

Post Office Limited – Strictly Confidential

POLARC13 (1st)
POLARC13/1- 13/8

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on
Wednesday 13 February 2013 at 1.15pm
at 148 Old Street, London EC1V 9HQ

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Susannah Storey	Non-Executive Director

In attendance:

Alice Perkins	Chairman, Post Office Limited
Paula Vennells	Chief Executive (CEO)
Chris Day	Chief Financial Officer (CFO)
Susan Crichton	HR & Corporate Services Director
Sarah Hall	Head of Financial Control and Compliance
Alwen Lyons	Company Secretary
Mark Davies	Communications Director (item 13/4 only)
Malcolm Zack	Head of Internal Audit
Stephen Collins	Audit Manager, Royal Mail Group Internal Audit (item 13/5 only)

Apologies for absence: Tim Franklin

POLARC13/1 INTRODUCTION

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.

POLARC13/2 MINUTES OF THE LAST MEETING AND MATTERS ARISING

- (a) The minutes of the meeting held on 13 November 2012 were approved for signature by the Chairman of the Committee.
- (b) The CFO reported that there was one final item to agree before he could confirm the external audit fees payable for 2012/2013 but he was content with the value being offered and would report the final fee to the Committee once it had been finalised.

ACTION:
Chris Day

- (c) The following minutes were noted:-
Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 16 November 2012
Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 12 December 2012
Post Office Risk & Compliance Committee held on 21 January 2013.

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ACTION:
Susan Crichton

- (d) It was agreed that in future, instead of the minutes of the above Risk Committees being presented to the ARC for noting, Susan Crichton, as Chair of the Risk & Compliance Committee would provide a summary of the key issues covered.

ACTION:
Susan Crichton

- (e) Susan Crichton explained the changes to the Post Office's Speak Up Policy (Whistleblowing) and the plan to communicate to Staff in April. The policy was noted by the Committee who requested a report on the issues raised at the end of 2013-2014, with any significant matters highlighted in the interim.

POLARC13/3

RISK MANAGEMENT WITHIN POST OFFICE LIMITEDRisk Management Strategy 2013-2014

ACTION:
**Susan Crichton/
Alasdair Marnoch**

- (a) Malcolm Zack presented the Post Office Limited's Risk Management Strategy for 2013-2014. The current status of the Enterprise Risk Management (ERM) framework was noted.
- (b) The next stage of the ERM development was agreed and would be recommended to the Post Office Limited Board.
- (c) The Committee discussed the Risk Management Strategy for 2013-2014 and the relationship between the Risk & Compliance Committee, the Audit and Risk Committee, the Executive Committee and the Board. It was agreed following the completion of the Strategy both the Business and the Board would identify the key material risks (top 5-10) which would be brought back to the ARC in the autumn for consideration.

ACTION:
**Susan Crichton/
Alasdair Marnoch**

- (d) Regulatory Risk Framework and Controls
The Committee considered the Regulatory Risk Framework currently in place for Post Office Limited and thanked the Business for the comprehensive list of regulation identified.
- (e) Susan Crichton stressed the need for a clear view on risk appetite and the costs involved with assurance and mitigation. She asked the Committee to recognise that this was work in progress. The Committee endorsed the proposed approach to monitoring, and agreed that the Committee should review the Regulatory Risk Framework later in the year once the risk appetite work had been completed.
- (f) Treasury Risk Management
The CFO presented the Treasury risk management framework, policies and authorities to the Committee. The Chairman thanked him for the full report and the Committee discussed each principal treasury risk, as set out below.

Post Office Limited – Strictly Confidential**(g) Foreign exchange Risk**

The CFO explained that, although large volumes of currency were held by the Business, the value at risk was relatively small. Tim Franklin had asked the Business to consider the effect of reducing the number of currencies held as this would reduce complexity and cost. The CFO acknowledged that the 'long tail' of currencies with relatively few sales did add complexity.

The Chairman asked if forward hedging a month was effective. The CFO explained that the current regime was very risk averse and time consuming and was an area which he would reconsider.

(h) Interest Rate Risk

The CFO explained that the Business was affected by both sides of the interest rate market and that he would only be concerned if the market became volatile.

(i) Insurance Risk

The Committee asked the Business to consider the need for Professional Indemnity Insurance cover as it moved into the area of financial services advice.

**ACTION: Susan
Crichton**

(j) Counterparty Risk

The CFO presented the list of counterparties and reassured the Committee that any proposed additions would be presented to the Committee for approval. The Committee asked that the list be updated to show the parent company and highlight where a parent company guarantee existed. The list of counterparties was noted.

**ACTION:
Chris Day**

The Committee discussed the flow of Government funds and the possible advantage for the Business and the Government of a different approach. The CFO was asked to explore the possibility with ShEx but ensuring this would not put receiving the agreed funding at risk.

(k) Governance and Reporting

The governance and reporting explained in the paper was discussed. It was agreed that policy breaches identified by management and any oversight processes should be notified to internal audit. The Head of Internal Audit would report any significant policy breach to the Committee.

**ACTION:
Malcolm Zack**

The Committee noted the treasury risks to which the Post Office was exposed. It was agreed that the proposed framework of treasury policies and procedures, including the governance and reporting mechanisms and associated approvals and limits, be recommended to the Post Office Board in March.

**ACTION: Chris
Day**

POLARC13/4

ANNUAL REPORT AND ACCOUNTS

Mark Davies joined the meeting

- (a)** The Committee considered the plans for the publication of the Post

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Office's Report and Accounts (R&A) for the financial year 2012/2013 which included the key messages, together with a proposed timeline for clearance of the report. It was agreed that the R&A should aim to change people's perception of the Business by being concise and engaging, showing solid progress but with a sense of realism and excitement.

ACTION:
Mark Davies

The Chairman advised the Business to compare the R&A to those produced by mid-cap or small private limited companies as these were often more concise than those produced by big corporations.

ACTION:
**Neil McCausland/
Susannah Storey**

- (b) Neil McCausland explained the pressure from Government for full disclosure in the Directors' Remuneration Report. The Remuneration Committee had agreed with advice from New Bridge Street (Remuneration Consultants) an appropriate level of disclosure. Susannah Storey recommended checking with ShEx that we are in line with the other companies in which they hold a share.

ACTION:
Mark Davies

The Committee stressed the need to be prepared for the questions which would be raised by the disclosures in the Directors' Remuneration Report.

ACTION: All

- (c) The first draft of the Board Chairman's Foreword had been circulated and the Committee were asked to provide comments to Mark Davies and Alice Perkins.

ACTION:
**Mark Davies/
Alwen Lyons**

Tim Franklin had asked that the Business consider if there was a subject on which it would want to make a public statement in the R&A. He gave, as an example, the easy way in which customers were able to move their bank current accounts.

The plans for the publication of the Post Office's Report and Accounts for the financial year 2012/2013 were noted. The Committee asked for a high level detailed milestone plan showing when the Board would be required to input and who was signing off which parts of the document.

Mark Davies left the meeting.

POLARC13/5

INTERNAL AUDIT

- (a) Stephen Collins joined the meeting.
- (b) Malcolm Zack presented the activity report for the internal audit function, which the Committee noted.
- (c) The Chairman asked that future Internal Audit Reports include the outcomes required from the Audit and a timeline showing when those outcomes would be delivered so that they could be tracked. Susan Crichton explained that this detail was scrutinised by the Risk and Audit Committee and it would be included in the summary requested by the ARC. (POLARC 13/2 (d)).

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- (d) Malcolm Zack reported the progress in setting up the Post Office internal audit team and how this would enable a more flexible approach.

ACTION:
Malcolm Zack

The proposed internal audit plan for the financial year 2013/2014 was considered and reviewed. The Business was asked to ensure it had enough focus on the major transformation programmes in both Network and IT.

ACTION: All

The Chairman asked that any other comments be forwarded to the Head of Internal Audit.

ACTION:
Malcolm Zack

It was agreed that

- (i) the remaining contracted 100 man days from the Royal Mail Internal audit function be utilised in the first quarter of the 2013/2014 financial year, with a view to exiting from the Royal Mail support by 30 June 2013 at the latest;
- (ii) the Internal audit plan for 2013/2014 be approved subject to an increased focus on transformation programmes; and
- (iii) a copy of the approved Internal Audit plan be circulated to the Risk and Compliance Committee, and the Executive Committee.

ACTION:
Malcolm Zack

Stephen Collins left the meeting

POLARC13/6

MATTERS REFERRED TO ARC BY THE BOARD

Update report on Information Security

ACTION:
Lesley Sewell

- (a) The Committee noted the paper on Information Security. The Chairman explained that he had already asked Lesley Sewell to focus on the immediate actions required to ensure the matter was progressed to mitigate the significant risks.

ACTION:
Lesley Sewell

The Committee asked for an update in the CEO's Board Report explaining the specific actions being taken.

- (b) Bank of Ireland (UK) plc Capital and Liquidity
The Committee noted Bank of Ireland (UK) plc's capital and liquidity position against its regulatory and Eagle contract requirements, which had met the terms of the joint venture agreement. Tim Franklin had assured the Chairman that he was comfortable with the current position and the on-going agreed monitoring.

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ANY OTHER BUSINESS

None was reported.

POLARC13/8

CLOSE

There being no further business, the meeting was declared closed.

GRO