FP&A.
19. Across all levels of POL, governance frameworks are in place. For example, POL has terms of reference for Board and Executive level committees, there are clear levels of delegated authority and regular monitoring and reporting of risks to the Board which help the AP to make appropriate decisions. The terms of reference are reviewed and updated annually.
20. Regarding the key components of VFM and risk appetite, review boards, such as IADG were in place, ensuring all significant spend within the organisation goes through a formal review and authorisation process. The structure, delegation of authority and key considerations are routinely reviewed to ensure the requirements for the AP are being met. Financial processes are intertwined with these review boards to ensure actual spend is controlled in line with the governance framework.
21. POL's procurement activities must comply with Public Contract Regulations ("PCR") 2015. There are exceptions for Post Office Insurance and Payzone which sit outside. Public sector procurement is subject to a legal framework which encourages free and open competition and VFM, in line with internationally and nationally agreed obligations and regulations. The over-riding procurement policy requirement is that all public procurement must be based on VFM. This should be achieved through competition unless there are compelling reasons to the contrary.
22. POL risk management is based on a number of key principles including that (i) risk management must be embedded in all POL activities, (ii) all material risks must be identified, measured, monitored, managed and reported on a continuous basis at an individual and aggregate level and (iii) risk reporting must allow for the effective review, challenge and monitoring of risk exposure against approved risk appetites. Operational management, Central Risk and Internal Audit are the three lines of defence for risk management.
23. POL has Compliance teams in place to ensure regulatory requirements are adhered to across the myriad of environments in which POL operates. Compliance is monitored and reported regularly to ARC as required.
24. POL's Financial Reporting Controls Framework ("FRCF") is designed to mitigate the risk of material fraud and error in financial reporting, thus providing assurances around accurate accounting and safeguarding assets.



25. Control frameworks are also in place for IT, change processes, supply chain and Postmaster operations which, as well as the FRCF, fall under control self-assessment regimes. POL has a suite of companywide policies which define the minimum control standards expected to be performed within the applicable business areas.
26. CoSec have a number of processes in place to allow formal oversight of the committees and the Board, whilst also ensuring specific requirements, such as control over Board papers, is adhered to.
27. Internal Audit provide an independent evaluation of the adequacy and effectiveness of the POL's framework of governance, risk management and control. Throughout the year, Internal Audit track audit actions to ensure all recommendations are implemented.
28. External Auditors advise POL if control recommendations have been identified as part of the audit. POL follows up on recommendations and they are discussed at ARC meetings and during audit meetings throughout the year.
29. Continuous review of management information systems, organisation structures and governance frameworks is ongoing within POL, thus ensuring that areas of development are identified and improved as required. The ultimate driver is to ensure the requirements of the AP's organisation are met. The level of change seen within the organisation in recent years, which is still ongoing, is evidence of this focused development.
30. On an annual basis, a report will be provided to the AP and ARC to provide rationale as to why the AP can sign-off on the ARA. Finance is accountable for the overall production of the ARA and responsible for preparing the Finance & Business Review section and the back-half financial statements. Other teams are responsible for the content in other front-half sections as follows; Governance (prepared by CoSec), Directors' Remuneration Report and Equity, Diversity & Inclusion (prepared by RemCo), Risk Report (prepared by Risk), Streamlined Energy & Carbon Report (prepared by Health, Safety & Environment), Chair and CEO statements (prepared by Communications). The GE accountabilities for each section were agreed at GE in July 23 and shared with ARC in September and November. Input is also sought from other relevant teams across POL where required, such as legal. In advance of approving the FY22/23, attestations have been sought from all teams responsible for areas of the ARA.

Known and potential departures from expected governance, associated mitigations and validations

31. The pipeline of active and planned procurement activities are reviewed with business units regularly. Where exceptions from UK regulations and PCR are requested, these are raised at the appropriate governance forums for approval:
 - Sub threshold <£213,477 including VAT, Risk Exception requests may be approved by GE and retrospectively reported to ARC.
 - Above Threshold >£213,477 including VAT, Risk Exception requests must be submitted to Board for review and prior approval



32. An exception from paragraph 31 is in regard to the procurement risk exception in relation to Herbert Smith Freehills ("HSF"), who have provided legal support to the Remediation Matters Unit ("RU") through a directly awarded contract since June 2019, and subsequently acted as POL's legal representatives to the Inquiry through a directly awarded contract in September 2021. It is considered by Procurement to be a low probability that other law firms would challenge these contracts as HSF's involvement in the Inquiry and RU work has been well publicised and has been ongoing for a number of years now. To date POL has not received any complaint from competitors, indicating there appears little appetite to challenge. If the HSF contracts are not continued, risks associated with transition to new providers include duplication of costs, lack of familiarity with POL structure and processes, and POL reputational damage. This will result in significant delays to the Horizon Shortfall Scheme ("HSS") and other schemes which will have an impact on claimants, POL's ability to support the Inquiry, and legal advice to Horizon Matters Committee, Remediation Committee, GE and Board.
33. Subsequent to the GLO settlement, an action was taken to review whether there are historical processes which could have resulted in detriment to Postmasters. In addition to the previously reported provision in relation to non-payment of postmaster remuneration whilst a Postmaster was suspended, it has been identified that further historical operational issues may have impacted Postmasters financially. POL made an announcement on 8 November 2023, on its corporate website, that it plans to establish a review to provide redress to Postmasters affected. The announcements of an intention to create a review to compensate those Postmasters effected is deemed a triggering event for a liability and therefore it is expected that a liability, contingent or realised, will be recognised in the FY23/24 ARA. Funding has been sought and is expected to be formally approved in the coming months. The ARA cover note details further information on this area, including accounting treatment and disclosures.
34. As reported in the prior year AP paper, POL relies on source data from third parties for occasions when a Postmaster should be paid for generating a lead, which is triggered by the customer including a branch code on the third-party website. The amounts are small (IRRELEVANT per annum) but given the sensitivities, POL has deemed it necessary to assure ourselves on the completeness of Postmaster remuneration. Therefore, an internal audit was performed between May and October 2023 to assess and validated third party data and processes. This review included data analytics, which provided a high level of confidence that Postmaster remuneration paid on third party revenue, was substantially complete and accurate.
35. Additional assurance has been performed by Deloitte in respect of the FY22/23 ARA front-half metrics, in response to the Directors' Remuneration Report issue in the FY21/22 ARA. The assurance work has been carried out to mitigate the risk of similar errors, covering all front-half sections that are not subject to detailed audit testing by the Group's External Auditors, as detailed in paragraph 30.
36. There are no other known significant departures over and above that already advised in this report. POL performs an annual GE Declaration exercise, whereby each member the GE is required to formally disclose items of 'materiality' not already disclosed by other corporate disclosures, such as through the regular updating of the Group risk profile, internal control assessments, legislative & regulatory compliance assessments etc. The FY22/23 GE declaration exercise originally took place June 2023, however given the delay in signing the ARA, the declarations have been refreshed in October / November 2023, with all but two being completed to date. Key items noted in the submissions have

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been detailed in the GE declaration paper, which is to be presented at the November ARC.

Signing of the FY22/23 ARA

37. Once all remaining audit / ARA items are finalised, and if the AP agrees that this paper demonstrates that the organisational structure and governance processes in place allow him to meet the requirements of the role, the ARA can be signed, thus meeting the formal requirement of the role as set out above.

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Appendix 1

Standards expected of an Accounting Officer's organisation, per "Managing Public Money" guidance, last updated March 2022.

Box 3.1: standards expected of the accounting officer's organisation

Acting within the authority of the minister(s) to whom they are responsible, the accounting officer should ensure that the organisation, and any ALBs it sponsors, operates effectively and to a high standard of probity. The organisation should:

governance

- have a governance structure which transmits, delegates, implements and enforces decisions
- have trustworthy internal controls to safeguard, channel and record resources as intended
- work cooperatively with partners in the public interest
- operate with propriety and regularity in all its transactions
- treat its customers and business counterparties fairly, honestly and with integrity
- offer appropriate redress for failure to meet agreed customer standards
- give timely, transparent and realistic accounts of its business and decisions, underpinning public confidence;

decision-making

- support its ministers with clear, well-reasoned, timely and impartial advice



- make all its decisions in line with the strategy, aims and objectives of the organisation set by ministers and/or in legislation
- take a balanced view of the organisation's approach to managing opportunity and risk
- impose no more than proportionate and defensible burdens on business;

financial management

- use its resources efficiently, economically and effectively, avoiding waste and extravagance
- plan to use its resources on an affordable and sustainable path, within agreed limits
- carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for the Exchequer as a whole
- use management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments
- avoid over defining detail and imposing undue compliance costs, either internally or on its customers and stakeholders
- have practical documented arrangements for controlling or working in partnership with other organisations, as appropriate
- use internal and external audit to improve its internal controls and performance.