



POST OFFICE LIMITED

AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Compliance and Audit Report	Meeting Date:	24 November 2020
Author:	Jonathan Hill: Director, Compliance Johann Appel: Head of Internal Audit	Sponsor:	Al Cameron: Chief Financial Officer Ben Foat: General Counsel

Input Sought: Noting

The Committee is asked to:

1. note the Compliance update, in particular:
 - The Telecoms incident in respect of customer communications, which has been reported to Ofcom;
 - The financial crime risk of Capita's (a Post Office bill payment reseller) MSB customers and the need to review all bill payment reseller controls;
 - The temporary suspension of conduct risk branch mystery shopping during the latest Covid-19 national lockdown

and;

2. note the Internal Audit update, specifically progress being made with delivery of the Internal Audit programme and completion of audit actions.

Executive Summary

This paper provides an update on key and emerging risks, compliance matters and an update on the latest internal audit position.



Compliance

Telecoms

Comms incident

- On 17th September 2020, Fujitsu notified Post Office of a P1 incident affecting inbound and outbound customer communications between February and September. The total number of affected inbound comms is 7,846 and the number of affected outbound comms is 153,684 (following a deduplication process as some comms are issued in two formats). The outbound comms has impacted c.107,300 unique customers.
- Some of the communications are regulated and could result in consumer harm. The Post Office breach protocol process was followed and Meredith Sharples informed Ofcom verbally on 27th September of the incident. This was followed up with a detailed letter on 23rd October. Ofcom are now reviewing the content of the letter and deciding on whether to open a formal investigation. A copy of this letter is attached in Appendix 1.
- Given the variety of outbound communications that have been impacted, addressing and rectifying consumer harm has been a complex process as there are 33 different comms that were impacted which include, but not limited to, cease notifications, overdue payment reminders, confirmation of engineer appoints. The team have prioritised their work according to the impact on customers as set out in the table below. Details of the specific comms impacted was provided to Ofcom.

Priority	No. of impacted <u>comms</u> (not customers)
1. Customer's services were ceased	2,877
2. Potential financial impact on the customer	115,830*
3. Customer inconvenienced - communications relates to regulation	3,650
4. Customer inconvenienced - communications does not relate to regulation	21,133
5. No customer impact	9,551

* Please note that 99,689 of the priority 2 comms are e-bill notification communications where we inform the customer that their bill is ready online.

- The final RCA with Fujitsu is still being worked through. However, we understand that the main cause of the incident is a result of a file that become too large. Once deleted this appears to have rectified the issue. Fujitsu have put in further checks to confirm that outbound comms are going out and inbound comms are arriving correctly.
- Of the 7,846 inbound communications, the Fujitsu team has reviewed 2,644 as at 5th November. Where any consumer harm is identified the customers are being made good, as if the communications failure had not happened. The Post Office team is checking the remediation work being done by Fujitsu. We are pressuring Fujitsu to confirm when it expects to have completed this exercise and are pushing for it to be closed by end November/early December.

Fairness

- Post Office met Ofcom on 20th October to discuss how Post Office is meeting the Fairness Commitments we have signed up to. Ofcom view these commitments as "reputational regulation" whereby they publicly expose Communication Providers for practices that they believe are unfair. Ofcom expressed appreciation for the work done but continued to



reference Post Office having a high pricing differential between in contract and out of contract customers. This was explained by the telecoms team as being a result of having low acquisition pricing, thus driving a larger gap. This is not abnormal for the industry. Ofcom made no further comment and, as a result, no action is being taken by the Telecoms Team other than to monitor the differential. If this became greater we could expect Ofcom to ask more questions, although we think it is more likely that it will address this at an industry level.

7. Ofcom plan to issue a statement with press coverage on their review of the market early next year to "name and shame" the worst providers as well as note good practice. We are expecting further informal follow up questions. Ofcom were understanding that our current position in the sale process meant that we were limited in our ability to make changes currently. This means that no action needs to be taken right now. However, once the sale process/RFP status becomes clearer this will need to be reassessed.

Annual Best Tariff Notifications

8. The telecoms team have delayed the implementation of the introduction of Annual Best Tariff Notifications from October to December 2020, within the regulatory timetable. These letters will inform customers who are currently out of contract that they could save money by signing up to a new contract and will present Post Office's best offers. The ABT must be sent by 14th February 2021 and there is a very low risk to the implementation deadline however the letters are expected to drive more calls to the contact centre and drive complaints as people will query why their current price is higher than the new offers in their communications.
9. Ofcom had previously expressed concerns about the amount Post Office customers who are out of contract. According to Ofcom the average number of out of contract customers in the industry is 40%, (the highest is 61% and lowest is 24%)¹. Post Office have 58% customers who are out of contract, however some of these customers are on rolling 30 day contracts and would not necessarily be better off moving to a longer-term contract. If these customers were not included, it is estimated that Post Office would be below 50%. As noted below, we are due to start sending Annual Best Tariff Reminders to customers, which we expect will further alter the percentage. Of the customers receiving the ABT notifications, the Telecoms Team anticipate 5% will churn and 35% of customers will re-contract onto new pricing. The Team will evaluate the effectiveness of the reminders before reviewing any further action.

Voice only customers

10. Post Office met with Ofcom on 1st October to discuss their plans for the voice only market. In 2017, Ofcom reached a voluntary agreement with BT to reduce its pricing for voice only customers by £5. This voluntary agreement is set to end at the beginning of next year and Ofcom confirmed during the meeting that they are looking to agree a further voluntary agreement with BT. We are now awaiting the consultation which will detail the agreement so that we can assess the impact to Post Office. We expect the impact to be minimal as Ofcom thought the introduction of retail price regulation would be unlikely and are looking to have a similar basket control that was agreed before.

European Electronic Communications Code

11. Ofcom have now issued their statement and consultation on the European Electronic Communications Code and detailed the regulations they plan to introduce. This requires significant changes to be made in telecoms however Ofcom have staggered the implementation deadlines, with the first tranche not due to be implemented until December

¹ https://www.ofcom.org.uk/data/assets/pdf_file/0031/199075/bb-pricing-update-july-20.pdf



2021.

12. Please refer to Appendix 2 for a summary timeline of all key regulatory developments. This has been noted in the Law and Trends Forum.

Data Protection

GLO and Historic Shortfall Scheme

13. Compliance continues to work with the Historical Matters Unit to identify, locate and provide all data required to support the various ongoing initiatives, in particular:
- a. Servicing 220 Data Subject Access requests that vary in complexity from access to Shortfall information through to full requests requiring extensive searches of Post Office systems and archives.
 - b. Considering the implications of information to be provided to the Enquiry which includes personal data relating to the 2015 Mediation Scheme. We continue to work with internal Legal on making a representation to the Enquiry to provide pseudo-anonymised data rather than full disclosure.
14. Post Office continues to receive a higher-than-normal number of complex FOI requests in relation to Historic Matters.
15. Given the sensitivity of these requests, Post Office is working with external Counsel, Legal and Communications on the responses and, where appropriate, decisions on disclosure are referred to the HMU Steerco. We continue to meet the FOI response timelines as set out in legislation and we have had no complaints from the ICO in respect of our handling of these cases.
16. Examples of FOI requests since the September RCC include:
- a. The number and value of Transaction Corrections issued by Post Office over the last 12 months
 - i. The business does not hold the information in the format that was requested by the individual. by the individual.
 - ii. FOI does not require an organisation to create new information, neither is it advisable to do so. to create new information, neither is it advisable to do so.
 - iii. However, recognising that the information requested would be useful for resolving HSS claims the Data Protection, HSS and business teams have worked up a process that will allow for accurate Transaction Correction information to be issued to HSS applicants and to the HSS resolution team to verify claims. accurate Transaction Correction information to be issued to HSS applicants and to the HSS resolution team to verify claims.
 - b. Information relating to 'out of date' scratch cards and whether Postmasters suffered any losses as a result of this.
 - i. Where scratch cards went out of date Post Office should have carried the loss and not passed it through to Postmasters. However, anecdotally it is reported that some Post Office auditors who had identified out of date scratch cards in branches recorded this as a loss against the Postmaster.
 - ii. Despite extensive searches across the business, we cannot definitively say whether Postmasters suffered a loss or not.
 - iii. KPMG is working with HMU on the Post Office response to the judgements and this is one area that it will be examining to give a definitive answer.
 - iv. We expect that the FOI request will be re-issued by the requester where, given the KPMG work, Post Office should be better placed to respond.

AWS Move to the Cloud:

17. Good progress is being made from a Data Protection perspective. Questionnaires continue to be received from upstream clients and are managed on a case-by-case basis. There are no significant concerns regarding the move to the Cloud and confidence remains high of

Client acceptance of the move.

18. The DP team are currently working with the Project to map out the Privacy Impact Assessments that will need to be completed and remediated against prior to going live. At this stage we are not anticipating any significant risks that will hinder progress.

GDPR Contract Remediation

19. The Contract Remediation project was formally closed at the end of July as reported to the previous RCC. Work is ongoing on and the number of outstanding contracts has reduced from eight to seven since the last RCC
20. Of those seven, four are awaiting execution and will be completed by the end of November.
21. Negotiations on the three remaining contracts (Fujitsu, Santander and Kinto (formerly Inchcape)) are close to completion with no significant barriers to execution.
22. Monthly CRG meetings continue to monitor progress and support negotiations. This will continue until all outstanding contracts are finalised.

Financial Crime

Compliance with Money Laundering Regulations

23. Following the permanent removal of 3,257 and pausing of 2,679 HMRC branch registrations in May 2020, it was identified that 6 of the branches that were de-registered as part of this exercise subsequently completed Travel Money transactions (25 transactions totalling £6,784.30 between 1st June (HMRC annual registration date) and 28th October 2020). Post Office was in breach of the regulations in respect of these branches and there was a risk, given the previous £800K penalty for registration failings that HMRC may have sought to apply further penalties.
24. However, in recognition of the verbal and written self-notification to HMRC and the quick remedial action taken by Post Office, we have been advised that it will not apply any penalty nor take further action.
25. Nevertheless, we are continuing to work with the IT and Data teams to ensure that the system is robust going forward, including what assurance can be provided to reconcile the data between Post Office's Master Data Management system ("MDM") and Fujitsu's RMD system.
26. Suspicious Activity Reports (SARs) and investigations continue to rise, with 1,427 SARs and 157 investigations in August & September (up from 566 and 111 in August & September 2019). This is driven by branches raising concerns with large and multiple cash deposits, particularly relating to money transmission businesses. There is also evidence of changing criminal behaviour due to Covid and the economic uncertainty which is likely to further drive up suspicious activity in our Network and result in more SARs. We are working closely with Network teams to ensure customer-facing staff are made aware of the risks and their responsibilities.
27. We continue to work with banks through the National Economic Crime Centre Project Admiralty and the Banking Framework members to address the risks of cash laundering via Post Office. We continue to discuss particular activity with 2 banks in relation to significant cash deposits at Whitechapel and Philpot Street in East London where we continue to see £5-7m per week deposited. These banks are currently analysing these deposits, and we have been advised that some relationships are being exited by them, but we expect a full response from them in November. If the banks are unable to provide assurances that the cash deposited is in line with their KYC, we will ask the banks to make alternative arrangements for these deposits.
28. From 20th August to 26th October, 23 Banking Framework cases were investigated (up 35%

on the 2019). A number were complex cash deposit cases involving multiple accounts and banks. To help with increased workloads, a fixed term contract PO started mid-October, funded to the end of 2020/21. We continue to monitor volumes and their drivers but suspect this will need to be a permanent resource in 2021/22.

29. From intelligence provided by us, recent law enforcement activity concerning cash deposits in South and East London resulted in an individual arrested and money seized at one branch in connection with money laundering offences, we are aware of ongoing investigations.
30. A meeting was held with our new HMRC regulatory supervisor on 30th September. HMRC have indicated that they will not be undertaking proactive supervision activity or branch visits whilst Covid issued continue.
31. A response was submitted to HMT in respect of the Economic Crime Levy Consultation. The paper indicated that their preferred option is to have a revenue based levy with some exemptions for small businesses where it is not cost effective to gather the levy. We have put forward a position that as all POL regulatory revenue is derived via payment of dividend and commission from FRES, who are also regulated and subject to the levy, this would effectively be a 'double-levy' and therefore POL revenue should be exempt. We are unlikely to see a response to the consultation, and the draft legislation until the new year.
32. The risk assessment process was presented at the Commercial lead team meeting and have since seen an improvement in stakeholder engagement.

Anti-Bribery and Corruption ("ABC") update

33. Annual ABC training has been completed in September – overall completion is at 97.2% as at 12th November 2020.

Whistleblowing Update

34. There has been an increase in new reports during August & September 2020 - 8 compared to 5 in the same period last year. The majority have been received from agent assistants and relate to allegations concerning Postmaster activity. There are no trends or issues, and all investigations are proceeding.
35. We are procuring some initial consultancy work with Protect (UK Whistleblowing Charity) to benchmark our whistleblowing policy and processes and help us to identify if there are any control gaps. We are also working with the Postmaster Complaints project to ensure that there is a centralised view of postmaster complaints or reported concerns. We have provided copies of our policy and procedures to the HMU Public Inquiry team.

Fit & Proper update

36. There have been a number of teething issues with the new agent F&P system and processes. A number of technical fixes have been delivered but some issues remain open and subject to further investigation:
 - Errors in Power BI reports produced to drive branch revocation and HMRC reporting
 - Data refresh issues
 - People data extraction from the Financial Assessment is more cumbersome and labour intensive than first thought due to missing data on the report
 - Legal Status discrepancies are being identified which were not corrected in previous declarations. They are being managed but are taking time and resource in F&P Ops, the Contracts and onboarding teams.
 - Development of F&P Release 2 to bring in scope MoneyGram only branches and 'paused' bureau branches is on track with a view to deploying into production before the

November change freeze, but this will require changes to processes and bedding in of new reporting.

- Self-serve declarations for Sole Traders via Branch Hub is also being developed by Accenture with the intention to have in place for January 2021.

37. These issues are being managed and overseen by the F&P Ops team manager who has built up expertise since taking on operational responsibility earlier this year, but his role is at risk in the new structure and the work is being transferred to another area. The F&P project has been closed, therefore the project team has now been disbanded and no longer able to provide any oversight or support. We are liaising with HR to ensure that an appropriate owner is found and a remediation plan for the aforementioned issues is finalised. This will be brought back to the next RCC/ARC.
38. There are a significant number of changes to roles and responsibilities. Due to the consultations, information on the changes has not been available, and therefore keeping employee F&P tests up to date is challenging. We are working with HR to identify people leaving the business or moving into impacted roles.

External Threats

39. We have identified a growing trend of suspicious high volume Amazon voucher purchases, relating to potentially vulnerable customers who fall victim to fraudsters persuading them to purchase high value/large quantities and send to the fraudster. We have issued a number of communications to raise network awareness and are supporting the Product Owner to explore options with Amazon and to strengthen current controls in Horizon by limiting the number of vouchers that can be sold/the amount or provide additional screen prompts for staff, currently solutions are being worked on, including timescales for delivery.
40. Following investigation into a suspicious activity report, we identified that high risk suspicious cash deposits from a Money Service Business (a money transmitter) were being accepted, via our bill payment reseller client Capita. Money Transmission is assessed by the National Risk Assessment as high risk for money laundering and such companies require enhanced due diligence. Our investigation of the deposits and activity identified that there was a complex structure involving numerous businesses between the customer and the end recipient, with some activity overseas and a similar structure to known money laundering typologies². We are actively working with the Product Owner and Capita to cease the relationship with the businesses involved, and a meeting with Capita is scheduled for w/c 16th November 2020 to resolve. As a result of this case, we will work with the Product team to undertake a review of the existing contractual and control requirements related to Bill Payment re-sellers, and this will also form part of the Payzone review.

Supply Chain Compliance

41. One of the 3 FTE has been off with suspected Long-Covid, which together with rising infection rates across the UK has impacted ability to undertake on-site assessments. A combination of remote checking, interviews, area manager interviews and site visits to low risk locations has been implemented.
42. The External Approved Contractor Scheme (ACS) assessment in October was completed remotely with only one observation identified. The score for ACS was assessed as 104, which is an increase of 10 from last year and maintains Post Office compliance within the

² In the AML/CFT context, the term "typology" refers to the various techniques used by criminals to launder money or finance terrorism



top 5% businesses in the UK requiring this accreditation, indicating that despite the challenges over the last 7 months, compliance with ACS standards has improved.

43. An independent check of value stock picking accuracy at Swindon was supported. c.13% of one day's volume was checked and errors were identified in 1 in 109 items, despite the items already having been subject to a 100% operational check, i.e. the discrepancy had not been identified by the unit's own check. The outcome of the independent check has been escalated to Supply Chain and the Historic Matters Unit for them to remediate.

Financial Services

Multi Principal Review of 1st line controls (report expected January 2021).

44. Our three regulatory principals, Capital One, BoI and POMS, are undertaking a joint thematic review on the controls in place in the 1st line, including the work undertaken by the FS Compliance team. The scope of this work is far reaching and covers, 1st line controls over training, approvals, governance and compliance monitoring.
45. We are supportive of this review that will be a useful independent challenge and health check on our controls.
46. We will share any key findings with this Committee.

Compliance Monitoring

47. Mystery shopping had resumed on a small scale from August covering Over 50s cover and from the start of Q3 covering, savings and travel insurance.
48. Following the UK Government lockdown announcement on 31st October, with the agreement of our Principals who take compliance responsibility for our FS business, mystery shopping has been paused. It is expected in any case that sales of FS products will be reduced for the future period (for example TI sales will be very low/nil).
49. Following the approach of the 1st general lockdown we will use remote measures to review compliance performance. This includes quality of sales MI that reviews sales peaks, cancelation and complaints data. Our BAU governance with the regulatory Principals will continue so that any additional data from them (such as complaints made to the call centre) can also be reviewed.
50. For the mystery shopping we have undertaken this year the results from protection business have been generally good and within appetite. For Travel Insurance we will be using the small number of shops undertaken before lockdown to assess with POI whether any aspect of the revised sales process needs to be strengthened for future travel insurance sales when we can hopefully travel again.

FS Regulatory updates

51. A summary slide of the key future developments is included in the reading room at Appendix 3.
52. The government recently published a call for evidence on Access to Cash, which sets out the government's aims for protecting access to cash throughout the UK. It seeks views on:
- a. how the government can ensure the UK maintains an appropriate network of cash withdrawal and deposit-taking facilities over time through legislation, including the potential role of cashback;
 - b. the factors affecting cash acceptance; and whether the government should give a single regulator overall statutory responsibility for maintaining access to cash.



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- c. The Banking team will review the detail and decide how to best respond by the end of November.

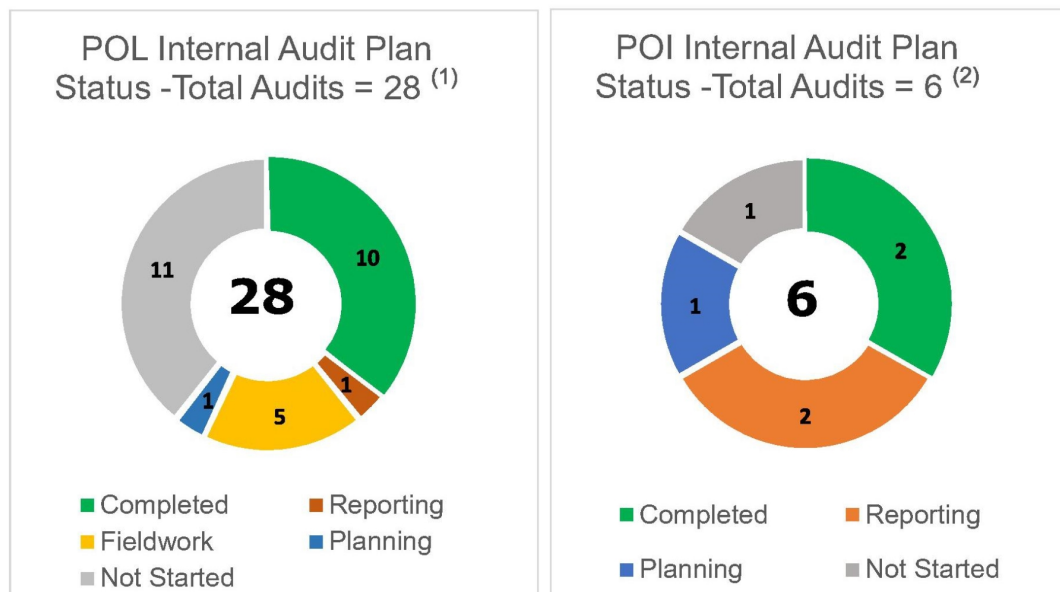


Internal Audit

Progress against Internal Audit plan

53. Delivery of the 2020/21 programme is making good progress, having completed five audits since the September ARC meeting (4 POL & 1 POI). The advisory review of the Historic Matters Business Unit (Post GLO Improvement Programme) is nearing completion – an interim report has been issued and is included in this paper.

54. Current delivery status is as follows:



⁽¹⁾Target number of reviews based on revised plan for 2020/21 approved by ARC (18 Internal control reviews & 10 change assurance reviews). Details of the audit plan status are included in the reading room (Appendix 10).

⁽²⁾POI ARC approved baseline plan for 2020/21.

55. A re-prioritised Internal Audit programme was approved at the May ARC meeting in response to Covid-19. It was agreed that a more dynamic rolling audit plan will be adopted and reviewed at each ARC. Further revisions to the plan was approved at the September ARC meeting and is included in the reading room (Appendix 10).

56. The following audits are being planned for delivery in Q3:

	Review	Sponsor	Timing	Status
1	Historic Matters (Post GLO) Set-up and Governance	Declan Salter	Oct	Interim Report
2	Historic Matters (Post GLO) Operations Improvement Programme (Common Issues Judgement)	Declan Salter	Nov	Fieldwork
3	Mails & Parcels	Owen Woodley	Oct	Fieldwork
4	IT Controls Framework	Jeff Smyth	Sept	Fieldwork
5	Belfast Exit (Programme Assurance) Phase 2	Jeff Smyth	Oct	Fieldwork
6	PCI Compliance (Programme Assurance)	Jeff Smyth	Nov	Fieldwork
7	Postmaster Reporting (MI, Branch Trading Statements)	Amanda Jones	Dec	Not started




Internal Audit reviews completed

57. The following POL audit reports were issued since the September ARC meeting:

1	Manual Revenue Adjustments		3	Identity and Access Management (JML) – Gap Analysis	
2	Effectiveness of Second Line during COVID-19		4	Branch Hub (Programme Assurance)	
5	Historic Matters (Post GLO) Set-up & Governance (Advisory) Interim Report				


58. Our findings and observations from these reports are summarised below, with the full reports available in the reading room (appendices 5-9).

59. Controls over Manual Revenue Adjustments (Ref.2020/21-14)

 <p>Satisfactory</p> <p>Sponsor: Al Cameron</p> <p>Audit actions:</p> <table border="1"> <tr> <td>P1</td><td>0</td></tr> <tr> <td>P2</td><td>2</td></tr> <tr> <td>P3</td><td>1</td></tr> <tr> <td>Total</td><td>3</td></tr> </table> <p>Appendix 5</p>	P1	0	P2	2	P3	1	Total	3	<p>In 2019/20 manual revenue adjustments made up £298m (31%) of reported revenue. At the May ARC, PwC raised a discussion point around manual adjustments to revenue made outside of Horizon, to ensure clients are billed correctly. Subsequently the ARC have requested that Internal Audit review the controls over this process.</p> <p>The purpose of this audit was to provide assurance that the design and operation of the controls around manual revenue adjustments are robust and effective in mitigating the risk of error and consequential impact on Postmasters' remuneration. Our audit also assessed controls over transaction corrections, which may impact Postmaster accounts (c.127k corrections made in 2019/20 with a low average value of £37 per transaction).</p> <p>We conclude that the control framework covering manual adjustment processes is comprehensive and well-understood by control owners. Whilst the preventative controls around review and sign-off are working well, there is an opportunity to further strengthen the detective controls with better explanations of variances and follow-up of aged items.</p> <p>There is no direct link to, and therefore no impact on, Postmaster remuneration for the majority of revenue transactions processed directly in CFS. For the minority of transactions where Postmaster remuneration or accounts may be impacted, we found controls to be effective.</p>
P1	0								
P2	2								
P3	1								
Total	3								
<p>Management Comment provided by Tom Lee (Group Financial Controller)</p> <p>"I was pleased to see the report confirmed my expectations, that a robust controls environment exists over what is an important and complex area of the business. The nature of revenue recognition across the organisation, driven by high volume of low value transactions with numerous interplays across systems and stakeholders, will inevitably lead to variances arising. The processes and controls in place are designed so as to keep these variances to a minimum whilst seeking to resolve those that do arise in a timely manner. We will continue to enhance this area and focus our efforts in the short term on the actions outlined within this report."</p>									




60. Effectiveness of the Second Line during Covid-19 (Ref.2020/21-07)

 <p>Needs Improvement</p> <p>Sponsor: Nick Read</p> <p>Audit actions^{N1}:</p> <table border="1"> <tr> <td>P1</td> <td>6</td> </tr> <tr> <td>P2</td> <td>15</td> </tr> <tr> <td>P3</td> <td>1</td> </tr> <tr> <td>Total</td> <td>22</td> </tr> </table> <p>^{N1} Actions are included in the individual deep-dive audit reports and tracked through the normal audit process.</p> <p>Second line functions in scope:</p> <ul style="list-style-type: none"> • CoSec • Data Protection • Financial Controls • IT Governance • IT Risk • Central Risk • Change • Compliance ^{N2} • Financial Crime ^{N2} • Loss Prevention ^{N2} • IT Security ^{N2} • Health & Safety ^{N2} <p>^{N2} Included in Phase 2 deep dive audits.</p> <p>Appendix 6</p>	P1	6	P2	15	P3	1	Total	22	<p>The purpose of this audit was to consider the impact of COVID-19 on second line of defence functions across Post Office. This report covers twelve second line functions and consolidates findings from the interim report issued in July 2020 and three other deep-dive audit reports.</p> <p>We conclude that during Post Office's response to the first wave of COVID-19, all second line functions continued to operate and are now better positioned to meet the challenges of the second wave. We also highlight the following key successes:</p> <ul style="list-style-type: none"> • Changes to processes and controls were made quickly but cautiously - often on a 'best-efforts' basis where the new arrangements were unprecedented. • Management are monitoring the effectiveness of alternative controls adopted, particularly those brought about by branch visit suspensions. • In response to the crisis, all functions have identified process improvements and intend to keep what went well. <p>We noted the following areas for improvement and ongoing challenges, which should be considered key learnings for the second wave of the pandemic and resulting regional and national lockdown restrictions:</p> <ul style="list-style-type: none"> • Vacancies and long-term absences mean at least three of the critical second-line teams cannot absorb additional demands without compromising effectiveness. Cost pressures mean some teams are operating at below pre-COVID resourcing levels. • Restart of suspended commercial and technical development work, along with anticipated organisational change, could overwhelm second-line teams if not carefully managed. • Lockdown fatigue - Good engagement with the business contributed to initial success, but some functions report that this is dropping off due to lockdown fatigue. This may worsen as we enter more regional and national lockdowns and adds to the pressures experienced by the second line. • In some areas, clarity is needed of boundaries between first and second-line responsibilities, especially around process and control documentation ownership and maintenance. • All second line functions faced increased risk, but the initial fall in transactions counteracted some of this. Risks may again increase during the second wave and may be exacerbated as Post Office enters the busiest time of the year. • Controls are inconsistently managed. Some functions do not have
P1	6								
P2	15								
P3	1								
Total	22								
<p><u>Management Comment provided by Nick Read (Group CEO)</u></p> <p>"The organisational mobilisation and response to Covid-19 and the first lockdown, was particularly pleasing. Functions were able to respond to operational change and, in the main, absorb additional work and perform their own essential controls, at an aggregate level. The long term sustainability of this response however is not clear and the strain placed on certain areas of the business was concerning. In part due to vacancies but also due to the fatigue associated with new ways of working and new practices. As a business we will need to assess alternative sources of assurance and we have begun an initiative to do this. We will need to be particularly vigilant in the short term as lockdowns and tiered restrictions come into play in the run up to Christmas and in Quarter 4."</p>									



61. Joiners, Movers & Leavers (JML) (Ref.2020/21-01)

 <p>Needs Improvement</p> <p>Sponsor: Jeff Smyth</p> <p>Audit actions:</p> <table border="1"> <tr> <td>P1</td> <td>1</td> </tr> <tr> <td>P2</td> <td>0</td> </tr> <tr> <td>P3</td> <td>0</td> </tr> <tr> <td>Total</td> <td>1</td> </tr> </table> <p>A single overarching P1 audit action was agreed to update the current roadmap and action plan to include the gaps identified during this audit.</p> <p><i>Appendix 7</i></p>	P1	1	P2	0	P3	0	Total	1	<p>Internal Audit previously reviewed JML processes in 2017, identifying significant weaknesses in overall governance and the identification of JML triggers. Failures of JML controls have also been reported by the external auditors on numerous occasions.</p> <p>A JML Programme has been initiated by the business to identify and address control gaps and weaknesses, with regular progress updates provided to the ARC. JML controls were also covered within Cyber Maturity Assessments in 2019 and 2020, which showed a marked increase in maturity between the two reviews, with maturity targets being met for two of the four domains covering JML related controls. However, it is generally recognised that additional work is required to strengthen and automate access controls.</p> <p>The purpose of this audit was to validate the work undertaken by IT to support the business in identifying and remediating gaps in the effectiveness of JML processes and to assess the state of JML processes across the business, with the intention of ensuring only authorised users have access to POL systems.</p> <p>We conclude that IT have been making steady progress in addressing the JML control weaknesses. Considerable progress has been made over the last two years to enhance controls, through the implementation of SmartID, tying the creation and removal of user access to SuccessFactors, and introducing additional checks over access to key back-office systems.</p> <p>However, we observed a continued reliance on manual processes and insufficient coordination between teams responsible for JML, privileged access and vendor assurance. The roadmap and action tracker created by IT will support further improvements in JML processes and we have highlighted additional actions that should be included in the plan.</p> <p>We consider the residual risk of unauthorised access to POL systems to be substantially mitigated by the controls currently in place, but based on the actions still required, we have rated this report 'Needs Improvement'.</p>
P1	1								
P2	0								
P3	0								
Total	1								
<p><u>Management Comment provided by Tony Jowett (CISO)</u></p> <p>"This report is very timely and helpful in our quest to sort JML in Post Office. It re-emphasises that effective JML requires HR and IT to work closely together and the review of all in scope is very welcome. We agree with the action that we must create a roadmap/plan and would add an additional one about creating a picture of JML that could serve as a dashboard. Many thanks to IA for shining a light in this area."</p>									



62. Branch Hub (Programme Assurance) (Ref.2020/21-12)



Needs Improvement

Sponsor:

Amanda Jones

Audit actions:

P1	0
P2	6
P3	0
Total	6

Appendix 8

The 'Branch Hub' programme was initiated in 2018 to deliver a new digital self-service channel, to replace or support traditional channels for the interactions between postmasters and back-office functions. The overall delivery of the minimum viable product (MVP) and the adoption by Postmasters proved challenging, as noted in previous audits.

In February 2020, the IC approved Branch Hub's move from the bespoke Fujitsu product to the ServiceNow platform. Due to COVID-19, the programme focused on delivering functionality to support Post Office's response to the pandemic, including 'Change Branch Hours', 'Agent Remuneration' and 'PPE Ordering'. This has driven adoption to surpass 9,400 users. The delivery of further features has been divided into three increments. As of August 2020, a total of £20.6m had been invested in the Programme.

The purpose of this audit was to re-assess the operating effectiveness of programme delivery while ensuring previous audit recommendations have been adopted.

Branch Hub has now demonstrated that it can deliver and that its underlying platform and delivery model are sound. Since its reset in February 2020, Branch Hub has been primarily driven in a short-term tactical way to prove it could deliver. This strategy was broadly successful as Branch Hub delivered its main objectives.

However, it did not fully succeed in overcoming the inherent lack of trust and further constrained resources which resulted in some previous audit weaknesses not being fully addressed. We once again note that the programme lacks strategic direction and a joined up approach on how future features should be linked. GLO considerations have not been fully considered and embedded. We also noted additional controls weaknesses associated with the new delivery model. These gaps impacted on the overall programme performance, contributing to the present challenges in fully unlocking the committed FY20/21 benefits.

Management Comment provided by Amanda Jones (Retail & Franchise Network Director)

"Thank you for highlighting the areas in the report and the opportunities for improvement; in particular recognising that the project has been driven in a short term tactical way and that there is opportunity to take a fresh look at the benefits model. The programme is under new ownership with myself as GE sponsor and Tim Perkins taking on sponsorship. We are both excited by the opportunity to build on what the BH team have developed so far and envisage that BH will play a pivotal role in enabling us to deliver our vision of providing Postmasters support whenever, however and wherever they need it, at the lowest cost to serve."



63. Historic Matters (Post GLO) – Set-up & Governance (Advisory) (Ref.2020/21-15)

<p>Not Rated (Interim Report)</p> <p>Sponsor: Declan Salter</p> <p>Management comments and audit actions will be in the final report.</p> <p>Appendix 9</p>	<p>In addition to launching the Historical Shortfall Scheme, as part of its operational improvement plan and to address issues which arose from group litigation concluded last year, Post Office has appointed a new Director, reporting to Tim Parker and Nick Read, to head up a separate business unit responsible to implement the claims schemes and the programme of measures that will oversee the delivery of the operational improvements to address the criticisms from the Common Issues Judgment (CIJ) and the Horizon Issues Judgment (HIJ).</p> <p>Internal Audit is performing an advisory review to gain assurance that the newly established Historical Matters Business Unit (HMBU) has been set up for success and established effective and appropriate governance.</p> <p>HMBU is newly formed and its governance and structure are not yet fully defined. However, we emphasise that HMBU is not operating without governance and control and has from the outset adopted 'Change' governance and controls. While not fully fit-for-purpose, it enabled a degree of structure and provided a solid foundation for the early management of the claim schemes and the CIJ operational improvement programme. Further work is required to clarify and formalise its scope and relation with the wider Post Office business, as well as, its strategy and operating model, to manage more effectively the extensive list of activities being planned.</p> <p>We also highlight that:</p> <ul style="list-style-type: none"> • A comprehensive risk assessment should be performed, and controls and assurance mechanisms are still to be agreed; • Roles and responsibilities of key individuals be further reviewed and agreed at Board to ensure HMBU operates with an appropriate level of independence, while still adopting Post Office Group policies and controls, appropriately supported by the Group functions.
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Post Office Insurance (POI) Audit Programme

64. The table below shows the status of the POI audit programme:

	Review	Timing	Status
1	Cyber Security (POL-POI Gap Analysis)	Aug	Complete (Sept ARC)
2	Incident and Breach Management	Aug	Reporting ^{N1}
3	Data Governance: Ethics, security and privacy Phase 1 – Third Party Data Security Phase 2 – Data Governance	Sept Oct	Complete Fieldwork
4	Special Investigation (Confidential)	Sept	Complete
5	Pricing: Principles, policies and process	Nov	Planning
6	Effectiveness of Risk Management – original plan	Q4	Not started
7	Channel review: Non-branch sales – original plan	Q4	Not started

^{N1} This audit was delayed due to special investigations undertaken at management request and with POI ARC approval.

Status of Audit Actions



65. Audit actions are generally being completed on time. However, we highlight that the changes to business priorities due to Covid-19 have caused delays in completion of some audit actions. During May we worked with action owners and GE sponsors to agree revised completion dates for 14 actions impacted by Covid-19. Of these 11 have since been closed and 3 remain open and on track with the revised completion dates.
66. The movement and ageing of audit actions are shown in the table below (status at 16 November 2020).

Audit Action Status (POL):		Ageing:	
Open actions at last ARC	47	Open (not yet due)	28
Less: Actions closed in period	31	Overdue (<60 days)	1
Add: New actions in period	13	Overdue (>60 days)	0
Total open actions	29	Total open actions	29

67. Following is a summary of the one overdue action and latest status update:

Description of audit finding and Priority rating	GE owner and due date	Action Owners and Status Update
Data Privacy (Document Retention)		
<u>Finding (P2):</u> Mechanisms for facilitating the deletion of records that are outside of their retention period are not defined (P2) <u>Action:</u> The CIO will work with the business to identify how record retention schedules will be operationalised to support compliance with the DPA and limit the time that personal data is held.	Jeff Smyth Original date: 30/04/2020 Revised date: 31/10/2020	<u>Owner:</u> Rob Wilkins The technical solution for automated deletion of documents proved more complex than anticipated, and was deemed unfeasible and not cost effective. IT will now implement alternative solutions limited to automatic deletion of leavers' e-mails (unless legally required to keep). Revised completion date 31/03/21. Compliance with document retention policy more widely will be considered by the Digital Data Governance SteerCo and the data governance work led by Compliance (See separate update paper – item 2 under Items for Noting).



Appendices³

Compliance

- Appendix 1: Communications Incident 2020 OFCOM Notification
- Appendix 2: Telecoms Regulatory Calendar
- Appendix 3: FS Regulatory Calendar
- Appendix 4: Compliance Dashboard summary
- Appendix 4a: Compliance Dashboard

Internal Audit

- Appendix 5: Internal Audit Report – Manual Revenue Adjustments
- Appendix 6: Internal Audit Report – Effectiveness of Second Line during Covid-19
- Appendix 7: Internal Audit Report – Joiners, Movers & Leavers
- Appendix 8: Internal Audit Report – Branch Hub Programme Assurance
- Appendix 9: Internal Audit Plan for 2020/21

³ Appendices are accessible in the Diligent 'Reading Room'