

**Royal Mail Group**

## **Compliance with Legislative & Regulatory Obligations**

**Post Office Limited**

**Internal Audit & Risk Management**

**Internal Audit Report: 07/083**

**February 2008**



Royal Mail - CONFIDENTIAL

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### Distribution

#### **Executive Summary & Appendices**

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#### **Executive Summary**

Royal Mail Group Executive Team  
Doug Evans, General Counsel  
Derek K Foster, Internal Audit & Risk Management Director  
Ernst & Young, External Auditors

#### **Internal Audit & Risk Management Team**

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## Executive Summary: Overview

### Background

Whilst the POL Compliance Team provide a focus for regulated products, this does not extend to other aspects of legislative and regulatory obligations. The Group Compliance Director and Post Office Limited (POL) Head of Compliance have voiced concerns regarding the adequacy of the control environment across the range of legislation and regulation that impacts on POL. In addition, the strategic risk profile developed by the POL Executive Team identifies failure to comply with our statutory and regulatory obligations as an area of risk.

### Objectives & approach

The overall objective is to provide an assessment of the risk that POL does not comply with its statutory or regulatory obligations and provide tools to support the business unit in the ongoing assessment, monitoring and management of this risk. Specific objectives are to: identify the key gross risk exposures; facilitate an assessment of control effectiveness around the most significant exposures; and provide an overall net assessment of risks and identify priorities for improving the application of a compliance framework in POL.

### Rating

The approach identified all areas of legislation and regulation that impact on POL and, through consultation with Legal Services and the Head of Compliance, produced from this a list of key areas for POL, excluding areas managed entirely at Group level. Nominated members of the Executive Team and Senior Leadership Population were asked to self-assess controls in these areas using a questionnaire previously developed and used at Group level, but modified for POL as agreed with the Head of Compliance. The self-assessment was compared with information provided by Legal Services.

### Key findings

**AREA CONTROL ENVIRONMENT:** there is a **MEDIUM** risk of POL breaching its statutory and regulatory obligations.

**RISK TO GROUP: LOW.** There are no significant risks that have a Group impact.

**Control Environment.** Managing the impact of legislation on POL is complex with policies mostly, but not exclusively, owned at Group level and responsibility for deployment in POL often spread across different functions. POL is embraced by the Royal Mail Group Compliance Framework, which is specifically focused on RM Licence Conditions and Competition Law. However, given the wider trend towards an increasing regulatory burden, the breadth of legislation impacting on POL and the complexity of the control environment required to manage its compliance, it would be appropriate for POL to develop its own compliance framework. We have provided an outline of such a framework that sets out accountabilities, controls and governance processes to deliver an adequate control environment across the range of legislation and regulation. Specific matters on which controls are self-assessed generally as insufficient, and which would be improved by incorporating them into a compliance framework, are compliance monitoring and staff awareness and understanding of their responsibilities.

**Controls Self-Assessment Perception Gap.** The self-assessments of controls to enable compliance suggest a high level of control. However, in many areas of legislation the Legal Services' view, based on judicial reviews, litigation history, compensation claims and dialogue with regulators, suggests that the self-assessments, taken as a whole, are not fully reliable. This "perception gap" may itself create a risk if it leads to failure to take action when it would be appropriate to do so. An adjusted risk profile that reflects apparent gaps in perception of controls and also Legal Services' assessment of the degree of regulatory scrutiny shows, overall, a higher level of risk compared with that derived from self-assessment.

**Specific Aspects of Legislation.** The principle areas of legislation or regulation where the risk of non-compliance is highest are:

- Personal data protection where POL products are being transacted by third party suppliers such as POFs;
- Public Procurement Legislation, reflecting the newness of control measures implemented and concerns about overall levels of awareness.

Self-assessments are not available for a number of areas, two of which warrant particular attention: Competition Law, breach of which could have a severe financial impact; and copyrights and trademarks legislation, which offer opportunities to protect POL's intellectual property assets.

## Detailed findings

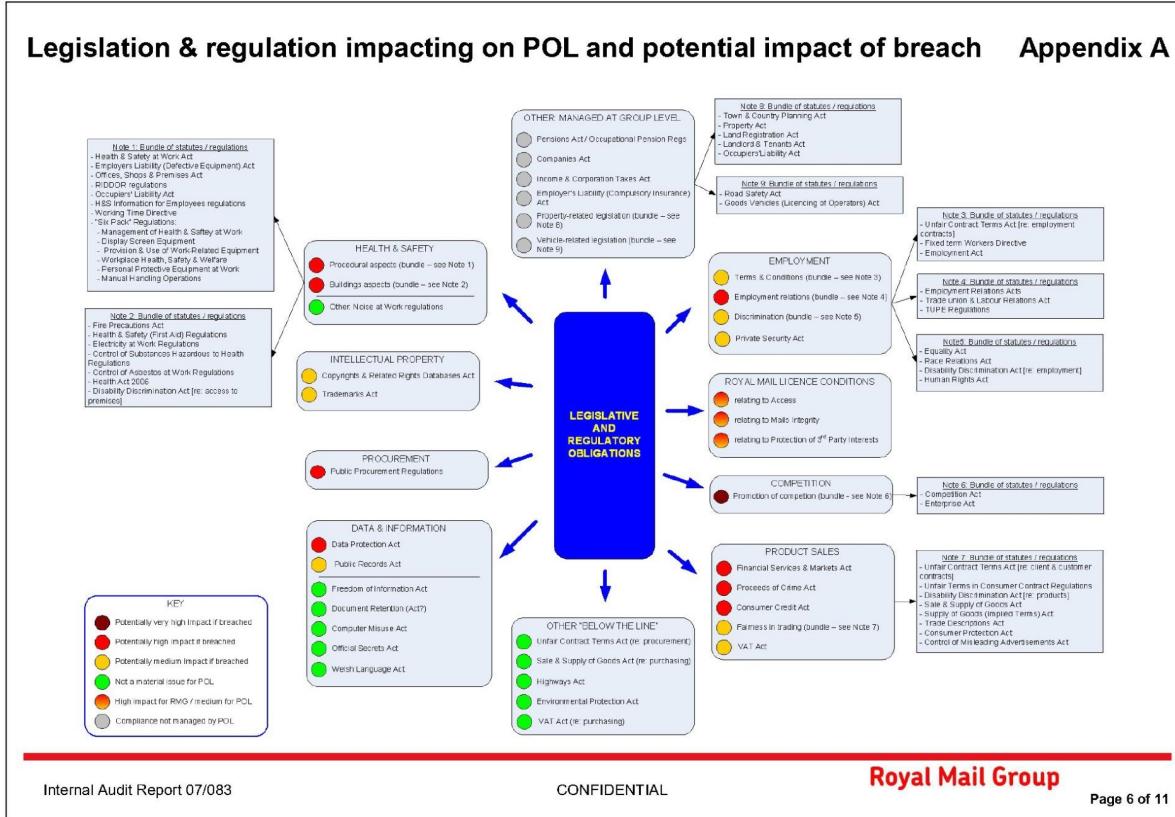
The following issues were identified during the review and the corrective action and timescale were agreed with the business. All of the actions shown are deemed important. However, a further ranking (1-2) has been provided to assist in prioritisation. Priority 1 relates to the higher risk issue.

| Issue  | Agreed Action Plan  | Action Owner                         | Timing                         |
|--|---|--------------------------------------|--------------------------------|
| <p><b>1. Control environment</b></p> <p>1.1 Compliance framework<br/>POL does not have its own compliance framework; it applies an RMG compliance framework, but the coverage is limited to compliance with the RM Licence and Competition Law.</p> <p>1.2 Compliance controls</p> <p>1.2.1 Priority areas for improvement<br/>The self-assessment exercise indicates that the priorities are: compliance monitoring; staff awareness of their responsibilities; further work to ensure policies owned by POL are fully fit-for-purpose. Development of an effective compliance framework would address these matters.</p> <p>1.2.2 Business change<br/>The established change control process enables legislative and regulatory issues to be identified at an early stage in any business change, but deployment is inconsistent: for example some strategic initiatives have not gone through change control. There is activity currently in hand that will increase compliance with the process as part of the current business planning round.</p> <p>1.3 Controls perception<br/>There is "perception gap" between the self-assessment of controls to manage legal and regulatory obligations and POL's litigation record and losses history, and concerns raised by regulatory bodies.</p> <p>1.4 Link with Critical Business Processes (CBPs)<br/>Compliance with Legal and Regulatory obligation is a CBP for POL, which was most recently self-assessed as "substantially deployed". However, the CBP is specifically concerned with processes that apply to product-related regulatory compliance rather than legislation and regulation in general.</p> <p><b>Business impact</b></p> <ul style="list-style-type: none"> <li><i>Absence of an overall framework creates an inconsistent approach to compliance.</i></li> <li><i>Over-estimating the strength of control may lead to complacency and may itself create a risk to compliance.</i></li> </ul> | <ol style="list-style-type: none"> <li>1. Develop and communicate an appropriate compliance framework for POL to cover all key aspects of legislation identified in this review.<br/>(Priority 2)</li> <li>2. Review the portfolio of CBPs in light of the control enablers identified in the self-assessment questionnaire used in this review, and, if appropriate, amend the portfolio<br/>(Priority 2)</li> </ol> | Keith Woollard<br><br>Keith Woollard | 31 Dec 2008<br><br>31 Dec 2008 |
|  |   |                                      |                                |

## Detailed findings

| Issue   | Agreed Action Plan   | Action Owner       | Timing                    |
|---|--|--------------------|---------------------------|
| <p><b>2. Areas of legislation or regulation where the risk of non-compliance is high</b></p> <p>2.1 Data Protection Act (DPA) as it applies to sales via direct channels.</p> <p>The self-assessment raised a specific concern that it is not clear who is responsible for setting standards that POL expects third party suppliers, including POFs, to adhere to and for ensuring such standards are met. Further, there is no monitoring of third party compliance performance in place. The risk to reputation is especially high given the current levels of public interest following several high profile instances elsewhere of failure to protect personal data. Adoption of a POL specific compliance framework will make responsibility clear.</p> <p>2.2 Public Procurement Legislation (PPL).</p> <p>Although controls are self-assessed as high, recent history, which includes a "Letter before Action" from the regulatory body requiring appropriate controls to be put in place, suggests that the control environment, established in December 2007, is not mature and the Legal Services' view is that awareness and understanding of this legislation are not yet well established.</p> <p><b>Business impact</b></p> <ul style="list-style-type: none"> <li><i>Breach of data protection obligations may cause reputation damage that undermines POL's drive for growth in Financial Services product sales.</i></li> <li><i>Breach of PPL obligations may result in awarded contracts having to be re-tendered with subsequent delays to projects or product developments.</i></li> </ul> | <p>3. Review contractual relationships with third party suppliers and introduce the provision of DPA conformance; develop a action plan to address any gaps that are identified.<br/>(Priority 2).</p> | David Glynn        | 31 <sup>st</sup> Aug 2008 |
| <p><b>3. Incomplete self-assessment</b></p> <p>Self-assessment questionnaires were not completed for a number of areas of legislation; and without these the risk assessment is incomplete. Amongst the areas not self-assessed are:</p> <ul style="list-style-type: none"> <li>• Competition Law. This is an important area to review since the impact of the breach could be very high – the law allows for a fine of up to 10% of turnover</li> <li>• The law relating to copyrights and to trademarks. These areas are important in that effective control will allow POL to ensure that its own intellectual property assets are adequately protected. Therefore, these represent an opportunity as well as a potential risk.</li> </ul> <p><b>Business impact</b></p> <p><i>Failure to complete the self-assessment may mean that areas of non-compliance with adverse financial consequences, and also potential opportunities afforded by the legislation are overlooked.</i></p>   | <p>4. Complete the outstanding self-assessment questionnaires and forward them to IA&amp;RM who will use them to update the charts provided in this report<br/>(Priority 2).</p>                       | Gary Hockey-Morley | 31 <sup>st</sup> May 2008 |

## Legislation & regulation impacting on POL and potential impact of breach Appendix A



## Control assessment framework

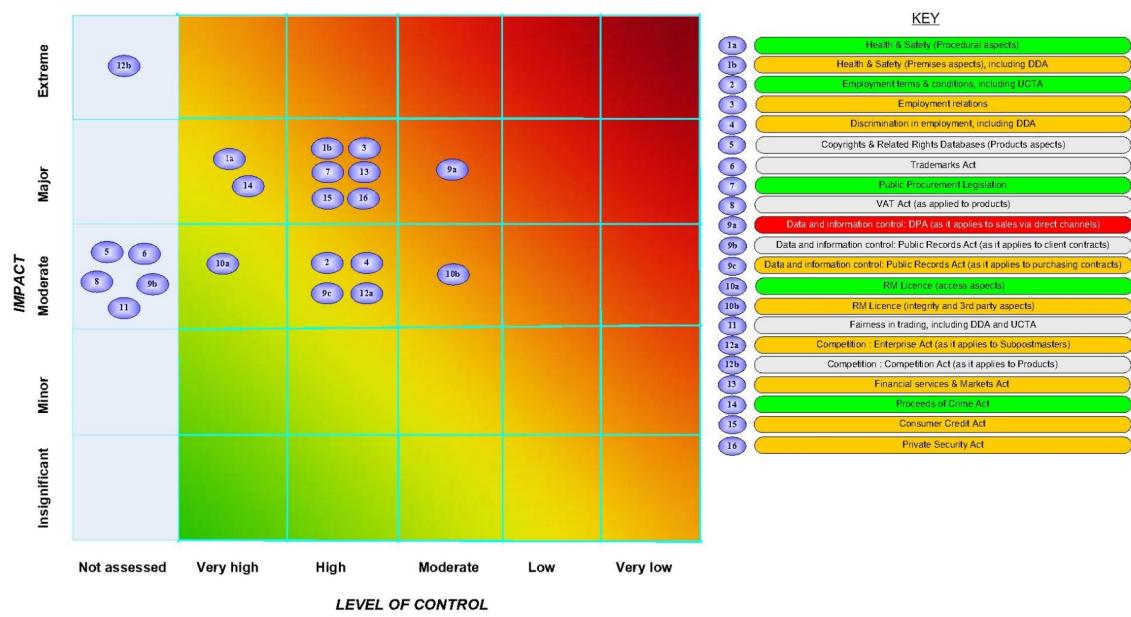
## Appendix B

| Ref No | CONTROLS CAPABILITIES<br>Legislation / regulation  | ET / SLP Self-assessment provider | Leadership - 20%                                 |  | Policies & Strategy - 10%           |  | People - 15%   |   | Partnerships & Resources - 15%                                    |  | Processes - 20%               |   | Monitoring & Assessment - 20%   |  | Control Assessment   | Self-assessed overall Level of Control % Score | Assessed based on litigation experience | Perception gap | Level of regulatory scrutiny |        |
|--------|--|-----------------------------------|--|--|-------------------------------------|--|--|---|---|--|-------------------------------|---|---|--|--|--|---|----------------|------------------------------|--------|
|        |  |                                   | Clear and active involvement from accountability | Clear and active involvement amongst senior managers | Policy in place and fit for purpose | Compliance requirements are clearly defined and deployed | Employee responsibilities defined in policies and descriptions | Awareness of compliance requirements effectively deployed | Clear & effective disclosure and communication for non compliance | Adequate and effective resources and expertise | Effective supplier management | Adequate use of and support from skilled and experienced external oversight functions | Compliance / regulation requirements are embedded into operational procedures | Effective identification and enforcement of new legislative developments | Implementation of legislative obligations into products/ processes/ projects |  |   |                |                              |        |
| 1a     | Health & Safety (Procedural aspects)   | Nick Cotters via Tobi Menkin      | 4  | 4  | N/A                                 | N/A  | 4  | 4   | 4   | 4  | N/A                           | 4   | 4   | 4  | 4  | 4  | 100.00%                                 | Very High      | Moderate                     | Red    |
| 1b     | Health & Safety (Procedural aspects), including CDA  | Clive Bradley                     | 4  | 3  | N/A                                 | N/A  | 4  | 4   | 4   | 3  | 3                             | 4   | 3   | 3  | 3  | 3  | 83.33%                                  | High           | Moderate                     | Yellow |
| 2      | Employment terms & conditions, including UCTA  | Jackie Lester via Tobi Menkin     | 4  | 4  | 4                                   | 4  | 2  | 3   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 2  | 88.25%                                  | High           | High                         | Green  |
| 3      | Employment relations   | Jackie Lester via Tobi Menkin     | 4  | 4  | 4                                   | 4  | 1  | 3   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 2  | 85.00%                                  | High           | Moderate                     | Yellow |
| 4      | Discrimination in employment   | Nick Cotters via Tobi Menkin      | 4  | 4  | N/A                                 | N/A  | 1  | 3   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 4  | 94.44%                                  | High           | Low                          | N/A    |
| 5      | Copyrights & Related Rights Database Act, as it applies to PCL products  | Gary Hockley-Morley               | 4  | 4  | N/A                                 | N/A  | 0  | 3   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 0  | 65.25%                                  | Moderate       | Very low                     | Red    |
| 6      | Trademarks Act   | Gary Hockley-Morley               |  |  |                                     |  |  |   |   |  |                               |   |   |  |  |  |   |                | Medium                       | N/A    |
| 7      | Public Procurement Legislation   | Andy McLean via Keith Barnes      | 4  | 3  | N/A                                 | N/A  | 3  | 4   | 2   | 4  | 4                             | 4   | 4   | 4  | 4  | 2  | 81.94%                                  | High           | Low                          | Green  |
| 8      | VAT Act (in products)  | David Hockley-Morley              |  |  |                                     |  |  |   |   |  |                               |   |   |  |  |  |   |                | Very low                     | N/A    |
| 9a     | Data and information control - DPA as it applies to the same void or client contracts                                    | Penny Slatter                     | 3  | 4  | N/A                                 | N/A  | 2  | 4   | 4   | 1  | 2                             | 4   | 4   | 4  | 4  | 0  | 65.25%                                  | Moderate       | Moderate                     | Green  |
| 9b     | Data and information control - DPA as it applies to client contracts   | Gary Hockley-Morley               |  |  |                                     |  |  |   |   |  |                               |   |   |  |  |  |   |                | Low                          | N/A    |
| 9c     | Data and information control - PRA as it applies to purchasing contracts   | Andy McLean via Keith Barnes      | 4  | 4  | N/A                                 | N/A  | 0  | 3   | 3   | 4  | 4                             | 4   | 4   | 4  | 4  | 4  | 91.67%                                  | High           | Moderate                     | Red    |
| 10a    | RMT Licence (access aspects)   | Alwen Lyons                       | 4  | 4  | 4                                   | 4  | 4  | 4   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 4  | 100.00%                                 | Very High      | Very High                    | Green  |
| 10b    | RMT Licence (integrity and 3rd party aspects)  | Paula Venetilli                   | 3  | 3  | 2                                   | 3  | 2  | 3   | 3   | 3  | 2                             | 4   | 3   | 3  | 3  | 2  | 47.50%                                  | Moderate       | Medium                       | Red    |
| 11     | Fairness in trading, including DCA and legislation promoting competition - Enterprise Act, as it applies to PCL products | Gary Hockley-Morley               |  |  |                                     |  |  |   |   |  |                               |   |   |  |  |  |   |                | Medium                       | N/A    |
| 12a    | Legislation promoting competition - Competition Act, as it applies to PCL products                                       | Paula Venetilli                   | 4  | 4  | 3                                   | 3  | 4  | 3   | 3   | 4  | 4                             | 4   | 4   | 4  | 4  | 3  | 90.00%                                  | High           | Moderate                     | Green  |
| 12b    | Competition Act, as it applies to PCL products   | Gary Hockley-Morley               |  |  |                                     |  |  |   |   |  |                               |   |   |  |  |  |   |                | Medium                       | N/A    |
| 13     | Financial Services & Markets Act   | Keith Woolard                     | 4  | 3  | 3                                   | 4  | 3  | 3   | 3   | 4  | 4                             | 4   | 4   | 4  | 4  | 3  | 85.83%                                  | High           | High                         | Green  |
| 14     | Proceeds of Crime Act  | Keith Woolard                     | 4  | 4  | 3                                   | 4  | 3  | 4   | 4   | 4  | 4                             | 4   | 4   | 4  | 4  | 3  | 95.83%                                  | Very High      | Very High                    | Green  |
| 15     | Consumer Credit Act  | Keith Woolard                     | 3  | 3  | 3                                   | 4  | 4  | 3   | 3   | 4  | 4                             | 4   | 4   | 4  | 3  | 3  | 95.83%                                  | Very High      | High                         | Green  |
| 16     | Private Security Act   | Keith Woolard via Sandra Murray   | 4  | 3  | 2                                   | 4  | 2  | 3   | 4   | 4  | N/A                           | 4   | 4   | 4  | 4  | 4  | 98.75%                                  | High           | High                         | Green  |
|        | Average  |                                   | 3.5  | 3.6  | 3.1                                 | 3.0  | 2.6  | 3.4   | 3.5   | 3.7  | 3.6                           | 4.0   | 3.9   | 3.7  | 3.5  | 2.9  | 86.88%                                  | High           | Moderate                     | Yellow |

| KEY | Self-assessment scoring guidelines | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 | 101 | 102 | 103 | 104 | 105 | 106 | 107 | 108 | 109 | 110 | 111 | 112 | 113 | 114 | 115 | 116 | 117 | 118 | 119 | 120 | 121 | 122 | 123 | 124 | 125 | 126 | 127 | 128 | 129 | 130 | 131 | 132 | 133 | 134 | 135 | 136 | 137 | 138 | 139 | 140 | 141 | 142 | 143 | 144 | 145 | 146 | 147 | 148 | 149 | 150 | 151 | 152 | 153 | 154 | 155 | 156 | 157 | 158 | 159 | 160 | 161 | 162 | 163 | 164 | 165 | 166 | 167 | 168 | 169 | 170 | 171 | 172 | 173 | 174 | 175 | 176 | 177 | 178 | 179 | 180 | 181 | 182 | 183 | 184 | 185 | 186 | 187 | 188 | 189 | 190 | 191 | 192 | 193 | 194 | 195 | 196 | 197 | 198 | 199 | 200 | 201 | 202 | 203 | 204 | 205 | 206 | 207 | 208 | 209 | 210 | 211 | 212 | 213 | 214 | 215 | 216 | 217 | 218 | 219 | 220 | 221 | 222 | 223 | 224 | 225 | 226 | 227 | 228 | 229 | 230 | 231 | 232 | 233 | 234 | 235 | 236 | 237 | 238 | 239 | 240 | 241 | 242 | 243 | 244 | 245 | 246 | 247 | 248 | 249 | 250 | 251 | 252 | 253 | 254 | 255 | 256 | 257 | 258 | 259 | 260 | 261 | 262 | 263 | 264 | 265 | 266 | 267 | 268 | 269 | 270 | 271 | 272 | 273 | 274 | 275 | 276 | 277 | 278 | 279 | 280 | 281 | 282 | 283 | 284 | 285 | 286 | 287 | 288 | 289 | 290 | 291 | 292 | 293 | 294 | 295 | 296 | 297 | 298 | 299 | 300 | 301 | 302 | 303 | 304 | 305 | 306 | 307 | 308 | 309 | 310 | 311 | 312 | 313 | 314 | 315 | 316 | 317 | 318 | 319 | 320 | 321 | 322 | 323 | 324 | 325 | 326 | 327 | 328 | 329 | 330 | 331 | 332 | 333 | 334 | 335 | 336 | 337 | 338 | 339 | 340 | 341 | 342 | 343 | 344 | 345 | 346 | 347 | 348 | 349 | 350 | 351 | 352 | 353 | 354 | 355 | 356 | 357 | 358 | 359 | 360 | 361 | 362 | 363 | 364 | 365 | 366 | 367 | 368 | 369 | 370 | 371 | 372 | 373 | 374 | 375 | 376 | 377 | 378 | 379 | 380 | 381 | 382 | 383 | 384 | 385 | 386 | 387 | 388 | 389 | 390 | 391 | 392 | 393 | 394 | 395 | 396 | 397 | 398 | 399 | 400 | 401 | 402 | 403 | 404 | 405 | 406 | 407 | 408 | 409 | 410 | 411 | 412 | 413 | 414 | 415 | 416 | 417 | 418 | 419 | 420 | 421 | 422 | 423 | 424 | 425 | 426 | 427 | 428 | 429 | 430 | 431 | 432 | 433 | 434 | 435 | 436 | 437 | 438 | 439 | 440 | 441 | 442 | 443 | 444 | 445 | 446 | 447 | 448 | 449 | 450 | 451 | 452 | 453 | 454 | 455 | 456 | 457 | 458 | 459 | 460 | 461 | 462 | 463 | 464 | 465 | 466 | 467 | 468 | 469 | 470 | 471 | 472 | 473 | 474 | 475 | 476 | 477 | 478 | 479 | 480 | 481 | 482 | 483 | 484 | 485 | 486 | 487 | 488 | 489 | 490 | 491 | 492 | 493 | 494 | 495 | 496 | 497 | 498 | 499 | 500 | 501 | 502 | 503 | 504 | 505 | 506 | 507 | 508 | 509 | 510 | 511 | 512 | 513 | 514 | 515 | 516 | 517 | 518 | 519 | 520 | 521 | 522 | 523 | 524 | 525 | 526 | 527 | 528 | 529 | 530 | 531 | 532 | 533 | 534 | 535 | 536 | 537 | 538 | 539 | 540 | 541 | 542 | 543 | 544 | 545 | 546 | 547 | 548 | 549 | 550 | 551 | 552 | 553 | 554 | 555 | 556 | 557 | 558 | 559 | 560 | 561 | 562 | 563 | 564 | 565 | 566 | 567 | 568 | 569 | 570 | 571 | 572 | 573 | 574 | 575 | 576 | 577 | 578 | 579 | 580 | 581 | 582 | 583 | 584 | 585 | 586 | 587 | 588 | 589 | 590 | 591 | 592 | 593 | 594 | 595 | 596 | 597 | 598 | 599 | 600 | 601 | 602 | 603 | 604 | 605 | 606 | 607 | 608 | 609 | 610 | 611 | 612 | 613 | 614 | 615 | 616 | 617 | 618 | 619 | 620 | 621 | 622 | 623 | 624 | 625 | 626 | 627 | 628 | 629 | 630 | 631 | 632 | 633 | 634 | 635 | 636 | 637 | 638 | 639 | 640 | 641 | 642 | 643 | 644 | 645 | 646 | 647 | 648 | 649 | 650 | 651 | 652 | 653 | 654 | 655 | 656 | 657 | 658 | 659 | 660 | 661 | 662 | 663 | 664 | 665 | 666 | 667 | 668 | 669 | 670 | 671 | 672 | 673 | 674 | 675 | 676 | 677 | 678 | 679 | 680 | 681 | 682 | 683 | 684 | 685 | 686 | 687 | 688 | 689 | 690 | 691 | 692 | 693 | 694 | 695 | 696 | 697 | 698 | 699 | 700 | 701 | 702 | 703 | 704 | 705 | 706 | 707 | 708 | 709 | 710 | 711 | 712 | 713 | 714 | 715 | 716 | 717 | 718 | 719 | 720 | 721 | 722 | 723 | 724 | 725 | 726 | 727 | 728 | 729 | 730 | 731 | 732 | 733 | 734 | 735 | 736 | 737 | 738 | 739 | 740 | 741 | 742 | 743 | 744 | 745 | 746 | 747 | 748 | 749 | 750 | 751 | 752 | 753 | 754 | 755 | 756 | 757 | 758 | 759 | 760 | 761 | 762 | 763 | 764 | 765 | 766 | 767 | 768 | 769 | 770 | 771 | 772 | 773 | 774 | 775 | 776 | 777 | 778 | 779 | 780 | 781 | 782 | 783 | 784 | 785 | 786 | 787 | 788 | 789 | 790 | 791 | 792 | 793 | 794 | 795 | 796 | 797 | 798 | 799 | 800 | 801 | 802 | 803 | 804 | 805 | 806 | 807 | 808 | 809 | 810 | 811 | 812 | 813 | 814 | 815 | 816 | 817 | 818 | 819 | 820 | 821 | 822 | 823 | 824 | 825 | 826 | 827 | 828 | 829 | 830 | 831 | 832 | 833 | 834 | 835 | 836 | 837 | 838 | 839 | 840 | 841 | 842 | 843 | 844 | 845 | 846 | 847 | 848 | 849 | 850 | 851 | 852 | 853 | 854 | 855 | 856 | 857 | 858 | 859 | 860 | 861 | 862 | 863 | 864 | 865 | 866 | 867 | 868 | 869 | 870 | 871 | 872 | 873 | 874 | 875 |
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## Risk profile based on self assessment of level of control

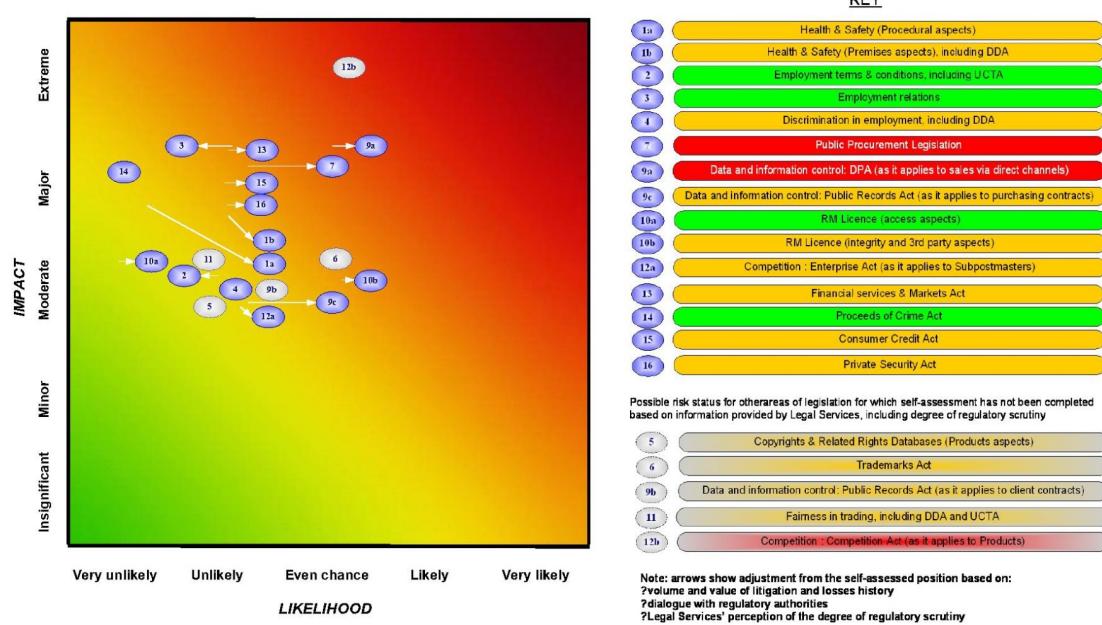
## Appendix C



Colour coding of risk exposures is in line with the impact and likelihood scoring frame provided at Appendix F

## Adjusted risk profile

## Appendix D



Colour coding of risk exposures is in line with the impact and likelihood scoring frame provided at Appendix F

## Suggested outline of a compliance framework

## Appendix E

1. Introductory statement from the Managing Director defining legislative and regulatory compliance and setting out the importance of compliance.
2. Scope: Areas of legislation and regulation that are applicable to POL, and distinguishing between key legislation / regulation and other, as per Appendix B of this report.
3. Accountability for each key area of legislation / regulation:
  - If there is a RM Group level policy, the framework to identify: policy owner; policy reference and details of how to access it; ET level "champion" who leads on deploying the policy in POL; contact point for queries;
  - If there is a POL business policy, the framework to identify: policy owner (ET level "champion"); policy reference and details of how to access it; contact point for queries.
4. Controls. The framework sets out generic responsibilities for the ET level "champion" to ensure that appropriate controls are in place:
  - all staff and managers for whom this item is relevant, including new entrants and transferees, to be aware of how the law might impact on them and what their responsibilities are (it may be possible to prepare as an Appendix to the framework a matrix of staff / manager groups and relevant legislation);
  - procedures are in place to ensure that all relevant managers and non-managers are kept informed of changes in requirements;
  - staff awareness is monitored periodically and supported by training where appropriate;
  - there is sufficient specialist and non-specialist resource to manage and monitor compliance with legislative obligations;
  - legislative risks impacted / generated by supplier dependencies or by clients have been identified;
  - suppliers are clear about what is expected of them to support and ensure compliance with the legislation and this is reflected in supplier contracts;
  - appropriate use is made of Legal Services' and other Corporate oversight functions' advice in non-routine situations in which there is potential for non-compliance, and to explore and exploit opportunities for competitive advantage provided by the legislation / regulation;
  - there are appropriate procedures in place to ensure that the implications of new / emerging legislation are identified, evaluated and responded to appropriately and in a timely manner;
  - operating procedures are designed to meet the requirements of the legislation / regulation and appropriate POL or RMG policy;
  - procedures exist to ensure that Legal Services' and other Corporate oversight functions', as appropriate, are consulted in the development of new products, business processes and projects (cross-referencing to the business change process, how this is a tool to manage compliance and requirement for conformance);
  - monitoring systems are in place to assess compliance with the legislation / regulation, and to identify and track remedial action where performance falls short.
5. Governance. Compliance with legislative and regulatory obligations is a CBP and is subject to periodic self-assessment and independent validation, which is signed off by the Managing Director and reported to the Corporate Risk Management Committee bi-annually, which enables the business to provide its statutory declaration on risk and control in its annual report.
6. Statement that disciplinary measures will be applied for wilful, persistent or negligent non-compliance, and a cross-reference to the RMG Whistleblowing policy which is available for suspected wilful non-compliance
7. Contact point for queries about the framework and for initial queries about specific aspects of legislation where it is not clear from Section 3 (suggestion: Head of Compliance to be this contact point).
8. Sign-off by Managing Director.

## Impact and likelihood scoring frame

## Appendix F

| LIKELIHOOD |               |   |
|------------|---------------|---|
| No         | Descriptor    | Guidelines  |
| 5          | Very likely   | Expected to occur in most circumstances (greater than 90% chance)         |
| 4          | Likely        | Will probably occur in most circumstance (71-90% chance)                  |
| 3          | Even chance   | As likely to occur as not (21-70% chance)                                 |
| 2          | Unlikely      | Not generally expected but could occur at some time (5-20% chance)        |
| 1          | Very unlikely | Expected to occur only in exceptional circumstances (less than 5% chance) |

| IMPACT |               |   |   |   |  |                                    |
|--------|---------------|---|---|---|--|------------------------------------|
| No     | Descriptor    | Financial (POL Impact)  | People  | Political   | Customer Service   | Reputation                         |
| 5      | Extreme       | Asset / profit or potential opportunity loss of more than £20m  | Death of more than one person                               | Government enquiry into operational inadequacies or financial loss                              | National service disruption at major locations for more than 20 days     | Prolonged national media coverage  |
| 4      | Major         | Asset / profit or potential opportunity loss of £5m-£20m        | Death of one person   | Repeated concerns or complaints raised in Parliament, by public groups or industry associations | National service disruption at major locations for between 1 and 20 days | National media coverage            |
| 3      | Moderate      | Asset / profit or potential opportunity loss of £1m-£5m         | Serious injury to more than one person                      | Concerns or complaints raised by public groups or industry associations to Government bodies    | Regional service disruption for up to 10 days                            | Regional media coverage            |
| 2      | Minor         | Asset / profit or potential opportunity loss of £100k-£1m       | Serious injury to one person or any injury to more than one | Concerns or complaints raised by public groups or industry associations to local government     | Local (single site) disruption for 1-3 days                              | Local press coverage               |
| 1      | Insignificant | Asset / profit or potential opportunity loss of less than £100k | Injury resulting in certificated sick absence               | Local operational issues raised with member of Parliament                                       | Service disruption less than 1 hour                                      | Letters to the editor, local press |

### Risk assessment

