



Post Office Limited
ARC Committee Meeting

MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON TUESDAY, 31 JULY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 09.30AM

Present: Carla Stent (by phone) Committee Chairman
Tom Cooper **(TC)** UKGI, Non-Executive Director
Tim Franklin **(TF)** Independent Non-Executive Director
Ken McCall **(KM)** Senior Independent Director

Item

In Attendance: Tim Parker **(TP)** Group Chairman
Paula Vennells **(PV)** Group Chief Executive (CEO)
Alisdair Cameron **(AC)** Chief Finance and Operations Officer (CFOO)
Jane MacLeod **(JM)** Director, Legal Risk and Governance
Lisa Teye **(LT)** Assistant Company Secretary
Johann Appel **(JA)** Senior Manager Internal Audit
Micheal Passmore **(MP)** Financial Controller
Jonathan Hill **(JH)** Compliance Director
Mick Mitchell **(MM)** IT Security & Service Director *(Item 9.1)*
Jason Black **(JB)** IT Programme Director *(Item 9.1)*

Apologies: Jenny Ellwood (JE) Risk Director
Rob Houghton (RH) CIO

1. WELCOME AND CONFLICTS OF INTEREST

A quorum being present, TF opened the meeting on behalf of the Chair (due to the difficulties of chairing a meeting remotely). TF declared a potential conflict as a member of the POI Board and all other Directors declared that they had no 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.

All papers were taken as read in advance of the meeting.

2. MINUTES, MATTERS ARISING AND ACTIONS LIST

The minutes of the meeting held on 17th May 2018 were **approved** and authorised for signature by the Chairman.

The actions status report was **noted** as accurate. There were no actions due which had not been addressed in advance of the meeting or through the meeting papers, other than the IT Security policy action which JM recommended should be closed as it had been approved at RCC and TF concurred.

**Post Office Limited
ARC Committee Meeting****3. UPDATES FROM SUBSIDIARIES****3.1 POMS ARC Committee Report**

TF provided a verbal update and noted that the main item in the update, branch selling of Easy Life product reviewed by mystery shoppers, was covered in agenda item 7. The Committee **noted** that the EY audit was substantially complete and that no material items had been brought to the attention of POMS ARC.

4. APPOINTMENT OF THE EXTERNAL AUDITOR**4.1 Audit Tender and Appointment**

CS confirmed that a detailed and full process had been completed and she was comfortable with the outcome and happy with the recommendation. ARC had seen the scoring and were all comfortable. KM noted that PWC are also remuneration advisors to REMCO and this was not seen as a conflict. It was also noted that Andrew Paynter, the PWC audit partner is the audit partner at Morrisons where PV is a NED. Given the potential for there to be perception of a conflict of interest, it was agreed that an additional partner from PWC will be assigned to support Andrew ensuring dual attendance at ARC. The Committee also considered the role of PwC in relation to BoI and FRES and concluded this did not cause a conflict.

Agreed to approve recommendation to the Board.

5. INTERNAL AUDIT**5.1 Internal Audit Co-Source Appointment**

A detailed tender process had been undertaken and 8 firms had submitted written bids which were scored for price and quality. The 3 highest scoring eligible bids were taken to presentation stage. PWC were initially invited but had been excluded following the decision on the External Auditor appointment. A recommendation was made to appoint Deloitte who were the highest scoring bidder, awarding a 2 year contract with the option to extend by a maximum of a further 2 years. This had been approved via email by all ARC members on 18th July and the meeting **ratified** this decision.

5.2 Internal Audit Report

The report was taken as read and Committee members were asked for comments or questions to JA.

5.2 (i) IT Governance & Risk Management

CS noted the reference in the report to the implementation of the IT controls framework and the statement that as a result it is not possible to determine the overall impact on IT governance within the organisation. CS queried whether this was related to the ongoing concerns around timelines. CS queried whether we have the right people generally on Change and do we have effective succession planning in place. CS also noted that there are a few overdue audit observations and asked whether action needs to be taken. JA responded that a full test of IT Controls framework is planned for Q4 and key improvements have been identified. CS expressed concern over whether we can wait until Q4 and with big programmes running we need the right governance. JA agreed that we would



Post Office Limited ARC Committee Meeting

prefer not to wait until Q4 but until the controls are embedded it is impossible to test them. PV added that in Rob Houghton's absence she had had a response from Catherine Hamilton relating to management of these risks – particularly with the move to Cloud hosting. PV informed the Committee that she and RH have a weekly call with the CEO of Fujitsu to address issues relating to programme implementation. In addition, GE review the IT incidents weekly. PV commented that JA was right to call out the forward risk. JM suggested that the matter be included in the October ARC agenda with internal governance having happened prior to that. TF asked whether project management and controls was a theme of concern, and whether there was a link back to the programme office. JA responded that there has been a review by Deloitte to improve areas within the Change Governance process and Project Trafalgar is underway to enhance One Best Way. JM added that she is satisfied that plans are in place for improvements and an update will be presented to the Committee.

RH

5.2 (ii) EUM

JA noted that of 17 actions, 14 are now complete. There was a bottleneck on testing and more test environments are being implemented. PV noted that with regard to Smart ID, 1900 of 11,500 branches are not complete and that the call centre capacity has been increased in order to get these complete. CS asked whether we will get to a point where there are sanctions against branches for non-completion and PV confirmed that this would happen and that branches and/or individuals would have access withdrawn pending completion of training.

5.2 BCM

- (iii) There are plans in place to address the weaknesses and an update will be brought to the October ARC.

**JM/
TA**

5.2 Overdue Actions

- (iv) There were 2 remaining outstanding actions highlighted in the report: Data classification and lack of data owners, and lack of data leakage prevention solution.

Data ownership is being addressed through the GDPR project and Project Arrow – owners have been identified, however work is ongoing to clarify the responsibilities of data owners. Tools have been identified for data loss prevention and are being tested. The action will be extended to the end of October.

**JM/
SY**

JA noted that 2 reports were being finalised - Telecoms and Pensions. On Telecoms, the final report had been issued on 30th July, with a focus on the customer journey and improvement to Fujitsu continuity management. ACTION – JA to circulate the report to ARC. On Pensions there was one outstanding issue. PWC subject matter experts had been engaged to review and currently the findings were being cleared with management. Agreement will be needed on concerns around compliance with pension regulations, certificates of auto enrolment and what actually constitutes pensionable pay. AC confirmed that he would follow up and update ARC ahead of the October meeting.

JA

AC

5.2 (v) Back Office Transformation

TC asked whether there were any other issues on Back Office Transformation that needed to be addressed. AC responded that a substantial review was required which IA had helped with, seeking to learn lessons from other programmes. The

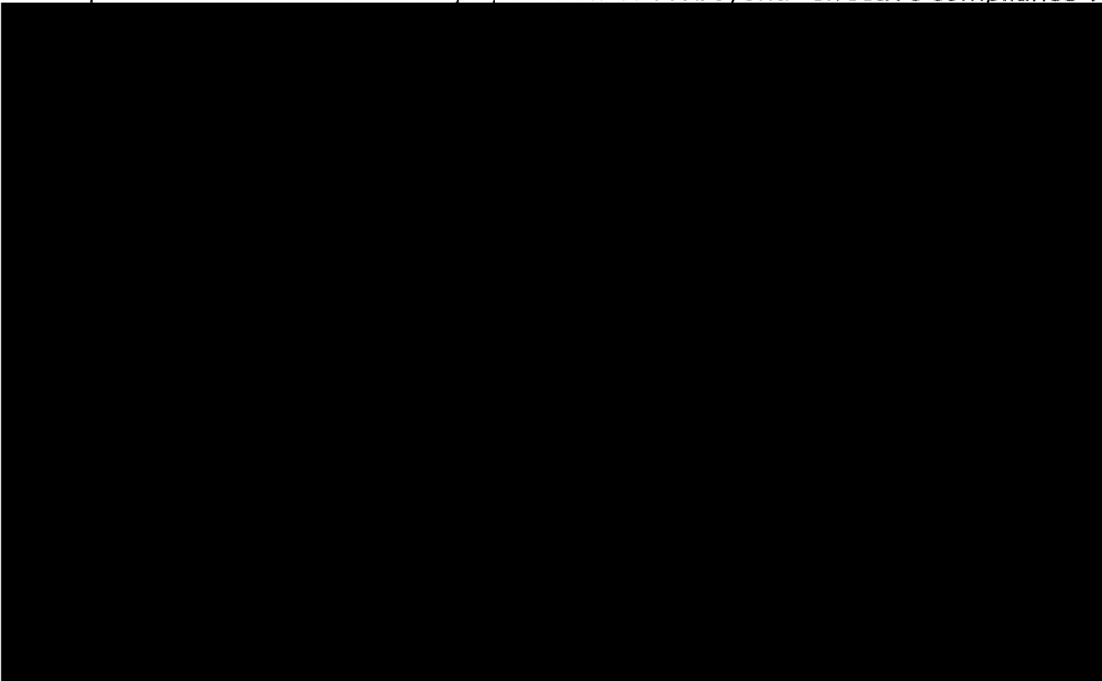
**Post Office Limited
ARC Committee Meeting**

programme had been re-planned and there had been changes to the testing regime. The IA report had not missed anything but was describing a moving target. AC confirmed that there were no surprises in the report. JA relayed that the IA work was done from May to July and that IA were working closely with the programme. Most actions were now complete and good progress had been made. IA confirmed that the planned September go-live date was not feasible. TC noted that the risks highlighted did not include 'unknown unknowns' and JA confirmed that some had now been identified and were being resourced accordingly, for example clearing the POLSAP suspense accounts. AC stated that should any other issues be identified during User Acceptance Testing or Integration Testing, implementation will be delayed. AC assured the Committee that significant work was underway to ensure we understood and had addressed issues such as overnight batch processing times, inventory etc. This work will continue until the go-live decision immediately before the last weekend in October. KM reiterated that we will know by the end of October whether we intend to go-live this year or next year. The Committee agreed that November would be too risky. AC will update ARC in October whether we are on track, although the go / no-go decision would not be made until the day. We are getting reassurance from Accenture and the new provider on the switch over.

AC**6. RISK UPDATE****6.1 Risk Report**

JM updated the Committee on the new consolidated report format and advised that the aim is to build on it to include external risks and risks to our North Star plans. The October report will include 'risks of the moment' for the organisation and how we are managing them, as well as a full roll-out of the Placemat across the whole business.

TF enquired whether there was any update on GDPR beyond "effective compliance".

**JM**

**Post Office Limited
ARC Committee Meeting**
JM**7 COMPLIANCE UPDATE****7.1 Compliance Report**

The report had been taken as read. Pertaining to the actions list, TF asked JH for an update on the EasyLife product. JH assured the Committee that the issue was being taken very seriously and was a conformance matter. The issue relates to the questions that CRMs are required to ask and the extent to which the tablet journey facilitated these questions. Some branch staff have not been asking the follow up questions which therefore could have a customer impact. JH advised that all customers are being contacted to follow up on this matter; the product was launched in February this year so the number is manageable. There are remedial actions and a 'route to green' plan. The issue is that the sales are app-based with the CRMs, and the app is controlled by Royal London. There is an update due in September which will address the issue and we are trying to bring this forward. . TF noted that the app should make the CRM ask all the questions and all agreed with this. JH assured the Committee that there will be more mystery shopping on the EasyLife product, although not at the risk of reducing other areas. TF asked JH

JH

to circulate the report as this matter has been escalated by PO Insurance. TC asked whether this is an issue with online applications or only in branch and JH confirmed that there is a better audit trail of questions and responses online and at the call centre. The difficulty is in branch and particularly where we have CRMs who are not full time FS specialists but are also performing other branch duties. JH noted that there were some updates to other matters subsequent to the issue of the paper. HMG have issued a future telecoms review and the impact of this is being considered by Meredith Sharples. JH also provided an update on FCA and PRA and banking resilience. CS asked whether there was an update on the requirement for POL to retain copies of ID for Bureau de Change transactions for more than £2,000. JH confirmed that he and JM had met with HMRC and discussed the requirements. HMRC had now agreed that copies did not need to be retained. All agreed that this was a positive outcome. Nevertheless HMRC still required Fit & Proper data to be submitted on a monthly basis, and this is proving challenging for POL given the size of the network and the various types of agents and individuals who are subject to the requirements. Somita Yogi is looking to support on this from a data perspective. JH confirmed that we are currently compliant.

KM raised a query on the external threats on Travel Moneycard. The May attack was deemed to be a 'brute force' attack rather than targeted at POL; no data was obtained

ACTION - Provide an update to the forward looking regulatory agenda in section 20 of the Compliance report (JH).

JH

**Post Office Limited
ARC Committee Meeting****7.2 Vulnerable Customers Risk Assessment and Gap Analysis**

The papers were taken as read. CS asked whether the Committee were happy with the policy as presented and whether we have plans in place where there are gaps. JH confirmed that we have identified gaps and actions to close these gaps, and are currently looking at budget issues. JH advised the Committee that the CMA are carrying out a vulnerable customers review particularly in relation to digital markets, low income and mental health. One of the findings is that people in these groups need time to understand transactions, which POL are in a strong position to be able to support. KM asked why the CMA were reviewing this area and JH responded that all regulators are looking into it. TC asked whether we train post masters. JH replied that NFSP are working with the Alzheimer's Society and 'Dementia Friends' training will be offered. Vulnerable customers is part of our training and it is critical we engage with external agencies and so this will be part of our focus. ACTION – update Comms material at next ARC (JH)

JH**7.3 Whistleblowing Annual Report**

TF was pleased to note that the report indicated no systemic issues. JM added that we have a process for all reports received and all are investigated and none appear to be systemic failures. TC asked whether we have analysis of closed cases to understand the nature of the issue and what the outcome was, and JM confirmed that we do. JM noted that through the Whistleblowing line we also get bullying complaints which are passed to HR for resolution. If there is a complaint against an agent, it is referred to the Network team. JM noted that allegations of fraud are addressed through our BAU process. These are mostly low level with no particular themes and no individual cases that are likely to result in reputational damage. PV noted that all incidents of bullying and harassment or sexual harassment are reported to her and dealt with appropriately. PV encourages staff to speak up and be objective and noted that there has been a single serious issue.

7.4 Gifts and Hospitality Annual Review

KM noted that LRG team were the biggest recipient of hospitality. JM noted that this tends to be where the entire Legal team are invited to attend an event, rather than one or two individuals attending many events.

8. POLICIES**8.1 Review of Anti-Bribery and Corruption Policy Report**

The report was taken as read. It was noted that with the Newcall acquisition of business, no changes were required but with the Panther acquisition all policies will need to be rolled out.

8.2 Anti Bribery and Corruption Policy

The policy was approved.

8.3 Review of Whistleblowing Policy Report

The report was taken as read.

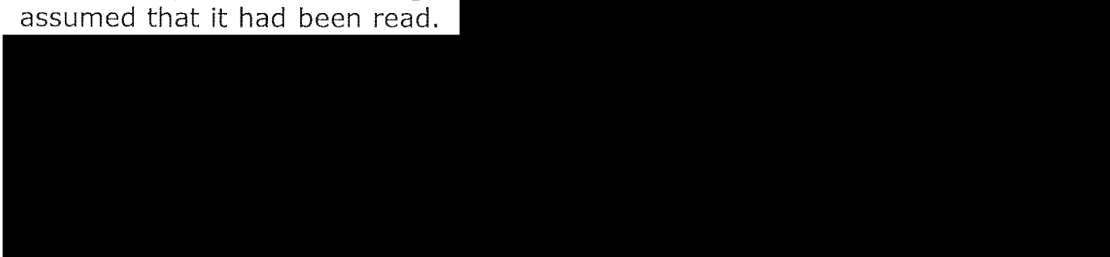


Post Office Limited
ARC Committee Meeting

- 8.4 **Whistleblowing Policy**
The policy was approved.

9. UPDATES FOR NOTING

- 9.1 **Compliance with Payment Card Industry Data Security Standards**
MM and JB joined the meeting. The paper had been submitted late so it was not assumed that it had been read.



JB advised the Committee that in parallel with addressing outstanding issues with each of Fujitsu and Computacenter, we are also exploring other options which would address the wider PCI concerns. In particular, these relate to the replacement of the Ingenico supplied pinpads. There is a strategic solution however it will take some time to ensure this is properly scoped. TF asked when the Committee will be updated on the timing and the plan both for regulatory and security issues. JB responded that the overlay of activities and timeline was in the report. TF requested that for the next ARC meeting the Committee should have a clear view of key activities with timeline and view of when we will achieve compliance. ACTION – update at October ARC. TF and TC reiterated that we are currently non-compliant as the date has passed, this has been the case since December 2017 and that currently we have no date for when we expect to achieve compliance. Q1 2020 for the cessation of the Belfast Data Centre was agreed to be too far away to achieve compliance.

MM/
JB

10. ANY OTHER BUSINESS

CS requested that digital data culture be added to the risk report for future agendas. **JM**

There being no further business the Chairman declared the meeting closed at 10:50am.

GRO

Chair ✓

30/10/18
Date