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**POLARC 16(3<sup>rd</sup>)**  
**POL ARC 16/21 – 16/32**

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE  
held at 10.30am on 19<sup>th</sup> May 2016  
at 20 Finsbury Street, London EC2Y 9AQ

**Present:**

Tim Franklin	Chairman (Acting Chair)
Ken McCall	Non-Executive Director (KM)
Richard Callard	Non-Executive Director (RC)

**In Attendance:**

Paula Vennells	Chief Executive, (CEO) (Minute 16/21 to 16/30)
Alisdair Cameron	Chief Financial Officer (CFO) (Minute 16/21 to 16/30)
Jane MacLeod	General Counsel (GC) (Minute 16/21 to Minute 16/30)
Nick Kennett	Financial Services Director, & CEO POMS (NK) (Minute 16/21 to 16/30)
Alwen Lyons	Company Secretary (CoSec)
David Carter	Financial Controller (DC) (Minutes 16/21 to 16/26)
Paul Hemsley	Financial Controller Designate (PH) (Minute 16/21 to Minute 16/30)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF) (Minute 16/21 to 16/30)
Garry Hooton	Audit Manager (GH) (Minute 16/21 to 16/30)
Peter McIver	Ernst & Young (EY) (PM)
Mounia Mukina	EY (MM)
Elena Belyaeva	EY (EB)
Amanda Bowe	Post Office Management Services Limited (POMS) Non-Executive Director and Chair of ARC (AB) (Minute 16/22 only) by conference call

**Apologies:**

Carla Stent	Non-Executive Director (Committee Chairman)
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**POLARC 16/21**

**INTRODUCTION**

- (a) A quorum being present, Tim Franklin opened the meeting, and conveyed the apologies of Carla Stent, ARC Chairman, for her absence. The members of the meeting appointed Tim Franklin as the meeting Chairman.
- (b) Each Director confirmed that they had no conflict of interest in relation to the business to be considered at the meeting.

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**REPORT FROM POMS ARC**

- (a) The Chair welcomed AB who joined the meeting by phone.

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- ACTION:**  
**General Counsel**
- (b) AB gave a verbal report from the meeting of the POMS Audit, Risk and Compliance Committee which had taken place on 10 May 2016.
  - (c) The POMS ARC had received a report and presentation from Kevin Gilliland, POL Network & Sales Director, and Jonathan Hill, POL Head of Financial Services Risk, on the oversight of Post Office as Appointed Representative of POMS. From this the POMS ARC had taken comfort that POL was taking steps to address various issues of concern. **The Chairman asked for the report to be circulated to the POL ARC.** The POMS ARC had asked for an action plan to show how POL would mitigate the risks.
  - (d) AB reported that the POMS ARC and Board had discussed the Annual Report and Accounts and the treatment of £2m of goodwill on the balance sheet. This had now been resolved and agreed with the EY.
- ACTION:**  
**Company Secretary**
- (e) **The Committee noted the report, and it was agreed that a meeting of the POMS & POL ARCs should be arranged in September.**
  - (f) The Committee noted the minutes of the meeting of the POMS Audit, Risk and Compliance Committee which had taken place on 15 March 2016.
  - (g) The telephone call ended.

**POLARC 16/23****HORIZON OUTAGE**

- (a) The CEO updated the meeting on the Horizon outage which had occurred on the morning of the 9<sup>th</sup> May. Since the problem, which led to an outage of up to 90 minutes in some branches, the system had been stabilised and there had been no further issues. A full root cause analysis had still to be completed by Fujitsu (FJ) but the CEO assured the ARC that she had been personally receiving reports every 4 hours on the performance of the system.
- (b) The CFO explained that over the last few weeks the servers had been subjected to several checks which had all been completed successfully. However, a switch from the secondary to primary server, although successful throughout the weekend, had failed on Monday morning with the higher volumes.
- (c) The CFO reported that a formal contract escalation had been put in place with FJ, and that he would not be comfortable until it was clear why the outage had happened, and therefore no further changes would happen until the cause was understood.
- (d) The ARC asked what the risk of another failure was. The CFO explained that the system appeared to be stable and that no

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further resilience check would be carried out until a full root cause analysis identified the problem.

- (e) The ARC asked if any customers or subpostmasters would have been affected. The CFO explained the recovery instructions which were generated in the case of a systems failure. The helpline had also been informed and had not seen any increase in discrepancies.

**ACTION:**  
Garry Hooton

- (f) **The ARC asked internal audit to check the incident and recovery process to ensure it had worked correctly.**

**ACTION:**  
CFO

- (g) **The CFO was asked to update the Board and come back to the ARC in September with a report on the root cause analysis of the incident.**

**POLARC 16/24**

**MINUTES OF THE MEETING HELD ON 17 MARCH 2016, STATUS REPORT AND MATTERS ARISING**

- (a) The minutes of the meeting held on 17 March were approved as presented and the Chair of the Committee was authorised to sign them as a true record.
- (b) The Committee noted the actions list dated 12<sup>th</sup> May 2016, it was agreed that action POLARC 16/03 (q) would report in September.

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**ANNUAL REPORT AND ACCOUNTS (ARA)**

- (a) The CFO introduced the draft 2015/16 Annual Report and Accounts (ARA) explaining that they were presented to the Committee for review and comment.
- (b) The CFO explained that both EY and the Post Office had completed most of their audit work with 80% of the reconciliation completed, and no material issues had emerged to date.
- (c) The Financial statements would be presented to the Board on the 24<sup>th</sup> May, with the proposal of delegating authority to the ARC to sign off the final ARA. **An ARC conference call to be organised for the end of June.**
- (d) The CFO explained that since the decision was taken not to include a statement of compliance with the spirit of the UK Code of Corporate Governance EY had clarified which parts of the report could be shorted or removed. In the draft ARA presented to the meeting the segmental reporting note had been removed; the directors remuneration reporting had been reduced, although with more disclosure in the notes to the accounts; but the risk sections had remained.

**ACTION:**  
Company Secretary

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- (e) The ARC discussed the Directors' Remuneration Report and whether there was a desire to include more detail than the minimum required. It was agreed that reducing the disclosure would be difficult to explain and might appear less transparent than in the past. The ARC were comfortable with the current draft and would recommend this disclosure to the Board.
- (f) The CFO explained that the usual accounting policy adopted by the business to impair capital items in the year of expenditure, had been changed for the POMs goodwill, leaving £44m on the balance sheet as the value was not dependent on POL trading.
- (g) The ARC discussed the contingent liabilities and the proposal to disclose the notification of the claim filed in the High Court, regarding Sparrow. The ARC agreed that a disclosure should be made and EY supported this position.
- (h) The ARC asked EY what scope they had found for management to override systems. EY recognised that where manual controls were in place there was room for tighter controls, especially around taking leavers off the systems and ensuring users rights were updated if roles changed. They stressed that these were usual points which had been raised in previous years but that they had no ultimate concerns over the accounts.
- (i) The ARC asked EY their view on the robustness of the revenue reconciliations. EY explained the work being undertaken by KPMG to check that revenue was correct and accurate for the major contracts. EY had no concerns of management manipulation on the accounts systems and were satisfied that the systems were producing information correctly for the accounts. They stressed that there was still room for improvement by automating systems and reducing the reliance on manual inputs and spreadsheets.

**ACTION: CFO**

- (j) **It was agreed that the CEO, CFO, Chairman of the ARC and EY would have a final session to review the accounts**
- (k) The ARC discussed the disclosure of proposed supply chain redundancies and it was agreed that these changes should not be included as they are subject to a 90 day consultation period.

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- ACTION: ALL/CFO** (l) **The ARC were asked to raise any outstanding points with the CFO, who would raise them at the Board if they remained unresolved.**

**POLARC 16/26 ANNUAL REPORT AND ACCOUNTS DISCLOSURES**

- (a) MMF introduced the approach to the Corporate Governance compliance disclosures and the risk and control disclosures to be included in the ARA. MMF acknowledged that there was still work to be done but believed that the introduction of the control framework along with the work on risk mitigation had made things clearer.
- (b) The ARC agreed the 'Managing our risks' section of the ARA.
- (c) The ARC agreed the 'Principle Risks' section of the ARA.
- ACTION: MMF** (d) **The ARC asked that the 'Board's Annual Assessment of risk management and internal control systems' acknowledge the remedial work done, at the request of the ARC, following the subpostmasters' compensation provision error.**
- ACTION: Company Secretary** (e) **The ARC also asked the Report of the ARC to be amended to include the challenge of both EY & the Business after the subpostmasters' compensation error.**

**POLARC 16/27 RISK AND CONTROL UPDATE**

- (a) MMF introduced the Risk and Control Report. The ARC queried the delay in the risk framework project plan and asked why developing the route map to corporate governance compliance had been rescheduled from May to September.
- (b) MMF explained that priority had been given to the Internal Control Framework and Executives' Declarations as these were of more immediate concern.
- (c) Policy Framework. MMF explained the key Policy Framework containing 16 key Corporate Services (CS) policies, with additional 7 key policies from other parts of the Business. Of the 16 CS policies all were in place except the Conflicts of Interest policy. The ARC asked MMF to ensure that all policies included specific dates for approval, and a rolling calendar for presentation to the ARC and the Board.
- ACTION: MMF** (d) **The ARC asked that Physical Security be reported to the ARC, and Treasury Risk Management be recommended by the ARC for Board approval.**
- (e) Whistleblowing policy. The ARC asked that the policy be amended to include the act of exposing 'potential' wrongdoing. The list of examples to be extended to include, money laundering and terrorism.

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- (f) Taking into account the input from the ARC the policy was approved.
- ACTION:**  
**Company Secretary** (g) **The Chairman asked that an arcchairman, GRO email address be set up and quoted in the whistleblowing policy.**
- (h) Business Continuity Management Policy. The ARC asked how the processes highlighted in the policy should have been used during the recent Horizon outage.
- ACTION:**  
**General Counsel** (i) **GC explained that the framework had been invoked however there were lessons to be learned from the process. A further BCP test would be carried out in due course and this test would be included in the Horizon report to the ARC in September.**
- ACTION:**  
**General Counsel** (j) **The ARC asked for further detail of the business continuity capabilities of the top suppliers, by materiality and complexity.**
- (k) Taking into account the input from the ARC the policy was approved.
- (l) Executive Declaration. The ARC noted the paper and supported the approach to disclosure.

## POLARC 16/28

## INTERNAL AUDIT

- (a) GH introduced the internal audit report, and was pleased to report a significant reduction in overdue actions. Reports on the Social Media Review; Treasury Operational Risk Review; and Critical Metric Scorecard were presented to the ARC.
- ACTION: GH** (b) **Business Transformation Portfolio Management including the overall assurance plan would be presented at the September ARC.**
- (c) Treasury Operational Risk Review. The ARC highlighted the findings in the treasury function. The CFO acknowledged the lack of segmentation of duties and assured the ARC that although no issues had arisen he recognised that the situation was unacceptable. He reported that an offer of employment had been made to a new treasurer. The ARC asked the CFO to ensure the continuity was maintained as the new financial controller took over accountability.
- ACTION:CFO** (d) **CFO was asked to provide a report on the actions put in place to mitigate the risks highlighted in the Treasury report.**
- (e) Taking all of the discussion points into consideration, the Committee noted the report.

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more onerous for the business to comply with and the impact would be monitored once details were available.

**POLARC 16/30**

**NOTING PAPERS**

- (a) **Audit Quality Enhancements**  
The Committee noted the paper.
- (b) **Horizon Scanning**  
The Committee noted the developments outlined in the paper.
- (c) **Property Compliance Update**  
The Chairman welcomed TM and SN to the meeting.
- (d) The Committee noted the update and endorsed the approach to further mitigating and managing property compliance.
- (e) The Executive left the meeting, leaving the ARC members, EY and the Company Secretary.

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**PRIVATE MEETING WITH THE EXTERNAL AUDITORS**

- (a) Minutes of the discussion are shown in a separate appendix.

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**CLOSE**

- (a) There being no further business the Chairman closed the meeting.

**GRO**  
Chair **GRO**

25/7/2016  
Date

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- (f) Outstanding Audit Actions. GC introduced the report on outstanding audit actions focussing on contract management. The ARC were concerned by the delay in dealing with the contract management issues.
- (g) GC explained that the contract management framework had been put in place in 2015 to identify all significant contracts and how they were managed. All new contracts were now controlled centrally and the next phase was to establish a data base for all contracts to ensure their obligations, both on Post Office and its suppliers are identified and managed effectively. GC acknowledged that the work was taking longer than she would have liked but explained that the resource had been prioritised onto the Trinity project, but was now available to undertake this work.

**ACTION: GC**

- (h) **The ARC asked GC to write to the members to explain what would be presented at the September ARC.**
- (i) The ARC asked EY whether the external audit had focussed on major contracts and contract management. EY explained that the audit had reconciled the ledgers back to the terms in the major client contracts, but that no specific work had been undertaken on contract management. EY could include contract management in the audit plan for 2016/17; this would test a small number of major contracts.

**ACTION: EY**

- (j) **EY were asked to pull out examples of where contracts were examined during the audit**
- (k) The Committee noted the report on outstanding audit actions.

**POLARC 16/29****AML & CTF AUDIT ACTIVITY**

- (a) GC introduced the AML & CTF update and reported the continued work with HMRC to manage the AML & CTF audit. HMRC have undertaken 5-6 escorted branch visits as an education exercise to understand how the business manages AML & CTF. HMRC and the business are continuing to work closely together. HMRC is expected to advise shortly how they wish to conduct the branch audit and the number of branches to be inspected.

**ACTION: GC**

- (b) **GC explained the work underway to implement the recommendations of the Promontory Report. Any material findings to be reported to the September ARC.**
- (c) The GC advised that the Prime Minister had recently indicated that legislation would be introduced that was similar to the Bribery Act, which would impose a duty on organisations to "prevent" financial crime. Additionally it was expected that the introduction of the 4<sup>th</sup> Money Laundering Directive would, as a minimum, lower the levels at which identification for transactions would be required. Both these initiatives were expected to be