



POST OFFICE LIMITED

AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	FY22/23 ARA Update paper	Meeting Date:	27 November 2023
Authors:	Tom Lee, Group Financial Controller; Dan Ward, Head of Financial and Technical Accounting	Sponsor:	Kathryn Sherratt, Interim CFO

Input Sought: Noting and Approval

The Committee is asked to:

- i. note the updates made to the Post Office Limited ("POL") Group Annual Report and Accounts ("ARA") for the year ended 26 March 2023 ("FY22/23") since it was presented to ARC on 7/11/23, including conclusions drawn on the significant estimates, judgements and accounting decisions;
- ii. note the assurance activities undertaken on the ARA ahead of planned signing;
- iii. note the plan for completion and signing timetable; and
- iv. approve the ARA be recommended to the POL Board for approval and signing.

Previous Governance Oversight

- ARC 7/11/23

Executive Summary

The ARA presented is in final form, with the exception of a) any minor amendments to drafting which may arise following continued reviews by Finance, PwC and Copywriters, to ensure consistency, and b) any subsequent events which may arise ahead of signing, which Finance will continue to monitor. All assurance activities are complete save for any items presented by PwC in their report to ARC. No material changes have been made to the judgements and estimates presented to ARC on 7/11/23, with the final positions included in the ARA being:

- Going Concern ("GC") – assumption remains consistent, being that of a GC but with a IRRELEVANT The underlying assessment has been amended to reflect latest forecasts and expected funding position, bringing the likely IRRELEVANT to October 24, from February 25, however the key judgements and the overall view remains consistent. A number of the required funding items have been progressed as detailed in the report.
- Overturned Convictions ("OC") – [REDACTED]
- Horizon Shortfall Scheme ("HSS") – remains consistent at IRRELEVANT
- Suspension Remediation review ("SRR") – remains consistent at IRRELEVANT
- Post Office Process Review ("PPR") – retained as a non-adjusting Post Balance Sheet Event ("PBSE"), however a note has been included within contingent liabilities to cross refer to the PBSE note. [REDACTED]



- POL Cash Generating Unit ("CGU") impairment – reduced from IRRELEVANT to retain some additional Freehold Land and Buildings in the asset base.
- Tax risks – a contingent liability has been included in the ARA following discussion at ARC on 7/11/23. This is high level and does not reference the specific risks.

Assurance activities have been completed including Deloitte review of front half metrics (see separate report presented by Deloitte), GE attestations over accuracy and completeness of their respective statements and Executive declarations identifying material items to be aware of have been received (see separate paper). These activities are in addition to the PwC audit over the financial statements which is well progressed (see separate report by PwC). Meetings have been held with all Board members where requested, to discuss the Going Concern position in more detail and enable any concerns to be raised and addressed ahead of the Board meeting on 28/11/23.

ARC is requested to review this paper alongside the ARA, Executive Declarations paper and Deloitte paper and approve a recommendation be taken to Board that the ARA be approved, subject to final approval from a Board sub-committee on Monday 11 December 2023 (to be established by the Board on 28/11/23).

Report

ARA status and assurance

1. The ARA is substantially complete and can be presented to Board for approval. Ahead of signing, the ARA may be updated in respect of the following:
 - a. Finance review – the Finance team continue to perform consistency checks over the document which may elicit minor amendments.
 - b. PwC – reviews are well progressed but will continue until the point of signing. Additionally, the finalisation of audit items, see PwC's separate report, may require further amendments.
 - c. Subsequent events – should any other matters come to light ahead of signing that are deemed material and will need reflecting in the ARA.
 - d. Tax – the disclosures in note 8 of the ARA will be amended prior to signing to reflect the final financials for the year, with the current disclosures being produced in early November.
2. The ARA has been reviewed by a significant number of interested parties with comments reflected in the version presented to ARC. These parties include – management, GE, ARC, Board, UKGI, DBT and PwC. In addition specific reviews have been undertaken by an external Copywriter, TB Cardew, Deloitte and Pinsent Masons over defined items / areas.
3. The Remuneration Committee report has been through Remuneration Committee ("Remco") review and is expected to have been formally approved by RemCo prior to 27/11/23.
4. Deloitte's review over Front Half metrics and statements has been completed. Of the 119 in scope item, 16 were identified as having issues / discrepancies. The findings were all relatively minor in nature and have either been addressed in the latest version of the ARA or have been confirmed by management as not requiring update. See the separate report presented by Deloitte for the detailed findings.

5. GE ownership of ARA sections has previously been established. Declarations have been sent to all GE owners of sections to attest to the accuracy and completeness of their sections, see Appendix 1 for further details of ownership. These will be obtained and filed prior to signing. In relation to sections of the ARA owned by Board members, attestations have not been sought from the Chairman or CEO as they will be formally approving the ARA at the Board meeting and signing the ARA, thus attestation/approval is implicit in the signing. Similarly an attestation has not been obtained from the Remco chair as formal approval of their section is obtained as part of the Remco meeting and as part of the Board meeting through the overall ARA approval.
6. A separate paper has been produced by the Internal Audit and Risk team regarding GE attestations which help to establish the completeness of disclosures in the ARA.
7. [REDACTED]
8. Discussions have been offered to all Board members ahead of the Board meeting on 28/11/23 to discuss the Going Concern assumption in greater detail. No Board members expressed a view that the GC assumption was [REDACTED] however general consensus was that [REDACTED] would be beneficial. Management has explored this with UKGI and DBT however due to both a subsidy and funding classification risk DBT are unable to grant an extended waiver. Wording has been included in the Letter of Support to provide comfort that DBT will continue to work with POL to obtain additional waivers should they be required. The waiver provided by DBT is to 31 July 2024.

Key updates to the ARA

9. Following the Financial Reporting Council's ("FRC") review of the POL FY20/21 ARA in Sept-Nov 2022, amendments have been made to the ARA to both disclose the review that was undertaken (see the Finance and Business Review ("F&BR") section of the ARA) and to ensure their recommendations are reflected. Details of the findings and amendments made are documented in Appendix 2.
10. The Going Concern ("GC") disclosure has been updated to reflect PwC and ARC Chair review comments, principally relating to the wording around the [REDACTED] in addition to the expected funding position as at the time of signing. We would like to draw ARC's attention to the GC disclosures in the Directors Report and in Note 1 of the ARA.
11. The OC provision has reduced from [REDACTED]
[REDACTED]
[REDACTED] Following discussions with PwC, and the prudence included in the average expected payout levels, management had determined to use the lower end of the range [REDACTED].
12. HSS and SRR remain consistent at [REDACTED] and [REDACTED] respectively.

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[REDACTED] The announcement of the request for funding and the likely creation of a scheme by POL and the associated Written Ministerial Statements on 8/11/23 have been deemed **IRRELEVANT**. As these events occurred after year end the accounting decision has been to disclose a non-adjusting Post Balance Sheet Event ("PBSE"), as seen in note 25 in the ARA. Management have added a note in the contingent liability section to cross reference to the PBSE given it is material. PwC is comfortable with this approach.

14. Since discussions on 7/11/23, the POL CGU impairment has reduced from **IRRELEVANT** to **IRRELEVANT** retaining some additional costs related to freehold buildings as a result of analysis which shows that they can be supported by a FVLCO approach. Additional wording has been added to the ARA regarding asset values, clearly stating that freehold land and buildings have not been impaired on the basis that the FVLCO approach resulted in those assets being fully supportable.
15. A contingent liability has now been disclosed regarding the tax risks faced, being IR35 and corporation tax on Remediation Matters ("RM") items. The disclosure doesn't include any specifics but notes that risks exist that could have a material impact. See note 20 in the ARA for further details.

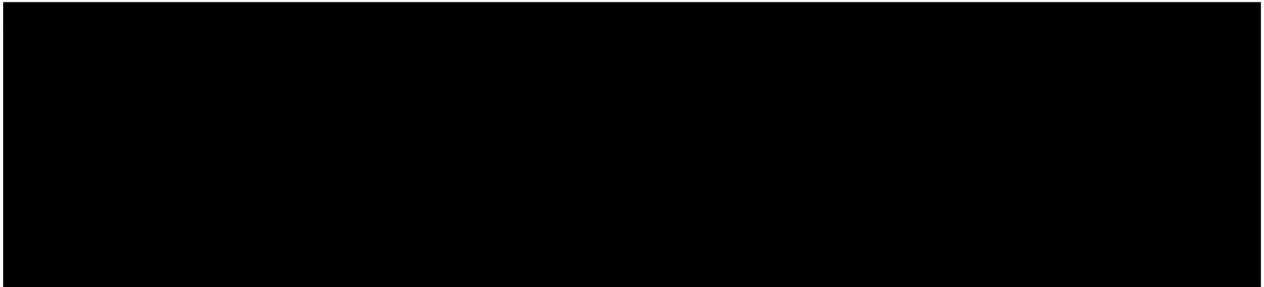
Going Concern

16. An updated GC assessment has been produced and is included in the reading room. The primary change has been to update the forecasts using managements 7+5 view, which includes an increase of £24m in Inquiry costs, taking the running costs of Inquiry and RM beyond the £150m expected funding level for FY23/24 and FY24/25. HMT have recently declined DBT's request to include a contingency of £40m in the £150m funding request, hence creating this downside in the forecasts. Management has agreed updated wording to the LOS to reflect the need to access such contingency funding as our forecasts are indicating an additional amount of funding is required for the RU/Inquiry activity.
17. The impact of the above is to bring the anticipated **IRRELEVANT** forward, from February 2025 to October 2024, with the breach remaining in place from that point onwards, until March 2025 where headroom bounces back marginally.
18. Management's assessment is that this does not alter the overall GC position, as **IRRELEVANT** **IRRELEVANT** both in the past and most recently through to end of July 2024. In addition, the Letter of Support states DBT's intent to provide **IRRELEVANT** in the future if required, albeit this is not a guarantee. The overall **IRRELEVANT** is therefore not altered materially from that previously discussed at ARC. In addition, this does not take into consideration the options available to management to mitigate some of the risk, for **IRRELEVANT** **IRRELEVANT**. Factored into the GC model base case are costs of **IRRELEVANT** in relation to SPMP from July 2024 to March 2025, which are treated as unfunded in the model.
19. Managements latest GC assessment is included in the reading room and a copy of the finalised Letter of Support is included in Appendix 3.



20. A table of the funding items required, including status and expectation at point of signing, has been included in Appendix 4. Progress has been made over the past few weeks however, with the following now delivered:
- a. HSS funding extension to 31/3/25
 - b. SRR funding extension to 31/3/25
 - c. Finalised **IRRELEVANT** and usage waiver to 31/7/24 due to be signed 24/11/23
 - IRRELEVANT**
 - d. Letter of Support wording finalised and agreed with DBT and HMT (note this will be signed closer to ARA signing date – target 6/12/23)

21.



Timetable to completion

22. Between the ARC meeting on 27/11/23 and proposed signing on 11/12/23 there are a number of items to be completed. These are outlined below along with target dates where relevant.
- a. HSS extension to 31/3/25 signed – complete
 - b. SRR extension to 31/3/25 signed – complete
 - c. **IRRELEVANT** to be signed – finalised, due to be signed 24/11/23
 - d. CMA clearance of Inquiry and RM operational funding – expected 1/12/23
 - e. Letter of Support from DBT signed – expected 6/12/23 (wording agreed)
 - f. DBT confirmation of Inquiry and RM operational funding – expected 8/12/23
 - g. CMA clearance of SPMP funding – expected 8/12/23
 - h. Post Balance Sheet Events checks complete – 8/12/23
 - i. All drafting and checks on ARA complete – 8/12/23
 - j. PwC audit completion – expected before 8/12/23
 - k. Board sub-committee meeting – 11/12/23
 - l. Representation letter signed by CEO – 11/12/23
 - m. ARA signed by Chairman, CEO, Remco Chair and PwC – 11/12/23
23. The proposed Board sub-committee has been diarised for the morning of 11/12/23 with the ARA signing scheduled for the afternoon on the same date, assuming all approvals are granted. Members of the sub-committee are being finalised, with the proposal:
- a. Chairman (Henry Staunton)
 - b. ARC Chair (Simon Jeffries)
 - c. CEO (Nick Read)
 - d. UKGI NED (Lorna Gratton)
 - e. Attendees – Interim CFO, Remco Chair, Group Financial Controller, Head of Financial Accounting, PwC



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24. It is proposed that the Remco Chair attend the sub-committee meeting such that approval to release the FY22/23 bonus' can be obtained and minuted at the same time, and with the Chair being fully cognisant of the ARA status when approving the position.
 25. To assist the CEO with fulfilling his duties as the Responsible Person under Government requirements, a separate paper has been produced and should be referred to alongside this report and prior to signing the ARA.

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Appendix 1: GE accountability over ARA

The below outlines the agreed ownership of the ARA section by GE members and delegates. Attestations have been obtained from all GE members regarding accuracy and completeness of their sections. Note Chairman, CEO and Remco Chair attestations not obtained as these are obtained via the Remco and Board meetings.

Section	Team	Operational responsibility	GE responsibility
Chairmans Foreword	Comms	Patrick Bourke	Richard Taylor (+Chairman)
CEO Statement	Comms	Patrick Bourke	Richard Taylor (+CEO)
Finance and Business Review	Finance	Tom Lee	Alisdair Cameron*
Corporate Governance and Board of Directors	Cosec	Rachel Scarrabelotti	Ben Foat
Remco Chair's Statement; Directors Remuneration Policy; Annual Remuneration Report	Reward	Ian Rudkin	Karen McEwan (+Remco Chair)
Fairness, Diversity and Inclusion	Culture	Juliet Lang	Karen McEwan(+Remco Chair)
Risk Management	Risk and IA	Johann Appel	Alisdair Cameron*
Energy & Carbon Reporting	H&S and Comms	Martin Hopcroft / Mark Cazaly	Alisdair Cameron*
Directors Report	Finance	Tom Lee	Alisdair Cameron*
Financial Statements	Finance	Tom Lee	Alisdair Cameron*
Signing of ARA	Cosec	Rachel Scarrabelotti	Ben Foat

*Kathryn Sherratt is covering as Interim CFO

Appendix 2: FRC findings and actions

Area	FRC comment / question	Management response	Changes made to ARA
Cash Generating Units ("CGUs")	Why the whole branch network for POL is deemed to be one CGU as opposed to individual stores or locations.	Rational is based around the scale and location of branches, combined with product offering generates a fluid / transient customer base.	Additional description added in Note 1 regarding the decision to have the POL Network as a whole CGU. Reference to this has been made in the FRC disclosure in the F&BR section.
Historical matters provisions	Why the HM provisions (HSS, OC and PR) were not discounted.	The year in question had low risk-free rates thus discounting was not material. Provisions have been discounted where material and relevant disclosure is included.	Reference to this has been made in the FRC disclosure in the F&BR section.
Alternative Performance Measures	Queried the prominence of Trading Profit in the ARA vs IFRS profit measures e.g. operating profit or profit before tax.	When the CEO and Chairman statements are produced, management will ensure statutory measures feature more prominently.	Chairman and CEO statements now reference standard profit measures ahead of Trading Profit.
Lease cash flow disclosures	To consider disaggregating the time bands used to disclose lease liabilities, currently <1 year, 1-5 years and >5 years.	No changes made as the current split is standard for most organisations. However consideration is being given as to whether additional explanation would be relevant and management will work with PwC .	None
IRRELEVANT			Specific wording added regarding the calculation in the F&BR section.
Cash flow details	Further descriptions could be included regarding working capital and operating cash inflows.	Management will include further commentary on these areas, however at present they remain unchanged as the cashflow position is not yet finalised.	The descriptions in the F&BR have been expanded when compared with FY20/21.
Joint Venture reporting	Should include the summarised financial information for FRES as opposed to stating POL's share.	Joint venture – suggested inclusion of the summarised financial information for FRES as opposed to stating POL's share. This has been updated in the note 11 of the ARA.	Note 11 in the ARA has been updated to include a summary of FRES' financial position as opposed to POL's share, with a description of the change included.
Accrued income financial asset	Accrued income would usually be included as a financial asset in the financial instruments note.	The balance related to contract asset which are correctly excluded from the financial assets classification. However the language used in the disclosures will be amended to make it clearer.	Language made clearer regarding the contract assets, see note 1.

Appendix 3: DBT Letter of Support

To the Board of Directors
100 Wood Street
LONDON
EC2V 7ER

Department for Business & Trade

Old Admiralty Building,
London SW1A 2AY

GRO

6 December 2023

Dear Sir/Madam,

LETTER OF SUPPORT – POST OFFICE LIMITED - IN CONFIDENCE

1. This letter is intended to assist the board of directors (the “**Board**”) of Post Office Limited (“**POL**” or the “**Company**”) with its assessment of the Company’s **IRRELEVANT** in relation to the signing of the Company’s Annual Report and Financial Statements in respect of the year ended 26 March 2023 (the “**FY22/23 ARA**”). In providing this letter to you, the Department for Business and Trade (“**DBT**” or the “**Department**”) would remind the Company and the Board that the determination of whether the Company will be in a position to meet its liabilities as they fall due is the responsibility of the Board and not DBT, and that DBT expresses no view on this subject.
2. The Department is aware of POL’s financial plans and the projected funding requirements of the Company out to 31 March 2025. The Department also recognises that the Company has identified that, based on current forecasts, and in the absence of additional funding from DBT which has yet to be committed, the Company will **IRRELEVANT**
IRRELEVANT
IRRELEVANT Furthermore the Company has also informed DBT that its **IRRELEVANT** These issues will occur within the going concern period (as referred to below) for the FY22/23 ARA.
3. In light of the above the Board informed DBT that without additional **IRRELEVANT**
IRRELEVANT at the point of signing the FY22/23 ARA. The decision of the Board to prepare the FY22/23 ARA on a going concern basis is therefore predicated on **IRRELEVANT** and, where this has not been committed by the date of signing the FY22/23 ARA, **IRRELEVANT**
IRRELEVANT
4. The Secretary of State is the sole shareholder of the Company and, moreover, in light of the vital public services that the post office network provides to millions of customers across the United Kingdom, DBT reiterates that it places a high priority on the Company’s ability to deliver its policy objectives. In particular, were POL to be determined by the Board to **IRRELEVANT**
IRRELEVANT
IRRELEVANT DBT has historically strongly supported the company and will continue to work to prevent these circumstances from arising. Significant funding has already



been provided and/or committed to the Company to ensure that these policy objectives have been met in the past, including to mitigate risks arising from certain legacy claims connected with the Horizon IT System. These include the Horizon Shortfall Scheme (formerly the Historical Shortfall Scheme) as well as claims relating to overturned criminal convictions or prosecutions (together **Horizon Liabilities**), and claims relating to the Suspension Remuneration Review, Policy and Process Remediation ("PPR"), together with claims connected with redress to postmasters who suffered potential detriment due to historical policies and processes (**Other Liabilities**). DBT intends to continue this, (as well as to work with the company to **IRRELEVANT**) to enable POL to settle its liabilities as they fall due, subject to HMT consent and subject to the application of the Subsidy Control Act 2022, and consideration of the advisory outcome of the referral process to the Subsidy Advice Unit of the Competition and Markets Authority ("**CMA**") where required.

5. The Department understands that, based on POL's financial plans and the projected funding requirements out to 31 March 2025, the Board require that this Letter of Support provides it with assurances across four principal areas comprising the Company's: **IRRELEVANT**
IRRELEVANT To this end, and as further outlined below, the Department intends to continue to provide financial support to the Company to **IRRELEVANT** from the date of signing the FY22/23 ARA. The commitment of financial support in each case is at present subject to certain caveats, to reflect steps in the clearance and approvals process that are still underway as at the time of signing this letter. They may also be subject to conditions set out in an agreement relating to a funding area.

6. **IRRELEVANT**

Liquidity Position

7. **IRRELEVANT**
IRRELEVANT The Department also recognises the potential need to **IRRELEVANT** including **IRRELEVANT** **IRRELEVANT** to ensure that POL can continue to have access to sufficient financing capacity throughout the **IRRELEVANT** following the signing of the accounts in December 2023.
8. The Department will sign a **IRRELEVANT** which will come into effect upon the company notifying the Department of a **IRRELEVANT**
IRRELEVANT
This is a temporary measure to remedy POL's **IRRELEVANT** and this amendment will be accompanied by a **IRRELEVANT**
IRRELEVANT Should the Company consider that **IRRELEVANT** are required for additional periods of time during the going concern period, the Department will engage with the company to assess the need for this. The **IRRELEVANT** will be subject to the consent of HM Treasury.
9. Noting POL's current need to **IRRELEVANT** as part of its membership of the Note Circulation Scheme, the **IRRELEVANT**
IRRELEVANT DBT will consider the case provided to it by POL for increasing the **IRRELEVANT**



[REDACTED] IRRELEVANT to ensure that POL can continue to have access to sufficient financing capacity throughout its [REDACTED] IRRELEVANT period. It is expected that this increase is not required in the immediate future but the Department will seek to progress this proposed increase as soon after signing as practicably possible, subject to HMT consent.

Technology Investment Plans

10. DBT acknowledges the Company's funding request, which sets out POL's investment plans to continue working on its exit from and replacement of the Horizon IT System until at least June 2024, including work on associated scope that is considered critical to POL, and to extend its contractual arrangements with Fujitsu for the Horizon infrastructure support arrangements until at least the end of FY24/25.
11. The Department intends to provide sufficient funding to POL to ensure that the necessary activities, agreed between POL and DBT following their funding bid in June, can be completed. This is subject to HMT consent, the application of the Subsidy Control Act 2022 and consideration of the advisory outcome of the referral process to the Subsidy Advice Unit of the CMA. It is expected that these conditions will have been met prior to the signing of POL's FY22/23 ARA but in circumstances in which this is not possible the Department will use best endeavours to ensure such arrangements are in place as soon after signing as practicably possible.
12. The Department also acknowledges that POL is intending to submit a further funding request in early 2024 to fund the continuation of its work to exit from and replace the Horizon IT System after June 2024, and DBT will work collaboratively with POL on this submission to ensure clear alignment between parties and to minimise the risk of delay to the technology investment plans.

Horizon Liabilities and Other Liabilities

13. DBT acknowledges that it already has in place arrangements with POL for the funding of compensation associated with the Horizon Shortfalls Scheme, Overturned Convictions and Suspension Remuneration Review and that POL also requires a funding commitment for liabilities associated with Policy and Process Remediation ("PPR"). Furthermore, DBT acknowledges POL's position that having self-funded [REDACTED] IRRELEVANT in costs (including handling costs) associated with the Horizon IT scandal to date, the Company can no longer afford to make any further contribution to these costs from its own funds. It has therefore submitted a funding request to the Department to make sure that all handling costs of the schemes associated with the Horizon Liabilities, as well as costs associated with the Post Office Horizon IT Inquiry (the "POHIT Inquiry"), from the start of FY23/24, can be funded by the Department.
14. The Department intends to provide sufficient funding to POL to ensure that these activities are appropriately funded, subject to the application of the Subsidy Control Act 2022 and consideration of the advisory outcome of the referral process to the Subsidy Advice Unit of the CMA. It is expected that these requirements will have been met prior to the signing of POL's FY22/23 ARA but in circumstances in which this is not possible the Department will use reasonable endeavours to ensure such arrangements are in place as soon after signing as practicably possible.
15. The Department also recognises that the arrangements it has in place, and/or which it plans to put in place, are intended to make sure that (1) the Horizon Liabilities, (2) the costs associated with handling payments linked to the Horizon Liabilities and Other liabilities and (3) the costs associated with the POHIT Inquiry, are fully funded. However, [REDACTED] IRRELEVANT [REDACTED] IRRELEVANT [REDACTED] IRRELEVANT the Department expects that in the event of [REDACTED] IRRELEVANT POL will provide sufficient notice of the change and underlying causes, and it notes that as at the date of this letter notice has already been provided to it by POL regarding some risks [REDACTED] IRRELEVANT [REDACTED] IRRELEVANT in FY23/24 and FY24/25, specifically in relation to (3) above, although the precise scale



and timing of these risks is still to be finalised. The Department is working with POL and intends to provide sufficient funding for these increased costs and going forward it will work with POL to develop solutions to support the Company **IRRELEVANT**

IRRELEVANT. This will be subject to HMT consent.

Unfunded Risks

16. DBT recognises that the Company faces other **IRRELEVANT** **IRRELEVANT** This includes liabilities associated with discussions **IRRELEVANT** **IRRELEVANT** **IRRELEVANT** as well as potential **IRRELEVANT** faced by POL linked to the treatment by **IRRELEVANT** established to resolve the Horizon Liabilities and the Other Liabilities. The Department expects that in the event of these risks crystalizing POL will provide sufficient notice of that occurrence, whilst accepting that in some cases, such as the decision resting with **IRRELEVANT** timelines are outside the control of the Company. In these circumstances the Department will work with POL to develop solutions to support the Company in **IRRELEVANT**

Notification of Changes

17. Whilst DBT is not currently aware of any impediment to the provision of funding envisaged under this letter, DBT will notify the Company if, at any time, it becomes aware that impediment could occur. As noted throughout this letter, a number of the funds referenced within are subject to the consent of HM Treasury.

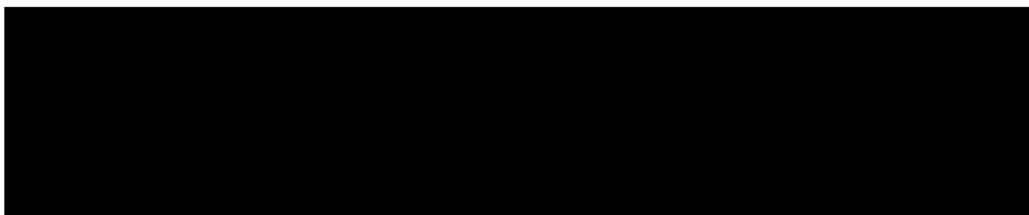
Yours sincerely,

.....
Chief Financial Officer

Appendix 4: Government funding requirements and status

Funding area	Current status	Expected completion	Completed?	Included in LOS?	Additional detail
IRRELEVANT			Y	N	-
			Y	N	-
			Y	Y	-
			Y	N/A	-
			Y	Y	-
			Y	Y	-
			Y	Y	IRRELEVANT
			N	N/A	
			N	Y	
			N	N/A	
			N	Y	
			N	Y	
			N	Y	

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