



Post Office Limited
Risk and Compliance Committee Meeting

MINUTES OF A MEETING OF THE RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON 18 JANUARY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 1.00PM

Present:	Jane MacLeod	Chairman	
	Paula Vennells (PV)	Group Chief Executive	
	Al Cameron (AC)	Chief Financial and Operations Officer	
	Debbie Smith (DS)	Chief Executive, Retail	
	Rob Houghton (RH)	Group Chief Information Officer	
	Martin Kirke (MK)	Group HR Director	
	Mark Davies (MD)	Group Communications, Brand & Corporate Affairs Director	
	Martin Edwards (ME)	Group Strategy Director	
In Attendance:	Johann Appel (JA)	Senior Manager, Internal Audit	
	Ashish Singh (AS)	Interim Head of Risk	
	Owen Woodley (OW)	Managing Director, Post Office Money	
	Jane Fahey (JF)	Deputy Company Secretary	
	Sally Smith (SS)	Head of Financial Crime	3.3
	Jules Harris (JH)	Head of Information Protection and Assurance	3.8 & 4
	Clare D'Netto (CDN)	GDPR Programme Manager	4
	Chris Russell (CR)	Data Protection Officer	4
	Richard Williams (RW)	Senior Risk Manager	5
	Barbara Brannon (BB)#	Procurement Director	6 & 7
	Ben Foat (BF)	Legal Director	9
	Mark Dixon (MD)	Head of Treasury, Tax and Insurance	11
Apologies:	Nick Kennett	Chief Executive – Financial Services & Telecoms	

ACTION

by telephone

1. WELCOME, INTRODUCTION AND CONFLICTS OF INTEREST

- 1.1 The Chairman welcomed DS, Chief Executive, Retail, to the meeting.

2. MINUTES AND ACTION LIST

- 2.1 Minutes of the meeting of the Board held on 8 November 2017 were approved and authorised for signature by the Chairman.
- 2.2 The Action List Status Report was noted as accurate. Save for the following, there were no actions which had not been addressed in advance of the meeting or through the meeting papers:
- (a) 1789 – Compliance Requirements: The Chairman advised that discussions were now underway with HMRC on the impact of likely



Post Office Limited
Risk and Compliance Committee Meeting

- (b) enhanced anti money laundering ("AML") and fit and proper requirements. PV stressed the importance of ensuring this action was closed by the next meeting; and
- (c) 1788 – Financial Crime Risk assessment: The Chairman confirmed that the Financial Crime workshops for Product Managers ("PMs") had been held, however the PMs had yet to complete the follow-up work. **DS agreed to raise the matter with the relevant PMs.**

DS

3. KEY OPERATIONAL RISKS

3.1 Financial Services Conduct Risk

The Financial Services Conduct Risk Update was noted.

AC highlighted inconsistencies in risk ratings between this report and the Company's financial performance pack presented in other governance forums. The Chairman explained that this was due to lack of alignment in the metrics used to produce the reports and agreed on the importance of consistent reporting.

3.2 Change Risk

The Change Risk Update was noted.

The Chairman advised that Carla Stent, Chairman of the Company's Audit, Risk and Compliance Committee ("ARC") had requested further detail as to the lessons learned from Change activity over the past three years, and a forward view as to where the principal risks would arise. The paper should be updated to reflect this request.

AC invited the Committee to submit any additional comments on the content of the paper to him in advance of the ARC.

SS joined the meeting.

3.3 Financial Crime Risk

SS advised that due to the size and complexity of the Post Office network, and the diverse range of products and services provided in both face to face and digital environments, the key financial crime risk control was staff training and awareness. The current training model was inefficient, and while work was underway with Learning and Development to address this, further support from the Group Executive ("GE") and senior leadership population would be required in order to deliver.

RH submitted that it was not sufficient to address this risk through education alone, and that, in order to address the root cause, systems needed to be redesigned to incorporate the right controls. SS responded that no system could entirely address the risk due to the complexity of the network. Therefore, education would remain the key control. PV challenged this, stating that while the issues caused by the network structure were large in scale, they were not necessarily complex. The launch of HGNT would help ensure that agents complied with financial crime-related requirements. In addition, she submitted that there were certain products which should be reviewed to ensure that the benefits they brought to the business outweighed the associated financial crime



Post Office Limited
Risk and Compliance Committee Meeting

risk.

In response to a question from DS as to where the legal accountability lay for financial crime compliance, the Chairman explained that it was the Company's responsibility to ensure that effective systems and controls to prevent money laundering and counter terrorist financing were in place. Training was one aspect of this, as was having processes to ensure products were designed with fraud prevention in mind. Agents were then contractually obliged to comply with Post Office rules. She added that twenty agents had recently been suspended for failure to comply with these rules. In response to a further question from DS as to the position of the risk environment, the Chairman clarified that cases of non-compliance were mostly historical. However, as the management information ("MI") in this area had been largely developed over the past two years, it was not possible to provide a definitive, long-term assessment as to whether the risk environment was improving.

SS advised that under requirements introduced during 2017, the Company was required to demonstrate the fitness and propriety of all agent entities to HMRC. In response to a question from DS as to how compliance with these requirements would be demonstrated, SS explained that this would be achieved through staff training metrics.

AC queried whether the resourcing and budget required for the recommendations outlined in the paper had been planned for with sufficient detail. JM advised that a detailed project plan had been prepared which was funded to the extent necessary. SS highlighted the importance of ensuring Product Information Packs were complete to demonstrating a full risk assessment. **OW agreed to follow up with the PMs in question.**

OW

The Committee noted the Money Laundering Reporting Officer's (MLRO) annual report on compliance with The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and The Terrorism Act 2000, which was included in the report.

SS left the meeting.

3.4 IT Risk Update

The IT Risk Update was noted.

3.5 Financial Reporting Controls

The Financial Reporting Controls Update was noted.

3.6 Business Continuity and Crisis Management

The Business Continuity and Crisis Management update was noted.

In response to a query from AC as to whether sufficient resources were being provided to this crucial area, the Chairman advised that resourcing requirements over the next twelve months were currently under review.

3.7 Health and Safety



Post Office Limited Risk and Compliance Committee Meeting

The Health and Safety Update was noted.

JH joined the meeting.

3.8 Information Protection and Assurance

JH introduced the Information Protection and Assurance Update. AC submitted that while the need to improve the management of data was critical, it was important to ensure that all data management needs were consolidated into one programme. In response, the Chairman advised that all programmes related to data were aligned.

RH commented that the control improvement actions to mitigate insider threat and external malicious attack, as detailed in the appendix to the paper, were somewhat vague. He suggested that GE members be assigned responsibility for identifying owners for the various categories of data, and the actions required to increase the Company's maturity level in this area. **JH agreed to develop a draft proposal.**

JH

MK requested that **the appendix to the paper be amended to reflect the fact that the HR Director was accountable for, rather than the owner of, the Joiners, Movers and Leavers ("JML") programme.**

JH

PV requested that **the appendix be updated to provide further detail on how the control improvement actions outlined would be applied in practice.**

JH

CDN and CR joined the meeting.

4. GDPR PROGRAMME UPDATE

The Chairman introduced the General Data Protection Regulation ("GDPR") Update. She advised that a GDPR training session would be provided to the ARC on the 29 January 2018, and that the matters covered in this paper would form the basis of that session.

CDN explained that the GDPR programme had from inception flagged that it was unlikely to achieve full compliance by May 2018. Instead the programme has taken a risk-based approach to achieve 'effective compliance'. New activity would be compliant on or before 15 May 2018. In addition, remediation of existing activities which were high risk/high priority would be completed by May 2018.

RH highlighted that the challenge to achieving effective compliance by the May 2018 deadline was in meeting change lead times. There was still uncertainty as to what needed to be achieved and when, and consequently whether the necessary operational and technical changes could be delivered in time. For those instances where the requirements were known, it was not clear that the programme was progressing sufficiently quickly to deliver them. **He requested that a clear articulation of the "known unknowns" be prepared, including details of the key stakeholders, and where prioritisation calls may be required.** PV challenged this position, querying whether the volume of change required by the programme between now and May, which was incremental to the existing change agenda, was truly significant. The Chairman advised that it was not, with most of the change involving marketing activity.

CDN/CR



Post Office Limited
Risk and Compliance Committee Meeting

However, remediating legacy issues would take another approximately 12-18 months following the deadline.

MK highlighted that there was a lack of awareness of the issues raised by GDPR across the business **and asked the programme team to consider how they could drive understanding.**

CDN/CR

JH, CDN and CR left the meeting. RW joined the meeting.

5. RISK UPDATE

RW introduced an update on the Risk Placement, including an update on Risk Exceptions. Rollout of the Risk Placemat was on track to be completed by June 2018. Since the November 2017 meeting, the approach had been further rolled-out within Financial Services and Retail. In parallel, a methodology was being created to test the integrity, and formalise the governance framework, of principal risks for post-Placemat implementation.

The Committee reviewed the current Risk Exception Status and commented on the following in particular:

- (a) AC advised that an IT solution for the risk of loss of data/service due to the RPA software running on stand-alone desktop machines was still being awaited; and
- (b) RH advised that he would need to determine the extent to which Salesforce software was being used across the business prior to making any decision on contract renewal. He expressed frustration at the fact the contract was due to expire on 29 April 2018, which did not give sufficient time for transition, should that be determined the correct option. AC commented that while he was aware of the issue, he had not until now been aware of the April deadline. **He would work with Barbara Brannon to ensure early escalation of these matters going forward. PV requested that RH bring a report on the use of Salesforce across the organisation to GE.** If it were concluded that the software was used exclusively by Customer Relationship Managers ("CRMS"), then she was content to carry any risk until the Company's strategy with regard to CRMs was finalised.

BB

RH

RW left the meeting. BB joined the meeting.

6. COMPLIANCE

6.1 Procurement Compliance Report

BB presented the Procurement Compliance Report. She reported that since the last meeting in October 2017 there had been a total of seven non-compliance incidents, with a total value of GBP9,388,000. Three of these were currently pending imminent contract signature. During that period, a number of large value procurements had been completed and brought into compliance, bringing the overall value down from GBP19 million in October 2017 to GBP15 million in January 2018.



Post Office Limited
Risk and Compliance Committee Meeting

The Committee expressed concern at the level of non-compliance detailed in the report. AC queried whether instances of non-compliance were being escalated to the GE in a sufficiently timely manner. The Chairman submitted that there seemed to be a relaxed culture within the business regarding procurement compliance and that more could be done to address this. BB responded that while there was room for improvement, it was not necessarily a matter of the business being apathetic where compliance was concerned. There were large parts of the business which were very proactive in working with Procurement and who had a clear understanding of their requirements and the lead times involved. However, there were other part of the business who, for a variety of reasons, found articulating their requirements more challenging and therefore found decision-making proved difficult. AC reiterated his request that such instances be escalated earlier.

7. POLICIES

7.1 Supplier Relationship Management

BB recalled for the Committee that, in order to help evidence good supplier management, she and the Chairman had been given an action to create a Supplier Relationship Management Policy (the "Policy"). In doing so, they had endeavoured to create an easy-to-follow guide which defined the minimum standards to manage the day-to-day supplier relationship once the supplier is on board and providing services. She explained that between now and the end of March 2018, Procurement would work the business to create supplier relationship terms, and a timetable would be signed off by each GE member as to how mandatory activities would be delivered over the next 12 months. This would involve identifying the tools and systems to evidence that the required degree of oversight existed. The Committee discussed the merits of Traction system, noting that while it would be relatively simple and cost-effective, it did not hold any data, and merely provided a system to acknowledge completion of the tasks assigned. After discussion, it was agreed in principle that Traction be utilised.

Subject **to a request from RH that the policy be amended to standardise role titles**, the Committee approved the policy. It was agreed that the policy did not require further approval by the ARC.

BB

BB left the meeting.

8. AUDIT

8.1 Internal Audit Report

The Committee noted the Internal Audit Report.

JA advised that reports for four Internal Audit reviews were currently being drafted or cleared through management. These included reviews of compliance with the Banking Framework and AML compliance for MoneyGram. With regard to the Banking Framework review, a number of areas, namely Information Protection, Data Security, and Business Continuity, required significant



Post Office Limited
Risk and Compliance Committee Meeting

improvement in order to demonstrate compliance. The Chairman commented that an assumption had been made at the time of signing the Banking Framework that the requirements under the agreement had been clearly communicated to the relevant teams, which had not been the case. However, the changes required to demonstrate compliance should be relatively simple to introduce. AC stressed the importance of taking the lessons learned from this, **and requested that a copy of the report be circulated to the Committee.** After discussion, it was agreed that the Banking Framework report should be submitted for consideration at the March 2018 ARC. **PV requested that OW provide his view on the report from a Post Office Money perspective.**

JH

OW

JA reported that audit actions were generally being completed on time and 107 actions had been completed year to date. As at 31 December 2017, 36 actions remained open, two of which were overdue. These were being tracked closely.

BF joined the meeting.

9. DEEP DIVES

9.1 Annual Legal Risk Review

BF introduced the Annual Legal Risk Review for 2017 (the "Review"). He outlined the main legal risks for Post Office as follows:

(a) Contract Management

Improvements had been made over the last 12 months to the contracts management and procurement processes, through the introduction and enhancement of a number of controls. These included the enhancement of a central repository of contracts utilising the existing Bravo procurement system. However, there remained further work to enforce a compliant culture in the business. AC advised that it had been agreed earlier in the meeting that Traction would be used to assist with overseeing compliance with contractual terms, and that the Review should be updated to include this.

PV challenged the language used in the Review concerning the number of material arrangements in which services were being provided without a written contract in place. While she agreed that it was unacceptable for there to be no written contract in place, the Review did not detail the significant progress that had been made in managing down the number of such contracts. **AC added that the actions being taken to mitigate any risk arising from the remaining cases should also be clearly spelled out.**

BF

(b) Competition Rules

There needed to be better understanding of the potential implications of commercial activities, such as acquisitions or joint ventures ("JVs"). The legal department ("Legal") had developed Compliance Guidance and FAQs to support operational managers in understanding this risk, together with bespoke training.



Post Office Limited
Risk and Compliance Committee Meeting

- (c) Corporate acquisitions and JVs
Corporate M&A knowledge was dependent on a few core individuals. Legal was developing a Corporate Acquisition Checklist and challenge process aimed at enhancing risk management of these projects.
- (d) Litigation
As a result of litigation, the recovery of agent losses and prosecutions have become significantly more challenging, thereby increasing the risk that the deterrent effect of such recovery actions or prosecutions will be diminished. In addition, there was a risk of default judgments due to Legal not being notified of service of proceedings received in the network. Proper communications were required to ensure documents were scanned and emailed to Legal promptly.
- (e) Branding and IP Enforcement
While basic controls were in place, such as cease and desist letters, brand infringements largely went unchallenged. Further enhancement could be achieved through a formal process with appropriate funding. PV responded that these cases should be dealt with on a case by case basis. If a significantly serious instance, or increase in infringement cases were seen, Legal should escalate appropriately.

BF advised that Legal's focus for 2018/19 Legal would centre on enhancing the legal maturity of the Post Office through the introduction of enhanced controls, and the delivery of further training to assist managers to better understand core areas of legal risk and develop necessary processes.

10. HORIZON SCANNING

10.1 FCA Report –Ageing Populations and Financial Services

The FCA Report on Ageing Populations and Financial Services was noted.

10.2 Legal and Regulatory Horizon Scanning

The Legal and Regulatory Horizon Scanning report was noted.

MD joined the meeting.

11. INTEREST RATE SWAP UNDER NEW POCA CONTRACT

- 11.1 Mark Dixon recalled for the Committee that at the July 2017 Board meeting the Group CFOO, following ARC approval, was authorised to execute an interest rate swap, if considered advantageous. A paper setting out the rationale for the transaction, an update on pricing, and how to manage the risks associated with swap execution, was subsequently presented to the ARC in September 2017. He reported that as approval had now been received from the BEIS/HM Treasury to enter into an interest rate swap for the purposes of hedging its floating rate exposures linked to the POca cash balances, approval would be sought to do so at the upcoming ARC. The current pricing levels for the swap were then outlined.



Post Office Limited
Risk and Compliance Committee Meeting

After discussion, the Committee noted the paper for onward submission to the ARC.

12. PAPERS FOR NOTING

12.1 Minutes from the meetings of the POMS RCC held on 11 October 2017, 29 November 2017 and 19 December 2017 were noted.

12.2 The EUM Programme Update was noted.

12.3 The SuccessFactors Risk Exception Report was noted.

12.4 JM agreed to circulate an update on Jointers, Movers and Leavers following the meeting.

JM

13. ANY OTHER BUSINESS

13.1 There being no other business, the Chairman closed the meeting.

.....
Chairman

.....
Date