



Audit, Risk and Compliance Committee – November 2015

Date		Present	In Attendance	Apologies	
10 November 2015		<ul style="list-style-type: none"> Tim Parker (Chair) Tim Franklin 	<ul style="list-style-type: none"> Paula Vennells Alisdair Cameron Jane MacLeod Alwen Lyons 	<ul style="list-style-type: none"> Mike Morley-Fletcher Garry Hooton Dave Carter Sarah Hall (<i>Items 4 & 5 only</i>) Angus Grant / Peter McIver & Steve Lyon, Ernst Young (<i>Item 5 only</i>) 	<ul style="list-style-type: none"> None
Location					
Room 1.19 - Wakefield, Finsbury Dials					
Start Time	Finish Time				
12.30hrs	14.30hrs				

Agenda Item	Action Needed	Purpose	Lead	Timing
1. Welcome and Conflicts of Interest			Chairman	
2. Minutes of the meeting held on 20 May 2015	For approval	To approve minutes of the meeting held on 21 September 2015.	Chairman	5 mins
3. Matters Arising and Actions List	For noting	To note the Matters Arising and Actions List of the previous meeting.	Chairman	5 mins
4. Interim Accounts	For approval	To approve the interim accounts statement.	Al Cameron / Sarah Hall	20 mins
5. EY Audit planning Report	For discussion	To receive a report on EY's year end audit plan.	Angus Grant / Steve Lyon	20 mins
6. Financial Reporting Controls	For discussion	To receive a report on Financial Systems, Process and Controls.	Al Cameron	20 mins
7. Risk Update	For discussion	To update the Committee on the PO Risk activity and key outcomes.	Mike Morley-Fletcher	10 mins
8. Internal Audit Update	For discussion	To update the Committee on the PO Internal Audit activity and key outcomes.	Garry Hooton	10 mins
9. Cyber Risk Update	For discussion	To receive a report on Cyber Risk and current issues.	Julie George / Chris Broe	20 mins



Audit, Risk and Compliance Committee – November 2015

Agenda Item		Action Needed	Purpose	Lead	Timing
10.	Report from the POMS ARC	For noting	To receive a verbal report from the meeting of the POMS Audit, Risk and Compliance Committee held on 15 September 2015.	Jane MacLeod	5 mins
11.	Any other business	For discussion	To consider any additional items of business.	Chairman	5 mins
12.	Date of Next Meeting	For noting	To note the date of the next meeting as 21 st January 2016.		

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POLARC15 (3rd)
15/27 – 15/35

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 12:00 on 21 September 2015
at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

Present:

Neil McCausland	Senior Independent Director (Chairman)
Tim Franklin	Non-Executive Director

In attendance:

Paula Vennells	Chief Executive Officer (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Jane MacLeod	General Counsel (GC)
Alwen Lyons	Company Secretary
Gary Hooton	Acting Head of Internal Audit

Apologies:

Mike Morley-Fletcher	Head of Risk and Assurance
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POLARC
15/27

INTRODUCTION

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed those present. The Committee members affirmed that there were no conflicts of interest.

POLARC
15/28

MINUTES FROM 25 MARCH 2015 COMMITTEE MEETING

- (a) The minutes of the meeting held on 20 May 2015 were approved as presented and the Chairman of the Committee was authorised to sign them as a true record.

POLARC
15/29

STATUS REPORT AND MATTERS ARISING

- (a) The Committee noted the action list dated 25 March 2015. The CFO updated action POLARC 15/21(v) reporting that he believed that POMS would need a separate external audit but that he would confirm this point with EY.

POLARC
15/30

STRATEGIC RISK/ GE RISKS UPDATE

- (a) The GC explained the process undertaken since the risk assessment work completed for the May ARC. The strategic risks had been reviewed to ensure they were clearly articulated, highlighting causes and consequences. A detailed review would be scheduled for November.

ACTION:
GC

- (b) The GC explained the emphasis being put on business continuity and incident reporting with a new reporting framework now in place. She reported an FCA request regarding the role of Post Office in distributing

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cash to the public in the scenario of a 6 day nationwide power failure.

**ACTION:
GC**

- (c) The Committee discussed the plan for the year end reporting and compliance with the UK Corporate Governance Code. The GC recognised that the first action, which was underway, was to design and assess the general control framework the detail of which was presented in Appendix B of the paper. The CEO acknowledged the need for a debate on the level of compliance with the Code, which would be part of the paper to the Board in October.
- (d) The Committee recognised the work to date and the improvement in the understanding of individual business risks. They stressed the need for cultural changes to ensure risk was not seen as a process. The GC noted that the Business had run a successful SLT workshop in July to engage the senior team in the risk discussion, and that risk champions had now been embedded across the business.
- (e) The Committee noted the proposed delivery dates for progress and requested the GC to consider how to implement the risk work more quickly. The GC explained that March 2017 was an end date and that the forward plan would have more detail to enable the Committee to track the progress.
- (f) The CEO stressed that the GE were cognisant of the aggregated risks the Business faced and that the single Transformation plan would enable the GE to prioritise with an understanding of these business wide risks. The Committee emphasised the importance of understanding the aggregated risks and The Chairman suggested that the CEO could use her Board report to update the Board on the aggregated risk position.

**POLARC
15/31****INTERNAL AUDIT REPORT**

- (a) Garry Hooton reported that 5 audit reports had been issued since the May ARC meeting and that the actions were broadly on track. He also reported that following a competitive tender process, Deloitte were now engaged in the Business Transformation assurance work.
- (b) Garry Hooton reported the audits which were at the fieldwork stage and proposed that a Governance Review replace the proposed Business Continuity review, as the Executive was working on a new business continuity model and the audit would be more effective if postponed until this work was complete. The Committee agreed to the change.
- (c) Contract Management
The Committee discussed the contract management report and the weaknesses it highlighted. They challenged the Executive stressing the importance of contract management. The CFO explained he was responsible for procurement and that he had been strengthening the team although some vacancies still existed. He stressed that in-life contract management was the accountability of the relevant GE member. The Committee believed that contract management required certain skills and asked the Executive to ensure it had the focus required.
- (d) The Committee requested that in future they be sent any 'red' audit

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ACTION: reports as soon as they were published with a two page summary of
Gary Hooton every completed audit at the subsequent ARC.

ACTION: (e) The CEO recognised that this was a critical area and reassured the
GC Committee that work was underway to review. The GC agreed to present a report at the next ARC on contract management for both procurement and in-life contracts.

ACTION: (f) The Committee asked the Executive to look separately at the
CFO management of the Atos contract.

POLARC **INSURANCE**
15/32

(a) The Committee agreed to the renewal of the Corporate Insurance for the premium as presented.

POLARC **ARC TERMS OF REFERENCE**
15/33

(a) The GC explained the recommendation to disband the Board FS and Pensions Committees which would enable the ARC to have oversight of all risks across the Post Office. A paper setting out the new committee structure would be presented at the September Board, the next day, and the changes to the ARC terms of reference related to that new structure.

ACTION: (b) The Committee agreed the changes to the ARC terms of reference.
Company Secretary They asked for an ARC deep dive on FS twice a year to which the POMS Chairman or POMS Chair of ARC would be invited.

(c) The GC reported that depending on Board agreement the last FSC would be on the 21st September and last Pensions Committee would be on the 1st October.

POLARC **POMS ARC REPORT**
15/34

(a) The GC gave a verbal update from the POMS ARC on the 15 September, the minutes of which would be tabled for noting at the next POL ARC meeting. She reported the discussion on:

- The revised POMS ARC ToR would go to the POMS board this week for approval
- The PwC assurance for Project Hawk would be presented to the POMS Board on Wednesday.
- A consumer credit licence application would be needed for POMS but the timing needed to be aligned with the Bol application which covered POL (excluding POMS)
- The ARC had noted the development of a compliance plan, that would be reported against each meeting, and that the POMS Head of Compliance would start at the end of September.
- The Development of policies timetable and annual review cycle was discussed.
- An update on development of risk appetite framework – coordination with the POL team to ensure alignment of approach
- The audit work that was underway
- The MI suite and the need to get data on complaints around pricing

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- and sales processes.
 - New business developments, focussed on governance processes and the need to embed risk assessment in the planning. It was agreed that products which are potentially outside the risk appetite should be discussed at the ARC
 - 'Horizon spotting' – received briefing on areas of thematic emphasis from FCA as set out in their business plan. General Insurance add-ons and Outsourcing being the two key areas for POMS awareness of senior managers' regime. FCA looking at principal and AR relationships.
 - The Internal Audit plan and the rolling agenda
- (b) The GC explained that POMS did not have a NomCo or RemCo but that POL NomCo would consider POMS Board appointments and that POL Board had signed off the Remuneration Policy.

POLARC
15/35

CLOSE

There being no further business the meeting was closed. The next meeting of the ARC would be on the 10 November 2015.

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Post Office Limited ARC Committee

Status Report as at:

06/11/2015

Board	REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
POL ARC	20th May 2015 POLARC 15/21(p)	<u>Audit Results</u> - Report The CFO to consider implementation of documentation to test that controls were in place for revenue streams.	CFO		KPMG have been commissioned to carry out this review on behalf of the CFO.	Open
POL ARC	10 November 2014 POLARC 14/38(o)	Business to revisit the actions in last year's external audit report to ensure they have all been discharged.	CFO		Responses to IT points sent to E&Y on 30/10. Most points considered closed and remainder in progress	Open
POL ARC	20th May 2015 POLARC 15/24 (e)	<u>Conduct Risk</u> - A paper to be submitted to the Committee to give assurance on conduct risk across the Post Office Group and the structural changes necessary to ensure the correct 2nd lines of defence are in place.	General Counsel	10th November 2015	Reschedule for the January ARC to include the risk work being received by the POMS board by end of November.	Open
POL ARC	20th May 2015 POLARC 15/24(b)	<u>Contract Management</u> - The GC and CFO recognised the weaknesses in this area and the risks of not managing contacts effectively. The report on contracts management to be discussed at the next Executive Risk & Compliance Committee, following which the next ARC would see the full report and management actions.	General Counsel	10th November 2015	Noting paper to be provided at November meeting.	Open
POL ARC	20th May 2015 POLARC 15/21(i)	Crown Profit and Loss. The adjustment had already been communicated to our people and the unions and the internal run-rate breakeven would be about six months earlier. This to be clarified on the STIP paper and the CFO to provide a narrative to explain the reconciliation of the Crown P&L.	CFO		Presented to the board	Closed
POL ARC	25 th March 2015 POLARC15/14(c)	Did the Towers Procurement review cover all IT including Front and Back Office?	General Counsel		Closed, responses to May meeting.	Closed
POL ARC	21 September 2015 15/33 (b)	For an ARC deep dive on FS twice a year to be carried out, to which the POMS Chairman or POMS Chair of ARC would be invited.	Company Secretary		Discussion underway. Dates will be set once the new ARC Chairman is in place.	Open
POL ARC	20th May 2015 POLARC 15/22(x)	In reference to the statements for inclusion in the Report & Accounts, the GC to return to the Committee in the autumn to report on progress.	General Counsel	January Meeting	To be discussed at the January meeting.	Open
POL ARC	15 th May 2014 POLARC 14/22(f)	Provide a short summary of the July Board explaining the proposed management actions following the data centre procurement.	General Counsel		Completed	Closed
POL ARC	12 January 2015 POLARC 15/06(c)	Provide the major incident communications plan, including the Board and the Shareholder.	Arnout Van Der Veer		Closed, a full review of incident management has been commissioned and will address this point.	Closed

POL ARC	20th May 2015 POLARC 15/21(y)	Report and Account Front Half - The Executive to ensure that members of POAC had been given sight of, and were happy with their biography details.	Mark Davies		Completed	Closed
POL ARC	15 th May 2014 POLARC 14/23(e)	The Business was asked to consider identifying a 'response team' to deal with crisis management (in the event of another Sparrow)	General Counsel		Closed, a full review of incident management has been commissioned and will address this point.	Closed
POL ARC	20th May 2015 POLARC 15/21(r)	The CEO to raise at the next Risk & Compliance Committee IT user access for those leaving the business. The Committee noted that leavers had been an action from the last audit report and asked the CFO to check the other actions to ensure they have been discharged.	CEO / CFO		There is a wider review of the leavers processes underway currently to address this point.	Closed
POL ARC	20th May 2015 POLARC 15/21(v)	The CFO to discuss with EY the requirement for POMS to have a separate audit.	CFO	November Meeting	Status to be provided in November meeting.	Open
POL ARC	20th May 2015 POLARC 15/21(q)	The CFO to provide a policy setting out the approach to classification of exceptional items moving forward.	CFO		This will accompany the Interim Results discussion at the November meeting.	Open
POL ARC	25 th March 2015 POLARC15/14(b)	The Committee asked for the following clarifications: What was the scope of the data protection work and did this include cyber security? The Business was asked to explain how this review would be undertaken. Was the current FS review being undertaken by PwC included in the 17 per cent allocated to FS in the plan? How would the 12 un-resourced elements of the plan be completed and would there be a problem if the work was not undertaken? What was the difference between top' and 'high' priority? Was there enough resource and capability in the Business Transformation assurance plan?	General Counsel		Closed, responses provided to May meeting.	Closed
POL ARC	25 th March 2015 POLARC15/14(d)	The Committee asked that the Anti-Money Laundering and Common Digital Platform reviews be given higher priority in the plan to ensure they were completed in 2015/16.	General Counsel	January Meeting	External advisers engaged to assess the AML framework, output to the January meeting. CDP reviews are included in the IA plan, and in addition we are commissioning some cyber testing on the platform in light of the recent DDoS attacks. Again, the results of this work will be reported to the Committee once concluded.	Open
POL ARC	25 th March 2015 POLARC15/14(e)	The GC explained that Julie George, Head of Information Security, worked closely with external consultants to provide assurance for the Business which was outside the audit plan, it was agreed that the GC would send a note to the ARC to confirm how this assurance was fulfilled.	General Counsel	November Meeting	Paper provided for the November ARC.	Closed

POL ARC	21 September 2015 15/30 (c)	To design and assess the general control framework presented in Appendix B of the risk paper.	General Counsel		Underway. This will be included in the Code work referred to above, and scheduled for January.	Open
POL ARC	21 September 2015 15/30 (d)	To ensure that in future any 'red' audit reports are sent to the committee as soon as they are published with a two page summary of every completed audit at the subsequent ARC.	Gary Hooton		Process now in place – November ARC onwards.	Open
POL ARC	21 September 2015 15/30 (f)	To look separately at the management of the ATOS contract.	CFO	January Meeting		Open
POL ARC	21 September 2015 15/30 (e)	To present a report at the next ARC on contract management for both procurement and in-life contracts.	General Counsel	10/11/2015	For noting at the November meeting.	Open
POL ARC	21 September 2015 15/30 (b)	To schedule a detailed review of strategic risks in November.	General Counsel	January Meeting	Review to be undertaken once the new Chair of ARC is appointed.	Open

Interim report

Author: Sarah Hall Sponsor: Alisdair Cameron Date: 11/15

Executive Summary

Context

The Post Office prepared an Interim Report and Condensed Consolidated Financial Statements in 2013-14 and 2014-15 and is proposing to follow a similar approach for the current year.

This paper has the following supporting documents:

- Draft interim statement and condensed consolidated financial statements for review and comments (two documents)
- ARC briefing book to aid understanding

Questions addressed in this report

1. What does the Audit Risk and Compliance Sub-Committee need to be aware of in considering the draft interim report?
2. What are the next steps?

Conclusion

1. An error has been identified in the postmasters' compensation provision in the balance sheet and exceptional items charged in 2014-15. It is subject to audit and, once confirmed, the prior year comparatives will be restated for this.
2. The Going Concern work has been refreshed at the half year and it is expected that the Post Office Limited directors will consider it appropriate to continue to prepare the financial statements on a Going Concern basis.
3. The front half of the report has been reviewed by the Group Executive, Board and EY.

Input Sought

The Post Office Limited Board is asked to:

- Review the draft Interim Report and provide individual comments to Mark R Davies by Tuesday 10 November;
- Note the issue relating to the Postmasters' compensation provision and the action taken;
- Recommend to the Post Office Board
 - i. That the approach to Going Concern is approved and the Going Concern status for Post Office Limited at the half year is agreed;
 - ii. That the Interim Report and Condensed Financial Statements should be approved subject to resolution of the issue relating to the Postmasters' compensation provision;
 - iii. That, if final amendments are required, authority is delegated for reviewing these amendments and completing the Interim Report and Condensed Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to be comprised of any three of Tim Parker, Paula Vennells, Alisdair Cameron and Tim Franklin.
- Note that the Chairman of the Audit Risk and Compliance Sub-Committee will be asked to provide a verbal update of this meeting to the Board.

Input Received

The Group Executive and Board reviewed have reviewed the front half statements and comments have been incorporated. EY has reviewed the whole Interim Report and Condensed Financial Statements and comments have been incorporated.

The Report

Prior year restatement for postmasters' compensation

The Post Office Finance team identified an error in the balance sheet provisions and exceptional charges in 2014-15. The provision for postmasters' compensation was significantly understated.

Causes of the understatement

There were two causes identified:

- The provision is generated by using Excel databases and a PIVOT table to pick up the new leavers requiring a provision. It was identified that there was an issue with the PIVOT table resulting in some leavers not being picked up correctly.
- Once that issue was rectified, the result was tested and the underlying records were found to be incomplete.

Restatement and adjustments required

The extent of the restatement required is still being tested by EY but is likely to result in a prior year restatement of c£86m. This is a timing difference in recognising the liability and does not change the dates on which payments are made. We have agreed with EY that we will restate the 2014-15 comparatives and are in the process of confirming how much of the restatement was proper to the first half of 2014-15.

The impact on the half year for 2015-16 is in the process of being confirmed and audited and is subject to change.

Process and controls review and remediation

As noted at the Audit Risk and Compliance Board Sub-Committee in May, the business's controls over financial reporting need to be more clearly identified, documented and set within a clear assurance process. The progress with this project is included in a separate update paper.

Specific actions will be taken to improve controls over the postmasters' compensation provision including implementation of a monthly full branch reconciliation to give greater evidence of completeness of the provision.

Going concern

The Going Concern work has been refreshed at the half year and a summary of the analysis is included in Section 12 of the ARC Briefing Book attached to this paper. Based on the analysis in this paper there is headroom remaining until March 2018 and it is believed that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. Downsides scenarios have been considered to reflect a situation where growth and savings may not be fully delivered. Subject to taking appropriate management action in 2016-17 or 2017-18, should downsides emerge, there should continue to be sufficient headroom to trade. It is therefore expected that the Post Office Limited directors will consider it appropriate to continue to prepare the financial statements on a Going Concern basis.

Interim Report and Condensed Financial Statements approach and plan

The Interim Report is currently anticipated for publication in the first week of December. The context is good progress against a backdrop of challenging market conditions, with significant progress made on the path to financial sustainability.

The current timeline is:

- 10 November – ARC review
- 18 November – Board papers issued including final draft Interim Report and Condensed Financial Statements
- 25 November – Board to approve Interim Report
- Early December – Announce results

Review process

The Group Executive, Board and EY comments have been considered and addressed in advance of the ARC papers being issued. It is our intention to share the relevant content with Royal Mail prior to publication and to publish after their own interim announcement which is due on 19 November. We will consider any concerns that they have with the content prior to finalising the report, though any changes will be limited to those deemed likely to be market/share price sensitive. We may also amend our commentary on the mails performance in the light of their disclosure.

Format

We will produce an electronic copy of the Interim Report in-house and make this available via the website. It will be similarly styled to the Annual Report.

Audit

The audit work on the Interim Report and Condensed Financial Statements is largely complete. The only significant outstanding issue relates to the Postmasters' compensation provision discussed above. Post Office Finance identified some old credit balances where the goods receipt value is in excess of the invoice value and adjusted for these. EY is testing this adjustment and that may identify some judgmental residual over-accrual remaining.

Post Office Limited

Registered Number 2154540

Post Office Limited

Unaudited interim condensed
consolidated financial statements

27 September 2015

Post Office Limited

Chairman and Chief Executive's comments**Real progress in a challenging marketplace**

Whilst significant challenges lie ahead, real progress is being made in delivering a better Post Office for our customers: a force for good in communities across the UK and a business with a commercially sustainable future.

Financial Improvement

The first half of 2015/16 saw the Post Office continue its progress towards long-term financial sustainability. Our operating loss before taking account of the Network Subsidy Payment maintained a downward trend at £23 million. This is an improvement of £34 million compared with the first six months of last year. The Network Subsidy Payment from Government was reduced by £15 million as planned in the same period. Efficiency improved with turnover maintained and costs (before exceptional items) reduced by 5.8%.

This is good progress and has been achieved amid rapid change and significant competitive pressure in our key markets – Mails and Retail, Financial Services, Government Services and Telecoms. However, to deliver a commercially sustainable network we must continue our pace of modernisation and focus on greater efficiency.

Building Turnover

Turnover was stable at the half-year. Our mails business delivered increases in sales volumes (in areas such as home shopping returns) mitigating a scheduled contractual reduction in fixed fees. Government Services revenue dipped 1.5% as gains in Home Office and new identity related services were counteracted by a halving of revenue from DVLA following the withdrawal of the paper tax disc. The recovery in our Telecoms business continued with 5.1% year on year growth and an increase in customer numbers.

Personal Financial Services, which now accounts for almost half of our overall Financial Services turnover, recorded £7million (10.6%) year on year growth. There are £4 million of directly attributable costs associated with this growth as the Post Office increases its ownership of the value chain. Meanwhile, turnover in traditional Financial Services (such as bill payment, premium bonds and postal orders) fell by 4.9%. The impact of these factors saw Financial Services turnover overall grow by 2.0% in the half year.

Personal Financial Services, now consolidated under the Post Office Money brand, is a critical element in our strategy. The quality of our developing offer to customers was recognised in the first six months of the year, with awards received including Best Direct Home & Contents Insurance Provider (Your Money Direct Awards 2015) and Best Fixed Rate Mortgage Lender (What Mortgage Awards 2015).

At the start of October our subsidiary, Post Office Management Services Limited (POMS) acquired the Post Office Money insurance products and services previously managed within Post Office's joint venture with Bank of Ireland UK. This includes car, home, life, pet and small business insurances. The acquisition will support our drive to be a leading challenger in UK Financial Services. We recognise, however, that any turnover growth in this highly competitive and fast moving market will continue to be very hard won.

Modernisation and Efficiency

Our focus on delivering better service for our customers saw a further 740 Post Offices modernised in the half-year, taking our programme total to over 4,800. These branches are delivering longer opening hours, more efficient ways of working and more attractive environments for customers in their local communities. The impact for customers in this continued pace of change was reflected in our announcement in August that over 3,000 branches are now open on Sundays. This number will continue to grow throughout the financial year.

The benefits of investment and modernisation are demonstrated by the way changes within the Crown branch network are now flowing through to the financial numbers. These branches recorded a half year loss of £3m in the first six months of 2015/16 compared to a loss of £13 million in the first half of last year. The Crown network is on track to breakeven.

At the same time we are further improving the online customer journey with the full modernisation and refresh of our website during the half-year.

Post Office Limited

Continuing Progress

Performance in the half-year shows the Post Office reducing its reliance on the taxpayer, building a stronger commercial business and driving towards financial breakeven.

We are realistic, however, about the work still to do. We will face substantial challenges in sustaining this performance in the remainder of the 2015/16 financial year and beyond. The Network Subsidy Payment will reduce by a further £15 million in the second half of the year while we are under pressure to reduce costs and improve customer service to compete in strongly contested markets. To continue the financial performance of the first half of the year will demand rigour to deliver further efficiency gains and a continued focus on customer service to secure and build on our turnover.

Our progress to date is built upon the collective effort and support of all the people that make up the Post Office – postmasters and their teams, colleagues in branches and support functions, suppliers and partners.

We would like to thank them all for their commitment and for their service to our customers.

In summary, the Post Office is trading competitively and improving efficiency in very competitive markets. We expect more challenges and difficult decisions, which we will tackle with the same resolve we have to date, confident in a commercially sustainable Post Office - a unique business underpinned by its public purpose.

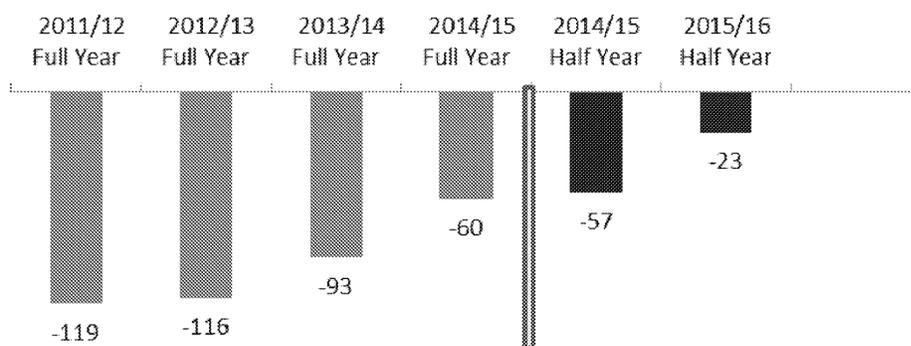
Paula Vennells

Tim Parker

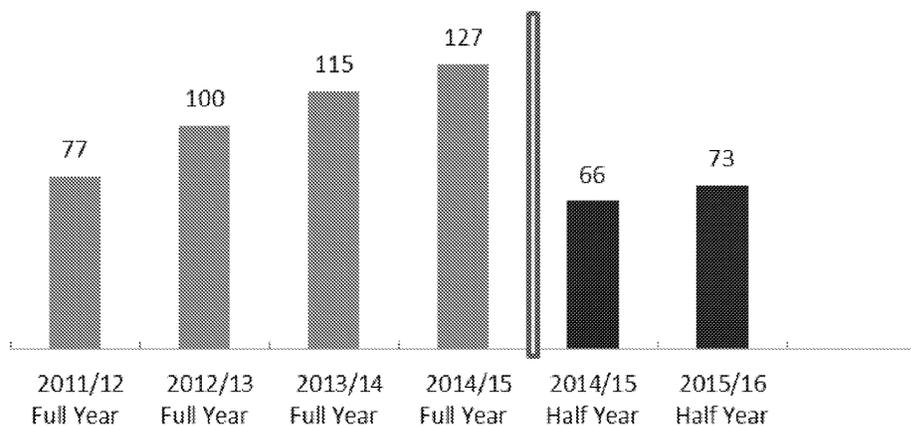
Post Office Limited

Charts that will be displayed at the side of the above text (formatting to be finalised)

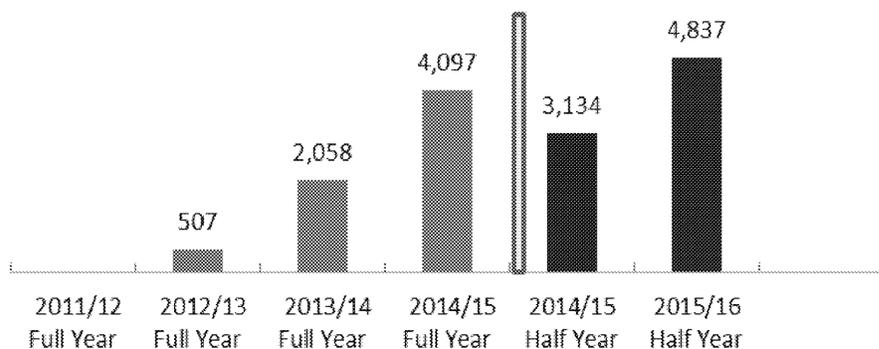
**Operating loss before depreciation,
amortisation, exceptional items and
Network Subsidy Payment (EBITDAS)
(£million)**



**Personal Financial Services Turnover
(£million)**

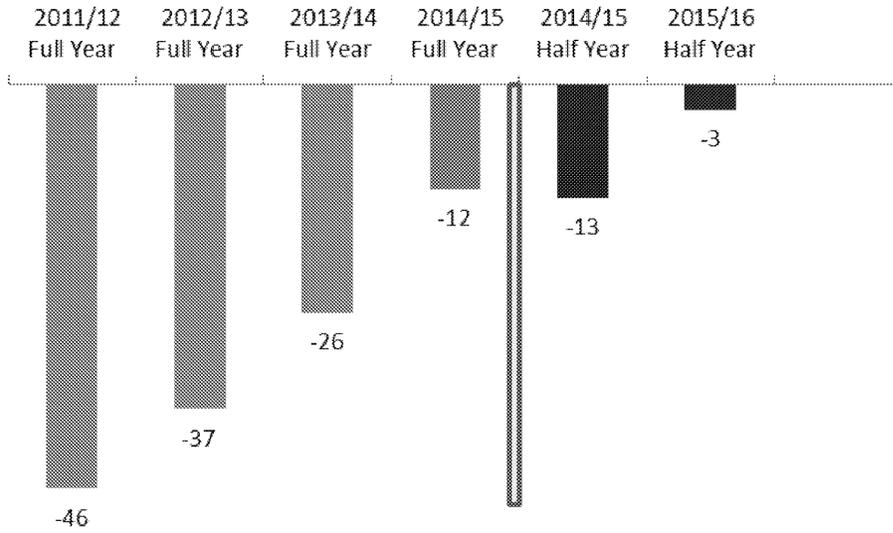


New Main & Local format branches



Post Office Limited

Crown Branch losses (£million)



Post Office Limited

Business review

(Yellow highlighted figures are subject to change)

Key performance figures – six months ended 27 September 2015

Summary results

The Post Office tracks a Key Financial Performance Indicator of operating loss before depreciation, amortisation, exceptional items and Network Subsidy Payment. The loss decreased by £34 million to £23 million (2014: £57 million). This decrease in the loss is driven by continued cost efficiencies.

The operating profit before exceptional items has increased by £19 million to £42 million (2014: £23 million) driven by cost savings offset by the reduction in the Network Subsidy Payment of £15 million.

The loss before financing and taxation of £13 million has decreased from a profit of £20 million driven by higher charges for exceptional items partly offset by the improved operating profit before exceptional items.

	2015	2014	Change
Turnover	£477m	£475m	£2m
Operating profit before exceptional items	£42m	£23m	£19m
Operating loss before, depreciation, amortisation, exceptional items and Network Subsidy Payment (EBITDAS)	(£23m)	(£57m)	£34m
Net cashflow	(£94m)	£100m	(£194m)

Summary Group Profit and Loss Account

	2015	2014	Variance	Variance
	£m	restated £m	£m	%
Turnover	477	475	2	0.4
Network Subsidy Payment	65	80	(15)	(18.8)
Revenue	542	555	(13)	(2.3)
Staff costs	(118)	(125)	7	5.6
Other operating costs	(406)	(431)	25	5.8
Total costs	(524)	(556)	32	5.8
Share of profit from joint ventures and associates	24	24	0	0.0
Operating profit before exceptional items	42	23	19	82.6
Operating exceptional items	(55)	(3)		
Profit before financing and taxation	(13)	20		
EBITDAS	(23)	(57)	34	59.6

Post Office Limited

Revenue by Segment

	2015	2014	Variance	Variance
	£m	£m	£m	%
Mails and Retail	182	183	(1)	(0.5)
Financial Services	150	147	3	2.0
Government Services	67	68	(1)	(1.5)
Telecoms	62	59	3	5.1
Other	16	18	(2)	(11.1)
Turnover	477	475	2	0.4
Network Subsidy Payment	65	80	(15)	(18.8)
Revenue	542	555	(13)	(2.3)

Revenue

The Post Office's turnover increased from £475 million in the first 6 months of the prior year, to £477 million this year with growth in the Financial Services and Telecoms businesses more than offsetting small declines in the Government Services and Mails and Retail businesses. The Network Subsidy Payment decreased by £15 million from the previous year to £65 million in line with the Government Funding Agreement. This will reduce further in 2016-17 as set out in the current funding agreement with the government. Revenue has declined by £13 million, including this reduction in the Network Subsidy Payment.

Mails and Retail

The Mails and Retail pillar includes all services provided for Royal Mail and Parcelforce as well as Lottery and retail services such as sales of collectibles as well as packaging and stationery.

	2015	2014	Variance	Variance
	£m	£m	£m	%
Mails services	160	160	0	0.0
Retail and Lottery	22	23	(1)	(4.3)
Mails and retail	182	183	(1)	(0.5)

Mails and Retail turnover of £182 million decreased by £1 million (2014: £183 million). This reduction in turnover from Lottery and Retail services was driven by a 6% reduction in branches offering retail following branch refurbishments. Turnover in relation to Royal Mail products remained flat as increases in sales volumes, such as for returns of home shopping purchases, mitigated the contractual reduction in the fixed fee from Royal Mail.

Financial Services

The Financial Services pillar includes Post Office Money products, ATMs and Travel products as well as more traditional services such as bill payment and over-the-counter banking transactions.

	2015	2014	Variance	Variance
	£m	£m	£m	%
Personal Financial Services	73	66	7	10.6
Bill payment, banking and other financial services	77	81	(4)	(4.9)
Financial Services	150	147	3	2.0

Across Financial Services in aggregate, turnover increased by £3 million to £150 million (2014: £147 million), a rise of 2.0%

Post Office Limited

Personal Financial Services turnover increased by £7 million (10.6%) driven by strong growth in international money transfers and increased turnover from new travel insurance intermediation activities undertaken by the Post Office Management Services Limited subsidiary. Additional operating costs of £4 million were incurred in carrying out these new activities. Turnover from traditional Financial Services products, including bill payment services, business banking services, National Savings and Investments (NS&I) premium bonds and Postal Orders declined by £4 million. NS&I premium bonds revenue remained flat but ceased to be available from Post Offices from 1 August 2015.

On 30 September 2015, Post Office Limited acquired from Bank of Ireland the business and assets of their joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its Post Office Management Services Limited subsidiary, which will operate the business alongside its existing travel insurance activities.

Government Services

The Government Services pillar covers services provided under contract to Government departments.

	2015	2014	Variance	Variance
	£m	£m	£m	%
DWP	39	40	(1)	(2.5)
Home Office	17	15	2	13.3
DVLA	6	11	(5)	(45.5)
Other Government Services	5	2	3	150.0
Government Services	67	68	(1)	(1.5)

Government Services turnover of £67 million declined by £1m (2014: £68 million). DVLA revenue decreased by £5 million as customers increasingly use the online channel for motor vehicle licence payments, a trend which has accelerated since the paper disc was withdrawn in October 2014. Home Office revenue has increased by £2 million, driven by passport check & send services and biometric enrolment services for foreign migrants. Revenue has also increased by £3 million for identity related services, including Cabinet Office's new Verify online identity service.

Telecoms

The Telecoms pillar includes the Post Office HomePhone and Broadband services as well as e-top up services and phonecards.

	2015	2014	Variance	Variance
	£m	£m	£m	%
Homephone and Broadband	60	57	3	5.3
E top-ups and phonecards	2	2	0	0.0
Telecoms	62	59	3	5.1

Telecoms turnover of £62 million increased by £2 million (2014: £59 million). Revenue from HomePhone and Broadband increased driven primarily by a higher average revenue per user (ARPU) following the price rise in January 2015. Although the turnover from our E top-up and phonecards business was flat with the previous half year, customers continue to migrate away from pre-pay services onto contracts and top-up online.

Operating costs

People costs of £118 million have decreased compared to the first 6 months of the prior year by £7 million. This includes savings in the Crown network as well as wider efficiencies partly offset by higher pension costs under IAS19 due to market conditions at the year end.

Other operating costs have decreased by £25 million to £406 million driven primarily by lower postmaster costs by £15 million arising from the Network Transformation programme which has reduced the fixed element of the cost while increasing the element that varies with volume. We have also made savings of

Post Office Limited

£10 million across a number of overhead areas partly offset by higher short-term IT costs during the transformation programme.

Joint venture

The share of profit from the joint venture, First Rate Exchange Services Holdings Limited, remained flat at £24 million.

Exceptional items

Operating exceptional items include the costs of delivery of major change and the impairment of non-current assets. These are offset by Government grant funding, received towards the network transformation programme and recognised to match the associated costs. The Government grant funding for 2015-16 of £150 million (2014: £170 million) was received on 1 April 2015 and has been fully recognised in the first half of the year. Significant expenditure will continue on the delivery of major change in the second half of the year which will be funded out of operating profit. In the half year the following operating exceptional costs were incurred.

	2015	2014
		restated
	£m	£m
Network Transformation programme	(112)	(74)
Crown Transformation programme	(16)	(10)
IT Transformation programme	(3)	(6)
Redundancy costs	(21)	(10)
Other exceptional items	(8)	(7)
Restructuring costs	(160)	(107)
Impairment of intangible assets, property, plant and equipment	(45)	(66)
Government grant	150	170
Total operating exceptional items	(55)	(3)

Net cash flow

There has been a net cash outflow of £94 million during the period in contrast to the comparative half year which saw a net cash inflow of £100 million. The change in cash flow is driven by the repayment of the loan in the current year. The cash position of the business remains consistent, with cash and cash equivalents of £727 million (2014: £737 million).

Post Office Limited

Financial statements are attached as a separate document

Post Office Limited

Registered Number 2154540

Post Office Limited

**Unaudited interim condensed
consolidated financial statements**

27 September 2015

Post Office Limited

Interim condensed consolidated income statement

		Half year to 27 September 2015	Half year to 28 September 2014
		Unaudited	(Restated)
	Notes	£m	Unaudited
Continuing operations			
Turnover		477	475
Network Subsidy Payment		65	80
Revenue	3	542	555
People costs excluding restructuring costs		(118)	(125)
Other operating costs		(406)	(431)
Share of post tax profit from joint venture		24	24
Operating profit before exceptional items		42	23
Operating exceptional items	4	(55)	(3)
- government grant		150	170
- restructuring costs		(160)	(107)
- other		(45)	(66)
Operating (loss)/profit		(13)	20
(Loss)/profit before financing and taxation		(13)	20
Finance costs		(2)	(1)
Net pensions interest		4	4
(Loss)/profit before taxation		(11)	23
Taxation (charge)/credit	5	(4)	5
(Loss)/profit for the period from continuing operations		(15)	28

Post Office Limited

Interim condensed consolidated statement of comprehensive income

		Half year to 27 September 2015	Half year to 28 September 2014
		Unaudited	(Restated)
	Notes	£m	Unaudited
(Loss)/profit for the period from continuing operations		(15)	28
Other comprehensive income:			
Remeasurements on defined benefit surplus	6	(21)	13
Income tax effect	5	8	(4)
Total comprehensive income for the period		(28)	37

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 27 September 2015	Half year to 28 September 2014
	Unaudited	Unaudited (Restated)
Notes	£m	£m
Cash flows from operating activities		
Operating profit before exceptional items	42	23
Adjustment for:		
Share of profit from joint venture	(24)	(24)
Pension operating costs	16	15
Working capital movements:	(33)	62
Decrease in trade and other receivables	49	6
(Decrease)/increase in trade and other payables	(83)	56
Increase in non-exceptional provisions	1	-
Pension operating costs paid	(11)	(11)
Cash receipts/(payments) in respect of operating exceptional items:	26	70
Government grant	150	170
Restructuring costs	(115)	(105)
Other	(9)	5
Net cash inflow from operating activities	16	135
Income tax recovered	9	10
Cash flows from investing activities		
Purchase of non-current assets	(60)	(81)
Net cash (outflow) from investing activities	(60)	(81)
Net cash (outflow)/inflow before financing activities	(35)	64
Cash flows from financing activities		
Finance costs paid	(2)	-
Payments to finance lease creditors	-	(2)
(Repayment of)/proceeds from borrowings	(57)	38
Net cash (outflow)/inflow from financing activities	(59)	36
Net (decrease)/increase in cash and cash equivalents	(94)	100
Cash and cash equivalents at the beginning of the period	821	637
Cash and cash equivalents at the end of the period	727	737

Post Office Limited

Interim condensed consolidated balance sheet as at:

	Notes	27 September 2015 Unaudited £m	29 March 2015 Audited (Restated) £m
Non-current assets			
Intangible assets		1	-
Property, plant and equipment		9	10
Investment in joint venture		91	67
Retirement benefit surplus	6	182	205
Trade and other receivables		7	10
Total non-current assets		290	292
Current assets			
Inventories		6	6
Trade and other receivables		347	397
Cash and cash equivalents		727	821
Total current assets		1,080	1,224
Total assets		1,370	1,516
Current liabilities			
Trade and other payables		(621)	(718)
Financial liabilities - interest bearing loans and borrowings		(253)	(310)
- obligations under finance leases		-	-
Provisions		(87)	(57)
Total current liabilities		(961)	(1,085)
Non-current liabilities			
Other payables		(30)	(30)
Provisions		(12)	(6)
Total non-current liabilities		(42)	(36)
Net assets		367	395
Equity			
Share capital		-	-
Share premium		465	465
Retained earnings		(100)	(72)
Other reserves		2	2
Total equity		367	395

Post Office Limited

Interim condensed consolidated statement of changes in equity

For the half year ended 27 September 2015

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 30 March 2015 (audited) (restated)		465	(72)	2	395
Loss for the period		-	(15)	-	(15)
Remeasurements on defined benefit surplus	6	-	(21)	-	(21)
Income tax effect	5	-	8	-	8
At 27 September 2015 (unaudited)		465	(100)	2	367

For the half year ended 28 September 2014

	Notes	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2014 (audited)		465	(63)	2	404
Profit for the period		-	28	-	28
Remeasurements on defined benefit surplus		-	13	-	13
Income tax effect	5	-	(4)	-	(4)
At 28 September 2014 (unaudited)		465	(26)	2	441

Post Office Limited

Notes to the interim condensed consolidated financial statements

1. Accounting policies

The interim condensed consolidated financial statements of Post Office Limited and its subsidiaries (collectively, the Group) for the half year ended 27 September 2015 were authorised for issue in accordance with a resolution of the directors on XX November 2015.

The information for the year ended 29 March 2015 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies, including the auditors' report on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Basis of preparation

These interim condensed consolidated financial statements for the half year ended 27 September 2015 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 2015, which have been prepared in accordance with IFRSs as adopted by the European Union.

Fundamental accounting concept – going concern

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 next 12 months. 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.

The Group has net assets at 27 September 2015 and is reporting a profit before exceptional items.

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.

On 27 November 2013 a funding agreement with Government was announced which provided for:

- Funding of £280 million for 2015-16 (received on 1 April 2015)
- Funding of £220 million for 2016-17
- Funding of £140 million for 2017-18
- Extension of the existing working capital facility with the Department for Business, Innovation & Skills (BIS) amended with a limit of £950 million from 30 March 2015 up to 31 March 2018

State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015.

This investment will take the form of a Government Grant and enables 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 benefiting 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 dependent on direct subsidy. This is a modernisation programme and not a branch closure programme.

The Directors are satisfied with the continued progress made towards modernisation during the half year ended 27 September 2015 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 and is not without risk.

Prior year restatements

In preparing the financial statements for the year ended 29 March 2015, the comparative figures for the year ended 30 March 2014 were restated. In this interim report the comparative figures for the period ended 28 September 2014 have been restated for cash and cash equivalents and trade and other receivables. Credit and debit card receivables were previously included in cash and cash equivalents and have been reclassified to trade and other receivables. These receivables relate to payments made in branch by Post Office Limited customers using debit or credit cards. These payments are reimbursed to Post Office Limited by the card companies within 2 or 3 days post year end. As the cash had not been received as at half year end, and the amount has been reclassified to debtors.

The impact on the 28 September 2014 interim financial statements is an increase to trade and other receivables of £44m and a decrease to cash and cash equivalents of £44m. This restatement had no impact on the profit, equity or net assets for the period ended 28 September 2014.

The earliest period presented is 30 March 2014, the impact on this period is an increase in trade and other receivables by £51m and decrease in cash and cash equivalents £51m which has also been restated. Again, there is no impact on profit, equity or net assets.

Post Office Limited

	As previously reported	Restatement	28 September 2014 Restated
Total Trade and other receivables	308	44	352
Total cash and cash equivalents	789	(44)	745

	As previously reported	Restatement	30 March 2014 Restated
Total Trade and other receivables	317	51	368
Total cash and cash equivalents	738	(51)	687

The above figures tie to the cash flow statement on page XX if the bank overdrafts of £8m at 28 September 2014 and £50m at 30 March 2014 are factored in; overdrafts are included in trade and other payables on the balance sheet.

In addition, there has been a restatement to the income statement and the balance sheet for the half year ended 28 September 2014 and for the year ended 29 March 2015. The provision for postmasters' compensation had not been fully recognised in the financial statements for the half year ended 28 September 2014 or for the year ended 29 March 2015. The restatement affects exceptional costs, provisions and retained earnings due to the loss for the year changing as a result of a restatement to the exceptional charge. Within this interim report, the comparative income statement for the half year ended 28 September 2014 has been restated as well as the comparative balance sheet for the year ended 29 March 2015.

	As previously reported	Restatement	29 March 2015
Total provisions	(63)	XX	XX
Shareholders' funds (retained earnings)	(72)	XX	XX
Loss for the year	(54)	XX	XX

	As previously reported	Restatement	28 September 2014
Profit for the half year	28	XX	XX

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 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Risks and uncertainties

The principal and other significant risks and uncertainties affecting the Group were identified as part of the Strategic Report, set out on pages 26-27 of the Group's Annual Report and Financial Statements 2014-15. 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 27 September 2015 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 27 September 2015	Revenue £m	Directly Attributable Costs £m	Net Revenue £m
Mails & Retail	182	(2)	180
Financial Services	150	(4)	146
Government Services	67	(15)	52
Telecoms	62	(37)	25
Other income	16	-	16
Sub total	477	(58)	419
Network Subsidy Payment	65	-	65
Total	542	(58)	484

Half year to 28 September 2014	Revenue £m	Directly Attributable Costs £m	Net Revenue £m
Mails & Retail	183	(2)	181
Financial Services	147	-	147
Government Services	68	(15)	53
Telecoms	59	(37)	22
Other income	18	-	18
Sub- total	475	(54)	421
Network Subsidy Payment	80	-	80
Total	555	(54)	501

Post Office Limited

3. Segmental reporting continued

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

	Half year to 27 September 2015	Half year to 28 September 2014
	£m	£m
Underlying segment net revenue	484	501
Indirect costs	(466)	(502)
Share of post tax profit from joint ventures and associates	24	24
Operating profit before exceptional items	42	23
Operating exceptional items	(55)	(3)
Operating (loss)/profit	(13)	20
Profit on disposal of property, plant and equipment	-	-
(Loss)/profit before financing and taxation	(13)	20
Finance costs	(2)	(1)
Finance income	-	-
Net pensions interest	4	4
(Loss)/profit before taxation	(11)	23

Seasonality of operations

Due to the seasonality of the Mails & Retail segment higher revenues are usually expected in the second half of the year. This is mainly attributed to the effect of the Christmas period. 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 27 September 2015	Half year to 28 September 2014
	£m	£m
Government grant	150	170
Total Government Grant	150	170
Restructuring		
Network transformation including postmasters compensation	(112)	(74)
Crown transformation	(16)	(10)
Restructuring – severance	(21)	(10)
– other	(11)	(13)
Total restructuring	(160)	(107)
Other		
Impairment of intangible assets	(29)	(25)
Impairment of property, plant and equipment	(16)	(41)
Total other	(45)	(66)
Total operating exceptional items	(55)	(3)

Due to on-going operational losses (excluding Network Subsidy Payment) the carrying value of intangible assets and all property plant and equipment other than freehold and long leasehold property has been impaired to nil.

5. Taxation

The overall taxation credit 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 27 September 2015	Half year to 28 September 2014
	£m	£m
Corporation tax credit for period	5	-
Tax over provided in previous periods	(1)	1
Current tax	4	1
Deferred tax (charge)/credit relating to the origination and reversal of temporary differences	(8)	4
Income tax (charge)/credit reported in the condensed consolidated income statement	(4)	5

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 £2m in the half year to 27 September 2015. In relation to the defined benefit schemes, payments of £9m 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 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.

a) Major long-term assumptions

	At 27 September 2015	At 29 March 2015
	% pa	% pa
Rate of increase in salaries	2.8	2.8
Discount rate	3.9	3.5
Inflation assumption (RPI)	3.0	3.0
Inflation assumption (CPI)	1.9	1.9

Demographic assumptions, for example mortality, remain unchanged from those made in March 2015.

b) Plan's assets and liabilities

The plan assets and liabilities were:

	Market value	
	At 27 September 2015	At 29 March 2015
	£m	£m
Sectionalised RMPP		
Fair value of assets	370	379
Present value of liabilities	(153)	(150)
Surplus in plan before IFRIC 14 adjustment	217	229
Less IFRIC 14 adjustment	(38)	(27)
Surplus in RMPP plan after IFRIC 14 adjustment	179	202
Surplus in plan for the Post Office Limited share of 7% of RMSEPP after IFRIC 14 adjustment	3	3
Total retirement benefit surplus	182	205

Post Office Limited

6. Pensions continued

c) Movement in plan's assets and liabilities

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

Sectionalised RMPP	Half year ended	Year ended
	27 September 2015	29 March 2015
	£m	£m
Opening net retirement benefit surplus	229	170
Current service cost	(15)	(25)
Curtailement costs	-	(1)
Net financing credit	4	7
Employers contributions	9	21
Experience adjustments on liabilities	-	(1)
Actuarial gains/(losses)	(10)	58
Closing net retirement benefit surplus before IFRIC		
14 adjustment	217	229

7. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	At 27 September 2015	At 28 September 2014
	£m	(Restated)
		£m
Cash and cash equivalents	727	745
Bank overdrafts	-	(8)
	727	737

8. Related party disclosures

There have been no material changes to the related parties listed in the Group's Annual Report and Accounts 2014. All related party transactions were in the ordinary course of business. The transactions entered into and the balances outstanding as at 28 September 2014 were as follows:

	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	
	2015	2014	2015	2014	2015	2014	2015	2014
Half year to September:	£m	£m	£m	£m	£m	£m	£m	£m
First Rate Exchange								
Services Holdings Limited	16	15	77	81	8	7	5	5

The sales to, and purchases from, related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free, and settlement is made by cash.

The Group trades with numerous government bodies at 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 balances between the Group and its key management personnel during the half year ended 27 September 2015.

Post Office Limited

9. Capital commitments

Since year end Post Office Limited has signed significant contracts to commit to £100m of spend on property, plant and equipment.

10. Post balance sheet events

On 30th September 2015, Post Office Limited acquired from Bank of Ireland the business and assets of their joint insurance business. Immediately following acquisition, Post Office Limited transferred the business to its Post Office Management Services Limited subsidiary, which will operate the business alongside its existing travel insurance activities.

Statement of Directors' responsibilities

The directors confirm that these condensed set of interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

By order of the Board

A Cameron
Chief Financial Officer

XX November 2015

Post Office Limited

Report on review of interim condensed financial statements

The Board of Directors to Post Office Limited

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 27 September 2015 which comprises the interim condensed consolidated balance sheet of Post Office Limited and its subsidiaries (the Group) and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cashflow statement for the six month period then ended and the explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the accounting policies set out in note 1.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with these policies.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report 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" issued by the Auditing Practices Board for use in the United Kingdom. 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 (UK and Ireland) 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 condensed set of financial statements in the half-yearly financial report for the six months ended 27 September 2015 is not prepared, in all material respects, in accordance with the accounting policies set out in note 1, which comply with IFRSs as adopted by the European Union.

Ernst & Young LLP
London
[Date]



Post Office Limited
**Audit, Risk and Compliance Board Sub-
Committee**
Briefing Book
Half Year ended 27 September 2015

Section	Page
1. Glossary	3
2. Introduction	4
3. Accounting Policies	4
4. Primary Statements	5
5. Operating Profit	8
6. Revenue	9
7. Costs and People	12
8. Quality of Earnings	16
9. Pensions	17
10. Exceptional Items and Provisions	19
11. Interest, cash, debt, funding and hedging	21
12. Going Concern	22
13. Property, plant and equipment and non-current assets held for sale	25
14. Goodwill, Investments and Intangibles	26
15. Working Capital	27
16. Provisions	33
17. Litigation and claims- potential claims regarding Horizon	34
18. Taxation	36

1. Glossary

Below is a listing of key abbreviations used throughout this document with the full meaning given:

Abbreviation	Meaning
ATM	Automated teller machine
BACS	Bankers' Automated Clearing Services
BIS	Department for Business Innovation & Skills
BOI	Bank of Ireland
CPI	Consumer Price Index
DVLA	Driver & Vehicle Licensing Authority
DWP	Department of Work & Pensions
Eagle	Deal in August 2012 to sell POFS to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023
FRES	First Rate Exchange Services
Gamma	A contract variation made in 2007 with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020
GRNI	Good Received Not Invoiced
Horizon	Horizon Next Generation- Counter system
NBV	Net Book Value
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
POCA	Post Office Card Account
PFS	Personal Finance Services
POFS	Post Office Financial Services
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest

2. Introduction

This Briefing Book has been prepared to explain the Post Office Limited results for the half year ended 27 September 2015. It is a summary of the key data, trends and analyses to be read in conjunction with the Interim Report which readers may find useful to further their own understanding of the results for half year 2015-16.

Most of the analysis is based on the comparison of this year's actual results to prior year.

Comparison against budget is discussed in the Monthly Performance Report presented to the Post Office Limited Board on a monthly basis.

The items highlighted in yellow relate to the postmasters' compensation provision and are subject to change as explained in the covering paper.

3. Accounting Policies

Post Office Limited has reported its results under International Financial Reporting Standards (IFRS).

4. Primary Statements

4.1 Interim Condensed Consolidated Income Statement

	Half year to 27 September 2015 £m	Half year to 28 September 2014 £m
Continuing operations		
Turnover	477	475
Network Subsidy Payment	65	80
Revenue	542	555
People costs excluding restructuring costs	(118)	(125)
Other operating costs	(406)	(431)
Share of post tax profit from joint ventures and associates	24	24
Operating profit before exceptional items	42	23
Operating exceptional items	(55)	(3)
- government grant	150	170
- Royal Mail Pension Plan amendment	-	-
- restructuring costs	(160)	(107)
- other	(45)	(66)
Operating (loss)/profit	(13)	20
Profit on disposal of property, plant and equipment	-	-
(Loss)/profit before financing and taxation	(13)	20
Finance costs	(2)	(1)
Net pensions interest	4	4
(Loss)/profit before taxation	(11)	23
Taxation (charge)/credit	(4)	5
(Loss)/profit for the period from continuing operations	(15)	28

4.2 Interim Condensed consolidated statement of cash flows

	Half year to 27 September 2015 £m	Half year to 28 September 2014 (Restated) £m
Cash flows from operating activities		
Operating profit before exceptional items	42	23
Adjustment for:		
Depreciation and amortisation	-	-
Share of profit from joint ventures and associates	(24)	(24)
Pension operating costs	16	15
Working capital movements:	(33)	62
Decrease in trade and other receivables	49	6
(Decrease)/increase in trade and other payables	(83)	56
Increase in non-exceptional provisions	1	-
Pension operating costs paid	(11)	(11)
Cash receipts in respect of operating exceptional items:	26	70
Government grant	150	170
Restructuring costs	(115)	(105)
Other	(9)	5
Net cash inflow from operating activities	16	135
Income tax recovered	9	10
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	-
Purchase of non-current assets	(60)	(81)
Net cash (outflow) from investing activities	(60)	(81)
Net cash (outflow)/inflow before financing activities	(35)	64
Cash flows from financing activities		
Finance costs paid	(2)	-
Payments to finance lease creditors	-	(2)
(Repayment of)/proceeds from borrowings	(57)	38
Net cash (outflow)/inflow from financing activities	(59)	36
Net (decrease)/increase in cash and cash equivalents	(94)	100
Cash and cash equivalents at the beginning of the period	821	637
Cash and cash equivalents at the end of the period	727	737

4.3 Interim condensed consolidated balance sheet

	27 September 2015	29 March 2015
	£m	£m
Non-current assets		
Intangible assets	1	-
Property, plant and equipment	9	10
Investments in joint ventures and associates	91	67
Retirement benefit surplus	182	205
Trade and other receivables	7	10
Total non-current assets	290	292
Current assets		
Inventories	6	6
Trade and other receivables	347	397
Cash and cash equivalents	727	821
Total current assets	1,080	1,224
Total assets	1,370	1,516
Current liabilities		
Trade and other payables	(621)	(718)
Financial liabilities - interest bearing loans and borrowings	(253)	(310)
- obligations under finance leases	-	-
Provisions	(87)	(57)
Total current liabilities	(961)	(1,085)
Non-current liabilities		
Other payables	(30)	(30)
Provisions	(12)	(6)
Total non-current liabilities	(42)	(36)
Net assets	367	395
Equity		
Share capital	-	-
Share premium	465	465
Retained earnings	(100)	(72)
Other Reserves	2	2
Total equity	367	395

5. Operating Profit

5.1 Operating profit bridge analysis



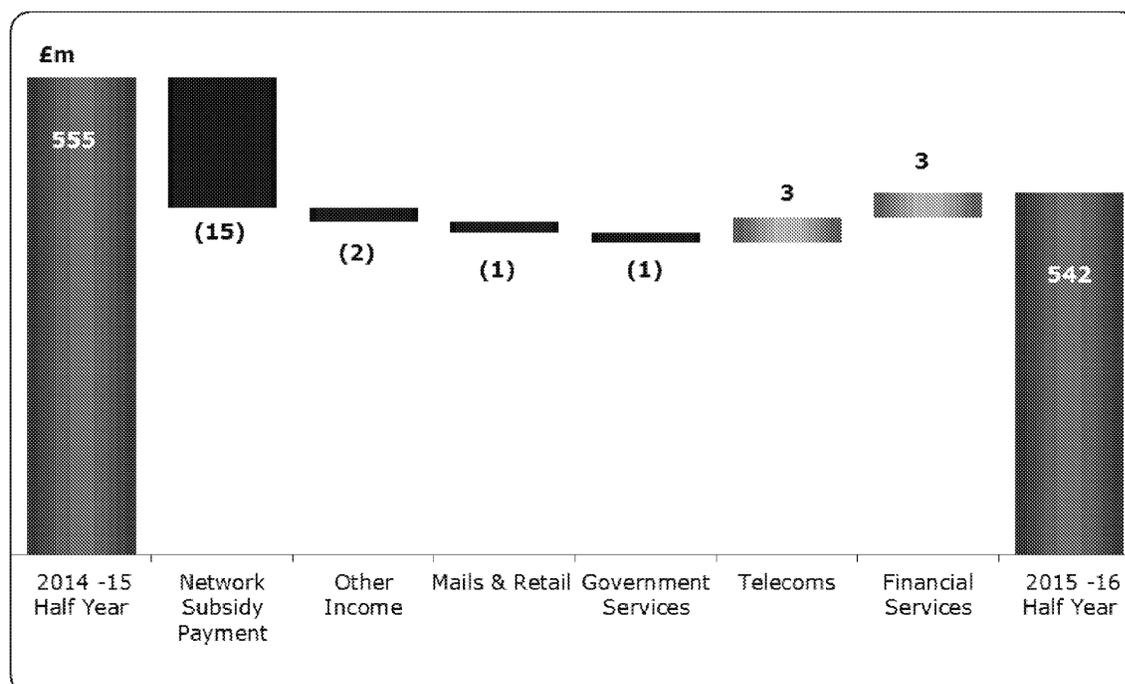
5.2 Explanations for key movements are as follows:

- Revenue - section 6
- People costs – section 7.2
- Postmasters – section 7.3.1
- Non People Costs / Other – section 7.3.2 to section 7.3.10

6. Revenue

	27 September 2015	28 September 2014	Variance
	£m	£m	£m
Turnover	477	475	2
Network Subsidy Payment	65	80	(15)
Revenue	542	555	(13)

6.1 Revenue bridge analysis.



The decrease in year on year total revenue of £13m (2.4%) to £542m (2014 £555m) is driven by the £15m decrease in the Network Subsidy Payment, partially offset by small increase of £2m in turnover.

The following commentary gives further detail on the revenue variances by category:

6.1.1 Mails

The £0.2m (0.1%) decrease in Mails revenue is driven by the contractually agreed reduction of the fixed fee, offset by growth in Home Shopping Returns and Acceptance products.

- £3.2m was driven by the contractually agreed reduction to the fixed fee.
- £0.6m decrease in International Standard postage.
- £0.2m reduction in stamps and labels income,
- £0.2m decrease in Parcelforce Express 24 & 48 volumes.

Offset by:

- £2.5m increase in Acceptance, where we are collecting items from customers that have no postage to pay at the counter (including £1.9m for back-billing of certificates of posting).
- £1.0m increase in Home Shopping Returns.
- £0.6m increase in priority and signed for products.

6.1.2 Retail & Lottery

Retail and Lottery revenues have decreased by £1.1m:

- Lottery is £0.5m lower than last year. Camelot income is £0.4m lower and the Health lottery is £0.1m lower.
- Retail is £0.6m lower than prior year as a result of smaller retail square footage post refurbishments.

6.1.3 Government Services

The £1.1m (1.6%) decrease in Government Services revenue is principally due to lower DVLA revenue as a result of paperless car tax. The main variances are:

- £5.4m lower DVLA revenues (50% fall) from lower volumes.
- £1.3m adverse from falling numbers of live POCA accounts due to natural attrition and migration of customers to bank accounts.

Offset by:

- £1.0m increase in Check & Send revenues driven by higher volumes.
- £4.4m from ID related products, split:
 - £2.1m from new products (Verify), and
 - £2.3 from existing products.

6.1.4 Telecoms

The Telecoms Services pillar includes the Post Office Homephone and Broadband services, as well as sales of mobile top-ups and phonecards.

Telecoms Services revenue of £61.8m (2014: £59.0m) has increased by £2.8m. This has been driven by the line rental price increase of £2 introduced in January 2015, and the average customer base has grown by 8k. The customer base has grown to 457k (March 2015:454k)

Income from mobile top-ups was £0.4m below prior year, as transaction volumes declined due to the mobile networks actively migrating customers away from pre-pay, and also reducing their transaction fees.

6.1.5 Financial Services

Financial Services income has increased by £2.8m year on year. Overall PFS (MoneyGram, Post Office savings, insurance, travel, lending and current accounts) is up by £6.6m (10.0%) year on year. Revenue from traditional products has on the whole declined.

By product the main Personal Financial Services variances of £6.6m increase are:

- **£2.1m increase in savings products.**
 - £3.5m due to the BOI savings underpin,
 - £0.2m due to on-line savings, offset by
 - £1.6m decrease in other savings, specifically Reward Saver.
- **£2.0m increase in Travel products.**
 - £2.7m increase in Travel Insurance revenues driven by the new POMS subsidiary, offset by
 - £0.8m decrease in Bureau income due to the travel sector having seen a general decline and supermarkets expanding their networks and marketing investments.
- **£2.3m increase from Moneygram** due to Moneygram having increased its market share. Transfers to certain Eastern European countries is up 50% and we have increased our network access fees,
- **£0.8m increase in Insurance** product revenue, mainly additional commissions.

The above was marginally offset by:

- **£0.6m decrease in Lending revenue from:**
 - £0.4m decrease in credit cards
 - £0.1m decrease from mortgages
 - £0.1m decrease in personal loans

Other Financial Services variances of £3.8m decrease are:

- **A £3.6m decrease in Postal Order income.** This is due to P6 in the prior year having a write back to revenue of uncashed postal orders over 12 months old (a change from 24 months previously).
- **A £2.2m decline from bill payments,** as utilities and other bill payment clients continue to migrate customers to other payment methods such as direct debit and online. We have also lost clients such as Derby City Council to Paypoint and travel ticketing clients such as West Yorkshire ticketing scheme.

The above decreases were marginally offset by:

- **£0.8m increase in ATM** revenue, driven by the increased volumes as machines reach maturity,
- **£0.7m net increase in Banking revenue from:**
 - an increase of £1.7m in personal banking due to increased volumes, specifically cash withdrawals and the impact of other banks closing their branches, offset by
 - a £0.9m decrease in business banking revenues due to a fall in corporate auto deposits rates from Santander contract.
- **£0.3m increase in NS&I** revenues driven by true up of income this year.
- **£0.2m** increase in other smaller variances.

7. Costs and People

This section discusses expenditure, excluding exceptionals.

7.1 Total Costs Analysis (excluding exceptionals)

The following provides a breakdown of costs for the half year ending 27 September 2015 compared to the half year ending 28 September 2014

Expenditure - (pre-exceptional)	Notes	2015	2014	Variance	Variance
		£m	£m	£m	%
Wages & Salaries		(78)	(88)	9	10%
Pensions		(16)	(15)	(1)	(10%)
Overtime		(4)	(5)	1	24%
Bonus & Productivity		(7)	(4)	(3)	(78%)
Employers NI		(9)	(10)	1	11%
Temporary Resource		(3)	(3)	1	25%
Staff Costs Efficiency Target		0	0	0	0%
PEOPLE COSTS	7.2.1	(118)	(125)	8	(17%)
Postmasters' costs	7.3.1	(206)	(221)	15	7%
Legal Costs	7.3.2	(3)	(0)	(3)	(>100%)
Staff & Agent Related Costs		(6)	(5)	(1)	(6%)
Consultancy & Advisory Services		(2)	(1)	(1)	(>100%)
Brand & Marketing	7.3.3	(15)	(16)	1	2%
Property & Facilities Management	7.3.4	(26)	(32)	6	17%
IT Infrastructure & IT Services	7.3.5	(55)	(45)	(10)	(23%)
Finance & Losses	7.3.6	(13)	1	(14)	>100%
Cost Of Sales	7.3.7	(53)	(54)	1	1%
Other Operating Costs	7.3.8	(24)	(55)	31	57%
Vehicles		(3)	(3)	0	2%
Non-Staff Costs Efficiency Target		0	0	0	0%
Depreciation		(0)	(0)	0	3%
Total Other Operating Costs	7.3	(406)	(431)	25	6%
TOTAL EXPENDITURE (Pre Exceptionals)		(524)	(556)	33	6%

7.2 People Costs (2015 £118m vs 2014 £125m)

7.2.1 People costs (2015 £118m vs 2014 £125m)

People costs have decreased by £7.9m (6.3%) to £117.4m, representing 22.4% (2014 22.5%) of the cost base.

The number of people employed also decreased, by 717 to 6,637 at 27 September 2015 (2014 7,354), primarily due to redundancies arising from the Crown and Business Transformation Programme.

The people cost movement comprises:

- Wages and Salaries have decreased by £9.1m (10%), £7.1m reduction in basic pay driven by fewer people and cost control and £1.1m relates to reduced staff project costs
- Pension costs have increased by £1.4m (9.6%), reflecting an increase in the RMPP IAS19 service cost rate to 28.5% (2014:23.0%)
- Productivity costs have increased by £3.1m (78.4%), due to increase in management bonus accrual to 87% in current year reflecting current performance levels compared to 50% bonus booked in prior year and the release of over accrual of 13/14 in prior year.
- Overtime has decreased by £1.3m (23.8%).
- Temporary resource costs have increased by £0.9m (25.4%)

7.2.2 People Numbers

The following analysis shows the movements in the number of people employed during the year.

The People numbers were as follows:

	Period end employees			Average employees	
	27 September 2015	29 March 2015	28 September 2014	2015	2014
Total employees	6,637	6,876	7,354	6,717	7,465

7.2.3 Average Cost per Employee

The average number of employees for 6 months ending 27 September 2015 was 6,717 (2014 7,465). The average annual cost per employee, (excluding exceptional costs and exceptional heads), has increased by £2,136 (6.3%) to £36,113 (2014 £33,977).

This is largely due to the prior year bonus accrual which anticipated 50% bonus pay out compared to current year bonus anticipation of 87% bonus pay out.

7.3 Other Operating Costs (2015 £406m vs 2014 £431m)

7.3.1 Postmaster costs (2015 £206m vs 2014 £221m). Total postmasters costs decreased by £15.2m (6.9%). This reduction was made up of £10.2m reduced fixed costs as a result of Network Transformation, £3.5m lower tax and £1.6m lower variable costs due to sales mix.

The average annual cost per subpostmaster branch (excluding VAT and NI) is £39,873 (2014 £41,836). This is a 4.7% decrease on the prior year. The decrease is as a result of the reduced fixed income payments as a result of Network Transformation.

	2015	2014
Agency Branches (incl. Mains and Locals)	10,107	10,195
Outreach	1,143	1,095
Crown	319	341
Total Branches	11,569	11,631

7.3.2 Legal Costs have increased by £2.5m. £1.7m is driven by legal support of strategic projects, primarily Sparrow, £0.5m is due to risk and compliance related work and £0.4m is due to legal settlements.

7.3.3 Brand & Marketing have decreased by £0.4m (2.4%) year on year. £3.0m relates to reduced creative agency fees, £2.6m relates to decreased market research costs, offset by £4.8m increase in Advertising costs.

7.3.4 Property & Facilities Management costs have decreased by £5.4m. Key movements; £2.5m is due to the change in the Facilities Management Contracts as a result of separation. Norland and Servest now provide the FM contracts to POL. Previously these were provided by Romec/Royal Mail at a higher cost, £1.0m is due to reduced estates charges Rent, Rates and Service Charges, this is as a result of a reduction in the size of the estate (Crowns have reduced from 339 to 314) and the increase in onerous lease provision recognised within the Crown Transformation programme. To add to this there have been several rent reviews and lease expiries where re - negotiations have taken place that will also have impacted, £0.4m is due to reduced security costs (previously paid to Romec) and £0.6m previously paid to Royal Mail for shared services overheads.

7.3.5 IT Infrastructure & IT Services costs have increased by £10.2m (22.7%) mainly due to £5.8m of increased Computer Infrastructure costs for licences and other IT costs and £2.6m increased business telephony costs, which were both previously billed through Other operating costs as they were acquired through Royal Mail. £2.2m of the IT increase relates to new costs for POMS including the contact centre costs of c. £1.9m.

7.3.6 Finance costs have increased by £13.5m, mainly driven by a one off lump sum of £14.2m VAT rebate in the prior year, which also covered prior years. Current year central rebate figure is £1.3m with most of the VAT recovery now appearing against the individual cost lines. Credit and debit card processing charges have increased by £1.0m and FX losses of £1.4m were £0.9m higher than last year partially offset with other smaller favourable movements.

7.3.7 Cost of Sales has decreased by £0.4m (0.8%), detailed below:

Cost of Sales

	27 September 2015	28 September 2014	Variance	Variance
	£m	£m	£m	%
Telecoms	37	37	0	1%
Government Services	15	15	0	0%
Mails & Retail	2	2	0	10%
Financial Services	0	0	0	22%
Total	53	54	0	1%

7.3.8 Other Operating costs have decreased by £31.0m. The prior year included £10.8m for client compensation relating to the historical overcharges relating to 'death notified accounts' (DWP), and £10.4m for project expenditure as all was recorded against this line in the old finance system, (project expenditure is now recorded across the relevant categories above). The remaining variance is driven by lower managed service costs, specifically costs to Royal Mail (offsets increase in 7.3.6 above) and telecommunication cost reductions.

7.3.9 Project expenditure is now reported within the appropriate cost categories and has decreased by £4.4m to £9.0m and is detailed below:

2015-16 Project Expenditure	£m
Eagle – contractual commitment to £4m pa sales capability investment	(2.1)
Mobile (Wave)	(2.1)
Invest to Grow FS	(1.2)
Sparrow	(1.2)
Other Invest to Grow	(0.6)
POCA (Maypole / Iliad)	(0.5)
Other Central Costs	(0.4)
Project Crescent	(0.3)
People & Organisation	(0.3)
Digital	(0.3)
Grand Total	(9.0)

8. Quality of Earnings

<i>Post Office Limited (consolidated)</i>	2015-16	2014-15	Growth	
	£m	£m	£m	%
Reported profit before other exceptional items	42	23	19	83%
Network Subsidy Payment	(65)	(80)	15	19%
Depreciation	0	0	0	-
Reported EBITDAS	(23)	(57)	34	60%
Provision for client compensation for past overcharges		10		
VAT recovery in 2014-15 re 2013-14		(11)		
Billing corrections re 2014-15	1	(1)		
Back-billing to RM for Certificates of Posting work	(2)			
Fujitsu compensation for poor service in 2013-14	(4)			
Total adjustments	(5)	(2)		
Adjusted EBITDAS	(28)	(59)	31	53%

Each item in the table is explained further below:

8.1 Network Subsidy Payment

The Network Subsidy Payment decreased from £160m for 2013-14 to £130m for 2015-16. The Network Subsidy Payment has been accounted for as a government grant in both years and has been recognised evenly through the year.

8.2 Client compensation

An error was identified that has led to a client being overcharged for approximately 5 years and a provision was booked for compensation for the overcharges in 2014-15.

8.3 VAT recovery re earlier years

In 2014-15 there were additional VAT recoveries relating to earlier years when the recovery rates were confirmed with HMRC of £11m.

8.4 Billing corrections and back-billing

Corrections of £0.8m were made to year end revenue estimates early in 2015-16 relating to 2014-15. In September 2015, Royal Mail was billed for Certificates of Posting services in prior years and not previously invoiced.

8.5 Fujitsu compensation

Compensation of £3.7m was received in 2015-16 relating to poor service during the migration of the Telecoms service from BT to Fujitsu in 2013.

9. Pensions

9.1 Background

The Post Office participates in pensions schemes and detailed below:

Scheme	Eligibility	Type
Royal Mail Pension Plan (RMPP)	UK employees	Defined benefit
Royal Mail Senior Executive Pension Plan (RMSEPP)	UK senior executives (closed)	Defined benefit
Royal Mail Defined Contribution Plan (RMDCP)	UK employees	Defined contribution

Royal Mail Pensions Trustees Limited manages the main defined benefit scheme Royal Mail Pension Plan (RMPP) which has circa 4,100 Post Office active members.

9.2 Assumptions

IAS 19 revised requires a number of assumptions. The choice of assumptions used for the calculations is the responsibility of the Directors, based upon advice given by an independent actuary. The key assumptions for the half year to 27 September 2015 are set out in the table below.

Towers Watson has confirmed that the assumptions have been determined in a manner consistent with those used for the disclosures at 29 March 2015.

	September 2015	March 2015
% pa RMPP Post Office Section		
Inflation (RPI)	3.0	3.0
Inflation (CPI)	1.9	1.9
Discount rate (i.e. bond rate)	3.9	3.5
Rate of increase in Pensionable salaries	2.8	2.8
Rate of pension increases – RMPP A/B	1.9	1.9
Rate of pension increases – RMPP C	2.8	2.8
Rate of increases in deferred pensions	1.9	1.9

Demographic assumptions, for example mortality, remain aligned with the assumptions used for the actuarial valuation and unchanged from those made in March 2015.

9.3 Movements in the defined benefit surplus

The movement in the RMPP defined benefit surplus during the half year to 27 September 2015 is detailed below. Scheme assets are assessed at fair value at the balance sheet date. For example, quoted equities are valued at the latest 'bid' price. Scheme liabilities are discounted using a high quality corporate bond rate. The IAS 19R surplus/deficit is usually therefore different to the cash funding surplus/deficit (the "actuarial" valuation) assessed by the Trustees, for which the scheme liabilities are discounted using the expected returns available on scheme assets.

	Half year ended 27 September 2015 £m	Year ended 29 March 2015 £m
Opening sectionalised RMPP net retirement benefit surplus	229	170
Current service cost	(15)	(25)
Curtailment costs	-	(1)
Net financing credit	4	7
Employers contributions	9	21
Actuarial gains/(losses)	(10)	57
Closing RMPP net retirement benefit surplus	217	229
RMSEPP surplus	5	5
Total net retirement benefit surplus	222	234
Effect of asset ceiling	(40)	(29)
Closing net retirement benefit surplus	182	205

The current service cost is intended to represent the amount by which the liabilities will increase due to employing active members for one more year. The current service cost, expressed as a percentage of pensionable pay is 28.5% for RMPP (March 2015 – 23%). Payments of £9m were made in respect of RMPP future service contributions at a rate of 17.1% (March 2015 - 17.1%) and £1m was paid in respect of enhancements on redundancy in early retirement.

The net financing credit of £4m, a non-cash item, is reported under finance income and reassessed annually.

Actuarial gains and losses are recorded directly in the statement of changes in equity (and not the income statement). The actuarial loss of £10m during the half year arose primarily due to a decrease in the value of assets which resulted in an actuarial loss of £27m; this was as a result of changes in market conditions. This actuarial loss was partially offset by an actuarial gain on the Defined Benefit Obligation of £17m, which has been caused by changes in the financial assumptions driven by an increase in corporate bond yields. The RMSEPP surplus has remained at £5m.

The charge in the income statement and cash contributions for the defined contribution scheme were £2m in the half year to 27 September 2015.

9.4 Assessment of recoverability of surplus under IFRIC 14

In order to recognise a surplus it is necessary to prove that the Post Office could recover the surplus either through lower future contributions or through a refund. Royal Mail took legal advice both before and after sectionalisation. This confirmed that Post Office Limited and Royal Mail Plc have absolute rights to the assets left over in their individual sections after benefits have been secured if the RMPP terminates. There is no trigger for termination in the Trust Deed but that does not mean that the RMPP cannot terminate. It would be wound up by the courts, or the Regulator, or when the last beneficiary dies. Towers Watson has calculated that Post Office Limited would be able to recover £109m of the £217m surplus in RMPP through lower contributions and the remaining £108m could therefore be recovered through a refund together with the £5m surplus in RMSEPP. The element of surplus that is recoverable through a refund would be subject to a 35% withholding tax charge. Therefore the overall surplus on the balance sheet, (made up of a £217m surplus for RMPP and £5m surplus for RMSEPP), has been reduced by £40m to £182m. The element that is recoverable through lower contributions has resulted in a deferred tax liability of £22m, which represents a decrease of £8m from the deferred tax credit recognised up to the year to 29 March 2015.

10. Exceptional Items and Provisions

This section discusses the exceptional items on the income statement together with movements in the related balance sheet provisions/payables.

10.1 Exceptional items summary

The following exceptional items were recognised in the consolidated income statement for the half years ended 27 September 2015 and 28 September 2014.

10.2	2015-16	2014-15
Exceptional items	£m	£m
Operating Exceptionals:		
Royal Mail Pension Plan amendment	-	-
Government Grants	150	170
Restructuring costs including postmasters' compensation	(160)	(107)
Impairments	(45)	(66)
Total operating exceptionals	(55)	(3)
Non operating exceptionals:		
Profit on disposal of property	-	-
Net Exceptional gain/ (loss)	(55)	(3)

Government Grants – In April 2015 the Post Office received grants totalling £150m from the Government, (April 2014 £170m) to fund capital projects and transformation. The larger amounts utilised in the half year to September 2015 are: £66m against postmasters' compensation, £31m against capital spend, £34m Network Transformational exceptionals and £9m Crown and Supply Chain redundancy.

- 10.3 Restructuring costs - £128m of restructuring costs relate to Network and Crown Transformation. These programmes are being implemented to achieve a major change in the network. They include the introduction of new style agency offices and seek to improve the profitability of the Crown network. The overall figure includes £56m (broken down in the table below) - Network Transformation and Crown Transformation programme costs, and £72m postmasters' compensation. The figures quoted for postmasters' compensation are subject to change, an error has been identified in the calculation for the postmasters' compensation provision on the balance sheet and exceptional items charged in 14-15 half year and full year. The change for the year to 29 March 2015 is likely to be c£86m. The split between the first and second half of the year is currently being worked through, as are the figures for September 2015. Redundancy costs for the half year amount to £21m and include £12m admin ("Wave") severance costs, £6m Crown severance and £3m Supply Chain severance costs. Remaining restructuring costs include: IT Transformation programme costs of £3m – these costs relate to finalising the IT infrastructure and are decreasing due to the programme reaching a different phase where most related costs are now being capitalised; £2m relates to the business separation programme; Business transformation costs of £2m have been incurred and relate to achieving the overall transformation strategy, including the costs of the business transformation team. Finally costs of £4m relate to business transformation payments £2m for Crown staff for meeting the Crown P&L break-even run-rate and £2m for Supply Chain staff for completing transformational depot reviews.

Network and Crown Transformation costs (other than Postmasters' compensation) to September 2015 were made up as follows:

Network Transformation	£m
Programme Costs	12
Investments (e.g. enabling works)	12
Fixtures and equipment, non-capital	11
Other (Legal, Comms, consultation, IT projects)	5
Total Network Transformation	40
Crown Transformation	16
Total	56

11. Interest, Cash, Debt, Funding and Hedging**11.1 Net finance costs September 2015 £2m vs September 2014 £1m**

	27 September 2015 £m	28 September 2014 £m
Finance costs & investment income		
Interest received on investments – UK	-	-
Total finance income	-	-
Interest charged on Government borrowings	(1)	-
Other finance costs	(1)	(1)
Total finance costs	(2)	(1)
Net finance cost	(2)	(1)

Interest payable on the BIS Loan has increased year on year (2015/16 £0.7m, 2014/15 £0.1m) due to higher draw-down.

Other finance costs include commitment fees to BIS for the Post Office credit facility, and charges to RBS for their note sorting facility.

11.2 Cash, cash equivalents and debt within the balance sheet

Net cash/debt analysis	Section	27 September 2015 £m	29 March 2015 £m
Cash in the Post Office Limited network	11.3	648	708
Other cash at bank		29	33
Cash equivalent investments		50	80
Total cash and cash equivalents		727	821
Loans, repayable on demand or less than 1 year	11.4	(253)	(310)
Total		474	511

11.3 Cash within the Post Office Limited network (September 2015 £648m vs March 2015 £708m)

The decrease in Post Office network cash from March 2015 levels can be chiefly attributed to the cessation of NS&I products, and associated lower holdings of both cheques and debit card transactions.

11.4 Loans and borrowings (September 2015 £253m vs March 2015 £310m)

The decrease is due to the receipt of the government grant and NSP at the beginning of the financial year, offset by the daily borrowings from BIS which are increasing as the transformational spending continues in line with forecast spend. This will continue until the transformational programmes are completed.

11.5 Loan facilities

At the half year the Post Office had external borrowings of £253m.

12. Going concern

Post Office Limited has net cash and cash equivalents of £727m and a borrowing facility of £950m of which £253m was drawn down at 27 September 2015.

12.1 Background

On 27 November 2013, a funding agreement was announced providing:

- Funding of £280m for 2015-16 (received 1 April 2015)
- Funding of £220m for 2016-17
- Funding of £140m for 2017-18
- Extension of the existing working capital facility with BIS up to 31 March 2018 but at a reduced level of up to £950m.

State Aid approval for the funding for 2015-16 to 2017-18 was received on 19 March 2015.

On 28 March 2012 it was recognised that the working capital facility was no longer deemed State Aid.

The going concern analysis is based on the recent three year plan.

12.2 Assessment for the Post Office

The Post Office posted an operating profit before exceptional items for the first time for a number of years in 2008-09 and has continued to do so, but, with the exception of 2012-13 and 2013-14, still operated with a cash outflow and expects further cash outflows in the coming years. The 2011-15 plan reversed the trend of an increasing Network Subsidy Payment (NSP) and the 2020 Strategy continues on the path to a sustainable Post Office supported by a much lower subsidy.

The 2015-16 budget and three plan financials have been shown in Table 1, and show that Post Office has sufficient cash headroom to continue to trade. The available facility has been defined to include network cash, ATM cash, ATM debtor, POCA debtor and SGEI cheques in the past but has now been extended, as it has always been allowed under the Working Capital Facility agreement, to include uncleared debit/credit card payments, short term bank deposits and money market fund investments which also meet the definition. Downside scenarios have been overlaid reflecting the lower cash flows if the risks identified in the three year operating plan materialise. The working capital facility was deemed not to be State Aid in 2012 so does not require further clearance and is now available (at the reduced level of £950m) through to March 2018.

The one year funding deal for 2011-12 added the ability to borrow up to £50m from other sources, as well as the up to £50m in finance leases previously allowed, which would improve the headroom capacity shown if required.

12.3 Summary conclusion

Based on the analysis, there is available borrowing headroom until March 2018. Royal Mail Plc is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited is a going concern, the assumption is made that

Royal Mail Plc is a going concern or that an alternative mails provider would work similarly with Post Office Limited providing a similar level of income. Post Office Ltd and Royal Mail entered into a ten year agreement (Mails Distribution Agreement) in 2012 for the provision of mails products through post offices.

It is believed that Post Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. It is therefore expected that the directors will consider it appropriate to prepare the accounts on a going concern basis.

Post Office Limited Funding Analysis

£m (cumulative apart from free cash flow)	2014-15	2015-16	2016-17	2017-18
Opening Funds	(24)	(197)	(541)	(544)
Borrowing facilities	1,150	950	950	950
Restriction due to level of network cash	(300)	(100)	(100)	(100)
Borrowings from other sources - finance leases, bank overdraft etc				
Latest plan free cashflow before assumed non NSP grant injection	(343)	(494)	(143)	(110)
Non NSP grant injection per October 2013 plan	170	150	140	70
Closing Funds Headroom	653	309	306	266

£m (cumulative)	2014-15	2015-16	2016-17	2017-18
Headroom pre risk (as above)	653	309	306	266
Risks				
Financial Services growth slower than plan		(12)	(42)	(92)
Mails revenue growth does not materialise			(25)	(65)
Telecoms growth does not materialise		(2)	(7)	(17)
Government Services growth does not materialise		(2)	(9)	(24)
Cost savings from income shortfalls (at 50% assumed)		8	42	99
Network Transformation benefits are not fully delivered		(9)	(12)	(22)
Transformation benefits are not fully delivered		(5)	(10)	(15)
Pension contribution rates increase		(14)	(28)	(42)
Cost risks to budget		(10)	(32)	(46)
Headroom post risks pre management actions	653	263	183	42
Management actions		10	20	129
Sell Corporation tax losses to FRES		10	20	30
Reduce or postpone investment				75
Close DB pension scheme from 1/4/17 and replace with DC scheme at 9%				24
Headroom post risk and management actions	653	273	203	171
Headroom pre further management actions	653	273	203	171
Further management actions				
Headroom post further management actions, (B)	653	273	203	171

Table 1

This table shows the budget and 3 year plan projections for 2015-16 and beyond. It demonstrates positive headroom throughout the plan period.

Table 2

This table sets out the impact of theoretical downside scenarios if the plan does not generate the income streams anticipated, the network programmes fail to deliver the benefits and if the pension scheme costs increase.

There are further actions that could be taken but are not required. These include the sale of property.

13. Property, plant and equipment and non-current assets held for sale**13.1 Net Book Values**

The net book value (NBV) of land and buildings, plant and fixtures and intangible fixed assets at September 2015 was £10m (March 2015 £10m). All assets are impaired on acquisition except land and buildings and POMS assets. Movements during the six months were as follows:

Movement in NBV	Land and buildings £m	Vehicles, plant and fixtures £m	Intangible fixed assets £m	Total £m
NBV at 29 March 2015	10	-	-	10
Add capital expenditure	3	13	30	46
Less disposals	-	-	-	-
Less depreciation	(1)	-	-	(1)
Less impairment	(3)	(13)	(29)	(45)
NBV at 27 September 2015	9	-	1	10

The £1m intangible fixed asset relates to software development in respect of POL's subsidiary company, POMS, and will be transferred to that company's asset register in the second half year.

13.2 Capital expenditure

The following table summarises capital expenditure to 27 September 2015:

Capital expenditure analysis	Land & buildings £m	Vehicles, plant & fixtures £m	Intangibles £m	Total £m
Lean IT	-	4	17	21
Reduce and variabilise NT costs	2	9	7	18
Commercial	-	-	4	4
Reduce Central costs	-	-	1	1
POMS software developing	-	-	1	1
Other (items <£1m)	1	-	-	1
Total	3	13	30	46

14. Goodwill, investments and intangibles

14.1 Investments in joint ventures and associates

	27 September 2015 £m	29 March 2015 £m
Investment in joint ventures	91	67

Joint ventures

Post Office Limited's joint venture investment is a 50% interest in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change.

The movement during the half year is Post Office Limited's share of 2015-16 post tax profit of £24m.

15. Working capital

15.1 Inventories (September 2015 £6m vs March 2015 £6m)

	27 September 2015	30 March 2015
	£m	£m
Scratchcards	5	4
Retail	1	2
Total	6	6

15.1.1 Inventory written off

The provision for stock write downs and discrepancies remains at £0.5m (March 2015 £0.5m). Shrinkage and obsolete stock written off at half year was £0.3m.

15.2 Trade receivables

Receivables are tabulated below, followed by a detailed explanation of the various balances.

Receivables		27 September 2015	29 March 2015
	Section	£m	£m
Trade receivables	15.2.1	75	101
Client receivables	15.2.2	162	162
Prepayments and accrued income	15.2.3	86	106
Other receivables		24	28
Total		347	397

15.2.1 Trade receivables: Current (due within one year)

Trade receivables		27 September 2015	29 March 2015
		£m	£m
Sales ledger		17	22
Doubtful debt provision		(0)	(0)
Homephone debtors		11	10
Homephone provision		(4)	(4)
Postmaster debt		15	17
Postmaster debtors provision		(10)	(10)
Property debtors		1	1
Reclass: uncleared debit, credit cards		25	53
Bank of Ireland, FRES cost recovery		19	12
Other		1	-
Total		75	101

The largest movement relates to uncleared debit and credit card receivables which have been reclassified from Cash into receivables for both the current and prior years. This balance has decreased sharply on account of the cessation of NS&I products.

The decrease in sales ledger reflects lower debtors in respect of MoneyGram, Eon, Home Office and Amex.

Telecoms debtors are similar to opening and the debtor position is stable.

Receivable balances in relation to former postmasters of £10m have been provided for in full in line with previous years. The remaining £5m of postmaster debt which is not provided for relates to current postmasters debt and which is usually settled through a deduction from remuneration.

The Bank of Ireland cost recovery debtor (£13m) relates to marketing and promotional spend incurred on their behalf. Both parties agree the costs incurred, enabling POL to raise invoices and reduce this debtor. While the debt is currently high c. £12m will be invoiced in October or November. The remaining cost recovery debtor is with FRES, at £6m.

A profile of the sales ledger within trade receivables is as follows:

Trade receivables	27 September 2015	29 March 2015
	£m	£m
Royal Mail	1	2
Bank of Ireland	8	8
FRES	-	1
Partner banks	2	2
DVLA	1	-
Bill payment partners	2	4
Others	3	5
Total	17	22

Ageing of aged debt:

Debtors over 60 days overdue: September 2015 £nil (March 2015: £nil).

The Post Office does not have a general risk in relation to bad debts due to the agency and business partner nature of our client base.

15.2.2 Client receivables

Analysis of client balances at year end is as follows:

Client receivables	27 September 2015 £m	29 March 2015 £m
ATM (Bank of Ireland)	100	100
Card Account (JP Morgan)	28	28
Partner banks	25	25
Others	9	9
Total	162	162

There has been no movement in Client receivables between year end 2014/15 and half year 2015/16.

15.2.3 Prepayments and accrued income at 27 September 2015 total £86m (March 2015 £106m)

Accrued income represents the majority of this amount (September 2015: £67m, March 2015: £87m), the £20m decrease is chiefly explained by the March balance including £12m for POCA relating to 2014/15 and which was billed in April. March included NS&I for £2m with no balance at September and other accruals are reducing generally.

Prepayments of £19m represent the remainder of the £86m total. The prepayment of telephony take-on costs with Fujitsu is £6m at September 2015 (March 2015: £6m), and additionally there is £5m of Computacenter prepaid licence costs (March 2015: £5m). Also at September 2015 there is £5m of property cost prepayments, (March 2015 £5m).

The total Fujitsu telephony prepayment at September 2015 is £13m (March 2015: £16m), with £6m due within one year (above) included in this total. The remaining £7m represents the element that will be amortised beyond one year until the contract end date in August 2020. This is disclosed on the balance sheet in non-current receivables.

15.3 Payables: **amounts due within one year**

A summary of payables categories is:		27 September 2015 £m	29 March 2015 £m
	Section		
Trade payables	15.3.1	45	30
Accruals and deferred income	15.3.1	139	160
Client payables	15.3.2	309	454
Advance customer payments		35	29
Capital payables	15.3.1	11	25
Social security		7	9
Business transformation		0	10
Government grant deferred income (NSP)	15.3.4	65	-
Other payables		10	11
Total		621	718

15.3.1 Trade payables and accruals

Trade payables and general, capital accruals	27 September 2015	29 March 2015
	£m	£m
Trade payables	45	30
Accruals, GRNI	74	89
Capital accruals	11	25
Postmaster, employee pay balances	52	53
Productivity, bonus schemes	9	12
Others	4	6
Total	195	215

Manual accruals and GRNI liabilities represent the material trade payables at any point, and these – together with capital accruals – account for £29m of the overall decrease of £33m in the table above. In 2015/16 there is notably lower levels of project activity compared to last year with several programmes coming to maturity.

Trade payables chiefly comprises supplier invoices awaiting payment. The increase is due to a larger Fujitsu balance (September 2015 £9m, opening £1m) down to invoice timing and a £9m adjustment for uncleared BACS payments. This is offset by reductions in other accounts payable balances.

Postmaster and employee balances include £52m pay due for September. The equivalent pay creditor at March was £53m. With employees and postmasters being paid by the calendar month, and accounting periods ending on the final Sunday, this explains how pay creditors arise.

15.3.2 Client payables

	27 September 2015	29 March 2015
	£m	£m
Santander	115	127
NS&I	-	30
DVLA	19	27
Utility companies	6	10
Bank of Ireland	9	17
BACS	20	74
Royal Mail	23	29
Others	117	140
Total	309	454

The cessation of NS&I's products is the chief reason for decreases shown above, with a further £30m of NS&I included in the March BACS value, a combined £60m decrease. The balance of the BACS reduction is due to £9m of the BACS adjustment being included in trade creditors at the half year and a general reduction in payables.

Customers are increasingly able to purchase car tax direct with DVLA online and this resulted in continued balance reduction.

Other client reductions from opening include: Santander has decreased by £12m with the transcash product continuing to be capped by the client at £10k per cheque transaction, UKPA reduced by £8m for seasonality, and finally Bank of Ireland by £8m as the March 2015 balance was higher than normal as customers used their 14/15 ISA allowance.

15.3.3 Client advances

This category also includes specific, non-client, creditors as follows:

Client advances

	27 September 2015	29 March 2015
	£m	£m
Client advances, deferred income	3	1
Postal order liability	11	12
Drop and Go	1	1
Gamma	4	4
Telephony credit balances	4	4
Homephone line rental advance payments	9	7
Other	3	-
Total	35	29

The Postal order liability reflects a creditor for uncashed Postal orders. Postal orders are valid for 6 months but the liability has been retained at 12 months reflecting that they would normally be honoured up to this date.

15.3.4 Government grant: network subsidy payment

The creditor of £65m represents 50% of the full year subsidy received in April 2015, and which remains to be transferred to income.

15.4 Payables: amounts due after one year

Payables due after one year	27 September 2015	29 March 2015
	£m	£m
Rent-free incentives	2	2
Bank of Ireland deferred income (Gamma)	28	28
Total	30	30

The rent free incentive creditor relates to buildings with an initial rent free period where the cost are over the life of the lease is spread evenly. Half of the balance relates to Finsbury Dials.

Bank of Ireland deferred income concludes in financial year 2022-23 and is recognised in line with an agreed amortisation schedule. The final instalment of £2m was received early in the first half of 2015/16, and £2m was amortised in the half year.

16. Provisions

Provisions (September 2015 £99m vs March 2015 £63m)

	Crown Conversion Vacant/ Onerous leases £m	Network Transformation £m	Other £m	Total £m
At 30 March 2015	7	40	16	63
Charged/ (released) in operating exceptional items	12	72	21	105
Charged in operating costs		-	2	2
Utilisation	(3)	(46)	(22)	(71)
At 27 September 2015	16	66	17	99
				Disclosed as: Current
				87
				Disclosed as: Non current
				12

The Network Transformation provision relates to compensation payments due to postmasters' who have signed up to the new contract terms or for a termination payment at September 2015 however the figures quoted for postmasters' compensation are subject to review and change. An error was identified in the calculation for the postmasters' compensation provision on the balance sheet and exceptional items charged in 14-15 half year and full year. The change for the year to 29 March 2015 is likely to be c£86m and the split between the first and second half of the year is currently being worked through, as are the figures for September 2015.

Crown conversions at March 2015 relate to leasehold property costs for Crown branches franchised, mainly to WH Smith, and which have been vacated. The exceptional charge is due to a fresh tranche of such properties which will be franchised at some point in the foreseeable future but which are not vacated and where the property costs are considered onerous.

Included within Other provisions is a severance provision of £2m, Bank of Ireland sales capability investment (Eagle provision) £2m. Also included is a provision of £11m that has been made in relation to the overcharge that has been made to the DWP under the POCA contract, dating back to 2009. This provision represents the potential repayment that will be settled with the DWP in November 2015. Finally the total includes £1m for a legacy dilapidations liability and £1m in respect of personal injury liabilities.

17. Litigation and Claims- Potential Claims regarding Horizon

Background

- 17.1 Post Office Limited has received various claims from postmasters (PMs) alleging defects in the Horizon system and Post Office's internal processes. These allegations were initially made more than 3 years ago in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through PMs' MPs.
- 17.2 Following discussions with James Arbuthnot MP and JFSA, in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review into these allegations.
- 17.3 On 8 July 2013, Second Sight published a Report finding shortcomings in Post Office's internal training and support to PMs on the Horizon system, but no systemic problems with Horizon itself.
- 17.4 Following Second Sight's July 2013 Report, on 27 August 2013 Post Office launched an Investigation and Mediation Scheme aimed at understanding and resolving individual complaints made about Horizon.

Mediation Scheme

- 17.5 The Scheme received 150 applications, 136 of which were investigated in detail (the remainder being either ineligible or swiftly resolved). These cases progressed through the Scheme under the direction of a Working Group chaired by retired Court of Appeal Judge Sir Anthony Hooper, and comprising representatives from Post Office, Second Sight, and JFSA.
- 17.6 On 10 March 2015, Post Office agreed to mediate all cases remaining in the Scheme except those the subject of a previous court ruling, and closed the Working Group.
- 17.7 On 9 April 2015 Second Sight produced a "Briefing Report - Part Two", ostensibly to assist applicants understand certain themes common to multiple applications. Although the report found that the majority of the investigated branch losses were caused by "*errors made at the counter*", Post Office was unable to endorse Second Sight's report as a whole, and produced a Reply to correct inaccuracies and provide information excluded by Second Sight.
- 17.8 Second Sight has completed its reviews of the individual Scheme cases and its engagement with Post Office ended on 27 July 2015. Steps have been taken to ensure the preservation and return to Post Office of all documentation considered or generated as part of its engagement.
- 17.9 Currently, there are 32 cases waiting for mediation to take place, with the rest of the cases having been resolved or otherwise closed in the Scheme. All mediations will continue to be overseen by the Centre for Effective Dispute Resolution, the independent organisation appointed by Post Office to administer the mediations, with the last mediation scheduled to take place in early February 2016.

Political Activity

- 17.10 The Scheme and allegations concerning Horizon continue to generate Parliamentary activity following the Westminster Hall Debate on 17 December 2014 and a BIS Select Committee hearing on 3 February 2015.
- 17.11 Andrew Bridgen MP, now leading the Parliamentary campaign following James Arbuthnot's retirement as an MP, asked for a judicial enquiry during an Adjournment debate on 29 June 2015 and during Prime Minister's Questions on 1 July 2015. James Arbuthnot is also likely to raise Horizon allegations in his maiden speech in the House of Lords, although no date has yet been set for this.

The position being communicated by BIS is that no inquiry is necessary as those with complaints have available to them other routes to resolution (mediation, appeal or litigation).

17.12 Post Office's Communications, Mediation Scheme and Legal teams are monitoring this activity.

Legal Activity

17.13 To date, no claim has been made against Post Office in the civil courts, and no appeal has been made to the Court of Appeal against any conviction obtained in the criminal courts, arising out of the matters raised in Second Sight's reports or through the Scheme.

17.14 "Horizon" has been raised as a defence to one court claim brought by Post Office for repayment of a £50k branch debt. Post Office Legal and external solicitors are managing this case, which is in the early stages of the court's case management procedure.

Media Activity

17.15 The Scheme and allegations concerning Horizon continue to generate media interest, most significantly the BBC Panorama programme "Trouble at the Post Office" broadcast on 17 August 2015.

17.16 Post Office has made a formal complaint to the BBC about the programme, which we consider broadcast untrue and damaging allegations about Post Office. This is proceeding through the BBC's internal complaints procedure. The programme did not however produce anything with which we were unfamiliar, and so far has not been picked up widely by other media or unduly impacted "business as usual" activity.

17.17 Post Office's Communications, Mediation Scheme and Legal teams continue to manage this media activity.

Regulatory Activity

17.18 Post Office is engaging with the Criminal Cases Review Commission (CCRC) in relation to 20 applications made by former PMs seeking a review of their convictions, 16 of whom are applicants to the Scheme. The CCRC can refer a case to the Court of Appeal if its review identifies new evidence or legal argument which gives rise to a "real possibility" that the conviction would be overturned on appeal.

17.19 Post Office's Legal team is liaising with the CCRC so as to comply with its statutory obligations under the Criminal Appeals Act 1995, and has provided to the CCRC very substantial documentation for review. The CCRC has not indicated how long it will take to complete its reviews, but it is not anticipated that they will be completed before calendar year end 2015. A meeting with the CCRC has been scheduled for 6 November 2015 to discuss the status of the investigations.

17.20 Post Office also received 45 simultaneous "Data Subject Access Requests" (DSARs), 42 of which were made by Scheme applicants. Post Office's Mediation Scheme, Legal and Information Security teams are coordinating Post Office's responses to the DSARs in accordance with the Data Protection Act 1998.

17.21 Post Office has applied substantial resources to the DSARs, with all requests having now received a substantive response. Some further electronic documentation formerly held by Second Sight is now being reviewed to determine whether additional disclosure is required. This process should be concluded by the end of December 2015.

17.22 It is open to applicants to complain formally to the Information Commissioner's Office if they are not satisfied with the timing or content of the response they receive. To date, no such formal complaint has been made.

18. Taxation**18.1 Income statement**

A breakdown of the tax credit for the half years to September is shown in the table below:

	Half year to 27 September 2015 £m	Half year to 28 September 2014 £m
Corporation tax credit for the period	5	-
Tax under provided in previous periods	(1)	1
Current tax	4	1
Deferred tax credit relating to the origin and reversal temporary differences	(8)	4
Income tax credit reported in the consolidated income statement	(4)	5

18.2 Factors affecting tax credits

A deferred tax credit of £30m was recognised in the year to March 2015 in relation to the retirement benefit surplus as a proportion of this surplus was considered to be recoverable through future contributions. An equal and opposite entry was recognised through equity. In the half year to September 2015 the proportion of the surplus recoverable through future contributions decreased and therefore a deferred tax debit of £8m has been recognised to account for the deferred tax effect of this.

The corporation tax credit for the period of £5m represents the losses that we expect to surrender to FRES through consortium relief for the period.

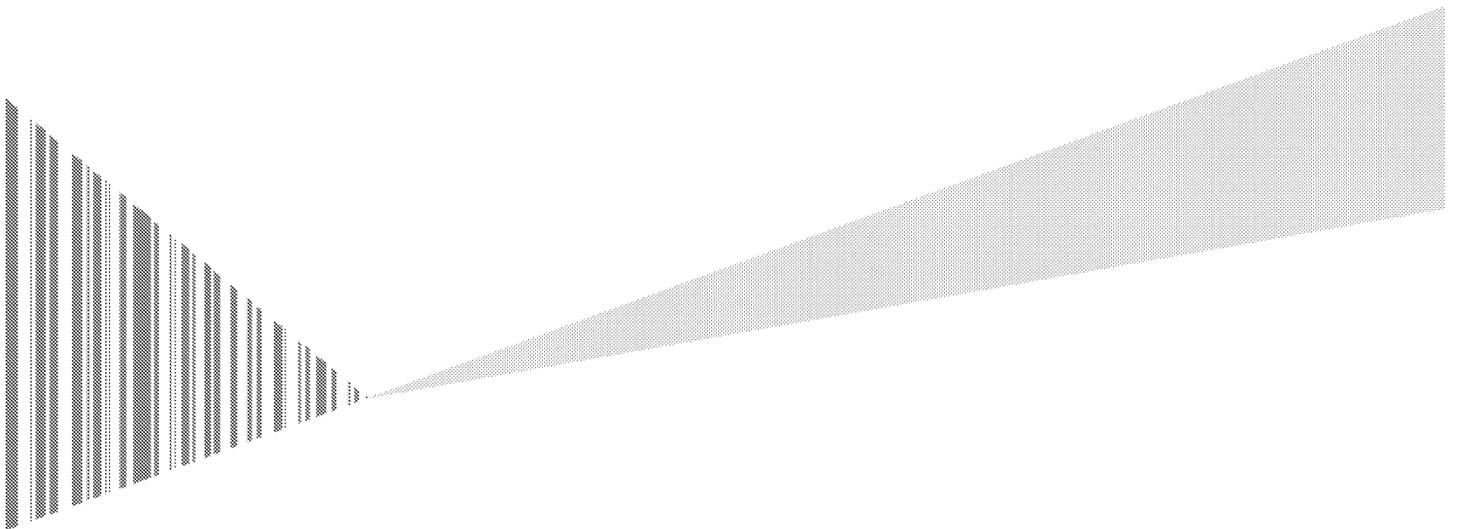
The Group (POL and subsidiaries) has significant tax losses that are available for offset against future taxable profits. It also has unrecognised deferred tax assets relating to fixed asset timing differences. These tax losses/deferred tax assets could be recognised in the future should suitable taxable profits arise. The tax losses/unrecognised deferred tax assets means that the Group should not incur any tax charges for the foreseeable future.

Post Office Limited

Planning Audit Report to the Audit and Risk Committee

for the financial year ending 27 March 2016

10 November 2015



Building a better
working world



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GRO



Private and confidential

10 November 2015

Audit and Risk Committee
Post Office Limited
20 Finsbury Street
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Dear Members of the Audit and Risk Committee

Audit Planning Report - FY2015/16

We are pleased to attach our audit planning board report for the forthcoming meeting of the Audit and Risk Committee. The purpose of this report is not only to provide the Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit, but also to align our audit with your service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for Post Office Limited ('POL'). We have aligned our audit approach and scope with these.

We have also been engaged to perform a review on the interim condensed financial statements of POL in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board. This planning report also outlines the review procedures that we have performed and the conclusions we have reached.

This report is intended solely for the information and use of the Audit and Risk Committee, Board of Directors and management of POL, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 10 November 2015, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Angus Grant
Engagement Partner
For and on behalf of Ernst & Young LLP

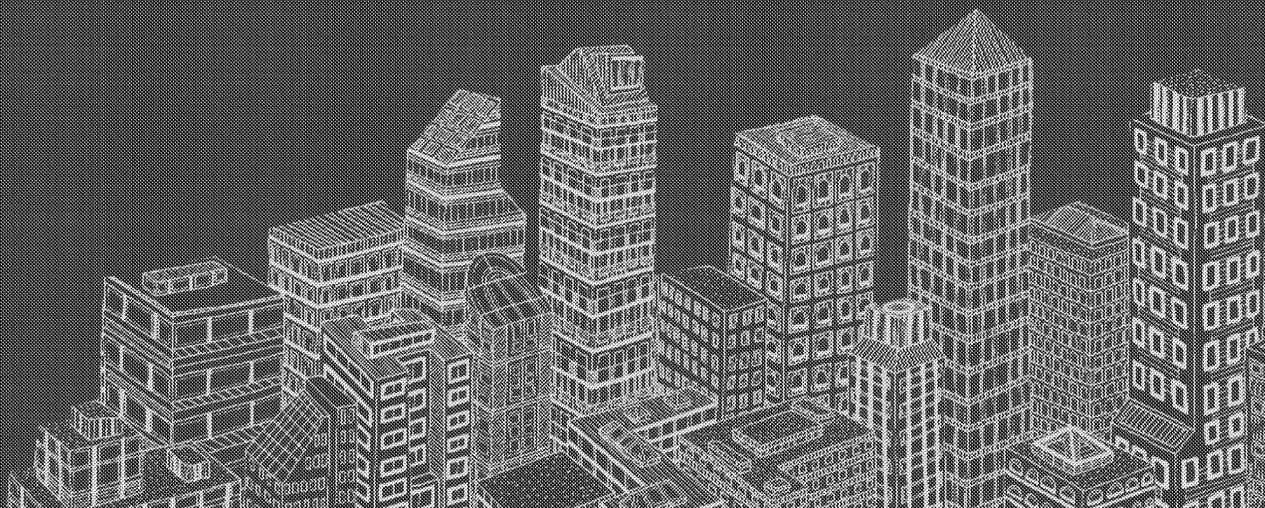
The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC309031 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.

The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of xx October 2015.

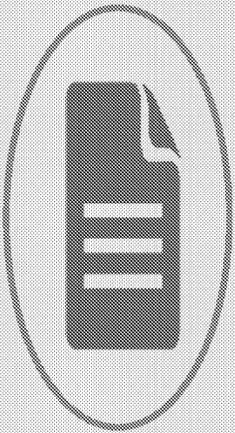
This report is made solely to the Audit Committee, Board of Directors and management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors and management of Post Office Limited those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Board of Directors and management of Post Office Limited for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Contents

	Page
00 Executive Summary	04
01 Risk based approach	06
02 Areas of audit emphasis	06
03 Controls based audit	15
04 Audit scope and execution	18
05 Service delivery	20
 Appendices	
A IAS34 half year review	25
B Management representation letter for half year review	33
C Audit fees	35
D Independence report	36
E Required communications with the audit and risk committee	39



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Executive summary

Executive summary

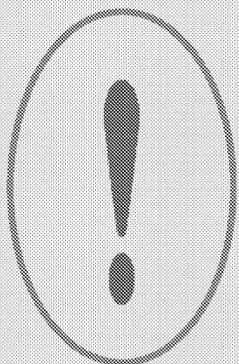
In determining our approach to the 2015/16 audit, we consider how the risks faced by POL might impact the financial statements. From our experience of working with a number of companies in the retail and financial services sectors, our understanding of the key risk areas focused upon by management and from our prior knowledge of the Company, we have identified a number of key financial statement risks which are outlined below. These do not represent all risks but do include those items that in our opinion are the most significant for POL financial statements in 2015/16. The risks are largely consistent with the prior year.

Risks	Changes from prior year
Significant Risks (also considered as fraud risks by auditing standards)	
▶ Revenue recognition across diverse range of revenue streams	No change from prior year; still considered a significant risk in the current audit.
▶ Classification of exceptional items relating to Network Transformation & utilisation of government grant.*	In prior year we had associated risk of exceptional items primarily with classification only; in the current year we have associated this risk against completeness and existence to broaden this area of focus.
▶ Risk of management override around estimates and judgements*	No change from prior year; still considered a significant risk in the current audit.
Inherent Risk	
▶ Pension valuation and accounting	No change from prior year; still considered an inherent risk in the current audit.
▶ VAT Accounting	No change from prior year; still considered an inherent risk in the current year.
▶ Horizon Subpostmasters claim	No change from prior year; still considered an inherent risk in the current year.
▶ IT and SAP CFS (Core Finance System)	No change from prior year; still considered an inherent risk in the current year. Our audit focus changes from migration of ESFS to CFS in the prior year to the overall IT control environment and processing that impacts the financial statements.

*Significant risk as defined by auditing standards and professional judgment

Our audit approach is designed to appropriately respond to these risks. We will continue to focus on the key areas where we believe there is higher inherent risk to the integrity of the financial statements due to the nature and level of change and judgement involved. We will also consider changes in financial reporting standards and regulations and their impact on the presentation and disclosures in the financial statements.

01



Risk-based audit approach

Our understanding of which risks impact the financial statements and drive where we focus our audit effort

Risk based approach



The risk universe below has been built from Post Office’s key business risks identified through your risk assessments in conjunction with our own perception of risks , and our knowledge of other factors that may impact POL’s financial statements. Risks are considered significant to the audit where, in the absence of appropriate controls, there would be a high likelihood of a material misstatement. In identifying such risks we consider factors such as the magnitude of the item recorded, the complexity of the process generating the amount recorded and the level of judgement required. Our audit approach to address these risks and other areas of audit emphasis is included in pages 9 to 14 of this report.

POL'S RISK UNIVERSE				
External/Strategy	Business Transformation (BT)	Operational	Financial	Legal & Regulatory
<ul style="list-style-type: none"> ▶ Market developments vs Mails ▶ Competition vs Mails ▶ Royal Mail relationship /agreement ineffective ▶ NFSP disrupt service ▶ BOI not aligned to or capable of supporting POL ▶ Lack of government support for strategy ▶ Lack of Digital competency ▶ Threat to PO Brand Reputation ▶ Market development ▶ Competition ▶ Inadequate governance ▶ Communication of Strategic objectives and plan 	<ul style="list-style-type: none"> ▶ BT misaligned with strategic objectives ▶ BT does not deliver objectives ▶ BT benefits not realised ▶ BT function does not perform (design, operation) ▶ BT objectives misaligned with Shareholder agreement ▶ Fail to manage complexity of change of staff ▶ Fail to manage volume of change for staff ▶ CWU/Unions reaction to BT change/strike 	<ul style="list-style-type: none"> ▶ Network proposition to agents/retailers/ becomes non-viable ▶ Fail to deliver customer proposition/experience ▶ New Front Office application delayed ▶ Financial Services sales fails to deliver ▶ Infrastructure/ applications fail ▶ Transition legacy IT landscape ▶ People capability & capacity ▶ Union strike action (Crown TP, pay, other) ▶ Viability of mobile telephony trial offer ▶ NTP lacks resource ▶ Management of 3rd party suppliers/supply chain service quality ▶ Call centre transfer ▶ IT Security breach ▶ Procurement ▶ Business continuity/incident management failure ▶ Fraud 	<ul style="list-style-type: none"> ▶ Insufficient Government funding until 2018 ▶ Suboptimal Investment decisions ▶ Unexpected costs ▶ Liquidity ▶ Bank covenants ▶ Hedging ▶ Pension deficit ▶ Property impairment ▶ Insurance protection ▶ Financial reporting and control failure ▶ BOI credit risk 	<ul style="list-style-type: none"> ▶ Contractual breach ▶ Regulatory compliance failure ▶ Data breach ▶ FS mis-selling ▶ Contractual management process ▶ Litigation ▶ Intellectual property management



RISK ASSESSMENT

Key financial statement risks for audit
Revenue recognition across diverse range of revenue streams*
Classification of exceptional items relating to Network Transformation*
Risk of management override around estimates and judgements*
Pension valuation and accounting
VAT Accounting
Horizon Subpostmasters claim
SAP CFS accounting system

*Significant risk as defined by auditing standards and professional judgment

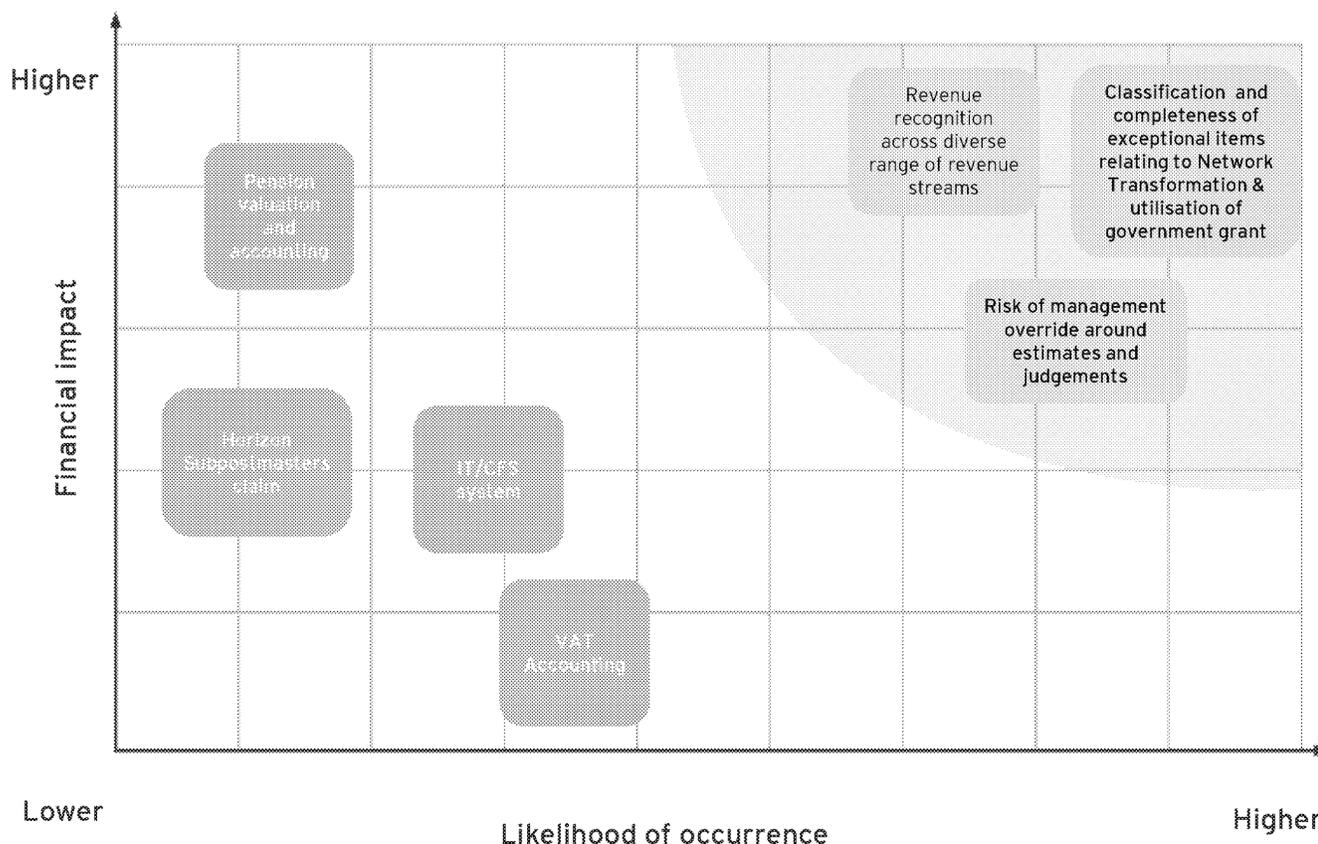
Risk based approach



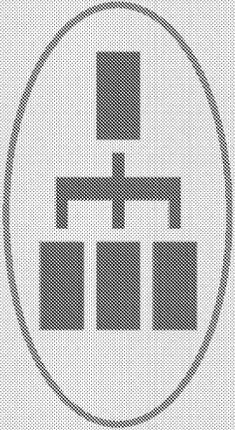
Once we have identified those risks that could impact POL's financial statements, we evaluate both the magnitude of any potential misstatements and the probability of occurrence as demonstrated on the chart below.

Of the risks identified, we consider some of them to be significant to our audit and these require special audit consideration. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements and are demonstrated in the shaded area in the top right of the chart below.

Once identified, we are required by auditing standards to perform specific procedures over significant risks; including the identification and assessment of controls that address the risk.



02



Areas of audit emphasis

How we form an opinion on the Group's consolidated financial statements

Areas of audit emphasis

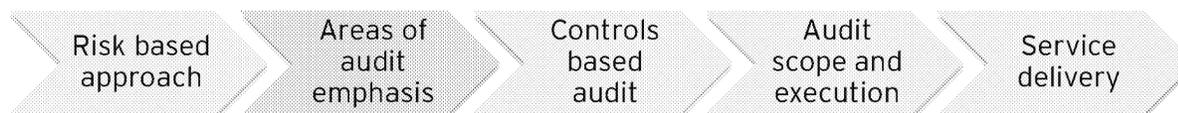


Significant risks

Significant risks are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations. The risks we have identified as significant risks are detailed below, along with how we propose to address those risks.

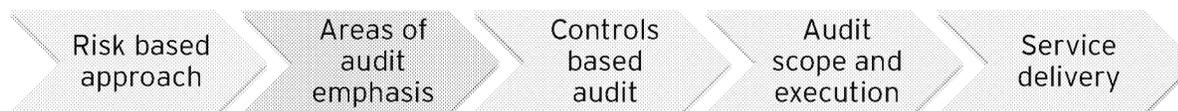
Significant risk	Summary of planned audit procedures
<p>Revenue recognition across diverse range of revenue streams</p> <p>POL sells a wide variety of products/services across a number of distribution channels, from providing ATM services through the Bank of Ireland arrangements, to providing telephony broadband services under POL's Homephone brand. These revenue streams will have their own specific rates, commissions and calculations for allocating the amount of revenue owing to Post Office, which are dependent on their underlying contracts.</p> <p>Whilst we note that most of the revenue lines are not overly complex in their revenue calculations, the main risk associated with the diverse range of revenue streams is in the correct contractual terms being applied to the revenue lines and inputs from third parties.</p> <p>We also note that reward and incentive schemes based on achieving profit targets may also place undue pressure on management to achieve revenue forecasts, which makes us identify revenue recognition as a fraud risk.</p>	<ul style="list-style-type: none"> ▶ We will perform detailed controls work on revenue during the year, which will include testing whether the revenue lines selected are using the correct contractual rates and volumes data in their calculations. ▶ We will perform detailed testing on revenue. Our detailed tests included checking that revenue rates and commissions for each revenue line is being appropriately applied in accordance with the terms of the relevant sales contracts. Where a revenue estimate is made for a revenue line for a month prior to actual sales volumes and billing reports being available, we will check that an adjustment is subsequently posted in order to adjust the estimated revenue figure to reflect the actual sales for all reporting periods. ▶ We will perform a detailed analytical review to analyse and evaluate the movements in the key revenue lines across the business using full population of data extracted from the system. ▶ We will examine the fluctuations of revenue against budget and prior year by corroborating variances to the relevant evidence obtained through our other testing procedures. In addition, where appropriate, we will corroborate management's explanations for movements using our knowledge of developments in the industry and business. ▶ For significant new products or revenue streams, we will review the accounting treatment in line with the revenue recognition accounting standard and relevant contractual terms. ▶ To ensure that revenue has been included in the correct period, in addition to the procedures above, we will perform detailed cut-off procedures over revenue postings before and after period end, and check that the amounts recognised as revenue are appropriate, and that they have been correctly recognised in trade debtors, accrued revenue or deferred revenue in the appropriate period. ▶ We will assess the risks around Management's use of third party data and Management's oversight of this data and carry out additional testing where appropriate. Where manual spreadsheets are used to compute revenue we will test the integrity of the spreadsheets.

Areas of audit emphasis (cont'd)



Significant risks	Summary of planned audit procedures
<p>Classification and completeness of exceptional items relating to Network Transformation and utilisation of government grants</p> <p>POL has been executing a Network Transformation across its network in order to modernise it as part of the overall strategy to make the Post Office competitive for the future. This one-off programme is expected to continue until FY2017-18.</p> <p>Management note that the costs of Network Transformation are exceptional in nature given that a branch modernisation programme of this scale has not been carried out before. As such, management believe this requires separate presentation on the face of the income statement to allow a better understanding of financial performance in the year.</p> <p>In addition, the Department of Business, Innovation & Skills ('BIS') provides a government grant to POL to subsidise network transformation expenditure, agents compensation and related capital expenditure. POL offsets this government grant against the related expenses in the exceptionals section of their P&L, in line with IAS 20 <i>Government Grants</i>.</p> <p>Network Transformation related costs make up the largest element of exceptional costs in the income statement.</p> <p>Risks include:</p> <ul style="list-style-type: none"> ▶ Agents compensation charge is not complete due to the underlying records of agreements with postmasters, on which the this charge is based is incomplete; ▶ Costs are provided for before or after they have been committed and are recognised in the incorrect period; and ▶ Other costs not associated with the Network Transformation are inappropriately included within this category and reported outside trading profit. 	<ul style="list-style-type: none"> ▶ We will confirm receipt of the government grant and review any updates to the terms and conditions of the funding agreement. ▶ We will revisit the appropriateness of classifying such costs as exceptional, and make inquiries of management to understand how these costs are distinguished from normal operating costs, and the nature of the costs classified as exceptional costs ▶ We will review management's monitoring process for being able to differentiate between Network Transformation costs and normal operating costs, and assess whether it captures the appropriate information and detail to track these costs. ▶ We will understand and document management's process for ensuring completeness of the exceptional items expensed in the year including life to date reconciliations over the full branch portfolio for agent compensation and transformation provisions. ▶ To gain assurance on the completeness of the exceptional items we will perform reasonability test on each category of exceptional items by comparing costs incurred to expected costs and against budgeted costs and estimated costs to complete the various programmes. This will involve understanding the number of open projects and how the estimated costs to complete are computed. ▶ We will review the detail of the costs provided and establish when the committed obligation arose to assess whether the cost has been recorded in the appropriate period. ▶ The costs included will be reviewed to understand whether they are directly linked to the Network Transformation and appropriately included within this category and reported outside trading profit projects and meet with the requirement under IAS 1 to be presented as exceptional costs in the financial statements. We will review and challenge whether the costs should be recognised within exceptional items or not.

Areas of audit emphasis (cont'd)



Significant risk	Summary of planned audit procedures
<p>Risk of management override around estimates and judgements</p> <p>We have identified management override around estimates and judgements as a significant and fraud risk. In particular we note that Management makes critical estimates and judgements in the following areas:</p> <ul style="list-style-type: none"> • Classification of exceptionals; • Revenue recognition; • Provisions; and • Pension assumptions <p>These areas involve a level of Management judgement, and thus gives rise to the risk that some transactions may be inappropriately accounted for.</p>	<ul style="list-style-type: none"> ▶ We will focus our audit procedures on performing tests on the appropriateness of journal entries and other adjustments made in the areas identified giving specific consideration to evaluating and corroborating the business rationale for significant unusual transactions around business estimates and judgements. <p>(i) We will develop a journal entry approach specific to management override over classification of exceptionals and revenue recognition; this will include :</p> <ul style="list-style-type: none"> ➢ Testing material manual journals posted to revenue accounts which are not posted as part of the routine financial statement close process (FSCP), journals posted by personnel who do not normally post journal entries, and journal entries with descriptions which may indicate they were made on the instruction of senior finance team members; ➢ Testing transfer journals from business as usual cost centres into exceptional cost centres; ➢ Testing journals with reference to business as usual activities but included in exceptionals; ➢ Testing large journal postings around the year end that are outside of our expectations and/or out of the ordinary course of business; ➢ Testing material manual journals charged and released to the provision accounts (that are outside our expectations). <p>(ii) Our journal entry approach specific to management override over provisions included:</p> <ul style="list-style-type: none"> ➢ Testing material manual journals charged and released to the provision accounts (that are outside our expectations); ➢ Testing manual journals which are not posted as part of the routine financial statement close process; and ➢ Testing of journal entries with reference to wording that appears outside the ordinary course of business. <p>(iii) We will perform testing on the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>(iv) We will review accounting estimates used in provisions for evidence of management bias.</p> <p>(iv) For all significant new provisions and exceptionals we will review whether they have been appropriately identified and meet the requirement of IAS 37 and IAS 1 respectively.</p> <p>(v) In addition to the above we will focus on evaluating the business rationale for significant unusual transactions around estimates and judgements.</p>

Areas of audit emphasis (cont'd)



Areas of audit emphasis

Other areas of audit emphasis are set out below:

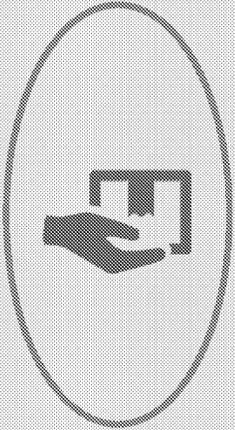
Other areas of audit emphasis	Summary of planned audit procedures
<p>Pension valuation and accounting</p> <p>Following the implementation of the Pension Solution and the accounting of the transfer of the RMPP, we no longer assess pensions valuation to be a significant risk. However, given that the pension related disclosures may continue to be politically sensitive due to the number of stakeholders involved, including the Government and the Communications Workers Union, we assess pensions as an inherent risk area during the current year audit.</p> <p>There is risk around judgements made by Management to satisfy themselves that the assumptions used in calculating the pension obligation at the year end are reasonable and the appropriate disclosures are made in consultation with its actuaries.</p>	<ul style="list-style-type: none"> ▶ We will audit the accounting treatment in line with IAS 19(R) and IAS 1. ▶ We will review the significant assumptions used in the calculations. This includes meeting with the Companies' actuaries and reviewing their key inputs and understanding the methodologies utilised to arrive at key assumptions, such as discount rates, inflation rates and expected rate of return on plan assets. We will involve our own actuarial specialists who are established members of our audit team. ▶ We will benchmark POL assumptions against peers. We will assess and provide insight into the relative position of the assumptions adopted. ▶ We will be involving our actuarial specialists to review the note disclosure and communicate best practice to the finance team. ▶ We will review any changes in terms of pension schemes and the related accounting treatment. ▶ We will obtain evidence and support for the valuation of pension assets.
<p>Horizon Subpostmasters claim</p> <p>The ongoing Horizon Subpostmaster claim continues to be an area of judgement in determining potential accounting treatment. To date, no legal claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the criminal courts.</p> <p>POL's legal position appears not to have changed since the prior year. Management has not been found legally liable to pay out any claims related to the claim to date. Given the media coverage, we will continue to monitor any developments in this matter in FY2015/16 and we assess this to be an inherent risk area during the current audit.</p> <p>POL's Mediation Scheme aimed at resolving individual non-criminal complaints made by ex-Subpostmasters is ongoing and applications are still being progressed through the Scheme.</p>	<ul style="list-style-type: none"> ▶ We will challenge Management's conclusion that no provision or contingent liability disclosure is required based on our enquiries with management and POL's legal counsel corroborated by our review of information in the public domain and POL response. ▶ We will review any updates on the legal advice from Linklaters to ensure that the financial impact of POL's position is correctly accounted for and disclosed in the financial statements. ▶ We will understand timeline and mediation process.

Areas of audit emphasis (cont'd)



Areas of emphasis	Summary of planned audit procedures
<p>VAT Accounting</p> <p>The POL VAT recovery ("partial exemption") method is a key area which carries a material level of reporting risk.</p> <p>A new partial exemption method of recovery was agreed with HMRC on 23 July 2014. The new method resulted in a residual VAT recovery percentage of approximately 60%. However POL continued to apply a provisional recovery rate of 40% throughout FY13/14 and FY14/15 to calculate residual input VAT recovery. This resulted in material VAT recoveries in FY13/14 and FY14/15.</p> <p>During the year management increased the recovery rate applied in the system from 40% to 55%.</p> <p>For this reason VAT accounting remains an area of audit emphasis as it will be important to ensure that the assumed VAT recovery rate is appropriately monitored and adjusted through out the year.</p>	<ul style="list-style-type: none"> ▶ We will check that the recovery rate applied in the system has been correctly updated by testing a sample of VAT coding's in relation to the recovery rate. ▶ We will examine the VAT records, including the June 2015, September 2015, December 2015 and March 2016 VAT return calculations, submissions and backing documentation to check the calculations are accurate. ▶ We will review the operation of the VAT partial exemption calculation to check if it is consistent with the method agreed with HMRC. We will also check the annual adjustment based on the application of the VAT partial exemption residual VAT on the FY 15/16 VAT returns. ▶ We will enquire from the POL VAT team about any complex, unusual or significant transactions that have occurred during FY 15/16 which have a VAT impact to understand the status of any significant VAT issues, and consider any VAT provisions which have been or should be made by POL. We will review the calculation of any provisions made to check whether they are robust, performing audit procedures wherever necessary. ▶ We will review any other special VAT agreements with HMRC, including any agreement in relation to alternative evidence for input tax recovery on standard rated supplies from Royal Mail, to check that they have been implemented correctly.
<p>IT audit and SAP CFS (core finance system) post implementation</p> <p>The following IT applications are in scope for our audit: HNGX, POLSAP, SAP HRP and SAP CFS.</p> <p>One of the key considerations for the IT audit this year is the completion of POL's separation from RMG, which directly affects the audit approach for the SAP HRP system supporting the payroll for POL employees. The system was operated by RMG until February 2015.</p> <p>Following the migration of the finance system SAP ESFS to SAP CFS which went live on the 1 September 2014, it will also be important to ensure management is able to fulfil its accounting and reporting obligations using the new system.</p>	<ul style="list-style-type: none"> ▶ We intend to continue to place reliance on the ISAE 3402 report for Fujitsu managed systems HNGX and POLSAP ▶ No ISAE 3402 report is available for CGI managed systems - SAP CFS and we will therefore continue to perform independent testing of IT general controls (ITGCs). ▶ The 2015-16 audit approach for SAP HRP will be to perform independent testing in relation to both the ITGCs and the transition, including review of the controls over the new hardware platform. We envisage being able to continue to rely on CSC's ISAE 3402 subject to the report having appropriate coverage of the new POL owned SAP HRP environment. ▶ We will also understand the challenges that Management is facing post implementation of SAP CFS and understand how these have been addressed.

03



Controls based audit

Controls based audit



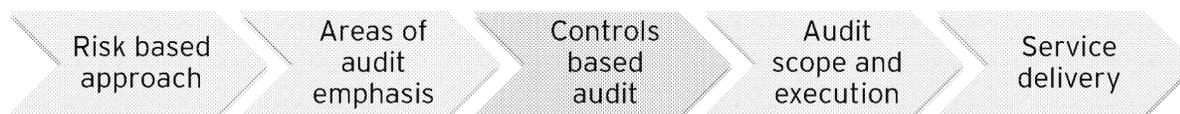
Underpinning our entire approach is a controls-based audit. We will continue to adopt a controls-based approach, being the most efficient approach to a business with a high volume of low value transactions. In adopting an efficient controls based approach we consider the various layers of assurance and leverage where there is potential to do so. This informs our basis of working with management.

We will seek to place reliance on entity level controls and IT general controls.

- ▶ IT systems and applications: we will review the IT general controls built in to POL's core IT applications, together with IT application controls over your critical business processes.
- ▶ Entity level controls: we will maximise efficiency by seeking to rely on entity level controls and processes, such as POL's budgeting process.
- ▶ We aim to continue to place reliance on the ISAE 3402 report, which opines on the design and operating effectiveness of POL's third party IT provider Fujitsu's controls.

We will test controls for POL's payroll, purchasing, cash settlement, revenue and fixed assets processes. As noted in last year's planning report to you, we are aware that the POL finance systems and control environment will continue to change. We will communicate to you any significant deficiencies in internal control. We will also provide you a detailed letter at the end of the audit incorporating certain recommendations for process improvements noted by us in the performance of this year's audit.

Controls based audit



Gaining assurance through the control environment

IT Control Planning - Background

IT underpins a significant proportion of POL's transactions. Our audit plan is designed around reliance on certain IT applications and the use of electronic audit evidence.

The following IT applications are in scope for our audit: HNGX, POLSAP, SAP HRP and SAP CFS.

As part of POL's separation from Royal Mail Group (RMG), the IT support arrangements for SAP HRP have transitioned from RMG to POL.

In addition, as a result of the ongoing IT transformation, IT services have started to transition over to the new third party providers and will continue to do so in the coming years.

2015-16 IT Audit Strategy - key considerations

Separation from RMG

- ▶ One of the key considerations for the IT audit this year is the completion of POL's separation from RMG, which directly affects the audit approach for the SAP HRP system supporting the payroll for POL employees.
- ▶ The system was operated by RMG until February 2015. At that point, POL transferred from an RMG supported environment to a POL owned and supported delivery model, under the 'Safe Haven'. SAP HRP continues to be supported by third party CSC through direct contractual agreements with POL.
- ▶ The previous audit approach adopted for this system was based on the audit efficiencies gained from assessing the controls managed by CSC, which are common across RMG's key financial systems. The 2015-16 audit approach will be to perform independent audit procedures in relation to both the ITGCs and the transition, including review of the controls over the new hardware platform. We envisage being able to continue to rely on CSC's ISAE 3402 subject to the report having appropriate coverage of the new POL owned SAP HRP environment.

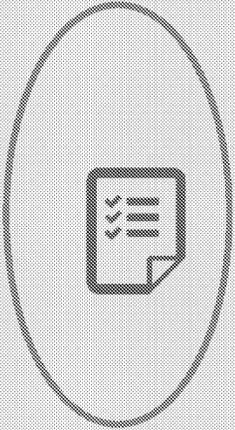
HNGX and POLSAP

- ▶ Our understanding is that POL will again be commissioning an ISAE 3402 report from Fujitsu .
 - ▶ We plan to continue to place reliance on the ISAE 3402 report to reduce our independent testing.
 - ▶ The extent of our reliance will be dependent on the opinion expressed in the ISAE 3402 report. We may need to perform additional procedures if the report notes any significant exceptions.
 - ▶ To support this approach we plan to follow the protocols agreed in prior years by the POL, Fujitsu, EY IT audit and EY ISAE 3402 teams to keep the parties updated with the progress of ISAE 3402 testing.

IT transformation

- ▶ POL continues to execute its IT transformation programme, and has already begun to implement the new IT service delivery model; we have been working with POL management to assess its impact on the audit.
 - ▶ We understand that third party Atos will provide support for the incident management process across in-scope applications.
 - ▶ Whilst there have been additional IT support service contracts awarded to new suppliers during 2015, the transition will not be fully completed until 2016, and therefore we do not anticipate these transitions to have a significant impact on the 2015-16 audit strategy. As further changes occur we will reassess the impact on our audit strategy.

04



Audit scope and execution

Audit scope and execution



Scope of audit procedures

Consolidation considerations

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

POL's consolidation is expected to be made up of three reporting units; the Post Office Limited parent entity (which contains the majority of transactions), the POL joint venture First Rate Exchange Services ('FRES') and Post Office Management Services Limited ("POMS"), a fully owned subsidiary of POL incorporated on 25 March 2013 which commenced trading on 1 December 2014.

Scoping

The vast majority of the audit work is carried out by the EY team from London, except for the POL joint venture First Rate Exchange Services ('FRES') Joint Venture which is audited by PricewaterhouseCoopers. FRES is deemed to be a significant reporting unit based on size and will be subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by EY's POL group team for purposes of the consolidated audit. Procedures are full-scope in nature.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant reporting units.

Our involvement can be summarised as follows:

- ▶ We will instruct PricewaterhouseCoopers to report the results of their full scope audit to us, in line with our reporting timetable;
- ▶ We will attend the planning event and closing meetings by conference call;
- ▶ We will review their work papers relating to the significant audit areas through a site visit from the Group audit team at year end;
- ▶ We will obtain signed memorandum of audit work and conclusions formed; and
- ▶ We will receive a signed conclusion opinion.

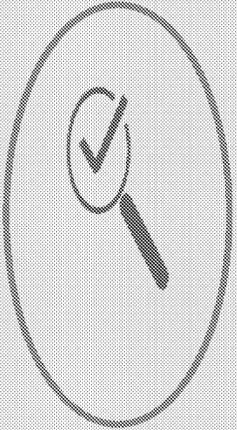
Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

In determining the basis on which to assess materiality levels, we are required to consider what financial metrics the users of the financial statements focus on and the magnitude of a misstatement that we believe is important to them. We have determined that the most appropriate basis for materiality is revenue, as revenue is used prominently in the entity's communications to the users of the financial reports. This is the most stable indicator of performance based on our knowledge of the entity and is consistent with the prior year basis for materiality. Historically POL has been loss-making when network subsidy payments provided by the government are removed and POL is again forecast to report a loss before tax for FY15-16, therefore profit is an unsuitable basis for determining materiality.

We have determined materiality to be £10.8m which is approximately 1% of Revenue. Based on our risk assessment and consideration of POL's control environment, we have determined performance materiality be set at 50% of our materiality for the group, (prior year and historically this has been set at 75%). Performance materiality is the application of materiality at an individual account or balance level and is set to reduce to an appropriately low level the probability that the aggregated of uncorrected and undetected misstatements exceeds materiality. The threshold for reporting corrected and uncorrected audit misstatements to you has been set at £542,000.

05



Service Delivery

Service Delivery



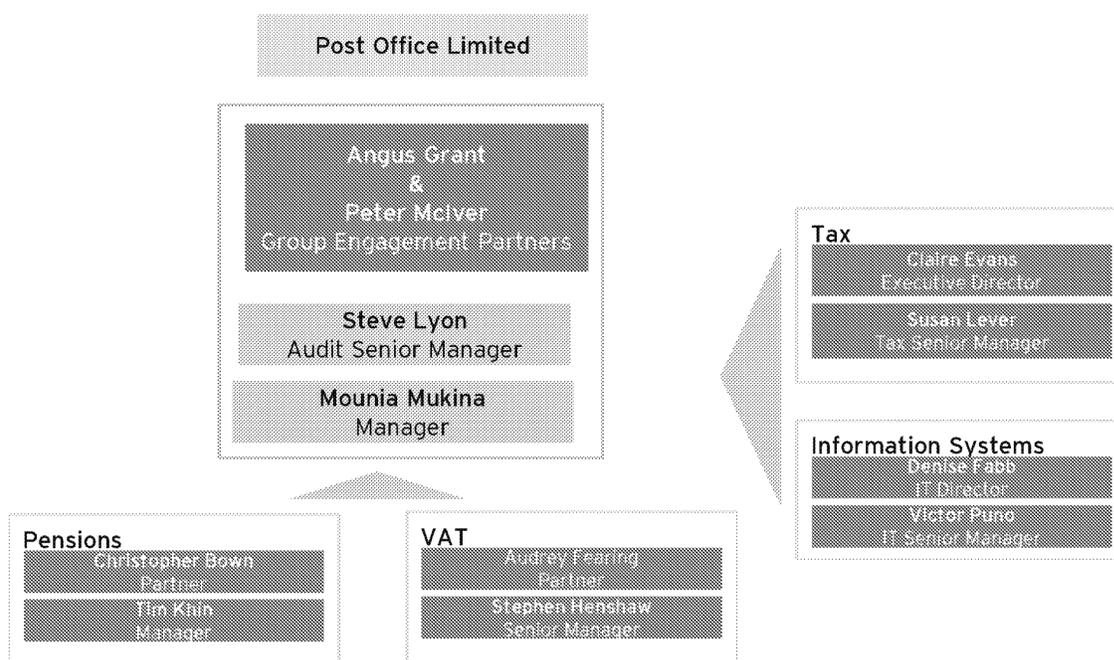
Your POL audit team

The POL engagement team is led by Angus Grant for the first half of the year. Angus has been the Lead Engagement Partner for six years and will be rotating off the engagement during the course of the 2016 Audit and replaced by Peter McIver who will be ultimately responsible for all audit-related services provided to POL by EY for the full year audit. Peter has been a Senior Audit Partner in Perth, Australia for nine years and was recruited in 2006 from Deloitte where he was a partner for ten years. Peter will sign the consolidated and parent company Post Office Limited audit opinions and be responsible for oversight of all other statutory and related work. Peter will be shadowing Angus in the first half of the year and be a part of key meetings with POL management including the ARC on 10 November 2015.

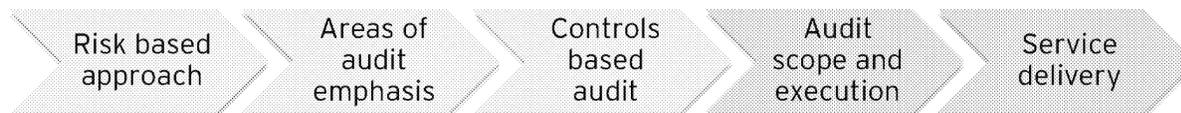
Angus and Peter are supported by Steve Lyon as Senior Manager and Mounia Mukina as Manager. We have established our engagement team with the principle of providing the right blend of industry and technical experience to execute the audit and deliver on our commitments to you. We recognise how important continuity of key EY team members is to your organisation.

Specialists & Advisory Partners

As you are aware from prior years, our audit strategy relies significantly on testing IT systems and controls. Denise Fabb (Executive IT Director) will continue to oversee delivery of the IT element of the audit. Our Pension specialists, who have assisted us both at the prior year end and during the current half year, will continue to be headed by Christopher Brown (Pensions Partner). Claire Evans also continues to take responsibility for the audit of POL tax, supported by Susan Lever. Our audit team will also be supported by EY VAT specialists, headed by Audrey Fearing and supported by Stephen Henshaw.



Service Delivery



2015-16 EY services

Services and deliverables	
Financial reporting	<ul style="list-style-type: none"> ▶ Express opinions on, and report to the Audit and Risk Committee the results of, our audits of: <ul style="list-style-type: none"> ▶ The consolidated financial statements of Post Office Limited (IFRS) and parent company financial statements (FRS101) for the period ending 27 March 2016. ▶ Express opinions on, and report to appropriate members of management and the Board of Directors on the results of our audits of: <ul style="list-style-type: none"> – The separate statutory financial statements for subsidiary company Post Office Management Services – The separate statutory audit of the consolidated financial statements of Postal Services Holdings Company ('PSH') (IFRS) and parent company financial statements (FRS102) for the period ending 27 March 2016. ▶ The following procedures are required by UK company law: <ul style="list-style-type: none"> ▶ Opining on whether the information contained in the Directors' Report is consistent with the financial statements ▶ Auditing the disclosures that unquoted companies are required to make with respect to directors' remuneration ▶ Perform a review in accordance with ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", on the consolidated half year financial statements of Post Office Limited, prepared in compliance with IAS34 <i>Interim Financial Reporting</i>.
Internal control communications	<ul style="list-style-type: none"> ▶ Express our views on control themes and observations, including recommendations for improvements in controls and procedures. <ul style="list-style-type: none"> ▶ We will issue a written communication at year end to management and the Audit and Risk Committee describing significant deficiencies and material weaknesses identified during our audit, if any ▶ Following the year end audit board results report, we will separately issue a Controls Themes & Observations Report to management describing all deficiencies (not previously communicated to management in writing) in internal control over financial reporting identified during our audit that are of a lesser magnitude than significant deficiencies
Regulatory audit and other assurance related services	<ul style="list-style-type: none"> ▶ In addition to the statutory audit requirements, we are required, as auditors of POL, to perform certain procedures on a number of reports required by postal regulation and related matters, including: <ul style="list-style-type: none"> ▶ Procedures in connection with the Post Office Limited credit facilities from BIS and DVLA motor vehicle license transactions. ▶ Procedures in connection with the Bank of England Note Circularisation Scheme, which includes an ISAE 3000 Report delivered to POL management and the Bank of England

Service Delivery



Timetable of communication, insight and deliverables

We set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the 2015-16 audit cycle.

We will provide formal reports to the Audit and Risk Committee at the planning stage and at year end for the consolidated POL accounts. These reports will incorporate the outputs from our planning review and our year end audit procedures respectively. From time to time matters may arise that require immediate communication with the Audit and Risk Committee and we will discuss them with the Audit and Risk Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare a Control Themes and Observations report for Post Office Limited, outlining our comments on areas where we believe the Company exposes itself to risk, where control matters exist or where we believe improvements can be made. This will be circulated to senior management and to the Audit and Risk Committee in 2016, following the end of the audit. We will also provide you with real-time control themes and observations as identified throughout the year as appropriate, as well as practical business insights, updates on corporate governance and regulatory matters through our reporting to the Audit and Risk Committee.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
Agree audit scope/planning										
▶ Agree service commitments	█									
▶ Develop audit strategy	█		1							
▶ Agree audit fees		█								
Interim reviews										
▶ Half year		█	1							
Process reviews										
▶ Review of key processes			█							
▶ Controls testing			█							
Year end substantive testing										
▶ Hard close procedures					█					
▶ Year end procedures						█				
▶ Results report to the audit committee								█	2	
▶ Control themes and observation report									█	3

Deliverables:

- 1 2015-16 Audit Planning & HY Results Review Report
- 2 2015-16 Year-end Results report
- 3 2015-16 Control Themes & Observations Report

Appendices

- Appendix A **IAS34 Half year review**
- Appendix B **Management representation letter for half year review**
- Appendix C **Audit fees**
- Appendix D **Independence report**
- Appendix E **Required communications with the Audit and Risk Committee**

Appendix A

IAS 34 Half year review

Introduction

Post Office Limited ('POL') intends to issue interim consolidated financial statements for the period ended 27 September 2015, in compliance with IAS 34 Interim Financial Reporting. We have been engaged to perform a review under ISRE 2410, the standard that covers interim reporting procedures.

Objective of our review

The objective of our review is to provide comfort to the Audit & Risk Committee whether, on the basis of the procedures performed, anything has come to our attention that causes us to believe that the interim consolidated financial statements have not been prepared in all material respects in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union.

Review process

Our review of the Group's financial information for the 6 months ended 27 September 2015 was performed in accordance with ISRE 2410 (UK and Ireland) '*Review of Interim Information performed by the Independent Auditor of the Entity*', as adopted by the Auditing Practices Board (APB) in the United Kingdom.

A review is substantially less in scope than an audit, because it does not include:

- ▶ Tests of accounting records by inspection, observation, or confirmation
- ▶ Obtaining corroborative evidence in response to enquiries
- ▶ Application of certain other procedures normally performed during an audit, such as tests of controls and verification of assets and liabilities.
- ▶ Our work therefore consisted primarily of making enquiries of POL's accounting and finance staff, executive management and applying analytical review and other review procedures.

Management anticipates that the half year results will be announced in early December 2015.

Status of review

At the time of issuing this report, our review of the Interim Results is on-going with the following items outstanding:

- ▶ Review of agents compensation provision
- ▶ Review of final interim report including Directors narrative.
- ▶ Receipt of the Letter of Representation from the Directors.
- ▶ Subsequent events procedures, to be completed through the date of us concluding our review (matters to be updated include: management enquiries, review of latest management accounts, and board minute review to date of signing).

We continue to work with management in order to complete these procedures and will provide a verbal update at the Audit & Risk Committee meeting.

In the following pages, we set out a summary of the Half Year procedures performed and the results of our review.

Appendix A

IAS 34 Half year review (cont'd)

Half year review results

Procedure	Findings
Scoping, review differences & anticipated conclusion	
Interim materiality and evaluation of misstatements	<p>Our interim review comprised of the following:</p> <ul style="list-style-type: none"> ▶ Determine the extent of analytical and other review procedures to perform, execute those procedures and evaluate the results. ▶ Evaluate errors of misstatement or judgmental differences. ▶ Come to a conclusion that the interim financial information is prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'. ▶ Determine what matters of interest should be brought to your attention. ▶ Our determination of interim materiality requires professional judgement and takes into account qualitative as well as quantitative considerations implicit in the definition.
Review of primary statements numbers and support	<ul style="list-style-type: none"> ▶ We performed an overall analytical review on both the Balance Sheet and Income Statement. ▶ We noted that operating profit before exceptionals is £42m, up by £19m on the same period last year. Operating loss for the period was £13m (28 September 2014: Operating profit £20m). ▶ Based on our discussions with management, including the Financial Controller, the fluctuations and variances experienced during the period are consistent with our understanding of the entity and of its financial position as of 27 September 2015. As a result of our procedures, we have not identified any previously unidentified risks of material misstatement due to fraud.
Prior year restatement (agents compensation)	<p>Postmasters have been incentivised and compensated for ensuring their branches take part in the Network Transformation programme. One of the offered schemes is a Conditional Recognition Programme for Postmasters who have confirmed that they are interested in leaving the network. A termination package is offered to these Postmasters. If a Postmasters agrees to this and signs the legally binding agreement to exit the network this drives a provision and a charge. All conditional resignations are subject to Management being able to find a suitable new operator and premises after which the provision is settled.</p> <p>In preparing the interim financial statements for the current year, the comparative figures for the year ended 29 March 2015 will be restated to correct an error identified by Management in agents compensation provisions and the corresponding exceptional charge in the 2014-15 financial statements.</p> <p>Management are currently preparing an estimate of the impact of this error on the comparative 29 March 2015 financial statements. The impact of this restatement is expected to result in an adjustment of the provision and an increase in net loss after exceptional items for the period ended 29 March 2015. This however is expected to have no impact on the operating profit before exceptionals. Management intends to correct this adjustment and fully disclose this as a restatement in the interim financial statements.</p> <p>We have discussed with management their plans for implementing a formal policy of procedures and controls for agents compensation process and we recommend that internal audit be involved in formulating and implementing this plan prior to year end.</p> <p>At the time of issuing this report, our audit of this adjustment is still in ongoing and our interim conclusions on this are outstanding. We will therefore update the audit committee verbally.</p>

Appendix A

IAS 34 Half year review (cont'd)

Half year review results

Procedure	Findings
Scoping, review differences & anticipated conclusion	
Summary of review adjustments	<p>As part of our interim review procedures we have identified the following review differences in the interim financial statements that have been adjusted by management.</p> <p>A net over accrual of purchases relating to operating expenditure of £840,000 has been identified as a result of an incorrect timing of a report being run during the close process. This adjustment has reduced operating expenditure by £840,000 and has been corrected by Management.</p> <p>Classification adjustments</p> <p>Prepaid rent £3.9m was incorrectly included with payables within the balance sheet. This has been correctly re-classified to accounts receivable.</p> <p>Rental payable of £2.3m has been adjusted within trade payables to correctly classify the liability between current and non current trade payables on the balance sheet.</p> <p>Deferred income of £2.1m from Project Gamma has been re-classified to correctly classify the long term and short term element within non current and current liabilities.</p> <p>There were no other adjustments that we identified that are individually or in aggregate material to the presentation and disclosures of the interim consolidated financial statements for the six months ended 27 September 2015.</p>
Conclusion	<p>Based on work carried out to date and subject to completion of our work in connection with agents compensation provisions and other finalisation procedures, no adjustments have come to our attention that are individually or in aggregate material to the presentation or disclosures of the interim consolidated financial statements for the six months ended 27 September 2015.</p>

Appendix A

IAS 34 Half year review (cont'd)

Half year review results (cont'd)

Procedure	Findings
Significant areas of review	
Revenue recognition	<p>Revenues (excluding the Network Subsidy Payment) at 27 September 2015 £477m (28 September 2014 £475m) a flat result on prior period; Financial Services (primarily MoneyGram, Mortgages, Savings and Insurance) continues to be strong performing, offset by lower Mails and Government Services revenue.</p> <p>As part of our half year review procedures, we held meetings with management and made enquires in relation to managements detailed revenue schedule, which splits out the performance for every individual sub-revenue line. We carried out a detailed analytical review on POL's revenue lines, whilst also completing analytical reviews on POL's deferred and accrued revenues as disclosed in the Balance Sheet. In addition, where appropriate we also examined the fluctuations of revenue against budget and prior year by corroborating variances to management's explanations for movements using our knowledge of developments in the industry and business. Our review of revenue has not highlighted any material exceptions.</p> <p>No other issues were noted during the course of our review.</p>
Classification and completeness of exceptional costs	<ul style="list-style-type: none"> › Total Government grant received and utilised during the year £150m › Total Restructuring costs of £160m (this amount may be adjusted once work on agents compensation provision is finalised); includes Network and Crown transformation costs and Postmasters compensation › Intangible and tangible asset impairment of £45m <p>Continuing the trend from the previous year, POL continues to have increasing and significant exceptional items relating to network transformation & restructuring (£160m in the current year to date) and impairments (£45m in the year to date). These were offset by the utilisation of the full government grant for the year of £150m, which management has treated as an offsetting exceptional gain. We understand that spend on the Network Transformation Programme is expected to increase over the second half of the year as a result of a change in strategy as Management have now asked all outstanding agents to submit their preference by the end of December 2015, which will bring forward the liability for compensation.</p> <p>We have reviewed the POL exceptional item memo and whilst we agree with its conclusions, we have recommended to Management that a forward looking Exceptional item classification policy memo is produced that considers the FRC guidance and sets out the process and identification of items that will be considered exceptional going forward. At the time of issuing this report Management have revised and drafted an updated Exceptional item classification memo and are in the process of discussing and agreeing it internally. We will review this when it is concluded.</p> <p>All other items included within network transformation costs and restructuring costs are consistent with those reported as exceptional in prior years and continue to meet the Group's definition of exceptional costs and guidance from the accounting standards. We continue to challenge Management to continue to assess future costs on a specific basis up front to determine what costs constitute exceptional costs going forward.</p>
Risk of management override around estimates and judgements	<p>We have maintained professional scepticism throughout the completion of our review procedures. The accounting and auditing matters identified in this report, and commented on in this report, are those areas which we consider to be subject to Management's judgement and/or estimation. We are particularly alert to the risk of fraud or error, and management bias, in these areas.</p> <p>During our review procedures we have been vigilant to identify any significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the business, ensuring that any significant transactions that are considered to be outside the normal course of business have an appropriate business rationale.</p> <p>From our inquiries of Management, nothing has been brought to our attention that would indicate that the financial statements as a whole are free of material misstatement whether caused by fraud or error.</p>

Appendix A

IAS 34 Half year review (cont'd)

Half year review results (cont'd)

Procedure	Findings
Other areas of review	
Review of Corporation Tax	<p>In the half year to 27 September 2015, POL recorded an income tax charge of £4m in the income statement. The main drivers being a £5m credit from sales of losses to POLs JV FRES and a deferred tax charge of £8m in OCI relating to movements on the element of the RMPP pension surplus expected to be recovered through a reduction in future contributions.</p> <p>POL does not expect to be in a tax paying position for the full year. Consistent with the position at 29 March 2015, POL has only recognised deferred tax assets up to the value of the deferred tax liability in respect of pensions, leaving a net deferred tax balance of nil. The remaining potential deferred tax asset balances are not recognised due to uncertainty around the availability of future taxable profits.</p> <p>We have reviewed the full year forecast tax calculations and the allocation of the deferred tax figures in respect of pensions, and made enquiries of management and Wilkins Kennedy, who assisted the POL finance team in the preparation of the figures.</p>
Pensions	<p>For the purposes of preparing their half year IAS 34 financial statements, management have obtained an IAS 19R valuation of the pension fund surplus for their RMPP scheme, for the period ended 27 September 2015. This valuation indicated a net pension surplus of £179m for the RMPP scheme, which is net of £38m withholding tax of 35% on the element of the surplus which is recoverable through a refund from the plans. POL also recognised a £3m net surplus relating to their RMSEPP at half year.</p> <p>Our review during half-year has included us involving our own actuarial specialists, who have been established members of our audit team since last year's audit. We reviewed the key assumptions that underpin the measurement of the pension obligation at 27 September 2015 and note the following key assumptions: discount rate of 3.9% (3.5% in March 2015), RPI 3% (3% in March 2015), CPI 1.9% (1.9% in March 2015) and the expected rate of non-promotional salary increases is RPI minus 0.2% i.e. 2.8% (2.8% in March 2015).</p> <p>The following challenges were raised as part of our review of the assumptions:</p> <ul style="list-style-type: none"> > The discount rate assumption of 3.9% pa, which is acceptable although is towards the higher end of our expectations. > For the derived RPI inflation assumption of 3.0% pa we have observed market differences in the Bank of England's spot inflation curves between 31 March and 30 September and also between 27 March and 25 September 2015. Our analysis suggests a small expected increase of 0.1% pa from the end of March 2015; however the same assumption has been used at both dates. We performed a sensitivity analysis on this assumption and have not found this to be a material difference in the pension liabilities. > All other assumptions are consistent with those adopted at 29 March 2015 and are, in our view, reasonable.

Appendix A

IAS 34 Half year review (cont'd)

Half year review results (cont'd)

Procedure	Findings
Other areas of review	
Provisions	<p>We also reviewed the breakdown of provisions as at the current half year end, including movements since the prior year. From our discussions with management, we noted that the assumptions used remained appropriate for the half year accounts, noting no other issues. Material movements within provisions related mainly to the charge and utilisation of severance and agents' compensation provisions, as well as crown transformation onerous lease provision made during the half year ended 27 September 2015.</p>
Onerous lease provision	<p>During the half year Management have performed an assessment of all 326 Crown branches and identified categorically what they refer to as "Problem branches"; these are Crown branches that have a footfall that is very poor and the property costs are generally high. These Crown branches are also all loss making. Management has made a decision that it is not economically viable and it no longer wants to operate a branch from these locations. Management considers that subletting the properties as a mitigating action is not a realistic option as the properties are located in areas where demand for retail property is low. In addition the outstanding period of the lease for many of the properties will be short term increasing the likelihood of not being able to attract sub tenants. Therefore the only viable course of action is closure of these branches. This has led to Management recognising a provision of £14m being the unavoidable costs of operating these 49 branches (i.e. this is the least net cost of exiting the lease contracts).</p> <p>We performed the following additional procedures as part of our half year review:</p> <ul style="list-style-type: none"> • We have reviewed Managements paper sent to the Group Executive detailing the Crown Network Strategy for 2015-2018 to confirm details of the plan and held discussions with Management to confirm our understanding of the plan, we have also reviewed board minutes to confirm approval of the plan by the board. • We have obtained the breakdown of all Crown sites including their profit for the year as at June 2015. We have ensured branches classified as "problem branches" are loss making. We also obtained explanation for all other Crown branches that are loss making but are not included in the provision. • IAS 37 requires that a provision is made when a contract becomes onerous; it also defines an onerous contract as 'a contract in which the unavoidable costs of meeting the obligations under it exceed the economic benefits expected to be received under it'. We have assessed that POL has a present obligation which will result in economic outflow and that a reliable estimate of the obligation can be made which is the lease contract and the net costs of existing the lease. • We have used the inputs provided from the client schedule to recalculate the net present value onerous provision in respect of the 49 leases. We also selected a sample of the properties and obtained supporting documentation to vouch contractual obligation amounts from the third party property managers BNP. We also checked that the correct end date of the lease has been used in the calculation. We have not identified any material difference. <p>We agree with management's conclusions at the half year.</p>
Other provisions	<p>We have also discussed with management the current status in relation to fraud, legal matters, entity level controls, and the financial statements close process, noting no issues.</p> <p>We further note that POL management continues to provide for the £11.3m in respect of overcharges for the Department for Works and Pensions (DWP) PoCa contracts provided last half year. POL and DWP have concluded and agreed on a payment to compensate for the overcharged revenue of £11.3m which has not changed since year end. Based on our review of the correspondence with DWP the amount is proposed to be paid between October and November 2015.</p>

Appendix A

IAS 34 Half year review (cont'd)

Half year review results (cont'd)

Procedure	Findings
Other areas of review	
Agents Compensation	<p>As previously discussed, management have identified a breakdown in the process that has been used to drive the information upon which Agents compensation is accounted for. We are currently auditing the figures and obtaining supporting evidence for the impact on the year ended to March 2015 and will audit the September 2015 provision after management have finalised their reconciliation.</p>
Good Received invoice received (GRIR)	<p>Our audit approach will look at a full reconciliation of the Post Office network to ascertain where each Branch is in the transformation process to test whether the provision is complete. Our work in relation to this provision is ongoing and we will update those charged with governance verbally at the Audit Committee Meeting.</p> <p>GRIR is a new process initiated in the prior year relating to the goods receipting for particular projects. This accrual is only triggered once the work has been completed and the GR box is ticked, after which an accrual is automatically raised by the system within the GRIR account. When the invoice is received for the specific goods/services, the invoiced amount is debited to the accrual account and therefore this accrual is reclassified to accounts payable. A prior year unadjusted audit difference was identified relating to debit balances which appeared within the account due to the fact that some purchase orders had invoices raised for a greater amount than the initial accrual. A manual adjustment is required to correct the balance within this account. Due to these factors, we have considered this as an area of audit focus for the half year review.</p> <p>We have reviewed all debit balances within the accrual account as at the half year reporting date. An adjustment has been identified for these debit balances of £840k.</p> <p>During the half year management have performed an assessment of the credit balances within the GRIR account, selecting all purchase orders (PO's) greater than £50,000. Multiple PO's which are considered old and assumed to have been invoiced or paid without the corresponding release from the GRIR were identified. Management have therefore decided to eliminate balances totalling £7.9m of these from the account.</p> <p>We performed the following additional procedures as part of our half year review:</p> <ul style="list-style-type: none"> • We have obtained management's workbook containing a breakdown of the GRIR and the all reasons for maintaining or adjusting the balances. We have reviewed all of these for reasonableness. • We have questioned all balances which remain within the GRIR account as at the half year reporting date which have been transferred from ESFS in the prior period. • We have selected a sample of items and obtained supporting documentation to vouch for the balance being maintained or written off within the account. • We have selected a sample of items which are below the £50,000 threshold to ensure we are satisfied that these items remain within the final half year balance. <p>Our work in relation to this accrual is ongoing and we will update those charged with governance verbally at the Audit Committee Meeting.</p>

Appendix A

IAS 34 Half year review (cont'd)

Half year review results (cont'd)

Procedure	Findings
General review procedures	
Review all board meeting minutes in the half-year	<ul style="list-style-type: none"> ▶ We have reviewed the meeting minutes for all board meetings up to the latest date at time of issuance of this Planning Report, being the Board meeting on 21 September 2015. No further issues to note. We will obtain meeting minutes for all board meetings up to date of signing our review report for the half year financial statements.
Review of current material litigation and regulatory fines, compensation and accruals.	<ul style="list-style-type: none"> ▶ The POL finance team provided us an update on all material provisions and exceptional costs in the business incurred during the half-year. We noted that no material provisions or exceptional costs were incurred or booked in relation to litigation and regulatory fines. ▶ We made enquiries of POL's legal counsel to gain an update of POL's litigation and compliance with laws and regulations since year-end, with no issues noted. ▶ We discussed the Horizon subpostmaster claim with POL's legal counsel and financial controller. POL's position has not changed since the prior year. It was noted that management has not been found legally liable to pay out any claims related to the Horizon subpostmaster claim post 29 March 2015 to date. Based on our discussion with management, we agree that their view remains reasonable and that no provision is required in respect of this claim. ▶ We will continue to revisit and gain updates from management up to the date of signing our report review. ▶ We also reviewed the minutes of all board meetings and sub-committees and noted there were no other material litigation claims or regulatory claims that management should consider providing for.

Appendix B

Management representation letter for IAS34 half year review

Angus Grant
Ernst & Young LLP
1 More London Place
London
SE1 2AF

xx November 2015

Dear Sirs

Post Office Limited

This representation letter is provided in connection with your review of the condensed consolidated balance sheet of Post Office Limited as of 27 September 2015 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with International Financial Reporting Standards as adopted by the EU.

We confirm, to the best of our knowledge and belief, the following representations:

- a) The interim financial information referred to above has been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU.
- b) We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors.
- c) There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
- d) There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.
- e) We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- f) We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.
- g) We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.
- h) There are no unadjusted review differences identified during the current review and pertaining to the latest period presented.
- i) We confirm the completeness of the information provided to you regarding the identification of related parties.

Appendix B

Management representation letter for IAS34 half year review (cont'd)

- j) The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial information:
- Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
 - Guarantees, whether written or oral, under which the entity is contingently liable; and
 - Agreements and options to buy back assets previously sold.
- k) The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with International Financial Reporting Standards as adopted by the EU. The assumptions used reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.
- l) We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.
- m) We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
- n) The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
- o) We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to, or disclosure in, the aforementioned interim financial information.

Alisdair Cameron

Chief Financial Officer

Appendix C

Audit fees

Our proposed audit fees for the period ending 27 March 2015 will be discussed and agreed with the Chief Financial Officer.

Appendix D

Independence report

Introduction

In order to carry out our duties and responsibilities as auditor, EY are required to consider our independence and objectivity within the context of the regulatory and professional framework in which we operate.

UK APB Ethical Standards, International Standard on Auditing (UK and Ireland) 260, *Communication of audit matters to those charged with governance*, and Rule 3526 *Communication with Audit Committees Concerning Independence of the Public Company Accounting Oversight Board (PCAOB)* require us to communicate on a timely basis and at least annually on all significant facts and matters that bear upon our independence and objectivity since our last letter. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to give you full and fair disclosure on matters in which you have an interest.

Planning stage	Required communications	
		Final stage
<ul style="list-style-type: none"> ▸ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. 		<ul style="list-style-type: none"> ▸ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that we are independent; ▸ Details of any inconsistencies between APB Ethical Standards and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We will also make sure that the total amount of fees that EY and our network firms have charged to you for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence report (cont'd)

Relationships, services and related safeguards

We are not aware of any relationships between EY and the Company that may reasonably be thought to bear on our independence as of the date of this report. As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. We establish appropriate safeguards, which we communicate to the Audit and Risk Committee in respect of any potential threat.

Other required communications related to independence matters

The APB Ethical Standards require total fees you have paid us in the period ending 29 March 2015 to be communicated to you. Details of all fees are provided to the Audit and Risk Committee as part of our year-end results board report.

Listed on the following page are EY's key firm-wide policies and processes to maintain independence and objectivity which are required to be communicated to you by APB Ethical Standards.

Confirmations

We are not aware of any inconsistencies between the company's policy for the supply of non-audit services and APB Ethical Standards. We are not aware of any apparent breach of that policy.

Relating to our audit of the financial statements of Post Office Limited for the year ending 27 March 2016, for the year to date we are independent with respect to the Company within the meaning of regulatory and professional requirements, including the requirements of International Standard on Auditing (UK and Ireland) 260 *Communication of audit matters to those charged with governance*; UK APB Ethical Standards; the independence and Rule 3520 of the PCAOB. We will provide a further update as part of our year end reporting.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. We look forward to discussing these matters with you at our upcoming meeting later in November 2015.

This report is intended solely for the information and use of the Audit and Risk Committee of the Board of Directors, management, and others within the Company and should not be used for any other purpose.

Appendix D

Independence report (cont'd)

Firmwide policies

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within EY for maintaining objectivity and independence:

Service	Timing
Financial interests	<p>Our partners and client facing (technical) staff are prohibited from investing in any audit client around the World.</p> <p>All partners and staff are required to confirm their compliance each year with the firm's independence policies. Monitoring of compliance in respect of all partners and professional managers takes place through a worldwide investment tracking system.</p> <p>New starters are required to confirm their compliance with the firm's independence policies on commencement of their employment.</p>
Training	All partners and professional staff are required to undergo regular mandatory training on our Independence and Ethical policies and processes.
Partner rotation	The firm has detailed policies on the rotation of the audit partner, and in the case of listed clients key audit partners, the independent partner and 'other partners and staff in senior positions'.
Consultation	The firm requires consultation outside the audit team on complex accounting, auditing and ethical matters. Major issues of principle arising on all audits are referred to a panel of independent experienced audit partners.
Independent partner reviews	Before listed company audit opinions are issued, an audit partner independent of the audit team reviews the nature of the relationship with the client, aspects of the accounts that are subject to significant estimates and judgements, and the adequacy of the presentation of information in the accounts.
Quality reviews	<p>The firm operates a worldwide programme under the direction of senior partners that annually assesses the quality of our work. Over a three year period, a proportion of the work of all audit partners is reviewed. The results of the programme help us to evaluate the firm's quality controls and personnel performance and identify areas for improvement.</p> <p>As with other firms, EY's audit practice is subject to annual review by the Audit Inspection Unit (AIU) and the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) for compliance with Audit Regulations. As part of its visits, the AIU/QAD evaluate the system of quality control operated by the firm for its audit practice.</p>
Business relationships	<p>EY has implemented a centralised process for the review and pre-approval, by our quality and risk management team, of all new business relationships. A submission must be made and approved for each new business relationship before committing the firm.</p> <p>In addition, all new business relationships must be notified and approved by the lead audit or client service partner before committing the firm.</p>
Ethics	Our Global Code of Conduct provides an ethical framework on which we base our decisions and our actions – as individuals and as members of our global organisation. EY has also established the EY/Ethics hotline which will allow any person, inside or outside of EY, to confidentially and anonymously report an activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with EY's established policies and Code of Conduct.
Non-audit services	<p>Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to:</p> <ul style="list-style-type: none"> ▶ Ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement; ▶ Identify and assess any related threats to our objectivity; and ▶ Assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. <p>Where no satisfactory safeguards exist we do not carry out the non-audit service.</p>

Appendix D

Required communications with the Audit and Risk Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of where and when they were covered:

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits			
Overview of planned scope and timing of the audit		✓	Discussed within this report.
Other information in documents containing audited financial statements		✓	We will review the other information included in annual financial statements and report to you in the Audit and Risk Committee report.
Significant audit adjustments		✓	This will be included, as necessary, within our 2015-16 year end audit report.
Unrecorded misstatements considered by management to be immaterial		✓	This will be included, as necessary, within our 2015-16 year end audit report.
Expected modifications to the audit report		✓	If applicable, this will be included, as necessary, within our 2015-16 year end audit report.
Our judgements/views about qualitative aspects of the Company's accounting practices and financial reporting		✓	This will be included within our year end 2015-16 Audit and Risk Committee report.
Disagreements with management	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Consultations with other accountants	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Serious difficulties encountered in dealing with management when performing the audit	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
The adoption of, or a change in, an accounting policy	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.

Appendix E

Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Communications required on all audits (cont'd)			
Methods of accounting for significant unusual transactions and for controversial or emerging areas	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Sensitive accounting estimates		✓	This will be included, as necessary, within our 2015-16 year end audit report.
Consideration of laws and regulations		✓	This will be included, as necessary, within our 2015-16 year end audit report.
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Significant matters arising during the audit in connection with the entity's related parties		✓	This will be included, as necessary, within our 2015-16 year end audit report.
Management's refusal for us to request external confirmations or our inability to obtain relevant and reliable audit evidence from other procedures	✓	✓	This will be included, as necessary, within our 2015-16 year end audit report.
Representations that the auditor is requesting from management		✓	We will provide the management letter of representation as part of our audit planning report and year end report.
Significant deficiencies and material weaknesses in internal control over financial reporting		✓	This will be included, as necessary, within our Controls, Themes and Observations Report which will be shared with you after the conclusion of our audit.
Group audits			
<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the Group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the Group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work 		✓	<p>An overview of the planned approach for the audit is included within this report.</p> <p>We will report on any further items with our year end audit report.</p>
Any limitations on the Group audit, for example, where the Group engagement team's access to information may have been restricted			
Fraud or suspected fraud involving Group management, component management, employees who have significant roles in Group-wide controls or others where the fraud resulted in a material misstatement of the Group financial statements.	✓	✓	This will be included, as necessary, within our 2015-16 year end audit reports.

Appendix E

Required communications with the Audit and Risk Committee (cont'd)

	Communicate when event occurs	Communicate on a timely basis, at least annually	Planned/actual timing of communication to the Audit and Risk Committee
Audit and Risk Committee pre-approval of services, including specific pre-approval of internal control-related services and non-prohibited tax services		✓	This will be included, as necessary, within our 2015-16 year end audit reports
Critical accounting policies and practices. ISA 260 (UK and Ireland) requires the auditor to communicate the auditor's views on the qualitative aspects of the Company's accounting practices and financial reporting		✓	This will be included in our 2015-16 year end audit report.
All material alternative accounting treatments discussed with management		✓	This will be included in our 2015-16 year end audit report.
Fees		✓	Discussed within this report and within our 2015-16 year end audit report.
Other material written communications with management		✓	We will provide our 2015-16 year end audit report.
Communication of independence matters		✓	Included in planning audit report and this will also be included in our 2015-16 year end audit report.
Other findings or issues regarding the oversight of the financial reporting process		✓	This will be included, as necessary, within our 2015-16 year end audit report.

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Financial Reporting

Author/Sponsor: Al Cameron Date: 10 November 2015

Executive Summary

Context

Financial reporting in Post Office had been perceived as controlled. In previous years, the accounts have been signed without adjustment and EY has not made any recommendations over financial reporting controls for the last two years.

However, errors were uncovered during year-end. At the Audit Committee and the Board in May, I said that my first experience of going through an audit had not left me confident that we were operating a robust set of controls. We would undertake a project to understand and improve the position systematically.

Questions addressed in this paper

The purpose of this paper is to answer the following questions:

- What is the state of our financial reporting?
- What are we doing about it?

Conclusion

Our financial reporting is not adequately controlled: small errors have continued and a material misstatement has been identified relating to the 2014-15 year-end. This is wholly unacceptable.

Accountabilities have been updated across the Finance Leadership Team, with the introduction of Finance Directors for the pillars and the creation of a much larger Financial Controller role with end to end accountability for financial reporting. A new Financial Controller, Dave Carter, started work last month.

In July, the business approved a programme to resolve issues affecting our ability to report easily from the finance systems. In addition, a systematic programme to identify and document controls is underway, supported by KPMG. This will result in every control having a clearly identified owner and an ongoing reporting and assurance structure to ensure controls are operated and maintained.

Input Sought

The Committee is asked to review and comment on the actions being undertaken, requesting updates at future meetings until the position is stabilised.

What is the state of our financial reporting and what are we doing about it?

Errors have continued. GRNI accruals need repeated reviews to keep them up to date, Telecoms income was under-reported until it was corrected in P6, cut off errors were made in provisions at the half-year and the Finance team uncovered a major set of errors in the recognition of provisions for network transformation. The latter has led to a restatement of the results for 2014-15. This is clearly, wholly unacceptable.

Four underlying causes have been identified: systems; structure and accountabilities; clarity of commercial understanding; and a lack of clear, reliable, documented controls.

Systems issues

Following separation, Finance implemented new IT systems, which were signed off in Autumn 2014. However, the reporting suite is not operating effectively: manual intervention is required to produce the basic financial statements, income and cost reporting is inconsistent and product and branch profitability is reported off-system. The level of manual workarounds has put the Finance team under pressure.

A team worked to simplify the reporting structures in the data reporting tool, BW. Some progress was made: income reporting by product is now available. However, the problems were more deep seated than expected, with multiple feeds, complex allocation rules, confused data structures and dependence on complex spreadsheets.

A project team has now been established under Finance and IT leadership. Tactical opportunities to improve reporting will be determined in the next two weeks. In addition, as part of the Back Office work, Accenture is conducting an accelerated 8 week review to determine what has to be done to create permanent solutions.

Structure

The financial reporting teams were divided between a team in Chesterfield that reported into IT and the central Finance team that reported to the Financial Controller. In addition, accountabilities for getting the numbers right were never clearly allocated to individuals. As a result, it has been possible for everyone in the Finance team to do their agreed roles and for collective errors to be made.

The Financial Controller role has been expanded to include the team in Chesterfield and the projects improving reporting and controls. Tax and Treasury will also transfer under the Financial Controller later in the year. The role has clear accountability for getting the numbers right.

The incumbent is leaving the business and a new Financial Controller, Dave Carter, started work in October. He was previously with Tesco, helping them to manage through some of their very public accounting issues. He is currently assessing the structure and accountabilities of his team as they work through his first month-end: further changes will be agreed before the end of November.

Commercial understanding

Reporting has been hampered by a lack of understanding, which also contributes to very poor budgeting. For example, issues over Telecoms revenue were made worse because the commercial team did not have an effective financial model and the financial service centre did not understand changes to the billing process.

In April, new Finance Director roles were created for the main pillars. The last vacancy was filled in September. The new FDs and their teams are substantially improving the underlying modelling and product knowledge. This will continue to improve through the budgeting cycle.

The work to ensure clear accountabilities in the Financial Control team is being extended to cover the commercial finance teams, enabling a clear split between transaction processing and analysis, with individual accountabilities specified.

Support Services have been given commercial accountability for specific areas without having the appropriate skills or perspective. Commercial ownership of credit/debit card fees and foreign exchange hedging are being transferred to the Financial Services team. In addition, we are planning to break up the Managed Services team, currently within IT, that oversees many of the commercial activities within the pillars.

Controls

There is no documented clarity on the risks to financial reporting, the controls we rely on, who is accountable for operating those controls and no systematic process to ensure they are operating effectively. The controls that do exist are often manual and informal.

A programme is now underway, supported by KPMG, to systematically rectify the lack of documented and assured controls.

The financial statements have been reviewed to identify all balances that could contain material errors, which have defined as individual errors of more than £0.5m and a cumulative error of more than £3m.

The processes leading to the creation of these balances are being documented in a standard format and the individual risks identified. The controls we plan to rely on will be identified – possibly created – and documented. Each control will be allocated to an individual and given an interval (monthly, quarterly etc) at which that the control owner will report that he or she has the evidence that the control was operating in the previous period. This will be tested systematically by Internal Audit.

Fixed Assets was chosen as the first financial statement area to be worked on, to test the ways of working for both the POL and KPMG teams: it is critical that POL staff understand and have a sense of ownership of the outputs. This is nearing completion. The first key area will be revenue to cash. Work in relation to the more important balances is expected to be completed by year-end, although some work will continue into next year.

The timetable can be summarised as follows:

- Phase 1 (mid Sept – Dec). Process and control documentation in progress:
 - Property, Plant and Equipment; Project Accounting; Bill to cash (Revenue); Record to report.
- Phase 2 (Dec-Mid Jan)
 - Payroll; Treasury; Bank & Cash; Client Settlement; Control Environment.
- Phase 3 (Mid Jan – End Feb)
 - Stock Accounting; Purchase to Pay; Taxation.

A summary of the project is attached in the Reading Room.

Approvals and next steps

The various workstreams set out above were approved as a project to complete the finance systems implementation at a budgeted cost of some £2m.

It is proposed to give a brief update at each meeting of the Audit Committee until the situation is stabilised.

Author: Mike Morley-Fletcher, Head of Risk and Assurance Sponsor: Jane MacLeod, Group Counsel
Date: 11/2015

Executive Summary

Context

This report provides an update since the last ARC (21st September) and includes discussions at the October RCC, which reviewed both A) progress with development of our Risk Management Framework, and B) risk updates on selected risk areas.

Questions addressed in this paper

- 1) Are we on plan with development of our Risk Management Framework?
- 2) Are there any concerns with the selected risks that have been reviewed?

Conclusion

A) OUR RISK MANAGEMENT FRAMEWORK

Progress is currently on track. The Risk Team is working to finalise the Post Office Risk Universe and prioritise Principal Risks for presentation to the January ARC. Incidents are being collected to help validate risks identified and their evaluation.

In addition, we have scoped and initiated the Policy Framework project, scoped our General Control Framework and started to plan how we map where assurance comes from, using an Assurance Map.

B) RISK UPDATES

The following risk areas were reviewed at the October RCC:

- 1) Financial Services
- 2) Business Transformation
- 3) Information Security
- 4) Pensions.

The RCC discussed the reports and provided feedback to the risk owners.

Input Sought

The Committee is asked to note the progress against plan and review of risks. Further updates will be provided at each RCC and ARC meeting.

The Paper

The October RCC reviewed both:

- A) progress with development of our Risk Management Framework, and
- B) risk updates on selected key risk areas.

A) DEVELOPMENT OF OUR RISK MANAGEMENT FRAMEWORK

Progress is currently on track - see **Appendix A** for a visualisation of the project plan. Key areas to report on include:

1) Risk Universe and Principal Risks

The Risk Team is continuing to work with GE and SLT members to finalise the Post Office Risk Universe and prioritise Principal Risks for presentation to the ARC in January 2016.

2) Incident Management

Incidents are being collected by Risk Champions and collated and analysed by the Risk Team. Whilst it is early days (four months data), it is hoped that we will be able to use this actual data to support proposed identification and evaluation of key risks. At present, the most significant reporting area for incidents is IT. Efforts are being made to support other business areas in collecting data for reporting.

3) Policy Framework Project

More details are included in **Appendix B** which is a reproduction of the RCC paper. However, in summary, the Risk team have developed a strawman of potential "key" policies and a policy template in order to commence a gap analysis and piloting by Corporate Services.

4) General Control Framework

The Risk team has designed a strawman of 16 key pervasive controls that we expect the PO to have, benchmarked against the latest technical guidance (COSO 2013 – 17 Principles) and generally accepted leading practice. Those selected will be discussed and confirmed by GE and SLT members shortly as a precursor to a gap analysis. More details will be presented to ARC for consideration in January 2016.

5) Assurance Map

Internal Audit is planning to design and confirm an Assurance Map, a top-down view of where assurance comes from, for presentation to ARC in March 2016 in support of the proposed Audit Plan for 2016/17. This will enable ARC to see the totality of assurance in the business, how Internal Audit compliments this and determine if ARC is receiving assurance in the best way.

B) RISK UPDATES

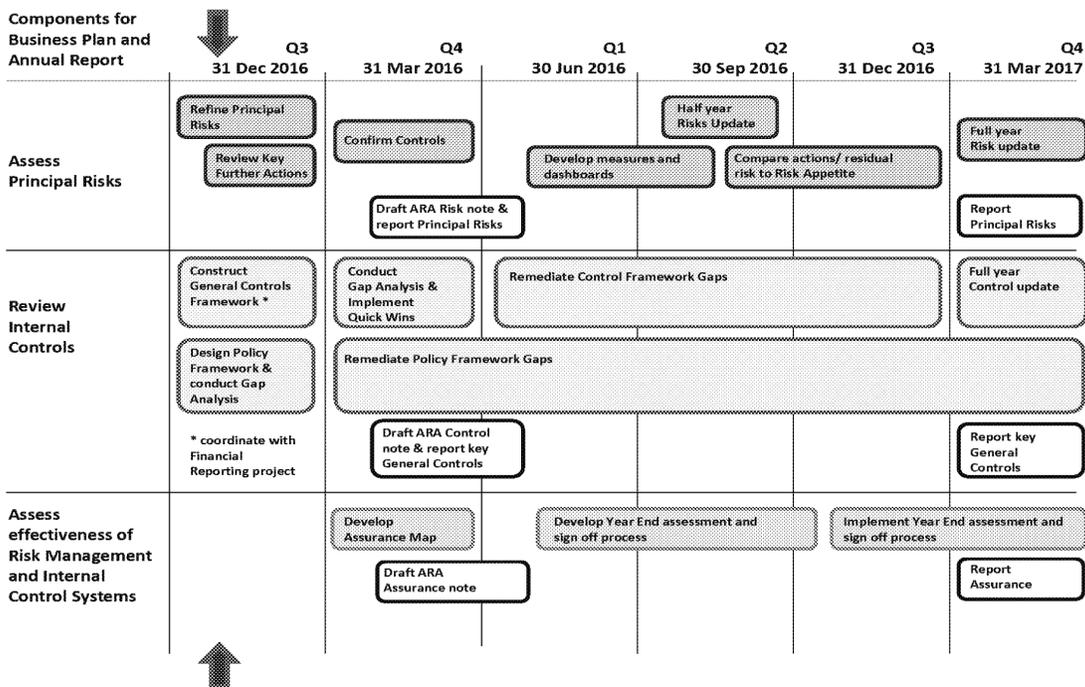
The October RCC reviewed scheduled Risk Updates, with discussions on key risks, the effectiveness of current controls and any further actions planned. The RCC discussed each report and provided feedback to the risk owners.

These updates included:

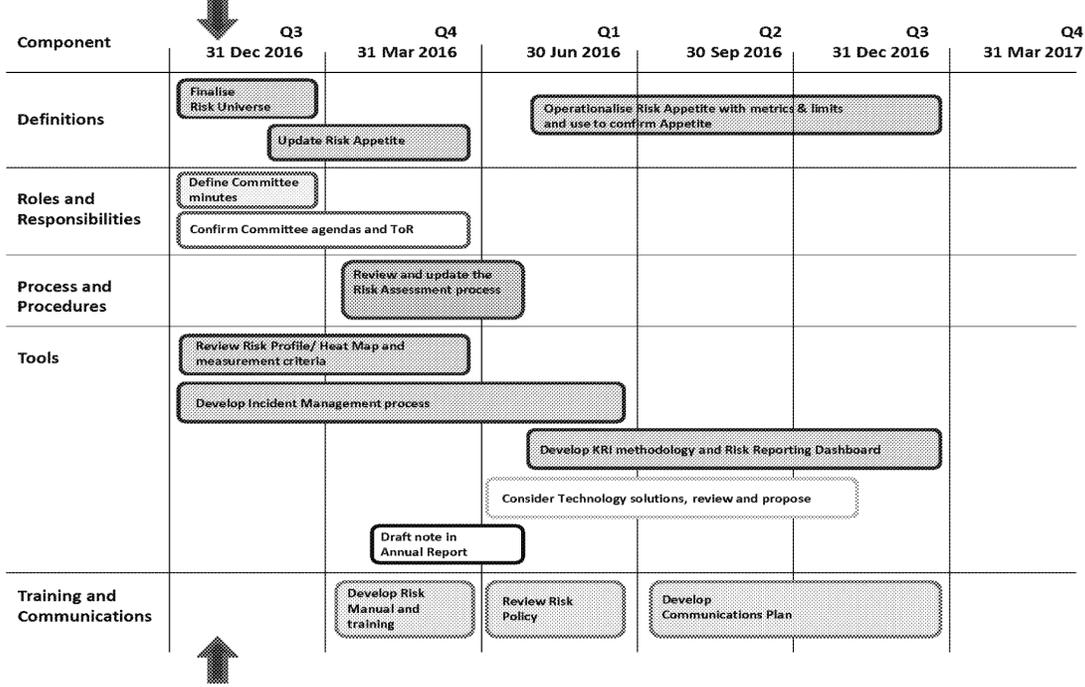
- 1) Financial Services – a summary of the Financial Services report is included in the **Appendix C**.
- 2) Business Transformation - details from the report will be included in a paper to the Board on 25th November.
- 3) Information Security – see separate report by Head of ISAG.
- 4) Pensions – the review has been carried forward to the ARC in January, as we are currently awaiting the outcome of triennial review.

APPENDIX 7A – Risk Management Project Plan

A) Risk Framework: Deliverables



B) Risk Framework: Capability



APPENDIX 7B – Policy Framework Project

Policy Framework Project as presented to October RCC

Author: Mike Morley-Fletcher, Head of Risk and Assurance Sponsor: Jane MacLeod, Group Counsel
Date: 10/2015

Executive Summary

Context

This paper outlines our proposal for establishing a succinct set of our most important policies (a Key Policy Framework) for managing some of our key risks, in a consistent manner across all POL activities. This is a fundamental component of our General Control Framework.

Questions addressed in this paper

1. What are the benefits to the business of a common approach to policy management?
2. What is the scope and extent of the plan to implement a policy framework?

Conclusion

Benefit of a Policy Framework and consistent policy content:

A “top down” view of our policies will enable us to check that the design of our policy suite is complete, prioritised, fit for purpose and can evolve with our needs; a best practice template for the content of policies will ensure they provide the required direction and control. Communicated and monitored this set of key policies will support us in achieving our objectives and protecting our reputation, in a cost efficient manner. In addition, confidence in our policies can give us contractual and commercial benefit when communicated to our stakeholders and demonstrate our effective corporate governance.

The level of investment required is estimated as:

- a) Design and Review (phases 1 to 4): is within the Risk Team’s current plans and headcount, with a small amount of assistance and input from policy owners.
- b) Remediation of policies and subsequent roll out (phase 5): will be define by separate business cases from policy owners once remediation needs have been identified and prioritised.

Input Sought from RCC

The Committee is asked to review the proposal and approve the approach and timetable below. In particular:

- a) Do the proposed policies in the Key Policy Framework present a reasonable strawman model for us to start with?
- b) Does the policy template best practice model include the appropriate content for ensuring completeness and quality?

Input Received from RCC on 26th October

The Risk team has engaged with GE members on the scope and extent of the suggested policy population. The paper and approach has been reviewed and approved by RCC on 26 October 2015, with a caveat over the tight timeline as this will depend upon first line policy owners being able to allocate resources required during a busy time for the business.

APPENDIX 7B – Policy Framework Project cont.

The Report

Why do we need to create this policy framework?

Benefit of a Policy Framework and consistent policy content:

Policies are an important part of our General Control Framework. We use them to articulate our intent, setting clear rules and expectations, to communicate how we want to standardise and monitor specific activities and behaviours.

A “top down” view of our policies will enable us to check that the design of our policy suite is complete, prioritised, fit for purpose and can evolve with our needs; a best practice template for the content of policies will ensure they provide the required direction and control. Communicated and monitored this set of key policies will support us in achieving our objectives and protecting our reputation, in a cost efficient manner. In addition, confidence in our policies can give us contractual and commercial benefit when communicated to our stakeholders and demonstrate our effective corporate governance.

What are the key points to note about our new policy framework?

Our Key Policy Framework:

To ensure we are getting the most from our policies, we propose:

- identifying our most important policies,
- designing a small, prioritised set of key policies – our Key Policy Framework,
- assessing their existence and also their effectiveness against a standard template, and
- recommending any resultant remediation.

These key policies should respond to the Post Office’s key risks, as defined by our PO Risk Universe and specified by GE members at their bi-annual risk reviews. See appendix 1 for an initial example. In addition, we propose driving consistent quality in our policies through use of a template format. The proposed content for which is set out in appendix 3.

Approach to implementing the Policy Framework:

We will take a phased approach, with feedback to RCC, GE and ARC at relevant milestones to obtain feedback and suggested changes to our approach or content. See appendix 2 for proposed timetable.

1. Design an initial (strawman) Key Policy Framework that responds to our key risks (our “To Be”)
2. Survey our Current Policies (our “As Is”)
3. Identify Gaps in the policy framework, and recommend Remediations to existing policies (where appropriate)
4. Pilot Remediation with Corporate Services,
5. Action Remediations with Corporate Services and other owners, on a priority basis.

APPENDIX 7B – Policy Framework Project cont.

Phases 1 to 4 are planned to be completed by the end of December 2015. Phase 5 will be rolled out subsequently on a prioritised basis, aiming for completion by year end 2016.

What are the implications for the board and the business?

The project will be managed by the Risk Team (second line of defence) on behalf of the policy owners across business areas (first line of defence). The table below has split the roles and responsibilities for the tools for developing and implementing the Policy Framework.

In order to develop and implement the framework we will develop the following tools:

Project Tools		Risk Team (2nd line): set direction for Policy Framework and policy quality, provide tools and engage 1 st line to review, challenge and own resultant “key” policies.	Policy owners (1st line): for this project, policy owners will be accountable for identifying and prioritising “key” policies, then reviewing, redrafting and communicating them.
a)	Policy Ownership	Clarify policy owners’ roles and responsibilities, e.g. for policy existence, quality, communication, training, supportive compliance controls, monitoring and reporting, breach escalation.	Policy owners engage with roles and responsibilities to embed policy and controls into business operations.
b)	Policy Framework and Hierarchy	Develop a hierarchy of policies to show the difference between the key policies, standards, procedures and guidelines	Engage with the framework and hierarchy model, agree prioritisation methodology and review existing policies to establish which ones are “key”.
c)	Policy Prioritisation Methodology	Develop a prioritisation methodology to show us which of our policies are “key”, how new ones should be included and when old ones removed.	
d)	Policy Template	Develop a standard policy template, for us to check that our policies are complete in their scope and content, and will do what we want them to do.	Use policy template to check completeness and quality of current “key” policies and identify gaps.
e)	Policy Governance	Clarify the governance structure and protocols for monitoring the development, maintenance and approval of our key policies and managing any requested dispensations/ exceptions or unintentional breaches.	Engage with governance and understand the implications for enabling a common practice across POL operations.
f)	Policy Storage Facility	Source a software storage facility for maintaining our key policies so they are protected, version controlled and easy to update.	Use the software storage facility for maintaining and communicating “key” policies to appropriate colleagues.
g)	Policy Communication and Training	Develop options for a communication programme and training schedule for new or revised policies.	Use the proposed communication programme and training schedule to embed new/ revised “key” policies.

In addition, to enable the Key Policy Framework project, we will define the following roles:

- a) Policy Project Manager role - specify the role of Policy Manager, both in the development phase and then in the maintenance role. This role will be a new role within the Risk Team’s current headcount.
- b) Policy Project Governance - design the governance structure (e.g. a working group/ steering committee) for monitoring the project roll out and progress.

APPENDIX 7B – Policy Framework Project cont.**Appendix 1: Initial strawman of Key Policies**, our “Key Policy Framework”, plus proposed owners and SMEs

	Stakeholder need/ Risk being managed	Key Policies (possible)	GE Owner/ specific SME
1)	Strategic Management The risk that we do engage and manage our key stakeholders and develop a robust strategy to achieve our objectives.	<ul style="list-style-type: none"> - Stakeholders / Corporate Affairs - Governance (Conflict of Interests, Delegation of Authority) - Competition / Pricing - Risk 	TBC - SME 1 - SME 2
2)	Customer Care The risk that we do not deal with our customers in a fair and ethical way, we do not provide good enough customer service or treatment and we fail to fulfill their expectations.	<ul style="list-style-type: none"> - Network Coverage - Customer Treatment/ Vulnerable Customers 	TBC - SME 1 - SME 2
3)	Financial Sustainability The risk of loss of financial assets or incurrence of financial liabilities. In addition, the risk of misrepresentation of our financial position.	<ul style="list-style-type: none"> - Treasury (credit risk, market risk, liquidity risk) - Insurance - Pensions - Financial control (Travel & Expenses) - FS: Solvency - Accounting and Reporting 	Alisdair Cameron - SME 1 - SME 2 - etc
4)	Colleague Capability and Welfare The risk of inadequate colleague capability, motivation/ incentivisation, lack of safeguard to colleague welfare or inappropriate employee relations and engagement.	<ul style="list-style-type: none"> - Recruitment - Remuneration - Health & Safety - Colleague Welfare - Employment Relations and Engagement 	Neil Hayward - SME 1 - SME 2 - etc
5)	Security and Continuity The risk of temporary or permanent harm to our colleagues/ agents, assets, data, operations, profits and reputation.	<ul style="list-style-type: none"> - Physical Security - Business Continuity - Information Security/ Data Protection - Fraud/ Financial Crime 	Jane MacLeod - SME 1 - SME 2 - etc
6)	Operational Effectiveness The risk of loss of operational effectiveness as result of failures in processes/ systems or external events.	<ul style="list-style-type: none"> - IT (Security, Development, etc) - Procurement - Supplier management - Outsourcing 	Alisdair Cameron - SME 1 - SME 2 - etc
7)	Regulatory & Legal Requirements The risk of not meeting the requirement of our Regulators and our legal obligations.	<ul style="list-style-type: none"> - Regulatory risk policy set (FCA, OFCOM, Anti Bribery & Corruption, Money Laundering) - Data/ document retention policy - Legal obligations (list key) 	Jane MacLeod - SME 1 - SME 2 - etc
8)	Corporate Social Responsibility The risk of not meeting our responsibilities to our communities and the environment.	<ul style="list-style-type: none"> - Charitable Donations - Communities 	[Neil Hayward] - SME 1 - SME 2

APPENDIX 7B – Policy Framework Project cont.

Appendix 2: Implementation Timetable for Key Policy Framework Project

Phases	1) Design Key Policy Framework (strawman)	2) Survey our current Policies	3) Identify Gaps and recommend Remediations	4) Pilot Remediation with Corporate Services (CS)	5) Action Remediations with CS and other owners
Details	<ul style="list-style-type: none"> - design a list of key policies that responds to our key risks - compare to Best Practice models - separate out non-key policies via prioritisation methodology 	<ul style="list-style-type: none"> - survey colleagues (SLT level) for policies - review intranet and other sources - establish list of current policies 	<ul style="list-style-type: none"> - determine with policy owners extent of policies missing or out of date - no assessment of quality of policy at this stage - determine initial estimate of remediation needed 	<ul style="list-style-type: none"> - for a selection of policies, road trial approach to remediation and extent of remediation required in comparison to (new) policy template to establish means of costing remediations - in addition, consider best approach and what resources are needed to subsequently communicate, train, control and monitor revised key policies - confirm design of Key Policy Framework for CS 	<ul style="list-style-type: none"> - use lessons learnt with Corporate Services to prioritise remediations of other policy areas and action - use lessons learnt to roll out policies effectively and efficiently once updated - confirm design of Key Policy Framework for all policy areas
Output	<ul style="list-style-type: none"> - A (strawman) Key Policy Framework that holds a prioritised list of <i>expected</i> key policies 	<ul style="list-style-type: none"> - Extent of existence of our key policies 	<ul style="list-style-type: none"> - List of missing or out of date policies 	<ul style="list-style-type: none"> - Mechanism for assessing investment to remediate policies and roll out 	<ul style="list-style-type: none"> - Roll out plan (prioritised) and business case
Timeline ¹	By end of Oct 15		End of Nov 15	End of Dec 15	Prioritised per quarter, aiming for completion by year end 2016

¹ Subject to suitable resources (1st line and 2nd line)

Supporting tools, procedures and protocols	<ul style="list-style-type: none"> a) Policy Ownership (role & responsibilities) b) Key Policy Framework (and Hierarchy) c) Policy Prioritisation Methodology 	<ul style="list-style-type: none"> d) Policy Template e) Policy Governance f) Policy Storage g) Policy Communication and Training
	<ul style="list-style-type: none"> - Policy Project Manager - Policy Project Governance (e.g. working group/ steering committee) 	

The Risk Team will report back to RCC, GE and ARC at relevant milestones to obtain feedback on approach or content.

APPENDIX 7B – Policy Framework Project cont.

Appendix 3: Suggested Policy Template Content

Policy Template
<p>A) Overview</p> <ul style="list-style-type: none"> - Purpose – what are we trying to achieve - Context – why do we need this policy, e.g. legislation/ regulations or core value, etc - Policy Statement – a high level summary of our policy position, key points - Application/ Scope – who does this apply to - Related policies
<p>B) Risk Appetite and Key Controls</p> <ul style="list-style-type: none"> - Description of the risk - Risk Appetite to set the level of acceptable risk - Key Controls to manage the risk - Monitoring and reporting - how, who, how often
<p>C) Responsibilities and Governance</p> <ul style="list-style-type: none"> - Policy Approver - Board/ Oversight Committee that approves original creation and subsequent changes, and receives assurance on compliance - Policy Owner - accountable for the design, implementation, maintenance and reporting of compliance with the Policy to the Board/ Oversight Committee - Policy Implementors – responsible for local implementation, monitoring of compliance and feedback to the Policy Owner - Dispensation/ waiver and breach – escalation process/ protocols and approvals
<p>D) Where to go for help</p> <ul style="list-style-type: none"> - Support and supporting material available from where

Drafting principles (to be completed) will include:

- use simple language
- make it black and white
- ensure tell user what need to know/ do
- etc.

APPENDIX 7C – Financial Services Risk Update

Summary of Financial Services Risk Update to October RCC

RCC received the first regular update on the Financial Services (FS) risk profile following the dissolution of the Financial Services Committee. The report addressed the key FS risks and current activities to mitigate and manage them.

Three themes emerge from the risk profile: a) the changing shape of consumer behaviours, b) the wider competitive market and c) the changing regulatory environment. FS believes that the risks are within risk appetite, but are monitoring them, aware that they may change as FS and the network continue to change.

In more detail:

Key risks

a) The changing shape of consumer behaviours

Whilst austerity will continue to impact consumers for some time, technological changes will also impact customer behaviour. Mobile banking, 'wearable' devices and other digital / mobile services are transforming retail financial services and eroding already narrow margins.

b) The wider competitive market

Fourteen new banks have been authorised over the past two years, and some (like Handelsbanken) are increasing their branch presence. Competitor activity is also eroding margins with longer balance transfer periods on credit cards and lower fees, as well as low funding rates on mortgages. In payments Paypoint remains a key competitor.

c) The changing regulatory environment

Most of the FS business is subject to regulatory review or change. This puts additional pressure on product teams with support from risk and compliance to ensure current and future sales compliance. Examples include: FCA performance management guidance, Mortgages (MCD and MMR post implementation review), Current Account (FCA and CMA) switching, FCA cash savings market review, new Payment Systems Regulator and the Senior Persons Regime.

In addition, there is a growing risk of regulatory and/or contractual breach coming from network transformation and the selection of sub-postmasters. Network transformation, Legal and FS Risk are working closely together to assess any potential issues in the network and to arrange mitigating action if required.

APPENDIX 7C – Financial Services Risk Update cont.

Forward agenda

FS has been subject to several conduct risk reviews in the last 12 months. One common theme is the need to improve controls over the wider network (Agency and Crown branches) to ensure that the culture is consistently aligned to customer needs. We are concluding risk assessments of Crown and Agency FS distribution and will agree actions with the Network teams and to address the risks identified.

There are a number of areas across the business where we jointly need to improve awareness of the POMS regulated business and the need for compliance approvals to come from the POMS compliance team. We have drafted some joint guidance to help with this and will continue to work with POMS to develop this.



Internal Audit
Audit Risk and Compliance Committee Report
November 2015

Post Office Internal Audit ARC Report – November 2015

Contents

1. Purpose	3
2. Summary of Internal Audit Activity	3
3. Final Reports Issued for the Period	4-11
4. Reviews in Progress	12
5. Resourcing	12
6. Business Transformation Assurance	13
7. Business Assistance – Property Compliance	14
Appendix 1 - Internal Audit Plan Status	15
Appendix 2 - BTA Plan Status	16
Appendix 3 - Internal Audit Reports – Executive Summaries	17-21
Appendix 4 – BTA Report – Executive Summary	22-24

Post Office Internal Audit ARC Report – November 2015

1. Purpose

The purpose of this paper is to update the Committee on the PO Internal Audit activity and key outcomes. This includes details of the work completed since the last Audit, Risk and Compliance Committee (ARC) in September; and the progress against the Internal Audit Plan (see Appendix 1).

The Committee is requested to:

- Note the outcomes of the recent audits and reviews.
- Note the current and upcoming work and consider future input to the planning for 2016/17 and beyond.

2. Summary of Activity

During the period we have finalised 4 audits and have agreed actions with management. These are summarised in **section 3** of this paper. A fifth review, Critical Metrics Management, which is scheduled for the December ARC, is at draft report stage and is due to be discussed with the GE owner shortly. In addition, on-going assurance is being given as a part of the Towers Programme activity with highlight reports issued to management. In consequence, the audits planned for quarters one and two are now completed. For note, POMS Compliance Readiness was reviewed by PwC and was reported to the September Board.

The team have continued to contribute in a **business assistance** capacity to the Property Compliance Forum (see **Section 7**). We are also assisting with the remediation of the GE Contract Management actions and the recovery of “accidental” overclaims identified as a result of the Financial Crime audit work.

Business Transformation Assurance (BTA)

Deloitte are now established within the transformation programme and have commenced working on the assurance plan. The Business Transformation Portfolio Governance Review has been completed, the summary of the report is attached at Appendix 4.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports Issued for the Period (4).

1. Financial Crime (Rating - Red)

Background and Findings

This review focused on the business's response to fraud risk. Our work found that fraud risks organisation-wide have not yet been identified. This is partly due to Financial Crime risk, which includes fraud, not being owned at the top to set the right tone. In addition, there is no organisation-wide Policy or coordinated approach for management of financial crime. As a result effective mechanisms to prevent and detect fraud and corruption have not yet been incorporated into Policies, procedures and systems as standard. Of greatest concern is the lack of a formalised approach for detecting internal staff or agent remuneration fraud. This role was previously performed by Royal Mail Group.

Progress

Since the review, General Council (Jane MacLeod) have taken on the management of Financial Crime risk (including fraud risk) and in response the Corporate Services SLT team have developed an Action Plan to prioritise next steps.

HR Progress Update

In addition, the Group People Director (Neil Hayward) has responded to potential Policy gaps and actioned the following:

- **Annual Leave:** for those staff with access to SAP, they have been mandated to use it to request and approve annual leave. The Policy statement has been amended to reflect this.
- **Work Location Policy:** issues were identified relating to individuals claiming regular commuting travel costs (frequency of Office based) because either their work location status was incorrect or where reimbursement of travel costs (when staff are technically office based) had been offered informally to make an employment offer more attractive. The review flagged the issue of fairness of application as well as HMRC issues with existing arrangements (i.e. benefit has not been declared on the individuals P11D). A communication regarding Work Location Policy and application of it has been prepared by Reward.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd)

HR Further Work Required

- A backwards look of staff Work Location status is still to be performed with the view to this being reviewed annually going forward.
- Determine the level of exposure to HMRC risk of failing to disclose the benefit of travel reimbursement when Office.
- New contracts of employment are being established for future hires.
- The Work Location Policy has been revised and is now owned by the Head of Reward. Going forward the Director of Employee Relations & Engagement will review and authorise any request for a role to be advertised or appointment proposed where the work location is NOT office based. The location Office must also be specifically detailed, i.e. Finsbury Dials, Harborne Crown Office.
- A cost benefit analysis is also being performed by HR to determine the level of reference checking and qualification certification required – depending on the direct level of risk the position an individual will occupy. At a minimum this will cover senior managers and staff in a regulated positions. Ownership of the Vetting Policy has moved to Reward and is being reviewed not only in light of the findings from the review, but also in terms of vetting obligations signed up to within our contracts with customers.

Finance Progress Update

CPC cardholders: the CFO (Al Cameron) has supported the move of CPC oversight from Procurement to Accounts Payable in Chesterfield and has written to all cardholders to reduce the number of cards only to those which are required for the role. As a result, CPC cardholder numbers are being reduced by 80% (to approx. 10-15 cards). Procurement will continue to own the Policy for CPCs and the Purchasing Director is reviewing with the view to strengthen review and oversight of transaction spend to ensure appropriateness.

Mobile Phone Policy : the new Financial Controller (Dave Carter) will draft a Mobile Phone Policy for Post Office. He will also oversee from a Policy perspective, actions relating to the review of the mobile portfolio with the view to reducing unnecessary/ inappropriate mobile phone allocations (for instance, 10% of handsets are assigned to individuals who are no longer with the business).

Potential Conduct cases involving expenses: there appeared to be a number of individuals who had booked hotel and/or rail through Capita and then re- claimed the cost through expenses via SAP. Further work/investigations have been undertaken with Capita and Security on this. Reimbursement for £5K worth of direct duplicate matches is being sought. The individuals involved are being contacted by HRSC to request their receipts for the duplicated claims. On receipt of this information we are reviewing with the Reward team case-by-case to assess whether conduct action is appropriate. Two individuals will be formally interviewed for potential gross misconduct relating to inappropriate expense claims.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

2. FS Conduct Risk (Rating – Amber)

Background: the risk associated with delivering poor customer outcomes through financial services mis-selling (and poor post-sales servicing) was one of PO's top corporate risks. Our fieldwork was performed between May and June 2015, before POMS became an authorised entity in its own right and started trading general insurance, together with travel insurance products. The review was conducted together with PwC consultants, as part of the co-source agreement.

PO is the Appointed Representative (AR) of the Bank of Ireland (BoI). Although BoI is regulated by the Financial Conduct Authority (FCA), PO, as Appointed Representative and under the contractual obligations with BoI, is required to comply with the regulatory requirements. The FCA expects all firms to embed a customer focused culture and conduct their business by putting customers' interests and protections ahead of profit and remuneration. Conduct risks are generally managed through a framework, encompassing a range of components and touching all activities of the organisation which impact the customer.

The objective of the review was to assess the existence, adequacy and effectiveness of PO's conduct management framework to manage and mitigate retail conduct risks. The review focused on four key areas (conduct risk governance structure, conduct management framework, people and cultural drivers and conduct risk touch points) for the products and processes regulated by the Joint Venture agreement (i.e. insurance, protections, savings, lending, current accounts), distributed through the branches network (i.e. 340 Crown branches and circa 11,000 agency branches); contact centres, which are operated by various entities (PO, BoI and others providers) and on-line, via the PO's website.

Findings: Management and staff within the Financial Service Department demonstrated that they had a good awareness of the importance of the FCA regulation and conduct risks. However, key elements of the Conduct Framework need to be developed, i.e. a formal governance around conduct risk, a customer strategy, development of the compliance second line function, the performance of the assessment of conduct risk across the financial service business and the strengthening of the controls around the wider network.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

FS Conduct Risk (cont'd)

Progress: While elements of the frameworks still need to be developed, management has improved its approach to the conduct risks and has initiated a number of initiatives. PO is strengthening its Board membership and related committees with individuals with financial service background to support the growth of the business. A review of the governance and of the committees responsible for overseeing conduct risks is on-going. The Board has initiated work to define PO customer strategy. An assessment of conduct risks across the financial service business and of the regulatory and risk controls in place to monitor the agencies' employees has been performed. The FS Risk team has strengthened its first line assurance functions with the view to improve the control environment across all the Network (including agencies branches). POMS has developed a compliance second line of defence function for monitoring the processes and practices for selling insurance products.

Two recommendations are still under consideration by PO management: PO management is assessing the need for PO to develop a conduct risk Policy, given that PO, as AR, has to follow the conduct risk requirements of Bol and POMS. Management is invited to complement Bol and POMS's requirements by setting out the standards and expectations of PO Board for monitoring conduct risks. PO management believe they have in place an adequate and well defined process for designing, developing and approving new products. Management is invited to formally articulating and documenting the product governance and approval process with POMS and Bol for the products that are distributed through its network.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

3. Drop and Go (Rating – Amber/Red)

Background: Drop and Go was launched in 2013 with the objective of developing a 'small business' service for high volume mails customers (and associated customer relationships), reducing the processing and waiting time. Customers who have an account can simply 'Drop' the mail items at the Fast Drop counter and then 'Go', taking a receipt for the items received. Customers pre-fund the account so that mail can be paid for. To further develop the proposition and ensure platform stability long-term, the Drop and Go base was migrated from APOP (Postal Order Database System) to the new Common Digital Platform (CDP) in November 2014, yet significant issues were experienced in doing this. In response a Post Investment Review (PIR) was completed by the Project Manager in February 2015. Management subsequently requested that Internal Audit give a view of the key lessons to be learned.

Findings

Our work revealed that ultimately the Project team (at the time) failed to understand the interdependency risks of migrating the Drop and Go base from APOP (Postal Order Database System) to the Common Digital Platform (CDP), independently from the Online Portal which whilst built has never launched. The uncoupling of elements was incomplete and untested before go-live. This resulted in Drop and Go breaking. The de-scoping of the FSC's ability to unlock customer accounts (*outsourced to Accenture as result of the uncoupling*), compounded the number of account lockouts at go-live. Our work concluded that overall weak project management and the business's failure to understand IT capability had been buried behind Drop and Go as a product failing.

Progress

Since January 2015 the business has significantly enhanced its governance and control framework around its portfolio with project management standards documented and applied. In particular:

- All spend on change programmes and projects is now centralised under the management of the Group Transformation Director supported by the Transformation Financial Control Group, which approves business cases, tracks and manages cost actuals to forecasts, tracks and manages benefits ownership and delivery.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

Drop and Go (cont'd)

- The request for Transformation funding is now managed in line with a gated change process, against new standard templates for business case, programme/ project charter and design documents with change control processes against each element (costs, benefits, time and solution design). On authority to proceed to go-live, PO have developed and tested a new business readiness methodology which will be launched across all programmes and projects in November 2015. This will provide assurance at all lifecycle gates that all key areas impacted by the change are assessed using a standard framework and criteria which means that (a) required actions are built into programme/project plans and (b) authority to proceed decisions are made against clear, standardised data and criteria.
- Detailed planning standards have also been introduced with management and reporting of the plan milestones fortnightly at the Transformation Delivery Group (level 1 milestones) and Transformation Executive Steering Group (level 0 milestones) using both a rear view (completed/missed milestones) and a forward view 30/60/90 day RAG status. The planning standards specifically include milestones for benefit realisation and contractual obligations, alongside the typical programme/project delivery milestones. All programme/project resources are detailed and requested via the programme/project charter, which also includes subject matter experts (SMEs) in addition to Change Management and IT resources.

Further work required

The Head of Change has taken an action to review the post investment as well as lessons learnt processes and agree an action plan in light of the findings shared. This will be reviewed as a part of our follow up activity.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

4. Project Wave (MVNO) – (Rating Amber)

Background: the Mobile Virtual Network Operation (MVNO) proposition (Project Wave) and related operating model were conceived in 2013 and originally approved in March 2014. The project aimed at launching four products at different stages (Pre Pay SIM only, Post-Pay, 4G and handset offer). According to the model, Post Office is required to manage and integrate the services and systems of 8 distinct suppliers (providing network, fulfilment, CRM services, etc). In June 2015 Post Office started a customer trial of the Pre-Pay SIM only product. The product has been sold via 213 branches located in the North West and nationwide via the online web-page.

In June 2015, Management appointed an advisory firm, EY, specialised in the Telecom industry, to perform an assessment of the business model and amend it with updated assumptions. The model estimated a contribution of circa £16M across 5 years and 500K subscriber base by 2020.

In September, the Mobile team has subsequently re-visited and amended the business, financial and distribution plan (i.e. the handsets offer has been removed from the plan; the distribution model has changed, SIM cards will be sold directly by 2,000 Primary branches and ordered from 9,000 Secondary branches). The trial period was extended to the end of January 2016. The objectives of this review were to provide an assessment of the business/ financial model developed by management, and of the management of the trial and of the processes and monitoring controls designed to ensure the proposition delivers the expected benefits and overall customer experience.

Findings: a number of controls still need to be developed, for instance: i) for better monitoring of sales, service provisions and activations; ii) to resolve operational issues as they have arisen; and iii) to validate suppliers' charges and iv) to ensure that information security safeguards are in place. The Mobile team is working on them. However, management should ensure they have been developed and implemented before launching the proposition.

The headcount required for managing the business and implement and monitor the controls (in the Mobile and ISAG teams) appears to be underestimated in the financial model, other costs have been overlooked or assumptions deemed too optimistic. Management should revisit and reassessing the financial plan.

Post Office Internal Audit ARC Report – November 2015

3. Final Reports (cont'd).

Project Wave (cont'd)

Progress: The small Mobile Team, albeit limited by the headcount and budget available, is actively attempting to develop all the elements to make a successful and profitable launch of the proposition. The team is supporting and training the counter staff to improve products knowledge and sales opportunities.

A suitable set of trial KPIs has been developed and are being tracked regularly - achieving the KPIs being set is a key requirement for assessing the viability of the proposition.

Mapping of the key processes is undergoing. This exercise will help identifying the key controls that need to be developed for better monitoring the business.

Post Office Internal Audit ARC Report – November 2015

4. Reviews in Progress

Planning and scoping of reviews for Q3 is well progressed with the following reviews in progress:

Activity	In Progress
Internal Audit	<ul style="list-style-type: none">• Fujitsu Exit• Data Protection (CoSource)• Workforce Capacity/Capability• Social Media• Common Digital Platform• Assurance Framework

5. Resources

There have been no changes to the resources of the team since the last Committee (team remains at 5).

For note, Elena Nistor-Lustermans has announced that she is intending to [GRO] and currently plans to work until the middle of March 2016. We will explore temporary resource options in due course.

Post Office Internal Audit ARC Report – November 2015

6. Business Transformation Assurance (BTA)

A core Deloitte team has been fully on-boarded and is an integral part of Business Transformation Assurance. Their priority is to re-baseline the BTA Plan of reviews, and present this plan to the newly formed Transformation Risk and Assurance Group (TRAG) chaired by the Group Business Transformation Director on 19th November.

In preparation for this, during October, BTA attended a series of functional 'Boot Camps' or deep dives that were held on each key area or programme of Business Transformation, e.g. Front Office, Back Office and Support Services. As an output, a fully integrated 'bottom up' Portfolio Plan was compiled and presented to the Transformation Executive Steering Group (TESG) on 2nd November. This plan will now be baselined to become the Portfolio Plan going forward. The information gained from these detailed reviews is assisting BTA in rescheduling the plan of activities to be performed in late Q3 and Q4.

A 'plan on a page' of the current and planned BTA reviews for the remainder of Q3 is included as Appendix 2.

Final reports issued for the period

A Portfolio Governance, Management and Change Methodology Design review has been jointly completed by Internal Audit and Deloitte and the final report issue. The executive summary is included in Appendix 4.

Post Office Internal Audit ARC Report – November 2015

7. Business Assistance - Property Compliance

As reported at the last ARC, Internal Audit has continued to work with Legal in assisting Property to implement adequate governance and controls around regulatory compliance requirements and attended the Property Compliance Forum.

Progress with Statutory Compliance activities: a plan is in place to address all (except for one) the statutory compliance checks for the elements and sites which are still outstanding (by mid of December all the expected checks will be completed). For one element, **Fire Safety inspections**, an action plan and completion dates for the due inspections are in the process of being agreed with Norland. Statutory Fire Safety Inspections need to be performed by a qualified independent body to ensure adequate safeguards are in place on sites to protect employees and customers from risk of fire. As partial mitigating control, fire testing reviews are performed on an annually basis by Post Office staff; however, as these reviews provide a lower level of assurance, PO would find it difficult to demonstrate that “reasonable practical” steps have been taken to mitigate Health and Safety (H&S) risks. The Health and Safety Executive may consider PO in breach of their obligations, and if prosecuted PO may risk significant fines (or even jail sentences for Directors).

Issues with Property Compliance Governance: the following issues highlighted at the last meeting have not been fully addressed:

- There is no formal mechanism to escalate Property compliance issues and risks through a governance route. *H&S* issues are escalated through the H&S meeting and R&CC. A property compliance forum (which is not a governance committee) has been formed to support Property in monitoring compliance.
- There is currently no independent PO dedicated compliance resources providing first line of defence and assurance to mitigate property compliance issues although recruitment is underway.
- Roles of duties holders and compliance person to provide first line controls have been assigned; however the appointed people have yet not been trained to fulfil their duties.
- There is a need for more rigorous contract management of the services provided by Norland and Servest to ensure expected performance levels are maintained and the necessary compliance is achieved in a timely manner.

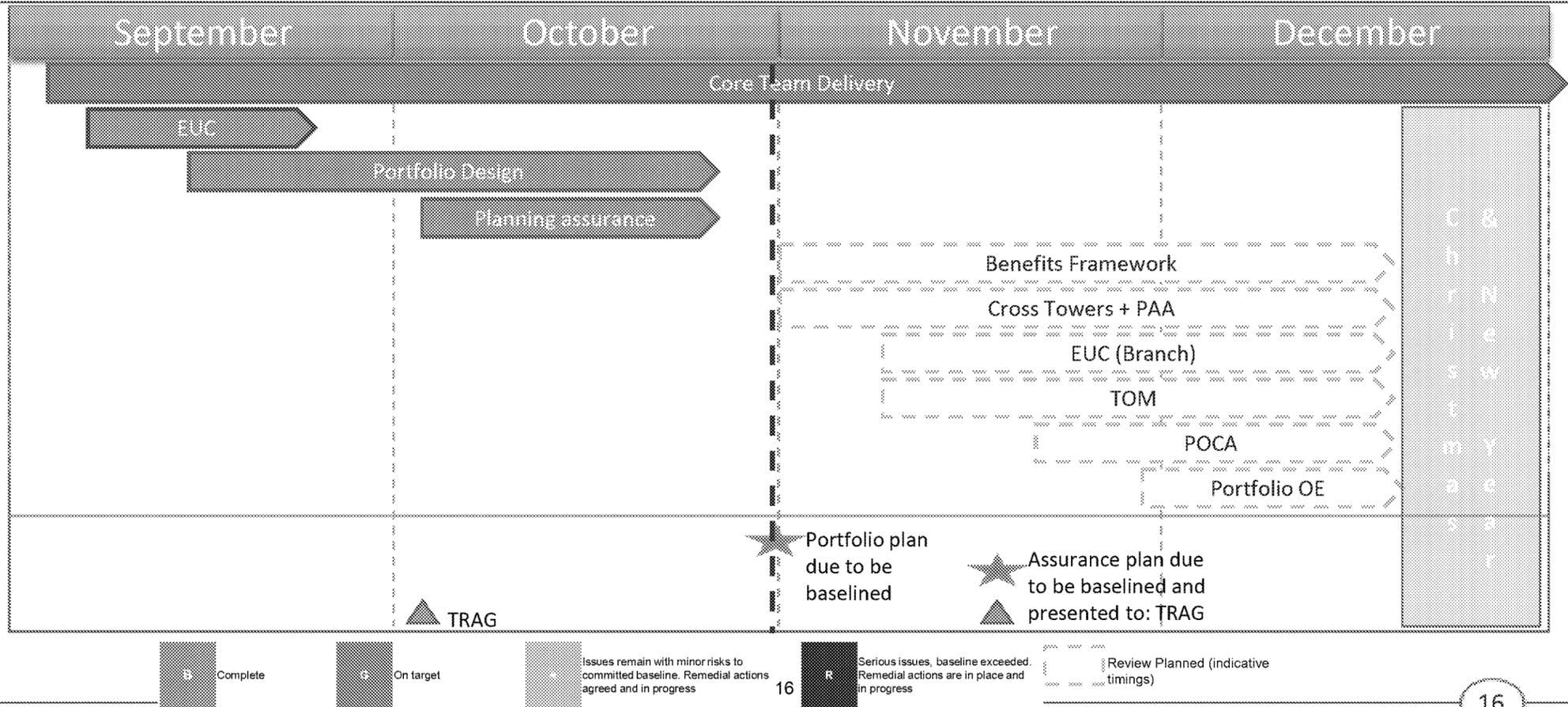
Management actions: workshops have been organised between Legal, Internal Audit and Procurement teams to address the issues highlighted above. An acting Head of Property has been appointed to provide support and coordination for the first line of defence and strengthen controls over Facilities Management Providers (Norland and Servest).

Appendix 1 - Audit Plan Status – November 2015

Activity				Actions			Reporting			
Audit	GE Owner	Timing	Status	Report Rating	High	Medium	Low	Due to RCC	Due to ARC	Comments
Financial Crime	JM	Q1/2	Final Report		18	20	2	Oct 15	Nov 15	Rated red due to lack of GE ownerships and Policies
FS Conduct Risk	NK	Q1/2	Final Report		13	9	3	Oct 15	Nov 15	Subject to final report being issued
Drop and Go	MG	Q2	Final Report		2	3		Oct 15	Nov 15	Final Report issued
Towers Delivery								On-going		
WAVE	MG	Q2	Final Report		1	13	8	Oct 15	Nov 15	Subject to final report being issued
Critical Metric Management	AC	Q2	Draft Report					Nov 15	Dec 15	Draft report to be discussed with Al Cameron
Fujitsu Exit	AC	Q3	Fieldwork					Nov 15	Dec 15	Report being drafted
Data Protection	JM	Q3	Scoping					Jan 16	Jan 16	Scoping in progress with PwC (Co Source)
Workforce Planning	NH	Q3	Scoping					Jan 16	Jan 16	
SISD Delivery	AC	Q3	To be scoped					Jan 16	Jan 16	
Social Media	MG	Q4	Scoping					Jan 16	Jan 16	
Common Digital Platform	MG	Q3	Scoping					Jan 16	Jan 16	
Assurance Framework	JM	Q3	Planning					Feb 16	Mar 16	
Managed Services	AC	Q3	Scoping					Feb 16	Mar 16	
Agent Remuneration	KG	Q4	Scoping					Feb 16	Mar 16	
POMS Governance	NK	Q4	To be scoped					Feb 16	Mar 16	
FRES	NK	Q4	To be scoped					Feb 16	Mar 16	
Governance Review	JM	Q4	To be scoped			15		Feb 16	Mar 16	



Appendix 2 – BTA Plan Status (updated) – November 2015



Post Office Internal Audit ARC Report – November 2015

Appendix 3

Completed Internal Audit Reports – Executive Summaries:

1. Financial Crime
2. FS Conduct Management Framework Review
3. Drop and Go
4. Project Wave (MVNO)

FINANCIAL CRIME

FINANCIAL CRIME – (Rated Red)

<p>Background</p> <p>Financial crime risk is defined as the vulnerability, or exposure of the organisation towards financial crime and irregularity. The prevention, detection and resolution of financial crime is a management responsibility and the business must satisfy itself that it exercises suitable control over 'financial crime risk' covering Head Office functions, corporate services, network, depots and branches. Before separation RMG was responsible for fraud risk management. The focus of our review has been on the financial crime of fraud. Further reviews of anti-money laundering, bribery and corruption and cyber will be considered as a part of our on-going review of Internal Audit Plan for 2015/16.</p>	<p>Key issues</p> <ul style="list-style-type: none"> • No Exec owner to set the tone. • No organisation wide policy or coordinated approach for management of financial crime. • Effective mechanisms to prevent and detect fraud and corruption are not incorporated into policies, procedures and systems as standard. • Risk of losing independent and specialist oversight of branch activity by Security – Fraud Analysis under Wave 3. • Staff are not clear on where and how to report suspicions or concerns. • No formalised process for detecting internal staff or agent remuneration fraud. • Technology and tools to detect fraud are limited. • A healthy dose of professional scepticism is not generally applied by staff when considering the potential for fraud.
<p>Our overall assessment</p> <p>PO currently has a culture where not knowing what you don't know is accepted. To be confident in conclusions over fraud risk maturity, PO will need to ascertain what it does not know, and how it will go about learning it. As a first step, PO will need to determine its fraud risks organisation-wide and how effectively they are being managed. GE will also need to determine the ideal future state, commission a gap analysis, and prioritise activities that will help to enable the development of an organisation-wide anti-fraud programme. Fraud risk will need to be owned at the top to set the right tone. Ethical behaviours will also need to be communicated to staff, given the lack of clarity noted during the review. Such a programme will not only help to enable appropriate compliance with regulatory mandates, but will also help PO align its behaviours, values and performance drivers as well as, protecting its assets and reputation. The current culture will be hard to change and will require a focused and coordinated approach as well as investment. A sound ethical culture and effective system of internal control will be essential elements for building an anti-fraud strategy going forward. However, this will not provide complete protection against all fraudulent behaviour, highlighting the continued importance of prevention and detection measures provided by the Security - Fraud Risk and Analysis teams. PO now has the opportunity to build its own defences against fraud risk under a wider remit than at present; however fraud risk will need to be moved up the agenda for this to be realised.</p>	<p>Priority actions</p> <ul style="list-style-type: none"> • Formally nominate a GE member to be responsible for financial crime risk management. • Identify financial crime risks organisation-wide and effectiveness of management. • Determine the future state, commission a gap analysis and prioritise activities. • Delegation of roles and responsibilities to deter, detect and respond to all fraud across PO. • Moving management of fraud risk and more widely financial crime risk to one place.

Project Wave Review

Background

The Mobile Virtual Network Operation (MVNO) proposition (Project Wave) and related operating model were conceived in 2013 and originally approved in March 2014. The project aimed at launching four products at different stages (Pre Pay SIM only, Post-Pay, 4G and handset offer). According to the model, Post Office is required to manage and integrate the services and systems of 8 distinct suppliers (Transatel/EE for the Network, Lifecycle for CRM and website; Brightstar for fulfilment, SITEL for contact centre, Avnet for Management Information).

In June 2015 Post Office started a customer trial of the Pre-Pay SIM only product. The product has been sold via 213 branches located in the North and nationwide via the online web-page. Circa £4M development costs have been capitalised so far for the project and POL will incur approximately £2.7M in suppliers' terminations fees should the project be withdrawn.

At the time of launched, most of the people involved with developing the original plan had left the business, some suppliers contracts were not fully negotiated (the Brightstar contract was still under negotiation at the time of the audit) and the original business assumptions were outdated.

In June 2015, Management appointed an advisory firm, EY, specialised in the Telecom industry, to perform an assessment of the business model and amend it with updated assumptions. The model estimated a contribution of circa £16M across 5 years and 500K subscribers' base by 2020.

In September, the Mobile team has subsequently re-visited and amended the business, financial and distribution plan (i.e. the handsets offer has been removed from the plan; the distribution model has changed, SIM cards will be sold directly by 2K Primary branches and ordered from 9K Secondary branches). The trial period was extended to the end of January 2016 to better assess the trial results.

The objectives of this review were to provide an assessment of the business/financial model; of the management of the trial and of the processes and monitoring controls designed to ensure the proposition delivers the expected benefits and overall customer experience.

Overall assessment

Industry analysis show that the MVNO market has potential for further growth but presents some challenges due to the high level of competition (over 240 MVNOs and sub-brands exists in UK), the fast changing technology environment and customers' requirements. The development of strong distribution channels; an efficient and cost effective service delivery model and the ability to design profitable products, to understand customers' needs and to create loyalty are considered success factors for MVNO business.

The small Mobile Team, albeit limited by the headcount and budget available, is actively attempting to develop all the elements to make a successful and profitable launch of the proposition. The team is supporting and training the counter staff to improve products knowledge and sales opportunities. A suitable set of trial KPIs has been developed for assessing the viability of the products and the mapping of the processes is undergoing.

The review identified a number of controls which still need to be developed to improve the monitoring of sales, service provisions and activations; to resolve operational issues as they have arisen; to validate suppliers' charges and to ensure that information security safeguards are in place.

Management should ensure that the mobile team is adequately resourced to develop the controls before the proposition is allowed to be launched. The headcount required for managing the business and implement and monitor the controls (in the Mobile and ISAG teams) appears to be underestimated in the financial model, other costs have been overlooked or assumptions deemed too optimistic. Management should revisited and reassessing the financial plan.

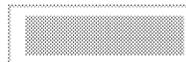
Key findings

The report includes 23 findings (1 High Priority, 14 Medium, 8 Low). The key findings are outlined below:

- Budget: no significant gaps were identified in the financial model, however:
 - i. some costs that have not been included (such as costs for sales made by "secondary" branches and for information security controls), requiring approximately £250K extra costs to be budgeted per annum.
 - ii. some assumptions should be re- assessed, such as:
 - a) the likelihood for the re-negotiation of the wholesales charges with Transatel/EE (planned to bring £3M savings in five years).
 - b) the headcounts needed for managing the business appears to have been significantly underestimated (11 FTEs in the plan vs the recommended 15 to 25 as per EY's report and the 17 FTEs from an internal telecom team analysis). To align the plan to the recommendations, a minimum of approximately £400K costs a year for extra staff may need to be accounted for.

The MVNO business requires an adequately resourced team of specialised individuals to be able to: i. track the fast changing customers' demand and competitors' initiatives and technology landscape and re-adjusting the propositions accordingly, ii. co-ordinate the different suppliers and iii. monitoring the effectiveness of the processes effectiveness and the customer experience.
- Monitoring Business/Customers processes: the Mobile team is still documenting the key business processes. A risk analysis and full set of controls and reconciliations covering the dispatch, service provisioning, activations and de-activations, top-ups, jeopardy and charging processes should be developed for monitoring the business operations.
- Information Security: suppliers have contractual obligations to protect the data held in their systems, however, POL, as "data controller", needs to establish roles and responsibilities and develop measures to ensure that customers' personal data are adequately safeguarded and POL complies with relevant regulatory requirements.
- Resilience: the end to end resilience across all the suppliers 'systems has not been tested with significant volume of transactions. Mobile team should work with suppliers to confirm system reliance with future expected volumes.
- Limited customers' insight and user satisfaction analysis have been carried out. The proposition and product features offered may not be linked to the target market needs. Mobile team has started monitoring customers' usage and will perform a branch exit satisfaction survey.
- The operating model for scaling the MVNO business and ensuring it is profitable (i.e. bundle its products with other POL products and/or consolidating operational processes) have not been clearly defined.

Audit Opinion



Conduct Management Framework Review

Background

The risk associated with delivering poor customer outcomes through financial services mis-selling (and poor post-sales servicing) was one of POL's top corporate risks. As such, an assessment of the framework associated with this risk formed part of POL's Internal Audit plan.

POL is the Appointed Representative (AR) of the Bank of Ireland (BoI), the two entities have created a Financial Service Joint Venture Agreement (FSJVA) which enables BoI's financial products to be promoted and distributed by POL. A Regulatory Guidance Manual is in place setting out rules and procedures which POL is required to comply with.

The financial products being distributed included: general insurance products (car, home); protections products (i.e. Over 50's insurance); lending; savings, current account. The products are distributed through the branches network (i.e. 340 Crown branches and circa 11K agency branches); contact centres, which are operated by various entities (POL, BoI and others providers) and on-line, via the POL's website.

BoI, as principal, is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and it is responsible for the regulated activities carried out by POL. POL, as Appointed Representative and under the contractual obligations with BoI, is required to comply with the regulatory requirements.

The FCA expects all firms to embed a customer focused culture and conduct their business by putting customers' interests and protections ahead of profit and remuneration. Conduct risks are generally managed through a framework, encompassing a range of components and touching all activities of the organisation which impact the customer.

The objective of the review was to assess the existence, adequacy and effectiveness of POL's conduct management framework to manage and mitigate retail conduct risks. The review focused on four key areas (conduct risk governance structure, conduct management framework, people and cultural drivers and conduct risk touch points) for the products and processes regulated by the Joint Venture agreement

The fieldwork was performed between May and June 2015, before POMS becoming an authorised entity in its own right and started trading general insurance, together with travel insurance, products. The review was conducted together with PwC's consultants, as part of the co-source agreement.

Overall assessment

No material failings have been identified by the review. However, 13 recommendations have been highlighted for management to be addressed as a priority in order to improve POL's approach and governance on conduct risks and meeting FCA regulatory expectations

Management and staff within the Financial Service Department demonstrated to have a good awareness of the importance of the FCA regulation and conduct risks. Implications of the FCA regulation on the day to day activities are less known within the wider Network and Sales departments.

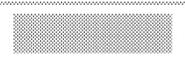
Financial Service Risk team has plans to improve the control environment in particular around the wider network and ensuring that the appropriate customer focused culture is promoted. A review of the governance and of the committees responsible for overseeing conduct risks is on-going.

Key findings

A summary of findings and areas of suggested action are outlined below:

- **POL Boards and other committees' responsibilities over Conduct risks:** responsibilities over conduct risks and compliance matters have not been formally documented as a Board's responsibility. The Board should clearly assign responsibilities for overseeing conduct risks to relevant committees (e.g. ARC and RCC). Management is in the process of reviewing the governance structure and the responsibilities of the committees over Conduct risks.
- **Product Governance:** POL and BoI work together in the development of new propositions. The approach and each entity's roles are well established, however, the product governance and approval process is not documented. While approval responsibility ultimately sits with BoI, Pol should develop an auditable and transparent development process.
- **Customer Strategy:** The customer strategy (articulating the target market, the types of products to be developed/sold to meet customer needs and identify any key areas of customer risk) is a fundamental part of the conduct management framework, to ensure that product and services offered are tailored for the target market. The board has planned to address the development of the strategy.
- **Conduct Risk Policy:** A conduct risk policy (which executes the customer strategy) should be developed setting out the standard for fair treatment of customers, articulating the desired customers outcomes and risk appetite.
- **Three lines of defence:** POL has no dedicated Compliance (2nd line) resource to support the monitoring of conduct risks across all the FS Business, BoI plays a role in monitoring the activities under the FSJVA agreement. Since the completion of the audit POMS has been developing its compliance function to oversee the processes for selling Insurance products and POL FS Risk Team has strengthen its first line team.
- **Conduct Risk appetite:** customer risk appetites statements should be linked to the customer strategy and conduct policies for each key customer touch points.
- **Conduct Management Information:** The Conduct MI, produced by BoI for the Customer and Conduct Risk Committee (C&CRC), do not give a full picture of the risks as they are only focused on branches activities (no MI on other distribution channels, i.e. contact centres are produced) and root causes analysis on the risks are missing or incomplete. FS team will review with BOI team on how to improve the MIs.
- **Customers' risks:** an assessment of conduct risks across the financial service business and of the regulatory and risk controls in place to monitor the agencies' employees should be performed. Following the audit, management confirmed that a risk analysis has been completed and actions plans have been developed.
- **Controls over sales made via Agency Network (counter staff):** No robust first line controls have been noted across the Agency Network. Agencies' employees do not need to complete the initial and annual FS training. These increase the risks of products being mis-sold, in particular Over 50s Life Travel Insurance products which can be transacted into Horizon by agents. POMS, which have become the risk owner, and should ensure that appropriate controls and mitigations are in place.

Audit Opinion



Drop and Go – (Rated Amber/Red)

Background

Drop and Go was launched in 2013 with the objective of developing a 'small business' service for high volume mails customers (and associated customer relationships), reducing the processing and waiting time. Customers who have an account can simply 'Drop' the mail items at the Fast Drop counter and then 'Go' taking a receipt of the items received. Customers pre-fund the account so that mail can be paid for. To further develop the proposition and ensure platform stability long-term, the Drop and Go base was migrated from APOP (Postal Order Database System) to the new Common Digital Platform (CDP) in November 2014, yet significant issues were experienced in doing this. In response a Post Investment Review (PIR) was completed by the Project Manager in February 2015. The focus of the work was on customer account lockouts. Management subsequently requested that Internal Audit give a view of the key issues to be learned. To do this, we reviewed the original Project scope which was to:

- Introduce a new online channel for customers looking to send parcels via PO through a service called **Click and Drop**.
- Whilst this was the focus of the Project the team were also tasked with aligning this new service offering to the existing Drop and Go product offering an **Online Portal** to these customers.
- **Migrate** the Drop and Go base from APOP to CDP.

Our overall assessment

The Project spent £3.6 million on delivering limited, if any benefits and has disadvantaged Drop and Go as a result. Our review found that:

1. Click and Drop (*which was built*) was de-scoped from the Project during September 2014 due to lack of RMG approval to launch.
2. The Online Portal element is built; however it is not fit for purpose to make live. Feedback suggests that if PO launched 'as is' the impacts could be felt far harder than those experienced back in November 2014.
3. The Project team failed to understand the interdependency risks of migrating the Drop and Go base from APOP to CDP independently from the Online Portal. The uncoupling was incomplete and untested before go-live. This resulted in Drop and Go breaking. The de-scoping of the FSC's ability to unlock customer accounts (*outsourced to Accenture as result of uncoupling*) compounded the impact.
4. Ultimately, weak project management and IT failings have been buried behind Drop and Go.

Progress since January 2015

PO is now applying more governance around its portfolio with project management standards documented and applied. The new Change Methodology and Portfolio management process is expected to be fully deployed by the end of September 2015. The Portfolio Manager for Commercial (role created in Jan 15) has also gripped projects and introduced more robust challenge through Health Checks, Steering Groups and better oversight of spend. Whilst significant progress has been made the Project closure process requires strengthening. There is the risk that PO is failing to learn lessons from projects and therefore opportunities to improve are being missed.

Key issues**Project Lessons:**

- Build spend for Click and Drop was approved in the knowledge that Royal Mail may not have approved its launch (total project costs are over £2 million).
- Drop and Go base was migrated from APOP to CDP without stakeholders fully understanding the interdependency risks of doing so without the Online Portal.
- Key user requirements were de-scoped without the Project team fully understanding the impact and associated costs (e.g. £12k per year for Accenture to unlock accounts was not budgeted for).
- No visible challenge over the 9 month delay in delivery of the Online Portal or requirement for the Project team to provide a revised expected launch date.
- Retrospective funding was requested by the Project to complete the Online Portal element; however this was not spent as intended.
- Lack of transition plan from Project launch to business as usual (Project Management was Atos led).
- Negative behaviour scenarios (customer or Branch) were not considered during testing.

Product:

- Branches are still using the 'settle to cash' functionality on Horizon in error resulting in the locking of Drop and Go customer accounts (approximately 40 per day).
- Basic Drop and Go customer account information is currently unknown (e.g. active accounts).
- PO changed its status from a regulatory perspective when allowing a mails collection service to be offered to certain Drop & Go customers from one branch in Birmingham. No assurance is being sought on whether the Branch is acting in a compliant way with the Postal Services Act.
- Drop & Go still has no online management capability despite promising customers it was 'coming soon' for 14 months.

Priority actions

- Project lessons should be considered by the Change Management team.
- Drop and Go online portal fix options should be considered alongside the costs, risks and benefits.
- A formal decision needs to be made over whether PO should continue with the Mails Collection Service considering the risks and exposures.

Post Office Internal Audit ARC Report – November 2015

Appendix 4

Completed BTA Report – Executive Summary:

1. Portfolio Governance Review

Appendix 4 *Executive Summary from - Business Transformation Assurance – Portfolio governance, management and change methodology review***1. Purpose of the report**

This review was undertaken to provide an assessment of the design effectiveness of the Post Office Ltd (POL) Business Transformation (BT) Portfolio governance structure. This included reviewing that the committees/meetings/forums, processes, and reporting is fit for purpose. The report contains observations on an exceptions only basis, and includes also observations that have been self-identified by management.

Operating effectiveness has not been formally assessed as at the time of this review, the processes and controls were not fully implemented. An operational effectiveness review of the design will be part of the scope of a future assurance review.

2. Executive summary

The BT Portfolio consists of a number of initiatives in the form of projects and programmes which will require around £1.98bn of investment over the next three years in order to transform the business. The success of the BT Portfolio is essential for POL to achieve its strategic visions and objectives.

Business Transformation has communicated five key aims:

- transforming operational performance;
- transforming technology and infrastructure;
- transforming sales performance;
- transforming customer experience; and
- transforming POL culture and ways of working.

Over the last 3 months the new Group Business Transformation Director has initiated a stream of activities to design and implement a revised governance structure and change methodology as well as supporting processes and controls. Management had prioritised the design and implementation of some elements of the change management methodology e.g. reporting. Therefore, at the time of this review (September 2015) the design of some elements of the change methodology was still on-going (e.g. benefits management framework and communications strategy). Full implementation is expected to be complete by the end of October 2015.

Overall our review identified that management focus to date has been primarily on developing project and programme level methodology. Individual elements such as change management, planning and reporting, resource management and portfolio governance had either been fully designed or were in the last phase of the design process. Some elements could be further strengthened by design improvements; whilst many of the expected elements of portfolio management are present there is an opportunity for further consolidation and alignment of the individual elements through an over-arching portfolio methodology.

Appendix 4 Executive Summary from - Business Transformation Assurance – Portfolio governance, management and change methodology review

In conclusion, we reported the following key recommendations:

- develop a portfolio prioritisation framework and have clear priorities and strategic objectives against which each of the BT programmes are delivering;
- develop the an overarching portfolio management methodology and reporting;
- develop measurable objectives and success criteria for BT which can be tracked in portfolio level reporting;
- define an agile change methodology (i.e. an iterative approach to change management) and a set of classification criteria for agile;
- TESS reports should be restructured and the information presented in the order of its importance for the Portfolio, with the highest priority issues at the beginning of the report and agenda; and
- accelerate communication and stakeholder engagement to ensure BT objectives are understood and supported across the whole business.

Whilst we recognise that the focus on improving programme management capability at the moment needs to continue, designing the portfolio management methodology and portfolio reporting capability at early stages will ensure it is compatible with the programme practices in place.

Cyber Security

Sponsor: Jane MacLeod
Author: Julie George

Date: 04 November 2015

Executive Summary

Context

This paper is to provide an update to the Committee on the current risks, trends, forthcoming obligations and the likely impact to the business from cyber security.

Questions raised by this issue

1. Cyber risks remain a major concern to UK companies; what are the current known securities breaches affecting industry?
2. How do we assess risk and what steps do we take to protect Post Office?
3. Are there any new reporting obligations and actions that will need to be implemented as a result of forthcoming legislation?

Conclusion

This report will provide a view of current threats to Post Office (internal and external), how risks of this nature are measured and controlled and what steps we are taking.

1. Our biggest threats are:

- Crime as a Service (CaaS) (i.e. 'harvesting' data for sale).
- Insider Threat (i.e. staff and colleagues).

Industry intelligence and incident experience is used to assess the nature and extent of threats to Post Office. These threats are subject to continuous monitoring by Information Security and Assurance Group (ISAG) and controls are in place to manage these threats, which are monitored and assured.

2. Our biggest vulnerabilities are:

- Lack of adherence to Post Office Information Security Policies, Standards and Guidelines.
- Complexity of our outsourced IT estate and inappropriately designed services.
- Inappropriate management of third parties.

Vulnerability assessments use data from information security incidents, due diligence and assurance activities and the results of IT technical testing and audit reports.

Post Office's approach to Cyber Security addresses a unique and complex business model across a diverse range of products and services. Additionally some of our business areas are highly regulated and all are increasingly digitally delivered; both to our customers and our colleagues. Failure to focus enough proper attention on Cyber threat/vulnerability control and management could have a serious impact on our brand and reputation and negatively affect the trust in our business and our ability to trade competitively.

3. Incidents of Note

In the last year we have had few incidents of note, much lower than across industry in the UK, however there has been disruption to the website, which is currently being investigated to determine the cause and to ensure that the issue is resolved long-term.

4. Key Controls

Our key controls are monitored and mapped onto the maturity model that was produced by Deloitte 3 years ago, showing progress in line with expectation and business change, including new outsourced arrangement. Work is currently being undertaken with IT colleagues to ensure outsourced arrangement are effective and appropriate.

ISAG Maturity Model



The areas of regulatory interest which we will need to carefully plan and consider are:

- Data Protection Regulation (DPR) – which is a cross EU privacy regulation and a General Counsel planned initiative
- Network and Information Security (NIS) Directive – which incorporates some of the requirements in DPR.

We are actively tracking the NIS Directive which will require organisations to provide and share Cyber threat intelligence with Government Agencies and to report on serious incidents.

We would welcome the committee's interest and support for our consistent and joined up approach in addressing Cyber Security across our business and that of our subsidiaries.

The Report:

Detailed Content

ANALYSIS:

The Post Office is now a more digitally orientated company and competes across a diverse product base. Combined with its public persona and brand recognition it is likely to become a more interesting target to a variety of external threats. Technical controls can reduce attack success rates, but will never completely mitigate the threat.

Technical controls are strengthened by a positive and informed behavioural approach to data management and information security. Staff training and awareness are a significant element of the protection strategy.

THREATS:

Threat intelligence and risk knowledge remains current and relevant through the use of industry fora and reports. Analysis of the industry recognised threats contextualised for Post Office's commercial and structural position has identified the following highest threats:

Our biggest threats are from:

- Crime as a Service (CaaS) – resulting in personal information being harvested for sale on Dark Web, via Denial of Service or Distributed Denial of Service.
- Insider Threat – Colleagues operating outside of existing Governance or through lack of Governance. Also what is a typical cross – industry threat; 75% of breaches or incidents according to BIS/PWC Security Survey 2015 are perpetrated by disgruntled or uninformed colleagues.

Measurement of threats is a continuous process of monitoring the threat environment, information security incidents and by utilising the Governance, Risk and Compliance (GRC) tool informed by regularly updated Cyber Threat Library, coupled with industry intelligence.

VULNERABILITIES:

The Post Office has a complex IT estate and is dependent on a number of outsourced providers for its technology and system requirements. This combined with a network of third-party suppliers (who are also able to contractually sub-contract), client institutions and customers make up the Post Office B2B and B2C model. This makes for a complex data ownership and data management environment.

As a consequence the behavioural aspect of information security both in Post Office and with our partners is of high importance.

Analysis of this estate has identified the following top 3 vulnerabilities:

- Lack of adherence to Post Office Information Security Policies, Standards and Guidelines.
- Outsourcing IT Service Delivery Management (ATOS) and IT/Service suppliers and inappropriately designed services or configured IT and contractual frameworks across our IT estate
- Inappropriate or lack of management of third party supply chain by ATOS

Measurement of vulnerabilities is via continuous monitoring of information security incidents, Due Diligence and Assurance activities and results of IT Technical Testing and Audit reports which feed into the Risk Register.

Work is underway with IT Leadership to address all outsource service arrangements and contractual frameworks to ensure that the services accurately reflect Post Office needs.

INCIDENTS:

Recently Post Office has experienced website downtime that has been diagnosed as a DOS or DDOS attack (see below). A full Root Cause Analysis has not yet been received, but is currently being undertaken by our suppliers. Once received and investigated, we will review Post Offices contractual framework to assess whether it remains fit for purpose in light of these new developments.

Our most significant incidents in the last year have been:

- I7685552 - Suspected Distributed Denial of Service of our customer facing website
- I7054117 - Alleged compromise of Strictly Confidential information
- I6303730 - Details of 56x Drop & Go customers transmitted insecurely from Post Office to Atos
- I6392918 - Customer's bank details sent in an insecure email as part of a Home phone and Broadband process
- I7284400 - Completed passport application given to another customer
- I6263742 - In an attempt to settle a Transactional Correction, a counter colleague contacted a customer via Facebook.

Our incidents to date are significantly less than across industry, however it should be considered that our risk profile is increasing especially as we make inroads into markets such as Financial Services. Therefore our levels of protection should be commensurate with the level of risk.

"For companies employing over 500 people, the 'starting point' for breach/Incidents costs – which includes elements such as business disruption, lost sales, recovery of assets, and fines & compensation - now commences at £1.46 million, up from

£600,000 the previous year. The higher-end of the average range has also more than doubled and is recorded as now costing £3.14 million (from £1.15 in 2014)".¹

CONTROLS:

The control framework operating across the IT and information network is a combination of system based and automatic controls, and focus on behavioural dimension of how individuals interact with data. Governance and oversight of third parties is conducted via contractual terms, assurance activities and monitoring.

- Our Security Assurance Architects are ensuring that the technical controls are incorporated into IT designs and that assurance testing is undertaken prior to any systems going 'live'.
- Mandatory Information Security and Data Protection training is undertaken across the business, ensuring that it meets the ongoing requirements of our various business pillars (e.g. Financial Conduct Authority (FCA)). The year's annual training was rolled out in September 2015, and the current completion is at 96%. The training is also used as part of induction for new colleagues.
- As part of the ongoing strategy to understand the risk to our information within our supplier network, suppliers are assessed in terms of:
 - The amount of personal data they are managing on our behalf
 - The type of data they are managing
 - The criticality of the systems
 - The suppliers network where the data is managed (i.e. the suppliers in the chain/data flows)

This activity determines the inclusion of suppliers on our Top 20 list; and is reflected in the level of assurance and risk activity undertaken.

The outsourced IT model and integration into a single service provider alters the nature of our risk profile. Operational risk is spread by using multiple suppliers to deliver different business services. This does, however, increase the need for effective due diligence processes and oversight processes to get transparency over the suppliers' operational management of Post Office data. A risk based approach to assessing and assuring suppliers is undertaken with activity focused primarily on the Top Supplier list and via contractual controls.

Post Office Corporate Services and IT colleagues are working together to ensure that the current outsourced arrangements and contractual frameworks are appropriate and effective.

¹ BIS/PWC Security Survey 2015

Appendices: Background information

The appendices below consist of the following:

Industry Risk Reviews: Used as an input to the POL threat and vulnerability assessments

Regulatory Developments: The Post Office information security framework will be required to ensure that we consider the new EU Directives and regulations that will affect Cyber reporting in the UK.

Incidents: Some of the most notable recent incidents, and how the similar threats relate to Post Office data (used as an input to the threat and vulnerability assessment).

Framework: A summary of developments in the Post Office information security framework.

Further planned actions: A summary of the plans for framework improvements.

1. Industry risk reviews:

- a. Tony Smith of the Centre for the Protection of National Infrastructure (CPNI) presented to the Board in March 2015 a report on the risks facing the UK.
- b. The PWC 2015 Information Security Breaches Survey, commissioned by Department of Business Innovation and Skills (BIS), reported that Denial of Service Attacks (DOS²) were down 38% from 2014. However DOS and DDOS (Distributed Denial of Service³) attacks escalated in Q2 2015, mostly in global online gaming and the telecoms industries, with UK financial industry noticing an increase too. This activity, across all industries, appears to have calmed since the end of August, with preventive technical and mitigating controls and measures constantly adapting to prevent same and similar attacks.

2. Regulatory developments:

- a. European Union Directive on Networks and Information Security (NIS Directive), commonly referred to as the 'Cyber Security' or 'Security Directive'. This complements, the proposed Data Protection Regulation (which is likely to replace the Data Protection Act 1998 by mid-2016). The UK Government has begun adopting NIS Directive measures via the '10 Steps to Cyber Security'.
- b. Consequently POL has adopted the Cyber Essential Scheme to risk assess its cyber security regime, and that of its suppliers. Certification against this scheme is mandatory for some Government contracts and will impact both

² Denial of Service Attack – DOS – Likely that 1 Computer and 1 Internet Connection overloads the targets bandwidth and other resources, making the services inaccessible to others, blocking a web site (as an example).

³ Distributed Denial of Service – DDOS – similar to DOS but uses multiple Computers and Internet connections, the target can be overwhelmed by hundreds or thousands of requests.

technology and process, including training. Whilst there is no current contractual obligation, Post Office is utilising this Scheme as good industry practice for new contracts and systems.

- c. These regulatory changes will impact how Post Office deals with breaches, tracks information and monitors and reports on loss and threat/risk intelligence. Working Groups have been proposed to assess the impact.

3. Incidents:

In the public domain there have been some very high profile breaches, and a great deal of media attention.

- a. Talk Talk - Due to our known relationship with Talk Talk, there was significant concerns raised within Post Office around our relationship with this telecommunications supplier and whether or not Talk Talk itself processed or stored our customers' personal information. On investigation, it was determined that Fujitsu Telecoms provide Home Phone and Broadband services and undertake processing of our customer data. No Post Office customer data was on Talk Talk's systems.
- b. At the end of October 2015 British Gas – 2200 personal data records released onto the Internet, resulted in the company publishing statements around the breach and confirming that whilst names and email addresses were published bank details were not.
- c. 1 October 2015 T-Mobile confirmed that 15 million people had their personal information stolen due to a server being remotely accessed illegally at Experian. The compromised data on sale includes names, addresses, dates of birth, along with Social Security numbers, driving licence numbers and password ID numbers.

It remains unclear how the breach occurred, affected customers are those who were included in credit-monitoring checks over the last two years. There is no confirmed source of attack publicised.

- d. July 2015 a group called The Impact Team remotely accessed and copied 37 million records from Ashley Maddison, the dating website. The Impact Team issued a statement stating that they would release the highly sensitive information if the Ashley Maddison website was not permanently closed down. In August 2015 the information was loaded onto the Dark Web and posted a day later to the Internet making the information public.
- e. It is alleged that the Chinese Government are behind the hacks of US Government Office of Personnel management (OPM) information, among many others in the United States, including United Airlines and Anthem (Health Insurance). Chinese officials are denying all knowledge and involvement. However US Cyber Investigators and specialists are not looking for any other groups or individuals.

4. Framework developments (achievements to date):

- a. The maturity of the Post Office Information Security Management System is baselined using a methodology based on Deloitte's report from late 2012. Current practice is mapped with an industry best practice model to track progress and potential issues in a regularly updated Maturity Model as presented at the front of this report.
- b. Risk assessments are conducted using a Governance Risk and Compliance (GRC) tool. This covers all information across all of Post Offices whether digital, paper based, personal information or business related data. Using a single tool facilitates compliance with the various Cyber/Information Security requirement/regulation/certification the business has to comply with, or certify to. Implementation of the tool has incorporated a Cyber Library to assist in the assessment process. The Post Office is able to assess risks to globally recognised industry standards as part of the risk mitigation regime.
- c. Cyber/Information Security risks are included in the Enterprise Risk Reporting conducted bi-annually.
- d. Membership of Cyber and Information Security professional bodies and forums assists in providing current threat intelligence.
- e. Engagement with Post Office top 15- 20 suppliers. These suppliers could pose a risk to Post Office given we share a significant amount of data with them and may represent a risk if the services they provide cause a major breach or incident. Some of which are under the outsourced service management programme which we are currently reviewing for information security services.
- f. Post Office is audited against Payment Card Industry Data Security Standards (PCI-DSS), Information Security Standards by our Partner Banks, clients and other third Party suppliers to ensure that information in our care is being appropriately controlled, protected and managed to the best industry requirements, standards and practices. As part of these audits Post Offices' risk methodology, using the GRC tool, has been proven and acknowledged as providing an excellent standard of risk management and verified controls.
- g. We work with our subsidiaries, suppliers and clients on providing best practice assurance and appropriate controls based on risk assessments, which include technical security assurance work, and in the event of an incident or breach we engage with specialist security forensic partners for further investigation, if necessary.
- h. We ensure that the business' information and Cyber Security technical capability and operational architecture is improved and maintained through technical testing and assurance activity, which includes regular meetings on risks to Post Office data, or onsite Assurance visits.
- i. We work with the Technical Office to ensure that there are plans to manage and monitor the resilience and security of our IT estate and that any technical elements of new Cyber Security and Data Protection legislation is planned and budgeted for. As an example, work is being undertaken to ensure that DDOS and DOS attacks are monitored across the entire IT estate, which is a requirement of Cyber Essentials, and is within the Network and Information

Security Directive mentioned earlier in this report. The requirement to join up the IT estate in a consistent and safe manner is also something that is being worked on and will be subject to regular assurance activity, by technical and non-technical means.

5. Further development plan:

Our actions for improvement are monitored through the use of a Maturity Model. Key Performance Indicators (KPIs) are established in each area and improvement is monitored on a monthly basis with Security Improvement Plans established where maturity is severely lacking. Of note:

- a. Management of third-party suppliers is currently only deemed 10% effective. The following activity is underway and planned for completion by April 2016:
 - i. Ensuring ISAG house position is deployed in all new contracts
 - ii. Working with Contracts Manager and IT to better understand the requirements of Atos and conduct gap analysis.
 - iii. Continued work to identify our top 20 high-risk suppliers.
 - iv. Uplift of resource to cover assurance of the Supply Chain.

This work is in progress and is expected to see a significant uplift within 3 months.

- b. Information Assurance within Change Management is considered 25% effective. ISAG are Working with Transformation to ensure by Jul 2016, Information Assurance is embedded within the Procedure, to address any gaps and ensure Gating provide the necessary due diligence.
- c. Vulnerability Management is calculated as 25%. The following activity is underway to improve maturity and is planned to be complete by April 2016:
 - i. ISAG are working to establish a Penetration Test schedule with the business as part of Change Management and management of the third-party suppliers.
 - ii. Where vulnerabilities are identified, ISAG continue to work with business stakeholders to drive appropriate decision making driven by risk. This will also help to improve awareness of risk appetite and enable planning for the necessary budget expenditure on Information Security.
- d. Incident Management is deemed 60% effective. Improvement is still required in the initial reporting and triage, especially by third-party providers which is being addressed through the work to improve the management of this area by July 2016. Furthermore, business cases have been submitted to include Security Incident and Event Management (SIEM) and Data Loss Prevention (DLP) across the Towers and additional ISAG resource.
- e. Information Security governance is deemed 60% effective. Work to establish measureable targets for information governance is ongoing and planned to be complete by Jan 2016.
- f. Information Security Policy, Frameworks, Standards and Guidelines is considered 60% effective. A complete review of the Policy set was recent undertaken. The Policies have been completed, Guidelines are close to completion and work continues on Frameworks and Standards and due for completion by Jan 2016.