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POLARC 17(1ST)
POL ARC 17/01 – 17/16

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 2.00 pm on 30th January 2017 at 20 Finsbury Street, London EC2Y 9AQ

Present:

Carla Stent	Chair
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Non-Executive Director (KM)

In Attendance:

Paula Vennells	Chief Executive Officer (CEO)
Alisdair Cameron	Chief Financial & Operations Officer (CFOO)
Jane MacLeod	General Counsel (GC)
Alwen Lyons	Company Secretary (CoSec)
Amanda Radford	Group Financial Controller (AR)
Nick Kennett	Chief Executive Financial Services & Telecommunications and CEO of POMS (NK)
Mike Morley-Fletcher	Head of Risk and Assurance (MMF)
Johann Appel	Senior Manager Internal Audit (JA)
Richard Williams	Senior Manager Risk (RW)
Kevin Gilliland	Chief Executive Retail (KG) (Minute POLARC 17/04)
Owen Woodley	Sales Director (OW) (Minute POLARC 17/04)
Jonathan Hill	Head of FS Risk & Regulation (JH) (Minute POLARC 17/04)
Jenny Ellwood	Head of Transformation Risk and Assurance (JE) (Minute POLARC 17/06)
Rob Houghton	Chief Information Officer (RH) (Minute POLARC 17/07)
Geoff Smyth	Head of Telecommunications (GS) (Minute POLARC 17/07)
Tim Armit	Business Continuity Planning (TA) (Minute POLARC 17/13)
Peter McIver	Audit Partner, Ernst & Young (PMI)
Claire Johnson	Senior Quality Leader, Ernst & Young (CJ)

POLARC 17/01 WELCOME AND CONFLICTS OF INTEREST

- (a) A quorum being present, the Chair opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

POLARC 17/02 MINUTES OF THE MEETING HELD ON 17TH NOVEMBER 2016, MATTERS ARISING AND ACTIONS LIST

- (a) The minutes of the meeting held on 17th November 2016 were approved as presented and the Chair of the Committee was

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authorised to sign them as a true record.

- (b) The Committee challenged the closed status of actions:
- POLARC 16/27(i), BCP testing. GC explained that a testing programme was being put in place by the new BCP Manager who had an agenda item to update the Committee on progress. BCP would return to the Committee as a matter of course and the specific action was therefore closed.
 - POLARC 16/44 (d), POMS risk dashboard. NK explained that the dashboard would be developed through the year, with risks picked up in his summary management paper.
- (c) The Committee acknowledged the work to date and the actions status report was noted as accurate.

MANAGEMENT OF KEY OPERATIONAL RISKS

POLARC 17/03

FINANCIAL CONTROL UPDATE

- (a) The CFOO reported the continued progress to implement the Financial Controls Framework which would be in place by the end of the Financial Year.
- (b) The Committee discussed the self-assessment controls. The CFOO confirmed that self-assessment required internal audit assurance to test its veracity.
- (c) The CFOO reported that the work to reconcile branch cash balances between Horizon and POLSAP was now complete for sterling but that the accuracy of branch cash declarations remained an issue. An initial workshop has been set up to look at the processes in place and to understand the root cause.
- (d) The Committee noted the report and thanked the CFOO for the good progress.
- (e) The Committee noted that the IT Controls Update report would be included in the IT Strategy paper being discussed at the Board meeting on 31 January 2017, but would appear on future Committee agendas.

POLARC 17/04

NETWORK CONDUCT RISK ACTION PLAN

- (a) NK updated the Committee on the review of End User Management (EUM) at the POMS Board, the progress made and the decision of the POMS Board to allow trading of Travel Insurance products until September 2017 subject to continued progress being made in accordance with plans.
- (b) The next milestone would be the implementation of the

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planned technical solution which was due in June/July. The Committee asked for an update from the Chair of the POMS ARC at their next meeting and NK to report to the Committee if the plan goes off track.

ACTION: JH

- (c) The Chair welcomed, Kevin Gilliland, Chief Executive Retail, Owen Woodley, Sales Director, and Jonathan Hill, Head of FS Risk & Regulation, to the meeting.

- (d) The Committee discussed the report and noted the apparent increase in upheld customer complaints. JH explained that the complaints were mostly around saving products and driven by branches not providing all the correct leaflets to customers, but the volumes were relatively small.

- (e) **JH to circulate the complaints upheld information to the Committee.**

- (f) The Committee also noted the inherent risk of local incentive schemes but were given assurance that with the introduction of the CRM sales model, postmasters had been informed of the risks. OW recognised the risk of non-compliance in such a large network, but the ultimate sanction for non-compliant postmasters was termination of their contract. KG believed that in the past postmasters have set up schemes through ignorance of the conduct issue, but this should not now be the case.

- (g) JH gave assurance that the Bank of Ireland (BoI) regulation team had signed off the Sales Managers incentive scheme.

ACTION: JH

- (h) JH stated he was pleased with the progress made against the conduct risk action plan.

- (i) **The Committee asked to see, quarterly, a network conduct risk scorecard, and action plans against the areas highlighted as concerns, with a highlight on any regulatory changes which will affect the network risk.**

- (j) The Committee noted the report.

- (k) KG, OW and JH left the meeting.

POLARC 17/05**SAFETY**

- (a) The Committee asked if there was a reason that robberies were increasing year on year. The CFOO explained that robberies had increased significantly after a decrease in 2015/16. The GE had reviewed losses, which including robberies, at a recent meeting and more work would be done in February.

- (b) The Committee asked if compliance to OHSAS 18001 H&S

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British Standard, in supply chain, was still relevant for an internal supply function. The Cfoo did not know the specific answer but believed, on context, that the level of accidents in supply chain was still higher than it could be.

- (c) The CEO noted the report appeared to suggest that there was an emerging risk of suicide. She explained that this risk arose very occasionally in the postmaster population but that the number of instances had not increased. The process to handle these situations when they arose was sympathetic and supportive for all involved, and it was not considered an emerging risk.
- (d) The Committee noted the report

POLARC 17/06**TRANSFORMATION RISK UPDATE**

- (a) The Chair welcomed Jenny Ellwood, Head of Transformation Risk and Assurance, to the meeting.
- (b) JE explained the resourcing risk inherent in the new IR35 (Off Payroll) legislation which comes into force in April 2017. There are 120 contractors caught by the changes, of which 30 are considered to be critical to the business and specific solutions are being sought for these individuals. The impact for these contractors is an average reduction in remuneration of 12-19%. The Committee was reassured by the actions taken to date and recognised the need to retain the resource which was critical to the transformation.
- (c) IT delivery capability was highlighted as the second highest risk in the report and this would be discussed as part of the IT strategy paper at the Board meeting on the 31st January.
- (d) The Committee reviewed the risk portfolio heat maps and thanked JE for the progress made.
- (e) JE left the meeting.

POLARC 17/07**CYBER-ATTACK ON POST OFFICE TELECOMMUNICATIONS BUSINESS**

- (a) The Chair welcomed Rob Houghton, Group CIO, and Geoff Smyth, Head of Telecommunications to the meeting.
- (b) GS explained the background to the cyber-attack on Post Office which took place on the 28 November, details of which were set out in the report. GS believed that the Business and particularly Fujitsu (FJ) had responded quickly and effectively.
- (c) RH explained that the only way to anticipate a similar future attack would be through the use of a predictive monitoring of the dark web, but such protection was expensive. The Committee recognised that this may be an area which would

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need future investment.

- (d) The Committee asked if there were any other parts of the infrastructure which were vulnerable. GS explained that the most vulnerable area for any business was when customer data is in transit. The risk to Post Office from this type of threat was considered low.
- (e) The Chair asked the CEO if she was comfortable with the way the incident and the PR had been handled. The CEO supported the reactive PR and thanked GS for his handling of the incident.
- (f) The Committee recognised that the incident had been well contained.
- (g) GS and RH left the meeting.

POLARC 17/08

ANNUAL RISK REVIEW

- (a) GC explained the three papers covered by the annual review.
- (b) The Committee noted the Annual Review on Money Laundering, the MLRO Annual Report and the Financial Crime Report.
- (c) The Committee noted the work underway on the Product Risk Review. The initial focus had been on Bureau de Change as the area with the highest risk of money laundering activity. Three areas had been identified as important:
 - 1. Documentation
 - 2. Policies and processes
 - 3. Training
- (d) GC explained that it was likely that identity verification would be required for lower value transactions, and that this would require operational changes.
- (e) The Committee asked when the HMRC audit report would be published and any penalty known. GC expected to hear the outcome of the audit in the next 2-3 weeks.
- (f) The Committee asked how many branches were failing to comply with the AML regulations, and were these the same branches who failed other compliance. GC acknowledged that investment had not been made in a data-mining tool which would highlight trends in compliance, and that the team were working with data across several spreadsheets. The team in Chesterfield monitored compliance across the range of activities.
- (g) **The Committee asked for a detailed review at the next Meeting, with a report to include a consolidated list of observations and an action plan to mitigate / resolve the issues across all the reports that have or are to be issued**

ACTION: GC

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on this subject.

ACTION:NK

- (h) The MLRO report highlighted a growing risk in MoneyGram compliance. **NK explained that the increase was related to the increase in the number of transactions. He promised to check and come back to the Committee if the percentage was increasing.**
- (i) NK updated the Committee on the takeover of MoneyGram.
- (j) The Committee noted the report.

POLARC 17/09

LEGAL

- (a) GC presented the annual review of legal risk and highlighted the five areas of greatest concern:
 - 1. Lack of Contract Management experience and expertise
 - 2. Lack of compliance to contract obligations
 - 3. Lack of understanding of relevant regulation
 - 4. Lack of understanding of competition rules
 - 5. Lack of deterrent due to reduced prosecutions.
- (b) The Committee discussed the control of cash, and its effect on fraud and cash utilisation. The CFOO explained that an end to end review was underway to improve cash management which should also enable more effective monitoring and intervention to reduce fraud. GC stressed that although the Business had not initiated any recent prosecutions, the police prosecuted cases where they believed it appropriate.
- (c) GC gave an update on Sparrow. The Group Litigation Order had been heard by the Court. The initial hearing went as well as could be expected, with the court requiring a high level of information from the claimants. The next procedural hearing would be in October but it was not expected that any substantive matters would be heard before next year.
- (d) The Committee noted the Annual Legal Risk Review.

POLARC 17/10

INTERNAL AUDIT REPORT

- (a) Johann Appel, Senior Manager Internal Audit, presented the report and explained that although the programme was currently behind plan it would be delivered by the end of the year. JA gave the Committee his assurance that the resourcing problems had been now been resolved.
- (b) The Committee stressed the importance of aligning the audit plan with the strategic plan and focusing on the areas of greatest risk. JA assured the Committee that since his arrival he had been working on the new plan for 2017/18 which would include the areas of greatest risk. The Business Continuity Audit would be postponed and included in the

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2017/18 plan which would be presented to the Committee in March.

- (c) The Committee noted that two IT audits had been deferred until May 2017 and stressed the need to ensure these were included in the plan.
- (d) The Committee challenged the correlation of the findings in the audit reports and the overall ratings given to audits. JA explained that the ratings were based on four areas; Value; Risk; Urgency and Impact on the business. The Committee were particularly concerned by the lack of rating for the 'Winning with Retailers PIR' and the average rating for the Data Protection audit. The Committee asked for assurance that ratings had not been negotiated away during management feedback sessions. JA assured the Committee of his independence and promised to apply a robust rating process in the future.
- (e) The Committee noted the internal audit activity.

POLARC 17/11 EXTERNAL AUDIT REPORT

- (a) The Chair asked Peter McIver, Ernst and Young (EY), to give an update on the External Audit Plan.
- (b) PMI assured the Committee that all the planning work was complete for POL and POMS audits. PMI explained that there had been some delay in receiving the Service Organisational Control (SOC) reports from Fujitsu, Accenture and CSC.

ACTION: AR (c) The Financial Controller would chase the SOC reports from Fujitsu, Accenture and CSC.

ACTION: CFOO (d) The CFOO would bring the IRIS and Pensions accounting treatment to the March ARC.

- (e) EY would consider the longer-term accounting policies outside of the annual external audit.

ACTION: PMI (f) The Chair asked PMI to confirm that their action to inform PwC of the POL materiality levels had been discharged.

POLARC 17/12 RISK UPDATE

- (a) MMF updated the Committee on the changes to the Group Risk Profile and explained that management had identified key actions for the top 15 risks, as well as the Risks of the Moment.

ACTION: AR/PMI (b) The CFOO reported that access to systems such as payroll, would be checked as part of the EY audit to ensure there were no balance sheet implications.

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- (c) The CFOO explained that Credence reliability was captured in 'IT availability and ability to trade risk' and it was currently slightly more stable but would not be without risk until it was replaced.
- (d) The Committee discussed the need to ensure a commercial approach to risk and risk appetite, and recognised that the risk report was inevitably a pessimistic view of the Business. GC acknowledged that the report would highlight risks, however an effective risk framework should also identify areas where appropriate for taking more risk.
- (e) The Committee noted the Risk report.

POLARC 17/13**BUSINESS CONTINUITY (BC) UPDATE**

- (a) The Chair welcomed Tim Armit, Senior Manager, Business Continuity Planning to the meeting.
- (b) TA reported that since joining the Company he has found that there was a good BC system in place and that the approach was thorough. However there were some operational gaps which were being tested. The operational knowledge is good but the documentation is not ideal.
- (c) Chesterfield had been identified as the most critical operational site, and a BC test had been run to prove that this site could be recovered by using a Sunguard site in Leicester. A full test be undertaken shortly.
- (d) Finsbury Dials is less important however plans are being designed. An initial exercise to test disaster recovery would take place with GE on the 3rd March.
- (e) JA believed that the BC plans would be in a good position by June/July. Escalation of material incidents and events would follow the Gold/Silver/Bronze categorisation. Any 'Gold' incidents would be reported to the Board once the emergency services had been informed.
- (f) TA left the meeting.

POLARC 17/14**HORIZON SCANNING**

- (a) The GC updated the Committee on the following issues:
 - 1. The Corporate Governance Green Paper, which was mainly relevant to listed companies. Richard Callard believed that any proposal in the final bill would take at least 12 months to implement.
 - 2. Criminal Finance Bill – in which changes to anti money laundering would affect Post Office
 - 3. E-privacy regulation – the GE have already started a

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4. project to look at GDPR (General Data Protection Regulation) and its effect on marketing.
- (b) The GC reported that Mark Davies, Communications and Corporate Affairs Director was setting up an External Affairs Steering Group to ensure the Business were aware of future issues.
- (c) The Committee noted the Horizon Scanning report.

POLARC 17/15 ANY OTHER BUSINESS

- (a) No any other business raised.

POLARC 17/16 ARC SESSION WITH THE RISK TEAM

- (a) All attendees left the meeting apart from the Committee members and the Risk team. The Committee debated areas of concern for the Committee and the risk team.
- (b) There being no further business the Chair closed the meeting.

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Chair

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Date