

Post Office Limited

POST OFFICE LIMITED
(Company Number 2154540)

Meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE
to be held at 14.00 on Thursday 12th September 2013
at 148 Old Street, London, EC1V 9HQ in the Board Room

| | | | Action Requested |
|-------|---|--|-------------------------|
| 14.00 | 1 | Minutes of the last meetings and matters arising Alasdair Marnoch | |
| | | <ul style="list-style-type: none"> Minutes of the meetings held on 21 May and 5 June 2013 Matters arising: <ul style="list-style-type: none"> - Actions List - Key issues covered by Risk & Compliance, and Regulatory Risk Committees (including activity report from Risk & Compliance Committee) | Approve |
| | 2 | Risk Management Chris Day/ David Mason | Note |
| | | <ul style="list-style-type: none"> Status of Risk Strategy and Framework Executive Committee Risk Map #1 and action plan | |
| | 3 | Internal Audit Malcolm Zack | Note and Approve |
| | | <ul style="list-style-type: none"> Update and key outcomes Q3 Plans Status of recommendations implementation Technical Update | |
| | 4 | Information Security Update Lesley Sewell | Note |
| | 5 | The Interim Report Sarah Long | Approve |
| | | <ul style="list-style-type: none"> The plan for half year financial reporting | |
| | 6 | Any other business | |
| | 7 | Dates of Next Meetings Alwen Lyons | |
| | | Wednesday 6 November 2013 14.00-16.30 | Note |
| | | Proposed dates for 2014 | Approve |

PRESENT: Alasdair Marnoch (Chairman)
Neil McCausland (Non-executive director)
Tim Franklin (Non-executive director)

SECRETARY: Alwen Lyons (Company Secretary)

IN ATTENDANCE: Alice Perkins (Company Chairman)
Paula Vennells (Chief Executive)
Chris Day (CFO)
Susan Crichton (General Counsel)
Malcolm Zack (Head of Internal Audit)
David Mason (Head of Risk Governance)
Lesley Sewell (Chief Information Officer) (Item 4 only)
Sarah Long (Financial Accounting Governance Manager) (Item 5 only)

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POLARC13 (3rd)
POLARC13/16-13/22

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on Tuesday 21 May 2013
at 148 Old Street, London EC1V 9HQ**

Present:

| | |
|------------------|-----------------------------|
| Alasdair Marnoch | Chairman of Committee |
| Neil McCausland | Senior Independent Director |
| Tim Franklin | Non-Executive Director |

In attendance:

| | |
|----------------|---|
| Alice Perkins | Chairman, Post Office Limited |
| Paula Vennells | Chief Executive (13/16 – 13/19 only) |
| Chris Day | Chief Financial Officer (13/16 – 13/19 only) |
| Sarah Hall | Head of Financial Control and Compliance (13/16 – 13/19 only) |
| Alwen Lyons | Company Secretary |
| Angus Grant | Ernst & Young |
| Jeremy Midkiff | Ernst & Young |

Apologies for absence:

| | |
|----------------|----------------------------------|
| Susan Crichton | HR & Corporate Services Director |
|----------------|----------------------------------|

POLARC13/16

INTRODUCTION

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present emphasising the that the Committee had been called to review the first set of Annual Accounts as a business operating independent of Royal Mail Group, which they would then recommend to the Post Office Board for approval.
- (b) It was noted following the Board meeting on the 20th March Susannah Storey had relinquished her role on the Audit and Accounts Committee.

POLARC13/17

PRESENTATION OF DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 31 MARCH 2013

- (a) The CFO introduced the Post Office Limited Annual Report and Financial Statements for the 2012-13 financial year and the supporting briefing book. He explained that the accounts had been prepared as a stand-alone group to best practice plc reporting standards.
- (b) The CFO led the Committee through key points of note in the briefing book. They discussed the rise in 'other operating costs' driven by investment in brand and future growth and asked the business to ensure that a clear explanation was included in the document. The Committee discussed the segmental analysis of product pillar costs and the possible misunderstanding about the direct allocations of costs

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- to products. It was agreed that the information had to be included but that the introduction of product P&L reporting would help to make things clearer in the future although this might take 2-3 years to complete. The Chairman asked the business to expand on the explanation of the cost of sales to make it clear that they are directly attributable costs only.
- ACTION: Sarah Hall**
- ACTION: Sarah Hall**
- (c) The increase in headcount was raised and Sarah Hall explained that this was partly driven by the Network Transformation programme and that a further disclosure note breaking down the headcount was required and would be added.
- (d) The Quality of Earnings section of the briefing book was discussed and it was noted that, excluding the increased investment in projects of £27m, the earnings had improved by £30m. Once adjustments for timing and other corrections were made the underlying earnings improvement was reduced to £24m. It was noted that this was internal analysis for information and was agreed that the Quality of Earnings would not be included in this year's Report and Accounts but would be monitored by the business, along with benefit realisation, for possible inclusion in a future year's accounts.
- ACTION: CFO**
- (e) Sarah Hall was asked to include an explanation on the movement in the client receivables and payables within working capital in the Financial Review
- ACTION: CFO**
- (f) The Committee discussed the proposed changes to the Going Concern evaluation in the Corporate Governance Code and the possible effect on the business in future years. Angus Grant reported that the changes were still out to consultation. The Chairman asked that the proposals be brought to a future Committee for discussion.
- ACTION: Chairman**
- (g) The Committee agreed the Annual Report and Financial Statements and agreed that the Chairman of the Committee would give a verbal recommendation to the Board that:
- the Annual Report and Financial Statements should be approved; and
 - authority be delegated for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch, with final signoff from the Board Chairman.

POLARC13/18

AUDIT RESULTS REPORT

- (a) Copies of the report produced by Ernst & Young, setting out the external auditor's preliminary conclusions on the financial position and results of operations of POL for the financial year ended 31 March 2013, had been circulated to all those present at the meeting..
- (b) Angus Grant confirmed the independence of the external auditor and

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commented on the approach to the audit and its scope.

- (c) The significant audit and accounting issues set out in the report were discussed in detail, together with the key internal control findings. It was recognised that despite the significant challenges facing the business in separating from Royal Mail Group and delivering Network Transformation, Ernst & Young reported a very smooth audit process and anticipated that an unqualified audit report would be issued
- (d) The auditors had reviewed and agreed the appropriateness of the Going Concern basis for preparation of the financial statements.
- (e) They congratulated the business for the improvements in the IT controls, stressing that this had been driven by good governance and a tight control framework. The co-ordinated audit between Finance and IT was highlighted as a success and Sarah Hall and Lesley Sewell were to be thanked for their input.
- (f) The auditors raised one legacy issue which had been highlighted in the HRSAP (an RMG system) with in appropriate access available to individuals. The change had been requested of RMG but would take some time to deploy, so check controls had been put in place in the interim.
- (g) There was discussion around the classification of accruals and provisions for Subpostmasters and Crown staff payments. The business explained that the amounts were measureable and were intended to be paid after negotiations with the CWU and NFSP were completed and therefore stood by their classification as an accrual.
- (h) Angus Grant summarised that the audit was complete. There would be a review for post balance sheet events just prior to signing. He expected the report to show a clean audit. He congratulated the business on the progress in the last year, with all issues closed off and tighter controls in place.
- (i) The Chairman thanked Ernst & Young for their report, which would now be made final.
- (j) Angus Grant reiterated the independence of the external auditor and explained that he had contacted the Chairman of the Committee to report that a different team at Ernst & Young were bidding for work which might cause a possible conflict. The Chairman was comfortable with the independence and thanked Angus for the transparency in highlighting the possible issue.
- (k) The Committee noted the report.

POLARC13/19

**UPDATE ON VARIOUS FINANCIAL SERVICES MATTERS,
INCLUDING BANK OF IRELAND (UK) PLC CAPITAL & LIQUIDITY**

- (a) The Committee noted the update on various Financial Services matters, including Bank of Ireland (UK) plc capital & liquidity.

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The Post Office Limited executives left the meeting.

POLARC13/20

OPPORTUNITY FOR AUDITOR COMMENTS

- (a) The auditors reported that the business always engaged in good constructive dialogue and was easy to work with. The Committee asked how the control environment would benchmark against the market. Angus Grant reported that in his opinion, after the improvements in the IT controls, both the control environment and management capability were on the border of 1st and 2nd top quartile. Even whilst managing the separation the controls had remained in place.
- (b) When asked where improvements could be made Jeremy Midkiff suggested that the business could further develop its skills in the tax/treasury area. Angus Grant also proposed that the Business focus on developments in the regulatory landscape, and suggested he brief the CFO and Susan Crichton (HR & Corporate Services Director).

ACTION: CFO

ACTION: CFO

- (c) The Chairman asked the CFO to update the Board in September.

POLARC13/21

DATE OF NEXT MEETING

- (a) Wednesday 5 June 2013 14.00-16.00

POLARC13/22

CLOSE

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

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POLARC13 (4th)
13/23-13/26

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on Wednesday 5 June 2013
By correspondence**

Present:

Alasdair Marnoch
Neil McCausland
Tim Franklin

Chairman of Committee
Senior Independent Director
Non-Executive Director

In attendance:

Alwen Lyons

Company Secretary

POLARC
13/23

INTRODUCTION

- (a) It was noted that a meeting of the Committee was to be held by correspondence to consider three items of business.

POLARC
13/24

BENEFITS REALISATION GOVERNANCE

- (a) A Benefits Realisation Governance paper had been circulated to the Committee on 30 May 2013 for its consideration and input. The Committee noted the recommended approach for the measurement of financial benefits and post investment reviews.
- (b) Tim Franklin asked that, emphasis be given, through personal objectives, to ensure individuals understood their responsibility for benefits realisation.
- (c) Committee members responded in writing to the Company Secretary approving the proposed governance approach for managing and reviewing the delivery of financial benefits derived from business investments.

POLARC
13/25

INTERNAL AUDIT ACTIVITY UPDATE AND REVISED Q2 PLAN

- (a) The Internal Audit Activity Update and Revised Q2 Plan had been circulated to the Committee on 30 May 2013 for its consideration and input.
- (b) Committee members responded in writing to the Company Secretary noting the Internal Audit Activity update and revised Q2 plan.

POLARC
13/26

INTERNAL AUDIT TRANSITION - AUDIT DEFINITIONS AND REPORTING

- (a) The Internal Audit Transition – Audit Definitions and Reporting paper had been circulated to the Committee on 30 May 2013 for its consideration and input.
- (b) Committee members responded in writing to the Company Secretary noting the changes of reporting styles from Royal Mail to Post Office Internal Audit.

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POST OFFICE LIMITED
AUDIT, RISK AND COMPLIANCE COMMITTEE
ACTIONS LIST AS AT 5 SEPTEMBER 2013

| No. | REFERENCE | ACTION | BY WHOM | STATUS |
|------------|---------------------------------|---|--------------------------------------|--|
| A1 | November 2012 POLARC12/8 | The approach to risk management would be a matter for particular focus at the next meeting in February. | Susan Crichton | Next stage of ERM development and Treasury Risk Management to be recommended to POL Board. Risk Management Strategy for 2013-2014 – Board and Business to identify key material risks. On September Agenda. |
| A2 | November 2012 POLARC12/9(g) | The CFO and HR & Corporate Services Director would then lead a session at the Board to give comfort that the Business understands its regulatory risks and has the policies in place to monitor and mitigate. | Chris Day/ Susan Crichton | On September Agenda. |
| A3 | November 2012 POLARC12/13(a) | The Committee asked that the minutes of future Regulatory Risk Committees (RRC) be provided for the ARC. | Susan Crichton | Completed |
| A4 | November 2012 POLARC12/13(f) | <u>Governance of Eagle Contract</u> The Committee asked NK to provide an interim update on the regulatory position in September 2013, 6 months after the changes had taken effect. | Nick Kennett | To November 2013 Board |
| A5 | November 2012 POLARC12/13(g) | The Chairman noted that it would be useful at the same meeting to look at scenarios in which Post Office would need to respond to a termination event relating to the Eagle Contract. | Nick Kennett | To November 2013 Board |
| A6 | November 2012 POLARC12/14 | Company Secretary to reconfirm and recirculate meeting dates for 2013 in February, May, September and November | Alwen Lyons | 13 February, 20 March, 21 May, 12 September, 6 Nov |
| A7 | February 2013 POLARC13/2 | One final item to agree on external audit fees payable for 2012/13 but content with value being offered. To report final fee to Committee once finalised. | Chris Day | Completed |
| | | Summary of key issues covered by Risk & Compliance Committee to be provided to ARC | Susan Crichton | Completed |

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|-----|-----------------------------|--|---|---|
| | | Speak Up policy (Whistleblowing) to be communicated to Staff in April. Report to be provided to ARC on issues raised at the end of 2013-14 with any significant matters highlighted in the interim. | Susan Crichton | Completed |
| A8 | February 2013 POLARC13/3 | <p>Following completion of the Risk Management Strategy for 2013-14 both the Business and the POL Board would identify the key material risks (top 5-10).</p> <p>Committee to review Regulatory Risk Framework later in the year once the risk appetite work had been completed.</p> <p>Consider the need for Professional Indemnity cover as it moved into the area of financial services advice.</p> | Susan Crichton/ Alisdair Marnoch Susan Crichton/ Alisdair Marnoch Susan Crichton | On Agenda September 2013 |
| A9 | February 2013 POLARC13/4 | <p>Compare POL's Report and Accounts to those produced by mid-cap or small private limited companies.</p> <p>Check with ShEx that POL's proposed level of disclosure of Directors' Remuneration is in line with other companies in which ShEx hold a share.</p> <p>Comments on Board Chairman's foreword to Mark Davies/Alice Perkins.</p> <p>Business to consider if it wanted to make a public statement in the Report and Accounts.</p> | Mark Davies Neil McCausland/ Susannah Storey All Mark Davies/Alwen Lyons | All Completed |
| A10 | February 2013 POLARC13/5 | Business to ensure it had enough focus on the major transformation programmes in both Network and IT within the internal audit plan for 2013-14. | Malcolm Zack | The Transformation Programme focus will be subject to detailed planning and on-going terms of reference. This will commence after the relevant Internal Audit Manager has been recruited and inducted. <i>UPDATE Sept 2/13. IT audit programme underway, IT Audit manager now an attendee to the IT Transformation Delivery Board. Audit work in NTP yet to be planned. Focus is currently on</i> |

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| | | | | |
|-----|-------------------------------|--|--|--|
| | | | | <i>FRP. Audit Work on SPMO has been completed.</i> |
| | | Remaining contracted 100 man days from the Royal Mail Internal audit function be utilised in the first quarter of 2013-14 with a view to exiting from the Royal Mail support by 30 June 2013 latest. | Malcolm Zack | The Director or Audit and Risk at Royal Mail (Derek Foster) has been informed and is supportive. A meeting between Malcolm Zack and Stephen Collins of the Royal Mail Internal Audit team is being scheduled to agree work on 2012 audit follow ups, LINK and possible assistance to the Swindon Operations Review. <i>UPDATE sept 2/13 - Service now transitioned. RMG led audits for Q1 activity completed during Q1 and cleared during Q2. Action now completed</i> |
| | | Circulate copy of approved Internal Audit plan to Risk & Compliance Committee and Executive Committee. | Malcolm Zack | A copy will be sent to the R&CC members for noting at the planned R&CC scheduled for the 18 th March. Exec members whose areas were under specific review have been re briefed individually. A finalised plan will be sent for information after the R&CC. <i>Completed during March 2013</i> |
| A11 | March 2013 POLARC13/11 (b) | Business to ensure that the Annual Report and Accounts timetable included enough time for ARC/Board members to review the reports, and anyone with responsibility for signing off a part of the Report has sufficient time and understands their deadline. Timetable to be updated and circulated to the Board. | Mark Davies Mark Davies | Both Completed |
| A12 | March 2013 POLARC13/11(c) | Business to revisit language in Going Concern Statement to make it clear that the Business was operating at a loss before NSP. | Chris Day | Completed |

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| | | | | |
|-----|---------------------------------|--|--|---|
| A13 | March 2013 POLARC13/11(d) | Segmented pillar income not to be disclosed in 2013 Accounts. Business to check template for Financial Statements to ensure that all public disclosures were necessary. | Sarah Hall Sarah Hall | Both Completed |
| A14 | 20 March 2013 POLARC13/12(d) | Review of allocation and focus of internal audit resource. | Malcolm Zack | <i>UPDATE Sept 2/13 – 3 person Team in place since June 2013. 2013/14 audit plan underway since April 2013. Completed</i> <i>A review of the Branch audit capability has been completed in mid August. After consultation with Chris Day a paper to the ExCo is being drafted for October ExCo so a business view can be discussed with the Nov ARC. Verbal update to September ARC.</i> |

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POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE

Risk & Compliance Committee Report August 2013

1. Purpose

The purpose of this paper is to:

- 1.1 Provide the Audit, Risk and Compliance Committee (ARC) with an update on the activities of the Risk & Compliance Committee (R&CC).

2. Background

- 2.1 The R&CC is a sub-committee of the Post Office Executive Committee (ExCo), chaired by the General Counsel and comprises: the Finance Director, Strategy Director and the Director of IT & Change. Also in attendance are the Heads of Risk and Internal Audit.

3. Current Activity Summary

- 3.1 The R&CC has provided oversight for the implementation of the risk management strategy in Post Office to ensure that progress continues to be made. The plan for the first quarter of the year was approved and has been delivered. The plan for the second quarter was approved and delivery is currently being monitored. There are no concerns with the current implementation and that significant progress has been made.
- 3.2 The R&CC has reviewed the outputs of the ExCo risk workshop and developed the content.
- 3.3 The committee has reviewed the major risks identified in the business through the risk management tool and from the Strategic Programme Management Office (SPMO) and endorsed the actions in place to manage the risks.
- 3.4 A number of business policies have been reviewed by the committee and endorsed for subsequent adoption by the ExCo, including the Risk Management Policy, Business Continuity Policy and a range of information security policies.

4. Recommendations

- 4.1 The Audit, Risk and Compliance Committee is asked to note this update.

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POST OFFICE LTD AUDIT AND RISK COMMITTEE

Risk Management Strategy 2013-2014

1. Purpose

The purpose of this paper is to:

- 1.1 Update the committee on the current status of the Enterprise Risk Management (ERM) framework in Post Office Limited.
- 1.2 Provide the committee with the Executive Committee's (ExCo) view of the risks faced by the company in pursuing its objectives.

2. Background

- 2.1 A risk management strategy paper was presented to the committee in February 2013.
- 2.2 The paper set out a plan of activity to develop a risk management framework in Post Office. The plan is included at Appendix A for reference, together with the current status for each of the plan actions.

3. Summary of current plan status

- 3.1 Stage 1 of the plan is complete.
- 3.2 Stage 2 is in progress:
 - ExCo have held a risk workshop in June 2013 with a follow-up review in July 2013 and developed a risk map with identified owners, controls and action plans;
 - three directorates (Finance, Financial Services and Commercial) have held workshops;
 - a review has been completed of the risk management software tool.
- 3.3 In addition to the plan elements, a restructure of the Risk & Compliance team has been carried out and recruitment is underway to fill the new roles which are more directly targeted to the delivery of the risk management agenda.
- 3.4 Once the team is sufficiently resourced the remaining components of stage 2 of the plan will be delivered, e.g. risk library, training materials etc.

4. Summary of Executive Risk Map

- 4.1 The Executive Committee risk map is included in Appendix B with the detailed risk profile table in Appendix C.
- 4.2 The current risk map reflects the stage Post Office is at in relation to the strategic plan, with a number of uncertainties on the horizon.

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- 4.3 The risks have been separated into two groups: those relating to running the business (yellow) and those relating to the strategic plan (white). The most significant risk in the running of the business is currently in relation to regulatory breach and is focused on public procurement (risk 15).
- 4.4 Looking at the critical risks, two of these relate to external factors:
- support and engagement of stakeholders (risk 1); and
 - responding with pace to competitors (risk 19).
- 4.5 The other critical risks relate to internal factors:
- Post Office dependency on a small number of service or commercial contracts (risk 2); and,
 - The potential failure of one or more major 3rd parties (risks 11, 12, 13 & 21)
- 4.6 Internal controls have been identified for the majority of risks and action plans will be put in place to address any gaps. These controls will be monitored by the Risk & Compliance Committee to enable tracking of risks.
- 4.7 A governance framework is in place whereby risks identified within directorates or strategic programmes are compiled and aggregated by the Risk & Compliance team to give an enterprise view; critical risks identified through this process are escalated via the Risk & Compliance Committee to ExCo.
- 4.8 ExCo will review the risk map and profile on a quarterly basis.

5. Recommendations

The Audit and Risk Committee is asked to:

- 5.1 acknowledge the progress made so far;
- 5.2 support the continued ERM development in line with plan;
- 5.3 provide direction with regard to the assessment and review of risks; and
- 5.4 receive an ExCo review of risks on a 6-monthly basis.

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Appendix A: Risk strategy plan

Plan

Stage 1 – Target: To commence in February 2013

1.1 The Risk and Compliance function will draft a Risk Management Policy to apply across the organisation. – **complete July 2013**

1.2 The Executive Committee will review and approve the policy and recommend its approval by the Board. – **risk management policy adopted by ExCo July 2013**

1.3 Confirm the Governance Structure of the Risk Management Framework

- Agree the position, relationship and relative risk responsibilities of the Audit and Risk Committee, (ARC) and the Risk and Compliance Committee (R&CC). – **in place**
- The R&CC will finalise the Terms of Reference for the R&CC and primary content of meetings. – **complete June 2013**
- Agree the linkage between Head of Internal Audit and Head of Risk. – **in place**

1.4 Appoint the new permanent Head of Risk. – **interim appointment in place from Jan 2013**

1.5 Strengthen the risk management framework. – **ongoing**

Stage 2 – Target to commence April 2013

2.1 The Executive Committee to establish its top level business wide view of risk.

- Identify and assess the top 15-20 risks to achieving the strategic objectives.
- Create first Executive “Board Level” Risk Map.
- Create the initial action plan.
- Assign ExCo members to each risk and action plan.
- Assign an ExCo member to present first draft to the ARC or to the Board.
- Agree to review and update the ExCo risk map and action plans each quarter.

Complete

2.2 Commence integration to next level - **in progress**

- Share the ExCo Risk map with the SLT and risk champions.
- Implement in Directorates using workshop and risk map approach.

2.3 In each Directorate - Flow down the top risks from the Executive - **in progress**

- Identify which ones does the business unit under review link to.
- Identify own top risks related to own top objectives.
- Identify if there are risks at this level that should be promoted upwards.

2.4 Refine the library of risk maps, action plans – **in plan.**

- Quarterly each Directorate will review its risks and input to the ERM tool.

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- Improve the quality of Directorate review of business risks at the Risk and Compliance Committee and/or ARC where appropriate.
- The Transformation Board will review and manage the risks and interdependences of the Transformation Programme

2.5 Alongside risk map roll out: - in plan

- Work with the Executive Committee to define the company's risk appetite and risk tolerance concepts to be ratified by the Board. (Head of Risk)
- Review Stratex model and populate with output from risk workshops (ongoing – Head of Risk to lead).
- Develop the Business Controls Framework which supports the management of risk.
- Track risks arising from results of audits (internal, external) and input these into the risk management framework.
- Develop Workshop material and training where needed.

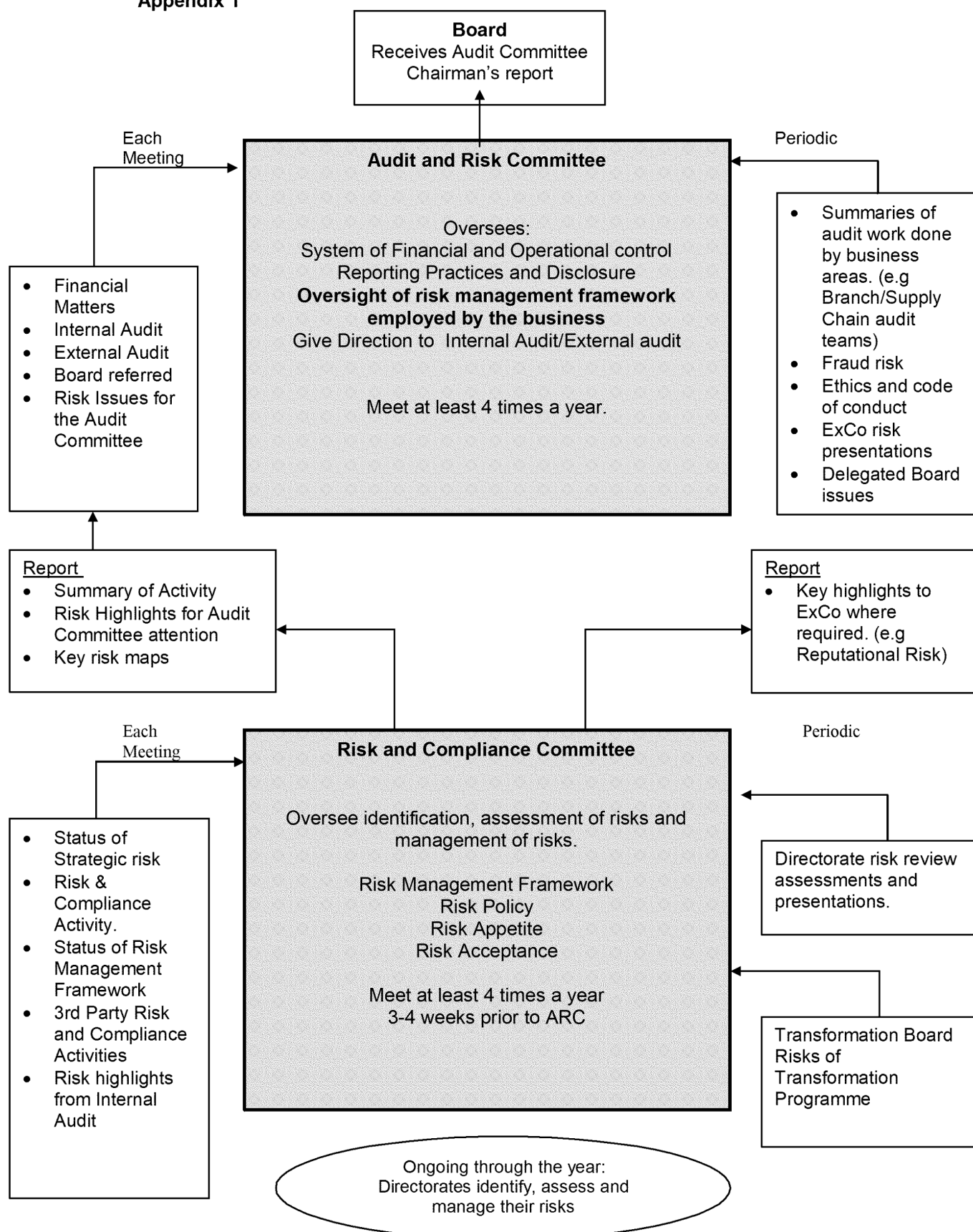
2.6 The Executive Committee will start its quarterly reviews and update the ARC or Board, explaining movements in the key risks and highlighting new ones.

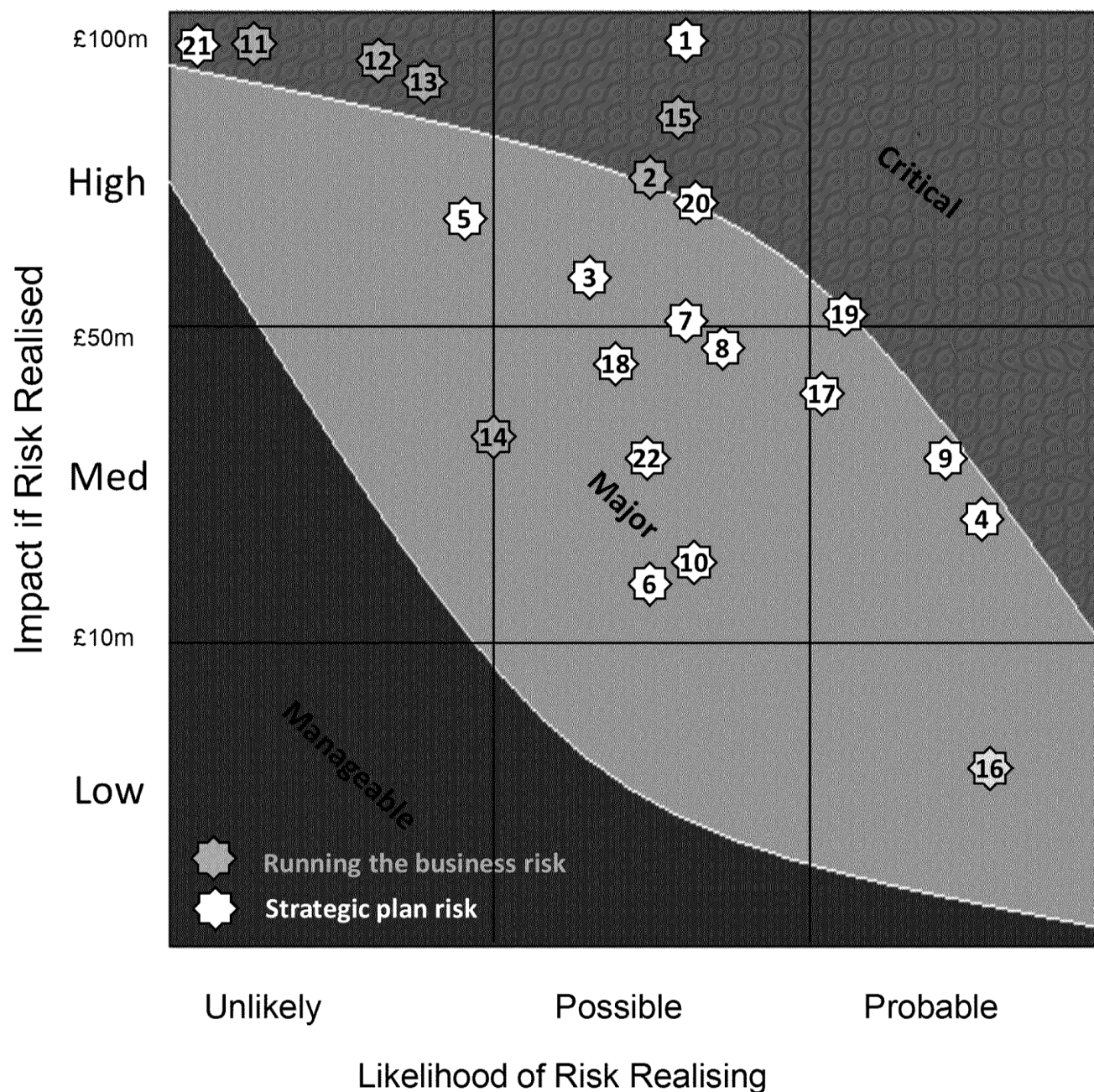
Stage 3 – January 2014 –onwards

- 3.1 Develop the next stage of strategy. (Head of Risk)
- 3.2 Assess status, benchmark, consider longer term move towards recognised ISO risk Management standards. (Head of Risk)
- 3.3 Identify if some Directorates require more sophisticated techniques (e.g Financial Services). – (Head of Risk)
- 3.4 Establish ongoing auditing of risk management framework and provide advice/support where required. (Head of Internal Audit)

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Appendix 1



Appendix B: ExCo risk map – 1st July 2013

| | Risk description |
|----|---|
| 1 | Plans are significantly hindered, redirected or otherwise changed by major stakeholders |
| 2 | Dependency on small number of service or commercial contracts |
| 3 | Risk that income fails to materialise (e.g. Govt depts do not provide business) |
| 4 | Risk of rating change for ATMs and/or interchange rate |
| 5 | Failure to finance transformation through loss of state aid or other investment stream |
| 6 | Failure to take action on central costs and/or sustain lower cost base |
| 7 | Post Office cannot develop sufficient capacity or capability to deliver plans |
| 8 | Risk that culture does not change effectively |
| 9 | Risk that Post Office does not deliver 2015 commitments |
| 10 | Risk and opportunities with bringing in more of value chain internally (e.g. insurance) |
| 11 | Failure of a major counterparty |
| 12 | Failure of a major IT supplier |
| 13 | Infrastructure failure or business continuity/disaster recovery failure |
| 14 | Separation increases business continuity risk |
| 15 | Non-compliance with regulatory framework or contractual obligations |
| 16 | Actions of BOI in their own markets has collateral impact on Post Office |
| 17 | Increased risk of competition from known operators or unknown coalition |
| 18 | Failure to deliver the new models through agreements with multiples/symbols |
| 19 | Failure to respond to the competitive environment with pace |
| 20 | Failure to fully engage operators in the plans for Network Transformation |
| 21 | Risk that PO cannot pick up BOI business on termination or break of Eagle agreement |
| 22 | Risk that current investigations identify systemic weaknesses in systems and/or processes |

| | New Risk Description | Risk factors | Potential impact if risk realised | Key controls or triggers | Action plan | Due date | Owner | Objective |
|---|--|---|-----------------------------------|--|--|----------|---|--|
| Stakeholder Risks | | | | | | | | |
| 1 | Plans are significantly hindered, redirected or otherwise changed by one or more major stakeholders | Change of RMG ownership leads to significant (negative) change in relationship. Stakeholders not committed to block Post Office plans Government rejects Post Office plans Risk that Government changes approach (e.g. new gov't tells us what to do) | £95m | MDA RMI relationship management/product team Monitoring of RMI relationship Dedicated BIS stakeholder management approach Direct engagement with NFSP BIS stakeholder management approach Ministerial stakeholder management Opposition party engagement Engagement monitoring | Strategy and communications director / teams to confirm approach | FY 13-14 | Paul Brown Sue Barton Sue Barton | Income growth ALL ALL ALL |
| 2 | Dependency on small number of service and commercial contracts. | Dependency on small number of service contracts. Dependency on small number of commercial contracts | £60m | Service delivery team Supplier performance monitoring Product management teams Partner performance | | | Lesley Sewell Paul Brown | RTB RTB |
| Financial Risks | | | | | | | | |
| 3 | Risk that income fails to materialise. (E.g. Government debts do not provide business) | Risk that income fails to materialise. (E.g. Government debts do not provide business) | £60m | Quarterly performance packs Monthly ExCo reporting Trading Board reporting | | | Paul Brown | Income growth |
| 4 | Risk of a rating change for ATMs and/or interchange rate. | Risk of a rating change for ATMs and/or interchange rate. | £20m | | | | Nick Kennett | Income growth |
| 5 | Failure to finance transformation through loss of state aid or other investment stream | Risk to funding through failure to secure State Aid Investment stream may dry up | £75m | | | | Susan Crichton Sue Barton | Modernisation Modernisation |
| 6 | Failure to take early action on central costs and/or failure to sustain lower cost base. | Failure to take early action on central costs and/or failure to sustain lower cost base. | £20m | Quarterly performance reviews Quarterly performance pack | | | Chris Day | Income growth |
| People & culture risks | | | | | | | | |
| 7 | Post Office cannot develop sufficient capability or capacity to deliver plans | POL does not have capacity to deliver plans POL does not have sufficient commercial capability Risk POL cannot reskill the business to meet market developments (e.g. create bank) Over-reliance on key people and contractors in influential positions. | £50m | Directorate People plans Headcount monitoring through HRBPs & Hd of Resourcing Strong links between HR and change activity Succession planning Directorate People plans supported by HRBPs L&D interventions Succession planning Directorate People plans supported by HRBPs L&D interventions Proactive resourcing strategy Succession planning Directorate People plans supported by HRBPs L&D interventions | | | Fay Healey Fay Healey Fay Healey Fay Healey | ALL Income growth ALL RTB |
| 8 | Risk that Culture does not change effectively (engagement, IR, ways of working) | Risk that Culture does not change effectively (engagement, IR, ways of working) | £45m | Developing a robust IR strategy - focus on employee and Agent engagement Mutualisation/culture workstream | | | Fay Healey | People |
| 9 | Risk that Post Office does not deliver 2015 commitments. | Risk that Post Office leadership credibility is damaged if 2015 commitments are not met. | £35m | Transformation Board | | | ALL | People |
| 10 | Risks and opportunities with bringing in more value chain internally (e.g. insurance) | Risks and opportunities with bringing in more value chain internally (e.g. insurance) | £20m | Transformation Board | | | Nick Kennett | Income growth |
| Infrastructure and information Risks | | | | | | | | |
| 11 | Failure of a major counter party. E.g. BOI, RMG | Failure of a major counter party. E.g. BOI, RMG | £95m | BOI financial status monitoring | | | Nick Kennett/ Paul Brown | RTB |
| 12 | Failure of a major IT supplier | Failure of a major IT supplier | £90m | Service management Contractual BCM arrangements | | | Lesley Sewell | RTB |
| 13 | Infrastructure failure (e.g. for a week) or business continuity/disaster recovery failure | Infrastructure failure (e.g. for a week) or business continuity/disaster recovery failure | £90m | BCM plans BCM testing Separation programme management Service management Contractual BCM arrangements Monitoring | | | Lesley Sewell | RTB |
| 14 | Separation increases business continuity risk. | Separation increases business continuity risk. | £30m | | | | Lesley Sewell | RTB |
| Legal and Regulatory Risks | | | | | | | | |
| 15 | Non compliance with regulatory framework or contractual obligations. | Non compliance with regulatory framework or contractual obligations. Risk that POL misuses data. Risk that POL is non compliant with procurement rules Risk that Data integrity is compromised. Risk that data protection arrangements are weak or compromised. Risk of a breach of exclusivity arrangements with BOI. | £90m | Trading board compliance monitoring BOI/POL Reg Risk Committee DPA compliance training DPA compliance testing Procurement system Non-compliance monitoring Data management strategy Service management IS team PCI compliance ISO 27001 compliance monitoring Project Verto Head of Risk role in FS Breach monitoring | | | Kevin Gilliland Lesley Sewell Chris Day Lesley Sewell Lesley Sewell Nick Kennett | RTB RTB RTB RTB RTB Income growth |
| Competition and Market Risks | | | | | | | | |
| 16 | Actions of BOI in their own markets has a collateral impact on Post Office. | Actions of BOI in their own markets has a collateral impact on Post Office. | £6m | | Transfer to FS directorate risk register | | Nick Kennett | Income growth |
| 17 | Increased risk of competition from known operators or unknown coalition | Increased risk of competition from known operators or unknown coalition | £40m | Annual planning | | | Paul Brown/Sue Barton | Income growth |
| 18 | Failure to deliver the new models through agreements with multiples/symbols | Failure to deliver the new models through agreements with multiples/symbols | £45m | NT programme NTP KPI monitoring | | | Kevin Gilliland | Modernisation |
| 19 | Failure to respond to the competitive environment with new/digital/multichannel | Failure to respond to the competitive environment with new/digital/multichannel | £50m | Pricing boards Change processes | | | Paul Brown | Modernisation |
| 20 | Failure to fully engage operators in the plans for Network Transformation | Successful challenge made to Post Office restriction policy with operators. New models are not sufficiently attractive to operators | £75m £75m | NT programme NTP KPI monitoring NTP KPI monitoring | | | Kevin Gilliland Kevin Gilliland | Modernisation Modernisation |
| 21 | Risk that Post Office cannot pick up BOI business at end/break of Eagle agreement (emerges 2023 and needs addressing 2018/9) | Risk that Post Office cannot pick up BOI business at end/break of Eagle agreement (emerges 2023 and needs addressing 2018/9) | £90m | Contractual break points FS strategy Monitoring | | | Nick Kennett | Income growth |
| 22 | Risk that current investigations identify systemic weaknesses in systems and/or processes | Risk that current investigations identify systemic weaknesses in systems and/or processes | £60m | Project team | | | Susan Crichton | ALL |

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POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE

Internal Audit – Activity Update and revised Q3 plan

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Committee on the outcome of the final audit activity conducted by the Royal Mail Internal Audit function (RMG IA) on behalf of POL IA as part of the 2013/2014 internal audit plan and the POL IA audit activity that has got underway.
- 1.2 Outline the planned, requested and proposed audit and advisory work for Q3.
- 1.3 The committee is requested to note and provide directions as necessary.

2. Outcome of recent audits (RMG IA led)

- 2.1 RMG IA conducted an audit of the Financial Controls around payments made to agents as part of the Network Transformation Programme. The review focused on the controls over payments to agents for conversion of branches under the Network Transformation Programme, including authorisation pre conversion, evidence of works completion, any deductions for outgoing agents or debt, and evidence for final payment.
 - The outcome of the audit was satisfactory.
 - Extra controls needed to check for duplicate payments prior to approving payments, stronger checks and evidence needed for financial assessments of agents who had multiple branches.
 - Observation made to improve consistency over Health and Safety checks on site.
 - At POL IA's request, RMG IA also followed up the actions reported in the NTP Financial controls report issued in November 2012 (summarised at the February 2013 ARC) and concluded all recommendations had been implemented to a satisfactory level.
- 2.2 The Committee is advised that at time of writing, two audits run by the RMG IA have run passed the 30th June transition date. The follow up on Information Security (August 2012) was completed in early July but due to meeting postponements and then holidays, clearance with Lesley Sewell did not occur until mid August 2013.

Secondly an audit of the IT Separation Governance around separation that had been requested by IT and agreed with Internal Audit/ARC did not complete fieldwork until July and reporting was not made available until August. RMG will absorb any overrun above the originally agreed 120 unused days carried over from 2012/13.

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Outcomes

IT Separation Governance

- A documentation based assessment of the governance over the POL Separation programme including Governance and structure, project management and controls, resourcing, capability, risk and issue management, change control, and programme reporting.
 - Satisfactory conclusion, with action needed to fill some resource gaps. No major recommendations raised.

Information Security

- Of the original 8 actions, 3 were assessed as complete. Of the 5 remaining, activity has been underway but is yet to be completed. The report refined those remaining actions and these will be tracked going forward.
- 2.3 As part of the transition, RMG were requested to conduct follow ups of all audits conducted in 2012 so that POL IA would have a clear view of what is outstanding and yet to be addressed as at June 30 2013. The following follow ups have been completed
- POLSAP – POLSAP receives customer transactions from the Horizon POS system in branches and computes branch balances, and settlement information. Data is also fed onto the current financial system run by RMG – ESFS upon which financial and management accounting is based. Review followed up 11 issues identified from work in 2012. 8 cleared and 3 in progress. (Of which 1 has since been cleared. – Actions remaining are minor.
 - Horizon – Three items remain of which two are work in progress.
 - Please see the separate IA measures paper showing the follow up statistics for items brought forward from June 2013 and raised by post June Audits to end of August 2013.

3. POL Internal Audit - Audit and advisory work

- 3.1 **Branch Audit Function.** The audit of the branch auditing function which is part of Network Operations completed in late July and at time of writing is being cleared with senior management in August. This is now to be further discussed at the upcoming Executive Committee so that a full recommendation to the shape of network auditing within overall POL auditing principles can be made by management to the ARC.

3.2 Strategic Programme Management Office

- This audit focused on how the SPMO is managing the overall strategic programme of change as part of Internal Audit's project and programme assurance work. The overall conclusions were a medium to high level of assurance but 12 actions have been agreed to collectively:

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- Strengthen Risk management discussions and general challenge
 - Implement the lessons learnt tracking as required by the board paper on benefits realisation tracking
 - Improve documentation material
 - Clarify remit and awareness of role of SPMO among stakeholders
- The one page Executive Summary is in appendix 2. The full report including the risk assessment is available upon request.

3.3 Underway – due for clearance by October 2013.

- Software Licencing
- Identify and Access Management
 - A summary of the outcomes will be reported at the October or November ARC

3.4 Advisory work.

Separate from designated Audit work, Internal Audit has conducted the following:

Information Security Policies

- The Information Security and Assurance Group have developed fourteen information security policies. IA has provided detail feedback to assist the finalisation of these policies.

Management Requests

- Where possible, the IA team will accommodate management requests providing the risks are commensurate and resource is able to flex.

Logged requests

- Segregation of Mails – assistance to approach.
- Information Security Policies
- Lessons from recent external review (Second Sight)
- Financial Controls – governance template review for Finance Road Map
- Support to the Business Continuity Plan developments for the Finance Directorate. (Joint with Finance Governance Manager).
- Process “to be” workshops on HR SAP upgrade.

4. Project/Programme Assurance

Project Assurance is a key element of the Post Office Internal Audit strategy. An on-going involvement in key high risk projects at project and steering level enables Internal Audit to:

- Identify potential risk and control issues early on.
- Advise management and staff on potential solutions.
- Provide steering groups with on-going assurance and challenge.
- Assist management in establishing risk management methods

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- Ensure that appropriate controls are built in.
- Ensure key decision points such as gateways from stage to another or Go/No go decisions are effectively managed

- Project Assurance began in April 2013 in the Core Finance System led initially by the Head of Internal Audit.

- Since the arrival of Safia Saeed – Audit Manager Projects and Programmes day to day leadership of the audit has been passed to Safia with support from the IT Audit Manager on IT aspects.

- As project assurance is on-going, full audit reports along the lines of themed audits are not produced. In contrast the team reports to the Programme Board using “highlight reports” outlining work done and upcoming and any recommendations made during the previous 4-6 weeks.
 - The most recent published highlight report (July) recommended action to improve the briefing of senior Finance team members so that they would be in a better position to make decisions and approve the final business process design meetings during August and that the risk management processes and reporting be reviewed and upgraded. We have seen evidence of the first action. There has been a change of programme office management during July/August and Internal Audit will be assisting this team with the second action.

- POL IA will be developing an overall assessment scorecard during Q3/4 for major programmes/projects.

5. Risk Management

- The next stage of the Risk Management Strategy for 2013 was the first Executive Committee Risk Workshop. This was facilitated by the Head of Internal Audit and the Head of Risk Governance on June 18th. It was followed by a process of 1:1s with ExCo members and further ExCo meetings in July and August.

- Although the original plan agreed with the ARC/ExCo was to commence Directorate workshops following ARC review of the first Executive Level risk map, this process got underway in August 2013.
 - Workshops with Financial Services and Commercial have taken place and whilst still finalising output have informed the Executive Level assessment. The executive level assessment provided the top down structure for these workshops.

- The risk mapping technique has also been implemented in the Finance Road Map Programme and to assist a workshop for the actions arising from the Second Site interim result.

- The results are documented in the separate agenda item. Internal Audit will continue to support the development of the Risk Management Framework. This is not in conflict with internal auditing standards which do specifically provide for IA involvement in risk management framework and strategy development with safeguards.

Strictly Confidential**6. Status of Q2 activity and forward planning.**

The audit projects and revised work plan is in the appendix

Due to the fluid nature of activity, the audit plan is reviewed on a quarterly basis to allow higher risk items to be given priority or to accommodate requests from the business as far as resources allow.

Q1/Q2 results

- Most of Q1/Q2 has been completed or commenced as planned in March 2013. The changes are:
 - Review of the Swindon Stores capability and Assessment of the Supply Chain Compliance team moved to Q3 to accommodate the larger review of branch auditing.
 - The proposed short random check of POLSAP security has been put on hold due to the positive results of the formal follow up. The review of the HRSAP security (selected because audit activity in the last 2-3 years has not included HRSAP) has been put on hold because HR are in the process of upgrading to a new version of HR SAP. It will be more beneficial to review the set up nearer implementation in 2014.

Forward Plan – Q3 activity.

It is proposed to complete and commence the following activities using a mix of the IA team and its co-sourced support

To complete:

- Software Licencing and Identity & Access management audits.

To Commence during Q3

- Swindon Stores – (Planning underway)
- Treasury – application of policies and procedures. (First audit of the function and processes since transfer from Royal Mail in 2012 –(planning and risk assessment now underway)
- Overall governance assessment of NTP – Programme Assurance
- Second Sight – Implementation programme (MZ to lead with IA team)
- Second Sight – Review (MZ to assist)
- Benefits Realisation (management and methods)

On-going

- Finance Road Map Programme – Programme Assurance including risk management, issue management, systems and UAT testing strategies.
- Support to the Risk and Compliance team in the risk management roll out.

Other areas for ARC consideration

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- The original candidate list presented in February was longer than the team was likely to cover within the financial year. The ARC members are requested to review the dashboard in the appendix and highlight any reviews that should be given focus during Q3 or Q4.

7. Action requested

- 7.1 The committee is requested to note the activity and outcomes and direct as necessary.

Malcolm Zack
12th September 2013

Appendices:

SPMO Executive summary.
Internal Audit – forward planning
Internal Audit – Summary time analysis

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**Overall Assurance: -
Medium - High****STRATEGIC PROGRAMME MANAGEMENT OFFICE**

| Audit Highlights and Opinion | Strengths | Weaknesses |
|---|--|--|
| <ul style="list-style-type: none"> The SPMO (Strategic Programme Management Office) supports the Transformation Board (TB) in overseeing and directing delivery of all major change in support of the Post Office's business strategy. It aims to hold business leads to account for project costs, benefits and delivery; review and challenge project status reports and ensure alignment with business strategy and other projects. As part of our review we followed the monthly SPMO cycle for July which included attending: <ul style="list-style-type: none"> Several delivery meetings between SPMO and business/programme leads A Transformation Board meeting A cross portfolio and programme meeting <p>We reviewed TB meeting materials and sources of data. We also interviewed a sample of SPMO stakeholders for their views</p> | <ol style="list-style-type: none"> SPMO is a lean, skilled team comprised of three individuals The team demonstrates strong awareness of major programmes and projects Team members are respected by stakeholders and seen as "go to" people for advice on dependencies and stakeholder management SPMO provides feedback from TB meetings to stakeholders which encourages engagement SPMO provides a strong focus on programme/project finances | <ol style="list-style-type: none"> There was a weak focus on programme risk management and lessons learnt tracking Sources of data, data time periods and manual adjustments were not clearly shown in TB meeting materials There was insufficient challenge on a new KPI for the TB scorecard and how it had been derived. There were varying degrees of stakeholder awareness of the remit of SPMO and Transformation Board There was a general perception amongst the sample of stakeholders we interviewed that SPMO focus is weighted on programme finances rather than delivery |
| Opinion <ul style="list-style-type: none"> Based upon the audit work undertaken a medium to high level of assurance is given over SPMO activities and controls. In general the SPMO appears to be addressing its objectives effectively. It engages well with stakeholders to gather relevant information to present and discuss with the TB. The report details twelve recommendations to enhance and formalise some of SPMO's activities with specific focus around Risk Management and Lessons Learnt. | Top Priority Agreed Actions <ol style="list-style-type: none"> Risk management information and analysis to be enhanced Lessons learnt tracking to be implemented Improvements to TB meeting materials including disclosure of source data and manual adjustments. Greater challenge to be provided on KPI scores | Top Concerns None noted |

| | |
|-----------------------|--|
| Executive Responsible | Susan Barton |
| Distribution (date) | Piers Virik, Stephen Hirst, Michael Brown. Cfl – Chris Day, Paula Vennells |
| Prepared By | Safia Saeed |
| Reviewed By | Malcolm Zack ¹ |

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Risk and Control Assessment



State of controls/processes managing the key risks under review

As at:-

09-Aug-13

Risk and Control Dashboard

Risk that the SPMO is unable to effectively support the Transformation Board in overseeing and directing delivery of all major change in POL.

Key Sub Risks to Manage

Project Alignment

There is a risk that projects may proceed that are not aligned with the strategic objectives and other projects

SPMO is informed/made aware of all projects, of which those falling within its remit are selected for review.

SPMO is aware of the business case for each programme/project in scope in order to check alignment to strategic objectives.

SPMO Independence and Resource

There is a risk that Projects may not be delivered on a timely basis, within budget or may not achieve stated objectives because SPMO may not be independent enough to provide sufficient challenge

SPMO's role and remit is clearly defined, documented and appropriately approved

SPMO's role and remit has been clearly communicated to stakeholders

The SPMO team's workload and staff resources are regularly reviewed

Risk Management

There is a risk that programme/project risks may not have been identified and managed appropriately and could adversely impact delivery

A risk log is maintained for each programme/project and risks are assessed for impact and likelihood and prioritised. Action/mitigation plans are identified for each risk. The log is periodically reviewed and updated.

SPMO conducts focussed risk discussion in monthly delivery meetings with business and programme/portfolio leads.

SPMO reports key programme/project risk information to TB in a timely and consistent manner

Reporting to Transformation Board

There is a risk that TB may be unable to make key decisions due to:

- Inefficient processes (issues may not be escalated timely, or at all)
- Information provided by SPMO may be insufficient, inaccurate or incomplete
- Key metrics and performance indicators may not be clearly defined or consistently calculated

A process has been developed for escalating issues to TB in a timely manner

There is an audit trail for all data presented in TB packs. Data is clearly presented (i.e. time period, date data was collected, manual adjustments, assumptions and sources are shown) SPMO provides any further information and/or performs actions requested by TB in order for it to reach decisions

Lessons learnt and post delivery evaluations

There is a risk that issues experienced from past projects may be repeated as Post Investment Reviews (PIR) may not be performed consistently and lessons learned may not be formally documented and shared

A lessons learned review is performed for each project and shared with SPMO

A post investment review is performed to assess whether the project was delivered to budget and whether it achieved anticipated benefits. SPMO shares lessons learned (financial and operational) with business and programme/portfolio leads.

Key

Process in place but serious weaknesses

Process in place, some improvements needed

Process in place, no major issues

Not yet assessed

As at August 31 2013

Updated Plan

| | |
|-----------------------------------|--|
| Completed | |
| Satisfactory Progress | |
| Active but behind schedule | |
| Considerable delay/Unsatisfactory | |
| Cancelled or postponed | |

| <u>Planned Audits/candidate List</u> | <u>Priority</u> | | <u>Risk Management Framework</u> | | <u>Project Assurance</u> | |
|---|-----------------|-----------|--|-----------|--------------------------------------|-----------|
| Complete from 2012/13 plan Master Data Reference review (RMG IA) | B | Done | Executive Risk Review | Reporting | 1. Finance Road Map Programme | Fieldwork |
| | | | Finance Risk Update - May 2013 | Reporting | 2. Network Transformation Programme | NYS |
| Original Plan Items | | | September ARC summary | Reporting | 3. IT Change Programme | NYS |
| Management Bonus Plan - metrics (RMG IA) | A | Done | Next stage of roll out - SLT/Directorate | WIP | | |
| Follow up 2012 audits (RMG IA) | A | Done | Commercial & Marketing - 1st Risk workshop | Reporting | | |
| NTP Financial Controls Reconciliation (RMG IA) | A | Done | Financial Services 1st risk workshop | Reporting | <u>Department Development</u> | |
| IT Governance Review (RMG IA) | A | Done | | | | |
| Cash Centre Audits - Observation of approach - level of assurance gained from 2nd line defence team | A | PP to Q3 | | | 1. Complete recruitment | Done |
| LAN Security Review - Access and Identity Management | A | Fieldwork | | | 2. Complete Co - Sourcing Contract | Done |
| Swindon Stores review (pp to Q2/Q3) | A | Planning | <u>Mgt Requests</u> | | 3. Set up Templates/proformas | Done |
| | | | IT Security Policies - review | Done | 4. Set up recommendations tracking | Done |
| Benefits Realisation - Management and Methods | A | Nov | IT general Controls document | WIP | 5. Set up team objectives etc | Done |
| Management of the SPMO | A | Done | Mails - segregation and penalties | WIP | 6. Half year reviews | NYS |
| Data Security - controls around protection of personal data. | A | ??? | Request to provide audit input to RAID documents for NTP | Done | | |
| Policy Compliance assessment - Anti - Bribery and AML | A | NYS | Financial Controls Framework | WIP | | |
| Treasury - Review of procedures and control framework | A | Planning | BCP support to Finance Directorate | WIP | | |
| Network Auditing - Approach and methods (POL IA) | A | Reporting | | | | |
| Software Licence review | B | Fieldwork | | | | |
| SAP Security - POL SAP - short random reviews | B | Cancelled | | | | |
| SAP Security - HR SAP | B | On Hold | | | | |
| Eagle Contract - Application of controls and processes agreed. | B | ??? | Does the ARC believe this is required | | | |
| Business Continuity - Readiness assessment | A | Dec? | | | | |
| Systems Integrator- Review of Governance model employed. | A | Nov/Dec? | | | | |
| Branch Audits and Losses | B | On Hold | May be superceeded by current branch work | | | |
| Transformed branches - review of value vs investment | B | NYS | | | | |
| Branch Profile Model - review of use | B | On Hold | Being redesigned by the Security team. | | | |
| Foreign Exchange - management of end to end process | B | NYS | | | | |
| Manchester Cash centre - management of closure | B | Cancelled | | | | |
| Information Security Governance - review of improvement plan and its application | B | NYS | | | | |
| IT change management | B | Q4 | | | | |
| Board effectiveness review/Executive Committee Effectiveness | B | ??? | Does the ARC believe this is required | | | |

Time Analysis

To help manage the balance of resource across the team, a simple time database is maintained. The team record time invested across various categories which are either direct, client facing/involving activities or indirect activities (team management, training, induction, internal team meetings etc).

The process commenced as at April 1 2013.

The time report for the team to 30th August is shown below. Only Garry Hooton and Malcolm Zack were in situ for the whole period.

| Type of work | Hours to date | Type | Type | Hrs | |
|--------------------------------|---------------|----------|----------|------|-----|
| Themed Audit | 1001 | Direct | Direct | 1734 | 69% |
| Induction | 391 | Indirect | Indirect | 772 | 31% |
| Project Assurance | 290 | Direct | | 2506 | |
| Advisory | 239 | Direct | | | |
| Administration | 115 | Indirect | | | |
| Development/Appraisals | 105 | Indirect | | | |
| Department Management(MZ only) | 87 | Indirect | | | |
| Risk Management Framework | 79 | Direct | | | |
| FLT/SLT | 49 | Direct | | | |
| Weekly team calls/Meetings | 42 | Indirect | | | |
| Audit Committee | 29 | Direct | | | |
| Finance Directorate Meetings | 20 | Direct | | | |
| Royal Mail Transition | 20 | Direct | | | |
| Exec/Risk Committees | 15 | Direct | | | |
| Department Management | 12 | Indirect | | | |
| Recruitment | 12 | Indirect | | | |
| Fraud/TheftInvestigations | 3 | Direct | | | |
| TOTAL | 2506 | | | | |

Time April to August 2013 (Hrs)

The pie chart illustrates the distribution of time spent on work from April to August 2013. The 'Direct' category, represented by a dark grey slice, accounts for 1734 hours, which is 69% of the total. The 'Indirect' category, represented by a light grey slice, accounts for 772 hours, which is 31% of the total.

| Type | Hours | Percentage |
|----------|-------|------------|
| Direct | 1734 | 69% |
| Indirect | 772 | 31% |

Commentary.

The % split of 69:31 direct to non direct work is as expected for the current stage of development
Time has been invested in set up including Induction for all three staff.
2 of the 3 staff did not arrive until part way through Q1.

The desired split now that the team is past the transition is to move to 80:20.
Direct time is that time spent either directly on work or with customers/clients. Indirect is internal to IA only, training, appraisals

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POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE

Internal Audit – Status of Agreed Actions

1. Purpose

The purpose of this paper is to:

- 1.1 Explain to the Committee how agreed actions arising from audits and advisory activity are tracked and progress reported.
- 1.2 The committee is requested to note and provide directions as necessary.

2. Changes to process

- 2.1 As outlined in the June 5th ARC papers, the tracking of progress of implementation of agreed actions was managed and reported by Risk Compliance on behalf of the Royal Mail Internal Audit team and reported to previous risk and compliance committee meetings.

- 2.2 As part of the transition to POL IA, POL IA will now track recommendations status directly and will report status to the ARC. Royal Mail Internal Audit was requested to conduct follow up audits on items audited in 2012 so that a position as at 30 June could be confirmed.

- 2.3 Going forward a new report has been designed and is shown in the appendix. Original agreed target dates are retained in the log even though it may be agreed to re-set a target date. It is important for the business to remain aware that risks identified from audit work have yet to be addressed if an action date is changed.

- 2.4 The report emphasises:

Implementations – because implementations by management in the previous period indicate improvements to the control environment and management of risk arising from audits/advisory work.

Period Movements – so that the business can understand the pace of change

Overdues/WIP – so that the business is aware of has been agreed but has not met original target dates and hence risks still remain.

High risk items will be highlighted and ExCo members notified directly and in the performance pack going forward.

- 2.5 As at June 30th

- 21 Actions were transferred into the new log as either work in progress or not yet due.

Through the period July and August 2013:

- 22 actions were added through a mix of audit and advisory work that took place.
- 11 of the revised total of 43 items were implemented by management.

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- Of the 32 items carried forward, 21 are not yet due, 11 are overdue from original target date but all are in progress.
- Some of these overdue items are within the information security area but the original dates were agreed when Information Security was part of Security. Since that audit, the function moved back to IT, there has been the external reviews and the establishment of the Information Security Assurance function and some changes of action point ownership. All of those items are in progress and considerable effort has been made to improve overall control. The revised dates are mainly targeted for December 2013 and are being closely monitored.
- The two rated as red risks (translated from RMG original report “priority 1”) are:
 - Embedding the information security governance into the supplier requirements for the remaining three towers. As contractual negotiations are still ongoing this is expected to run into 2014.
 - Completing the embedding of Information Security requirements into the product and service projects being developed around the business. This is underway.

3 ARC members action

- The committee is requested to note the status, the reporting methods going forward and to provide direction as necessary

Malcolm Zack
12th September 2013

Appendix
Table and graphs.

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Appendix

Overall Summary as at 2nd September 2013

| | Total | Red | Amber | Green |
|---------------------------------------|-------|-----|-------|-------|
| Total actions bfwd as at 30 June 2013 | 21 | 2 | 14 | 5 |
| Implemented by Mgt - to 31st Aug | (11) | | (6) | (5) |
| Actions added (audits and advisory) | 22 | 1 | 11 | 10 |

Carried Forward as at Sept 2nd

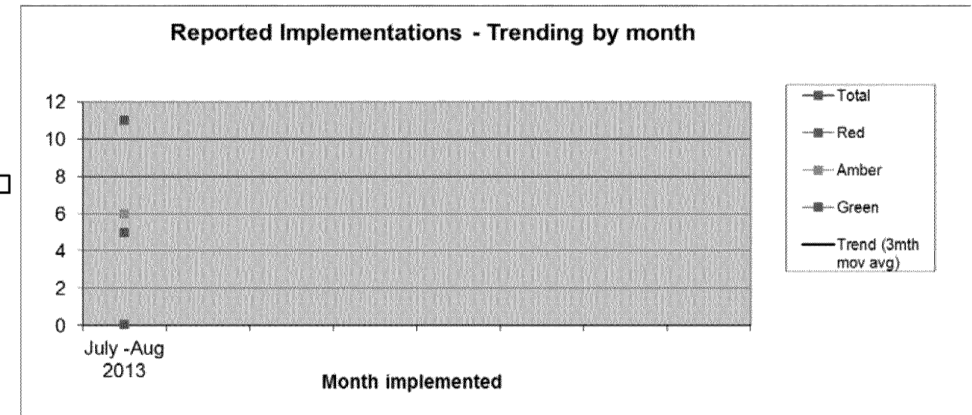
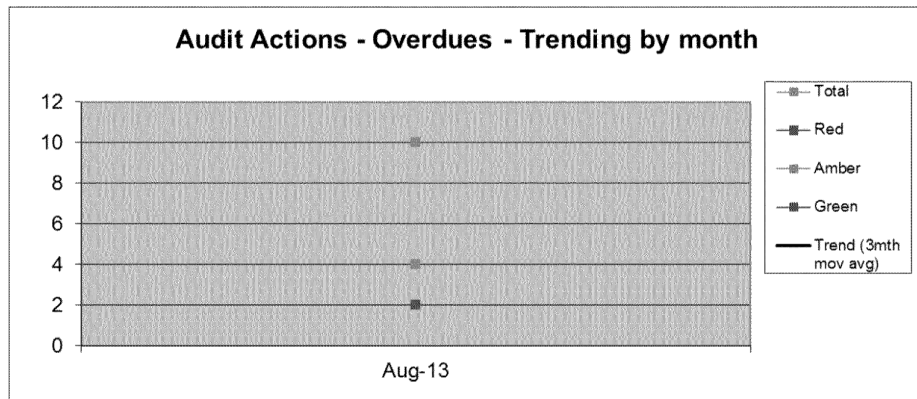
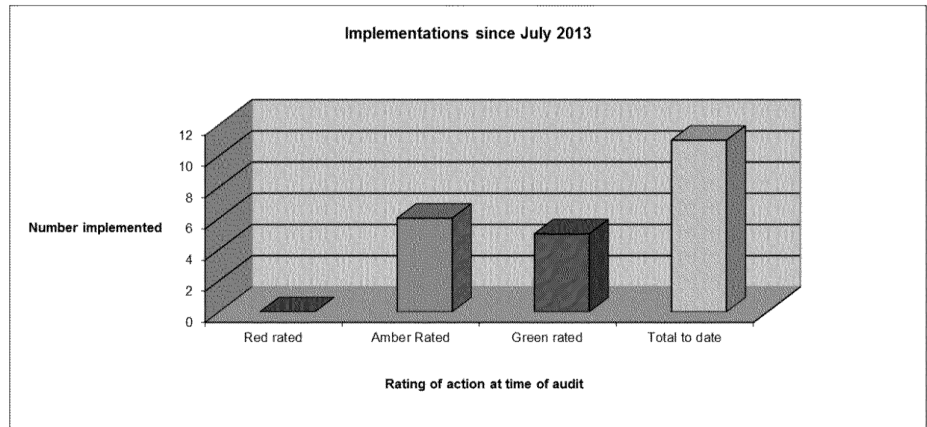
| | | | |
|----|---|----|----|
| 32 | 3 | 19 | 10 |
|----|---|----|----|



Analysis of Carried forward

| | | | | |
|----------------------------|----|---|----|---|
| Overdue - not yet started | 0 | 0 | 0 | 0 |
| Overdue - Work in progress | 11 | 2 | 7 | 2 |
| Not yet due | 21 | 1 | 12 | 8 |

| | | | |
|----|---|----|----|
| 32 | 3 | 19 | 10 |
|----|---|----|----|



POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE

Internal Audit – Technical Update for ARC members

1. Purpose

The purpose of this paper is to:

- 1.1 Summarise recent Governance, risk and audit announcements that may be of relevance to the committee and of interest and help to members in fulfillment of their audit committee duties.
- 1.2 If members of the committee require further information, POL IA will provide the detailed papers or meet with members as requested.
- 1.3 Request ARC members to note the items raised and direct as necessary

2. Announcement by Financial Reporting Council – Direct use of Internal Audit resources by External Auditors.

- 2.1 In the external financial audits conducted by E&Y on POL up to 2011/12, E&Y have traditionally used RMG IA auditors to do/assist external audit work on areas, most notably payroll. This is known as “direct assistance”.
 - For 2012/13 year end and going forward, the POL HIA stated that this support would not be provided by POL IA going forward because POL IA had only a small team of three (compared to RMG 30+) and secondly the POL IA team members were senior audit managers and using them on what is generally considered to be audit work by junior personnel, would not be an appropriate use of resources. This was agreed by the E&Y partner.
 - Since that time the FRC have stated that effective for external audits 2014 onwards, the use of internal auditors by external auditors directly on external audit work is to be banned.
 - This does not preclude the external auditors reviewing internal audit reports or internal audit workpapers and seeking to place some reliance on IA work. This has always been an option for external auditors and is not a new alternative. However, reliance may only be placed when the work has been scoped and managed by the internal audit function. (External audit may not direct the internal audit work that the IA function may be undertaking as a result of its own internal audit plans and risk assessments)
 - The move has been undertaken to avoid conflicts of interest and a lack of independence.

- This has been discussed with the E&Y partner and any planned reliance (if any) anticipated by E&Y will need to be discussed with the ARC at the presentation of the E&Y audit plans for 2013/14 at a future ARC.

3. FRC standard on external audit reports – Increasing transparency of external audit work.

- The FRC has issued a revised external auditing standard (ISA 700) to enhance transparency in the auditors report by increasing communication with investors. The Code is requiring Boards to:
- Describe the work of the audit committee in the annual report
- For the Auditor to report if the Board's disclosures do not address matters it has disclosed to the audit committee
- Auditors to inform the committee about significant audit judgements it has made.
- Effective for full reporting periods on or after 1 October 2012.

4. New code of guidance for internal auditing standards in the Financial and Public sectors.

- The Chartered Institute of Internal Auditors has issued two new codes to improve the effectiveness and positioning of Internal Audit. These seek to strengthen existing international standards especially for Financial Services organisations in light of governance issues arising since the difficulties in 2008.
- POL IA will be reviewing the guidance for any opportunities for improvement.

**Malcolm Zack
Head of Internal Audit
September 12 2013**

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POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE

Information Security and Assurance Group Update

1. Purpose

- 1.1 The purpose of this paper is to provide the ARC with an update on developments, progress, and future plans for Information Security.

2. Background

- 2.1 Since our update to the ARC in June, we have been progressing with a number of tasks within the Information Security remit and this paper is to advise, inform and assure the Committee on the progress that has, and is being made.

- Progress following the Deloitte Review
- Progress on the Top 13 Data Assets
- Update on the new Organisational Model for Information Security and Assurance Group
- Post Office certification activity underway.

3. Progress following the Deloitte Review

- 3.1 We are continuing to embed the actions from the Deloitte review into our business as usual activity, this is aligned with ISO27001¹. Most Information Security Policies have now been completed and accepted through all review groups, culminating in final acceptance by ExCo members. Only one Policy, the Acceptable Usage Policy is subject to a Corrective Action Plan and Business Case to mitigate risks, before it is re-presented. A demonstration of a secure collaborative working tool will be presented mid-September 2013, which is the proposed Corrective Action Plan for this policy.

The accepted Policies are now on the Intranet and have been communicated to all staff, planning has started to incorporate the Policies into regular updates; validation, and also as part of the induction of new starters.

- 3.2 All contracts; renewed and new continue to be tracked, including those negotiated through the IT Transformation programme to ensure Information Security and Data Protection requirements are being incorporated.
- 3.3 Information Security Training is almost complete for central locations, 2153 out of 2243 staff have completed the e-Learning module; of the 90 outstanding staff 34 are on maternity leave or long-term sick leave. The remaining 56 are being escalated to their managers.

Plans are three months ahead of schedule for the rollout to the network, which is expected to be completed by the end of the September 2013. An Information Security Workbook is being distributed on Monday 9th September 2013 for those colleagues within Networks that do not have access to the online training via Horizon.

- 3.4 Awareness is being raised across our change community, to increase understanding and to ensure Information Security and Assurance is included in Programme Initiation Documentation. This activity is being repeated within Legal and other areas such as Financial Services.

¹ ISO27001: An International Standard covering the specification and management of an organisation's Information Security Management System. The guidelines and general principles for initiating, implementing, maintaining and improving information security management within an organisation.

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4. Progress on the Top 13 Data Assets

4.1 The Top 13 Data Assets continue to be tracked through the contract and renegotiation phases (see 3.2) we are specifying Information Security and Assurance requirements which continue to include:

4.2 A full Controls Framework review is being undertaken on the marketing database Brands², which is sponsored by Post Office Marketing Directorate and incorporates Information Security and Assurance colleagues. This is expected to be concluded by Mid December 2013

See Appendix A regarding the progress on the Top 13 Data Assets.

5. Information Security and Assurance Group

5.1 Recruitment has started to recruit three roles within the Group, this is intended to support the future growth of the Post Office and provide a specialist and professional service into internal programmes and projects. One of the roles is Privacy and Data Protection which is transitioning from Risk and Compliance into Information Security and Assurance Group.

The Group is still under resourced which is a significant risk highlighted in the Group regular reporting into Risk and Compliances' Stratex tool, for presentation to the Risk and Compliance Committee. The awareness of the Information Security and Assurance Group across the organisation has increased demand for services and support which is proving difficult to fulfil.

6. Post Office Certification Activity

6.1 There are a number of Information Security Certification projects underway:

- PCI/DSS Payment Card Industry Standard – Renewal on schedule for end of September 2013
- ISO27001 Certification POLSAP³ – Renewal scheduled for October 2013
- ISO27001 Certification Front of Office Government services, on schedule for new certification 12th September 2013.

Certifications, such as the three listed above, provide:

- Competitive advantage when Post Office is bidding or gaining clients or partners – particularly within the Government and Financial space
- Demonstrates to all of our stakeholders that Post Office take Information Security seriously, and expect our partners or suppliers to do the same
- Provides the Post Office with a Corporate Information Security function by introducing a recognised Industry best practice Information Security Management System that provides a foundation for our business growth and feeds into Corporate Governance and Risk requirements

7. Summary

The Committee is asked to note the positive progress and change which has been made. The key areas for the next three months are:

² Brands is the Post Office Marketing Database containing all customer (personal data) and product records.

³ Post Office HR and Financial System

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- The transitioning of Privacy and Data Protection into the Information Security and Assurance Group, and the recruitment of 3 new roles into the new Organisational Model
- The continuous process of raising awareness of good Information Security practice across Post Office
- The Information Security due diligence within the Transformation and Change programmes
- Continue the mitigation of the top 13 risk areas
- Complete the Information Security training and instigate an ongoing Information Awareness Programme with HR
- Final sign off of the Acceptable Usage Policy and acceptance of the proposed Corrective Action Plan.

Further updates will be provided to ARC and the Risk and Compliance Committee on a regular basis.

Lesley Sewell/Julie George
September 2013

Appendix A - Progress on the Top 13 Data Assets

The following Suppliers are currently going through contract renewal and the information security and data protection house position will be implemented:

- RAPP Brands – has now been signed
- AON
- Cap Gemini
- St. Ives (part of the Rod Fishing License)
- Cogent
- BT Home Phone & Broadband (to be replaced by Fujitsu in September)

Existing contracts:

- Bank of Ireland
- POCA / HP
- FRES
- Fujitsu Horizon
- Salesforce.com & Fujitsu
- Fujitsu Home Phone & Broadband
- CSC SAP HR

A risk based approach will be used which will be presented to the Risk and Compliance Committee:

- Supplier relationship (willingness to amend contract)
- Contract duration (is it up for renewal soon)
- Information Security & Data Protections risk level
- Has the contract been amended recently (resistance to further changes)
- Contractual restrictions regarding change

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POST OFFICE LIMITED AUDIT, RISK & COMPLIANCE SUB-COMMITTEE

Interim Report for the half year ended 29 September 2013

1. Purpose

The purpose of this paper is to:

- 1.1 Invite the Post Office Limited Board Audit Risk and Compliance Sub-Committee to review the template for the Post Office Limited Interim Report for the half year ended 29 September 2013 and to consider the key messages that this Interim Report will contain.

2. Background

- 2.1 In August 2013 the Post Office published its first set of full year consolidated financial statements prepared under International Financial Reporting Standards (IFRS). These financial statements were of a 'FTSE 100' standard.
- 2.2 In order to maintain this standard it has been decided that the Post Office will publish an Interim Report for the half year ended 29 September 2013 which is fully compliant with IFRS.
- 2.3 A template Interim Report document is attached to this paper; this is intended to show the proposed layout and content of the Post Office Limited Interim Report for the half year ended 29 September 2013. This will be the first time the Post Office has produced an Interim Report which is fully IFRS compliant. This Interim Report will therefore contain significantly more information than was included in the Trading Statement that was produced in relation to the September 2012 half year.
- 2.4 This template Interim Report has been through an initial review by Ernst & Young and their feedback incorporated. This was not a full technical review; this will be carried out following the half year end. The full review is expected to necessitate further changes to the Interim Report. This template Interim Report is intended to act as a guidance document only to allow the committee to view at an early stage the layout and proposed content.
- 2.5 The half year financial information and the items highlighted in yellow are yet to be confirmed and will be finalised following the half year end and the conclusion of the audit process.

3. Interim Report approach and plan

- 3.1 The Interim Report is planned for publication in November against the backdrop of tight budgetary control within the company, a difficult external economic environment which is putting pressure on margins and discussions with Government around future strategy and post-2015 funding positions.
- 3.2 We have developed the messages and content by working closely with a comprehensive range of stakeholders and contributors from across the business to ensure it accurately reflects the progress we have made.

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3.3 The proposed key messages to be contained within the Interim Report are as follows:

- As we stressed at the year end, the Post Office is in the midst of a significant transformation, it is inevitable that we face challenges in this context and against the backdrop of difficult economic conditions on the high street. (Note that this will only be said once).
- Whilst Mails and Retail revenue is down year on year in the first six months, we are working hard to address this.
- Financial Services revenue is up year on year and on track with plans that this area will grow as we further establish this element of the business (reference to current account).
- Telecoms revenue has continued to grow year on year and Government Services performance is in line with plan.
- we have confidence in our strategy and continue to deliver business turnaround.

3.4 We have a project plan which is being led by the Communications team working closely with Finance. The current timeline is:

- 31 October – Board meeting reviews key messages, provides comments and delegates finalisation to a Sub-Committee, the quorum for which to be comprised of any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch
- 6 November – ARC meeting reviews Interim Report and will be asked to recommend that the Board Sub-Committee approves the Interim Report. Comments received from ARC
- 7-8 November – Further amendments made following ARC feedback
- 11 November – updated draft circulated to Board members, Royal Mail and Shex for comment
- 13 November – final comments received and updates made
- 18 November – Board sub-committee approves final version for publication.
- 19-22 November – date to be confirmed - publication

4. Proposal

4.1 The Communications team is proposing to produce the report in house with no external agency involvement. The Interim Report will only be available online as a pdf document.

4.2 The Interim Report is significantly shorter than the full year financial statements. The structure of the report is designed to flow from the headline statements from the Chairman (300 words) and CEO (500 words) through to a Business review which contains operational and financial information. This is followed by the financial reporting element which will include key financial statements and a selection of explanatory notes.

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5. Recommendation

5.1 The Post Office Limited Board Audit Risk and Compliance Sub-Committee is asked to:

- Note the proposed layout, content and key messages for the Post Office Limited Interim Report for the half year ended 29 September 2013 and provide any comments to Chris Day and Mark R Davies by Friday 20 September; and
- Note the proposed timetable.

Post Office Limited

Registered Number 2154540

Post Office Limited

**Unaudited interim condensed
consolidated financial statements**

29 September 2013

Yellow highlighting = TBC

Post Office Limited

Highlights/Headlines

Chairman's comment

(300 words)

Chief Executive's Review

(500 words)

Business Review

To include financial and operational detail on our pillars:

- Mails & Retail
- Financial Services
- Government Services
- Telecoms

Post Office Limited

Interim condensed consolidated income statement

| | | Half year to 29 September 2013 | Half year to 23 September 2012 |
|---|-------|-----------------------------------|-----------------------------------|
| | | Unaudited | Unaudited |
| | Notes | £m | £m |
| Continuing operations | | | |
| Turnover | | | 501 |
| Network Subsidy Payment | | | 103 |
| Revenue | | | 604 |
| People costs excluding restructuring costs | | | (128) |
| Other operating costs | | | (437) |
| Share of post tax profit from joint ventures and associates | | | 22 |
| Operating profit before exceptional items | | | 61 |
| Operating exceptional items | 4 | | (10) |
| - government grant | | | 35 |
| - restructuring costs | | | (24) |
| - other | | | (21) |
| Operating profit | | | 51 |
| Profit on disposal of property, plant and equipment | | | 2 |
| Loss on sale of associate | | | (30) |
| Profit before financing and taxation | | | 23 |
| Finance costs | | | (2) |
| Finance income | | | 1 |
| Net pensions interest | | | 1 |
| Profit before taxation | | | 23 |
| Taxation credit | 5 | | TBC |
| Profit for the period from continuing operations | | | TBC |

Post Office Limited

Interim condensed consolidated statement of comprehensive income

| | Half year to 29 September 2013 | Half year to 23 September 2012 |
|---|-----------------------------------|-----------------------------------|
| | Unaudited | Unaudited |
| Notes | £m | £m |
| Profit for the period from continuing operations | | TBC |
| Other comprehensive income: | | |
| Remeasurements on defined benefit surplus | | (32) |
| Income tax effect | | - |
| Total comprehensive income for the period | | TBC |

There are no other comprehensive income items that will be reclassified to the profit and loss in subsequent periods.

Post Office Limited

Interim condensed consolidated statement of cash flows

| | Half year to 29 September 2013 | Half year to 23 September 2012 |
|---|-----------------------------------|-----------------------------------|
| | Unaudited | Unaudited |
| Notes | £m | £m |
| Cash flows from operating activities | | |
| Operating profit before exceptional items | | 61 |
| Adjustment for: | | |
| Depreciation and amortisation | | - |
| Share of profit from joint ventures and associates | | (22) |
| Pension operating costs | | 13 |
| Working capital movements: | | 96 |
| (Increase)/Decrease in trade and other receivables | | (10) |
| Increase in trade and other payables | | 108 |
| Increase in inventories | | (3) |
| Increase/(Decrease) in non-exceptional provisions | | 1 |
| Pension operating costs paid | | (13) |
| Cash receipts/(payments) in respect of operating exceptional items: | | 213 |
| Government grant | | 200 |
| Restructuring costs | | TBC |
| Other | | TBC |
| Net cash inflow from operating activities | | 348 |
| Income tax recovered | | 11 |
| Cash flows from investing activities | | |
| Investment in associate | | (11) |
| Dividends received from joint ventures and associates | | - |
| Finance income received | | - |
| Proceeds from sale of property, plant and equipment | | 2 |
| Proceeds from disposal of associate | | 2 |
| Purchase of non-current assets | | (20) |
| Net cash (outflow) from investing activities | | (27) |
| Net cash inflow before financing activities | | 332 |
| Cash flows from financing activities | | |
| Finance costs paid | | (2) |
| Payments to finance lease creditors | | (2) |
| (Repayment)/proceeds from bank borrowings | | (250) |
| Net cash (outflow) from financing activities | | (254) |
| Net increase in cash and cash equivalents | | 78 |
| Effect of exchange rates on cash and cash equivalents | | - |
| Cash and cash equivalents at the beginning of the period | | 820 |
| Cash and cash equivalents at the end of the period | | 898 |

Post Office Limited

Interim condensed consolidated balance sheet as at:

| | Notes | 29 September 2013 Unaudited £m | 31 March 2013 Audited £m |
|---|-------|---|-----------------------------------|
| Non-current assets | | | |
| Intangible assets | | | - |
| Property, plant and equipment | | | 11 |
| Investments in joint ventures and associates | | | 60 |
| Retirement benefit surplus | 6 | | 97 |
| Trade and other receivables | | | 10 |
| Total non-current assets | | | 178 |
| Current assets | | | |
| Inventories | | | 8 |
| Trade and other receivables | | | 352 |
| Cash and cash equivalents | | | 971 |
| Financial assets – derivatives | | | 1 |
| Total current assets | | | 1,332 |
| Total assets | | | 1,510 |
| Current liabilities | | | |
| Trade and other payables | | | (874) |
| Financial liabilities – interest bearing loans and borrowings | | | (291) |
| – obligations under finance leases | | | (3) |
| Provisions | | | (19) |
| Total current liabilities | | | (1,187) |
| Non-current liabilities | | | |
| Financial liabilities – obligations under finance leases | | | (4) |
| Other payables | | | (24) |
| Provisions | | | (7) |
| Total non-current liabilities | | | (35) |
| Net assets | | | 288 |
| Equity | | | |
| Share capital | | | - |
| Share premium | | | 465 |
| Retained earnings | | | (179) |
| Other Reserves | | | 2 |
| Total equity | | | 288 |

Post Office Limited

Interim condensed consolidated statement of changes in equity

For the half year ended 29 September 2013

| | Notes | Share premium £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|-------|------------------------|----------------------------|-------------------------|-----------------------|
| At 1 April 2013 (unaudited) | | 465 | (179) | 2 | 288 |
| Profit for the period | | | | | |
| Remeasurements on defined benefit surplus | | | | | |
| Income tax effect | | | | | |
| At 29 September 2013 (unaudited) | | | | | |

For the half year ended 23 September 2012

| | Notes | Share premium £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|-------|------------------------|----------------------------|-------------------------|-----------------------|
| At 26 March 2012 (unaudited) | | 465 | (552) | 47 | (40) |
| Profit for the period | | - | 23 | - | 23 |
| Remeasurements on defined benefit surplus | | - | (32) | - | (32) |
| Transfer of pension deficit to government | | - | 286 | - | 286 |
| Sale of interest in associate | | - | 45 | (45) | - |
| Income tax effect | | - | - | - | - |
| At 23 September 2012 (unaudited) | | 465 | (230) | 2 | 237 |

Post Office Limited

Notes to the interim condensed consolidated financial statements

1. Basis of preparation and changes to the Group's accounting policies

The interim condensed consolidated financial statements of Post Office Limited and its subsidiaries (collectively, the Group) for the half year ended 29 September 2013 were authorised for issue in accordance with a resolution of the directors on XX November 2013.

Basis of preparation

These interim condensed consolidated financial statements for the half year ended 29 September 2013 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. This report should be read in conjunction with the Group's Annual Report and Accounts 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Group has net assets at 29 September 2013 and is reporting an operating profit. A funding agreement with Government was announced on 27 October 2010 which provided for:

- Funding of £410m for 2012-13
- Funding of £415m for 2013-14
- Funding of £330m for 2014-15
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) of £1.15bn up to 31 March 2016

State Aid approval for the funding for 2012-13 to 2014-15 was received on 28 March 2012 and it was also recognised that the working capital facility was no longer deemed State Aid. £410m was received on 2 April 2012.

This investment will take the form of a Government Grant and enable the Group to modernise the branch network and the continuation of the Network Subsidy Payment recognises the major social value that Post Offices provide to communities. New main and local branches are currently being rolled out across the United Kingdom. Customers are beginning to benefit from a much better retail experience including extended opening hours. This programme is designed to make the Post Office network more self-sustaining and, over time, less dependant on direct subsidy. This programme will not involve branch closures.

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 29 September 2013 and that the plans in place and the substantial investment secured will enable the Group to continue to modernise and to secure its future. However, they note that the scale of change required remains significant so not without risk.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, on that basis, the Directors consider that it is appropriate that these interim condensed consolidated financial statements have been prepared on a going concern basis.

New standards, interpretations and amendments adopted by the Group

The interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts 2013, except for the adoption of new standards and interpretations effective as of 1 April 2013.

The Group applies, for the first time, IAS 19 (Revised 2011) Employee Benefits. This has not required restatements of previous financial statements as the effect of the application of IAS 19R is not material in the opinion of the Directors. IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit asset in profit or loss, calculated using the discount rate used to measure the defined benefit surplus, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In the case of the Group, the transition to IAS 19R and the difference in accounting for interest on plan assets and unvested past service costs has not had a material impact on the net defined benefit plan surplus. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain those detailed on pages XX and XX of the Group's Annual Report and Accounts 2013, a copy of which is available on the Group's website at XXXX. These risks remain relevant for the current financial year.

Post Office Limited

3. Segmental reporting

The Group's operating segments have been identified as Mails & Retail, Financial Services, Government Services, Telecoms and other. The performance of these segments in the half year ended 29 September 2013 has been discussed further in the Business Review on page XX. Performance is assessed based on net revenue. This is calculated using segmental revenue less the directly attributable costs of delivering the service or product. Assets and liabilities as recognised on the Group balance sheet are not considered to be segmental assets or liabilities but rather are managed by the Group's central functions.

| Half year to 29 September 2013 | Revenue £m | Directly Attributable Costs £m | Net Revenue £m |
|--------------------------------|---------------|---|----------------------|
| Mails & Retail | | | |
| Financial Services | | | |
| Government Services | | | |
| Telecoms | | | |
| Other | | | |
| Sub total | | | |
| Network Subsidy Payment | | | |
| Total | | | |

| Half year to 23 September 2012 | Revenue £m | Directly Attributable Costs £m | Net Revenue £m |
|--------------------------------|---------------|---|----------------------|
| Mails & Retail | 196 | (3) | 193 |
| Financial Services | 138 | - | 138 |
| Government Services | 84 | (15) | 69 |
| Telecoms | 63 | (40) | 23 |
| Other | 20 | - | 20 |
| Sub- total | 501 | (58) | 443 |
| Network Subsidy Payment | 103 | - | 103 |
| Total | 604 | (58) | 546 |

Post Office Limited

3. Segmental reporting continued

A reconciliation between underlying segment net revenue and profit before taxation is provided below:

| | Half year to 29 September 2013 | Half year to 23 September 2012 |
|---|-----------------------------------|-----------------------------------|
| | £m | £m |
| Underlying segment net revenue | | 546 |
| Indirect costs | | (507) |
| Share of post tax profit from joint ventures and associates | | 22 |
| Operating profit before exceptional items | | 61 |
| Operating exceptional items | | (10) |
| Operating profit | | 51 |
| Profit on disposal of property, plant and equipment | | 2 |
| Loss on sale of associate | | (30) |
| Profit before financing and taxation | | 23 |
| Finance costs | | (2) |
| Finance income | | 1 |
| Net pensions interest | | 1 |
| Profit before taxation | | 23 |

Seasonality of operations

Due to the seasonality of the XX segment higher revenues are usually expected in the XX half of the year. This is mainly attributed to XX. This information is provided to allow for a better understanding of the results, however management has concluded that this does not constitute 'highly seasonal' as considered by IAS 34.

Post Office Limited

4. Operating exceptional items

These are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance.

| | Half year to 29 September 2013 | Half year to 23 September 2012 |
|--|-----------------------------------|-----------------------------------|
| | £m | £m |
| Government grant | | 35 |
| Business transformation | | - |
| Network transformation including subpostmasters compensation | | (14) |
| Restructuring – severance | | (6) |
| – other | | (4) |
| Impairment of intangible assets | | (10) |
| Impairment of property, plant and equipment | | (11) |
| Total operating exceptional items | | (10) |

5. Taxation

The overall taxation (credit)/charge in the income statement is calculated by applying the tax rate that would be applicable to the expected total annual earnings to the reported interim profit.

The major components of income tax in the interim condensed income statement are:

| | Half year to 29 September 2013 | Half year to 23 September 2012 |
|--|-----------------------------------|-----------------------------------|
| | £m | £m |
| Corporation tax credit for period | | |
| Tax under provided in previous periods | | |
| Current tax | | |
| Deferred tax credit relating to the origin and reversal of temporary differences | | |
| Income tax credit reported in the condensed consolidated income statement | | |

Post Office Limited

6. Pensions

The Group participates in pension schemes as detailed below:

| Name | Eligibility | |
|---|----------------------|----------------------|
| Royal Mail Pension Plan (RMPP) | UK employees | Defined benefit |
| Royal Mail Senior Executive Pension Plan (RMSEPP) | UK senior executives | Defined benefit |
| Royal Mail Defined Contribution Plan (RMDCP) | UK employees | Defined contribution |

The charge in the interim condensed consolidated income statement for the defined contribution scheme and the Group contributions to this scheme was £Xm in the half year to 29 September 2013, and payments of £XXm were made in respect of future service contributions, nearly all relating to RMPP. The regular future service contributions for RMPP, expressed as a percentage of pensionable pay, has remained at 17.1%.

The following disclosures reflect the Post Office Limited sectionalised RMPP scheme which is independently operated by the Group. Disclosures in relation to Post Office Limited's approximately 7% share of RMSEPP (which is operated by Royal Mail Group Limited) have been excluded as they are not considered to be significant to the interim condensed consolidated financial statements.

IAS 19R has been applied retrospectively from 26 March 2012. As a result, expected returns on plan assets of defined benefit plans are not recognised in profit or loss. Instead, interest on net defined benefit surplus is recognised in profit or loss, calculated using the discount rate used to measure the net pension surplus. The impact of transition to IAS 19R retrospectively is not material to the Group, and therefore no restatement has been required.

a) Major long-term assumptions

| | At 29 September 2013 % pa | At 31 March 2013 % pa |
|------------------------------|------------------------------|--------------------------|
| Rate of increase in salaries | | 4.3 |
| Discount rate | | 4.8 |
| Inflation assumption (RPI) | | 3.3 |
| Inflation assumption (CPI) | | 2.3 |

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013.

b) Plans' assets and liabilities

The plan assets and liabilities were:

| | Market value | |
|--|----------------------------|------------------------|
| | At 29 September 2013 £m | At 31 March 2013 £m |
| Sectionalised RMPP | | |
| Fair value of assets | | 243 |
| Present value of liabilities | | (144) |
| Surplus in plan before IFRIC 14 adjustment | | 99 |
| Less IFRIC 14 adjustment | | (3) |
| Surplus in RMPP plan after IFRIC 14 adjustment | | 96 |
| Surplus in plan for the Post Office Limited share (at approximately 7%) of RMSEPP | | 1 |

Post Office Limited

6. Pensions continued

c) Movement in plans' assets and liabilities

Changes in the present value of the defined benefit pension surplus are analysed as follows:

| Sectionalised RMPP | At 29 September 2013 £m | At 31 March 2013 £m |
|---|----------------------------|------------------------|
| Opening net retirement benefit surplus/(deficit) | | |
| Current service cost | | |
| Movement in company contributions accrued | | |
| Curtailment costs | | |
| Net financing credit | | |
| Employers contributions | | |
| Actuarial gains/losses | | |
| Closing net retirement benefit surplus | | |

7. Net debt

A summary of the Group's net debt position (excluding network cash) is shown below:

| | At 29 September 2013 £m | At 31 March 2013 £m |
|---|----------------------------|------------------------|
| Cash equivalents: | | |
| - Short term bank deposits | | 6 |
| - Money market fund investments | | 86 |
| Financial liabilities: | | |
| - Obligations under finance leases (current) | | (3) |
| - Interest bearing loans and borrowings (current) | | (291) |
| - Obligations under finance leases (non current) | | (4) |
| Net debt | | (206) |

Net debt has decreased overall by XX during the half year ended 29 September 2013 as shown in the table below.

| | £m |
|--|-------|
| Net debt brought forward at 1 April 2013 | (206) |
| Net cash inflow before financing activities | |
| Deduct increase in cash in the network included within net cash inflow | |
| Finance costs paid | |
| Net debt carried forward at 29 September 2013 | |

Post Office Limited

8. Related party disclosures

There have been no material changes to the related parties listed in the Group's Annual Report and Accounts 2013. All related party transactions arise during the ordinary course of business and are on an arm's length basis and are detailed below.

| | Sales/recharges to related party | | Purchases/ recharges from related party | | Amounts owed from related party including outstanding loans | | Amounts owed to related party including outstanding loans | |
|------------------------------|--|------|---|------|--|------|--|------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Half year to September: | £m | £m | £m | £m | £m | £m | £m | £m |
| Royal Mail Group Limited | | | | | | | | |
| Midasgrange Limited | | | | | | | | |
| First Rate Exchange | | | | | | | | |
| Services Holdings Limited | | | | | | | | |

The Group trades with numerous government bodies on an arm's length basis. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted. Separately, the Group has certain loan facilities with government, and receives a government grant and the Network Subsidy Payment from government. There were no material transactions or balance between the Group and its key management personnel during the half year ended 29 September 2013.

Post Office Limited

Report on review of interim condensed consolidated financial statements

The Board of Directors to Post Office Limited

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Post Office Limited and its subsidiaries (the Group) as of 29 September 2013 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and the explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Angus Grant
for and on behalf of Ernst &Young LLP
London
[Date]