

# Financial Crime Risk Update

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 17<sup>th</sup> May 2018

## Executive Summary

### Context

This paper updates the Audit and Risk Committee on financial crime risks relating to Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) and Anti-Bribery and Corruption and compliance with The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and The Terrorism Act 2000.

### Questions this paper addresses

- What are the key AML and CTF risks within Post Office Ltd and are there any significant gaps or weaknesses in the Post Office's compliance with its regulatory obligations under the Money Laundering Regulations (MLRs)?
- What is the current position with the post HMRC Audit Bureau de Change remediation project
- What is the current position with financial crime risk assessments.
- Are the minimum control standards in the Post Office's Anti-Bribery and Corruption and Whistleblowing Policies being effectively applied?

### Conclusion

1. A letter setting out Post Office interpretation of Fit & Proper and Customer Due Diligence regulatory requirements, and re-affirming the approach that we are taking in order to comply is being drafted to send to HMRC.
2. The project team are progressing with the work needed for the Fit & Proper requirements, but there is still significant work to meet the June 2018 deadline and to ensure that the ongoing framework is robust.
3. There have been further delays with the Bureau de Change remediation projects with implementation of the data warehouse solution pushed back to June. The eKYC, PEPs and Sanctions solution is on target for deployment once the data solution is live.
4. Risk assessment work continues, although there are a number of new or updated Product Information Packs that remain outstanding, and these are being chased. There are a significant number requiring assessment during May and June.
5. There continue to be failures in Gifts & Hospitality reporting and further training and communications are planned. The volume of Whistleblowing reports was lower in March and posters to raise awareness for deployment to all sites are currently being developed.

## Input Sought

The ARC is asked to review this report and the progress in addressing the action plan.

## The Report

### Compliance with MLRs

6. Annual training for Network and back office staff is being delivered 4<sup>th</sup> – 30<sup>th</sup> May 2018. Of the 2 branches that have not completed their training from last year, chargeable visits are being arranged to resolve.
7. Following the visit from HMRC in March in relation to Fit & Proper and Customer Due Diligence, external lawyers are currently drafting a formal letter to HMRC to set out Post Office interpretation of the requirements, and re-affirm the approach that we are taking in order to comply.
8. The HR Fit & Proper project team are continuing to progress actions as previously agreed with our HMRC supervisor and aim to have all directors and beneficial owners identified by early May. An additional 62 internal employees are currently being re-vetted prior to submitting formal applications to HMRC. Retail have commenced contact with multiple partners to identify impacted individuals and understand what vetting and training already exists. There is still a significant amount of work to meet the June 2018 deadline, and other activities include:
  - Identifying data gaps and required communications and actions to resolve
  - Identification of a system to store all of the Fit & Proper data
  - Identification and documentation of training for each of the sets of impacted individuals and the records required
9. Non-conformance issues in the Network from 1<sup>st</sup> March 2018 to April 20<sup>th</sup> 2018 included 35 incidents identified at 31 branches.
  - 6 branches identified were Directly Managed Branches and/or WH Smith Multiples and these have been addressed by the Financial Crime Team and escalated to Network as appropriate.
  - 13 branches remain on the non-conformance watch list following the new ID thresholds and are manually monitored monthly.
  - No new branches were added or removed.
10. The volume of suspicious activity reports (SARs) decreased in March and April 2018, with reductions in MoneyGram and Bureau de Change reports. Branch communications to raise awareness are planned for the beginning of May 2018, which together with the annual training should improve the volumes of SARs reported.

### Bureau de Change remediation project status

11. The new data warehouse delivery has been postponed until early June, from the original commitment to HMRC by the project team of delivery in January 2018. This delay is due to issues identified whilst mapping across the historical bureau data, where a number of key fields had not been included

in the new data environment and there were significant gaps in the documented data dictionary – neither the data dictionary nor the fields being included in the data environment had been signed off appropriately. All fields have now been properly documented, reviewed and signed off, and the data environment is being re-built, after which there will be significant testing of the data and the new reports. Financial Services & Telecoms have brought in additional resource to oversee the project to ensure delivery.

12. The eKYC, capability was tested late March in the Model Office and a number of anomalies were identified relating to 'false' data that had been tested that passed the checks. Clarification of the logic used was provided by CallCredit and Digidentity, and some amendments have now been made, which have improved test results. Re-testing has been undertaken and the eKYC, PEPs and Sanctions solution will be deployed once the data warehouse is delivered (the original commitment to HMRC by the project team was to deliver this in April 2018).

### **Financial Crime Risk Assessment**

13. Work on risk assessment continues as BAU, and Appendix A gives full updates on the status of Product Information Pack (PIP) completion and re-assessment work. Gift Card and Bill Payments PIPs are still outstanding following the October 2017 incidents and are being chased, along with five following the product manager workshops in November. There are a significant number of assessments required during May and June.
14. As a result of a recent internal fraud, the risk assessment/PIPs for Postal Orders, Gift Card and other 'anonymous' products need to be reviewed/updated urgently
15. Due to resource required to cover these assessments and the Bureau de Change and Fit & Proper projects, we have not yet been able to schedule further financial crime risk assessment training, although this is still in plan.

### **Anti-Bribery and Corruption (ABC) update**

16. Quarterly reports were sent to all GE members early April (see summary table below). There were a number of breaches in Q4 which have been advised to respective GE members and include retrospective reporting, incorrect description (e.g. 'hospitality' rather than 'dinner with X at Y') and incorrect GEs being listed to approve reports.
17. A review of entertainment expenses claimed in Q4 identified a number of instances where these had not been reported via the Gifts & Hospitality tool. There are also a number which have either been incorrectly classified by the claimant or incorrect/insufficient information provided. Analysis of this data is not yet complete, but issues will be reported to relevant GE members.
18. Further communication and training is being developed to improve the level and quality of recording and reporting, and annual training has been brought forward to July.



<b>Quarter 4 2017/18</b>	<b>Gifts</b>		<b>Hospitality</b>		<b>Total</b>	
<b>Business Team</b>	<b>Volume</b>	<b>Value</b>	<b>Volume</b>	<b>Value</b>	<b>Volume</b>	<b>Value</b>
Communication, Brand & Corporate Affairs	1	£35.00	4	£434.00	5	£469.00
Finance and Operations	4	£317.00	6	£2,430.00	10	£2,747.00
Financial Services and Telecoms	4	£100.00	17	£1,440.00	21	£1,540.00
HR	0	£0.00	0	£0.00	0	£0.00
IT	0	£0.00	3	£149.00	3	£149.00
Legal, Risk and Governance	2	£120.00	20	£2,070.00	22	£2,190.00
Retail	4	£175.00	6	£697.00	10	£872.00
Strategy	0	£0.00	0	£0.00	0	£0.00
<b>Grand Totals</b>	<b>15</b>	<b>£747.00</b>	<b>56</b>	<b>£7,220.00</b>	<b>71</b>	<b>£7,967.00</b>

### Whistleblowing update

19. Two new reports were received in March, both via the Speak Up line - 1 classified as a breach of internal policies and procedures named 2 Post Office employees. The other report accused a Postmaster of financial mismanagement. All reports are investigated with recommendations made and followed up. 7 reports are still under investigation – the oldest dating back to P9.
20. As part of the training, awareness and communications plan, a poster is being developed which will be sent to all DMBs, Supply Chain sites and back office locations.

### Regulatory updates

21. The update relating to the Fifth Money Laundering Directive in the January report remains current.
22. The Treasury announced an economic crime inquiry into the anti-money laundering, counter-terrorist financing and sanctions regimes. The inquiry was divided into two parts, and Post Office is drafting a response:
  - AML and Sanctions
  - How economic crime affects customers

### External threats

23. There have been no new issues since the March 2018 report



# Appendix A

## Risk Assessment and Product Information Pack update Due for reassessment in the next two months

Product/Service	PIP initially received	PIP due for review and update	Month FCT will re-assess risk	RAG status	Comments
Gift Cards	July 17	July	September	RED	Following October 2017 incident PIP needs updating – awaiting documentation of re-loadable controls by product manager
Bill Payments	October 17	October	December	RED	Following October 2017 incident draft PIP updated with prepaid card load information and received May 10 <sup>th</sup> for review
Postal Orders	April 17	April	June	AMBER	With product manager for review and amend – expected to receive early May – may impact re-assessment timescales
Travel Insurance	May 17	May	July	Not yet due	Workshop with POMs Product Managers has been held in May to assist them in completing their PIPs
Business Insurance	May 17	May	July	Not yet due	
Home Insurance	May 17	May	July	Not yet due	
Car Insurance	May 17	May	July	Not yet due	
Motorcycle Insurance	May 17	May	July	Not yet due	
Van Insurance	May 17	May	July	Not yet due	
Pet Insurance	May 17	May	July	Not yet due	
Drop & Go	May 17	May	July	Not yet due	
Multi Currency Card	June 2017	June	August	Not yet due	

### Due from November 2017 Product Manager Workshop

Product/Service	Month PIP Due	Completed PIP received?	Month FCT scheduled to re-assess residual risk	RAG status	Comments
Partner Banking Framework	February	Yes	May	Green	PIPs received early April and being reviewed by FC. PIPs from the Banking Product Team were originally due Feb 2018 to meet audit action timescales, therefore Internal Audit have extended the risk assessment deadline from April to May
gov.uk Verify	March	Yes	May	Green	Draft has been received. Awaiting review by FC
Savings Products	March	Yes	May	Green	Draft has been received. Awaiting review by FC
Credit Card Products	March	Yes	May	Green	Draft has been received. Awaiting review by FC
Pre-Paid Cards	March	No	May	RED	Overdue and chased
Mortgages	March	No	May	RED	Overdue and chased
Loans	March	No	May	RED	Overdue and chased
Life Insurance Products	March	Yes	May	Green	Draft has been received and reviewed.
Telecommunications products	March	No	May	RED	Overdue and chased
National Lottery	March	No	May	RED	Overdue and chased