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Post Office Audit, Risk and Compliance Agenda

Date
17th March 2016

Start Time	Finish Time
14.00hrs	16.30hrs

Location
Room 1.19 Wakefield

Present	In Attendance		Apologies
• Carla Stent (Chair) • Richard Callard • Tim Franklin • Ken McCall	• Paula Vennells • Al Cameron • Jane MacLeod • Alwen Lyons • Amanda Bowe (Item 2) • Nick Kennett	• Mike Morley-Fletcher • Garry Hooton • Peter McIver, EY (Item 8.3) • Mounia Mukina, EY (Item 8.3) • Harpreet Singh (Item 9) • Aon pensions advisor (Item 9)	None

Agenda Item		Action Needed	Purpose	Lead	Start Time
1.	**Welcome and Conflicts of Interest**			Chairman	14.00 – 14.02
2.	**Report from POMS ARC** (Verbal update)	For noting	To receive a verbal report from the meeting of the POMS Audit, Risk and Compliance Committee held on 15 March 2016.	Amanda Bowe	14.02 – 14.10
3.	**Minutes of the meetings held on 22 January 2016, Matters Arising and Action List**	For approval	To approve the minutes of the meeting held on 22 January 2016, note the Matters Arising and update on the Actions	Chairman	14.10 – 14.20
4.	**Risk & Controls Update** 4.1 Progress Report 4.2 Risk Profile 4.3 Internal Controls	For discussion	To update the Committee on progress with key components of the PO Risk Framework Plan, including: • Updates to Top Risks (including details of Key Further Actions) and learnings from Risk Incidents (including explanation of prioritisation and SLAs for monitoring IT incidents). • Details of General Control Framework GE owners/ SMEs and timetable for ARC receiving assurance. Plus updates on Policy Framework and Business Continuity projects.	Mike Morley-Fletcher	14.20 – 14.40
5.	**Internal Audit** Quarterly Report and Follow up Audit Actions	For discussion	To update the Committee on the PO Internal Audit activity and key outcomes.	Garry Hooton	14.40 – 15.00
6.	**Internal Audit Plan 2016/17**	For approval	Approval of the 2016/17 Audit plan	Garry Hooton	15.00 - 15.10

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Agenda Item		Action Needed	Purpose	Lead	Timing
7.	**AML CTF Framework**	For discussion	To brief the ARC on the findings of the report	Jane MacLeod	15.10 - 15.25
8.	**Finance** 8.1 Lesson learnt on Postmaster Compensation provision 8.2 Update on Financial Reporting and controls 8.3 EY External Audit update 8.4 Report & Accounts	For discussion	To provide the ARC with an update on the Financial Controls and Reporting progress.	CFO Peter McIver EY CFO	15.25 - 15.50
9.	**Pensions Investment Report**	For discussion	To provide an update on the Pensions Investment report	Natasha Watson / External advisors	15.50 – 16.15
10.	**Review of the ARC Terms of Reference and Internal Audit Charter**	For discussion	To review the ARC Terms of Reference and Internal Audit Charter.	Jane MacLeod	16.15 – 16.25
11.	**Items for noting:** 11.1 Horizon Spotting	For noting	Horizon spot any legal, regulatory or other external risks	Jane MacLeod	16.25 – 16.30
	CLOSE				16.30

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POLARC 16(1st)
POL ARC 16/01 – 16/09

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 9.30am on 22 January 2016
at 20 Finsbury Street, London EC2Y 9AQ

Present:

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

In Attendance:

Paula Vennells	Chief Executive (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Garry Hooton	Audit Manager (GH)
Alwen Lyons	Company Secretary (AL)
Jane MacLeod	General Counsel (GC)
Mike Morley-Fletcher	Head of Risk and Assurance, Corporate Services, (MMF)
Angus Grant	Ernst & Young, (AG)
Mounia Mukina	Ernst & Young, (MM)
Amanda Bowe	Post Office Management Services Limited Non-Executive Director & Chair of ARC (AB) (Minute 16/07 only by phone)

POLARC 16/01 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting.

(b) Each Director confirmed that they had no conflict of interest in relation to the business to be considered at the meeting.

POLARC 16/02 **MINUTES OF THE MEETING HELD ON 10 NOVEMBER 2015, STATUS REPORT AND MATTERS ARISING**

(a) The minutes of the meeting held on 10 November 2015 were approved as presented and the attendant Committee member was authorised to sign them as a true record.

(b) The Committee noted the action list dated 1st December 2015.

(c) The CFO explained that Audit fee for 2015/16 had yet to be finalised as the focus had been on completion of the subpostmasters' compensation issue.

ACTION: CFO **Report back on the on the finalisation of the Audit fees.**

(d) The Committee asked how the Executive were dealing with the issue of inappropriate expenses claims. The GC explained that the

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issue, relating to confusion over LIW/Homebase categorisation, was being addressed by the introduction of an annual reconciliation. The ARC asked for an update on the implementation of the recommendations from the Financial Crime audit at the March meeting.

ACTION: GC **Report back on the implementation of the recommendations from the Financial Crime audit at the March ARC.**

(e) The Committee noted that at the last meeting the CEO had requested a review to give assurance regarding the security of customer data (minute POLARC 15/44 (e)). The GC was asked to circulate the outcome of the review to the Committee

ACTION: GC **Circulate the report on security of customer data to the ARC.**

ACTION:GC **The Chair asked the GC to review the Internal Audit timetable to include cyber risks.**

POLARC 16/03 **RISK UPDATE**

(a) MMF introduced the Risk Update and undated the Committee with the progress made to date on the Risk Management Project Plan.

(b) MMF explained the new Group Risk Profile which identified and evaluated the (GE) Group Executive's proposed top risks for the Business. The Committee discussed the Risk Profile and challenged whether Industrial Relations was the highest risk. They asked the Business to consider whether:

- failure to achieve cost reduction targets;
- failure to renegotiate an effective MDA with RMG; and
- cyber security attacks which disrupt systems – for example, those affecting payments to POCA customers;

should be identified as higher risks.

ACTION:MMF **Reconsider the Top Risks and whether they should include failure to achieve cost reduction targets; failure to renegotiate an effective MDA with RMG; and cyber security attacks which disrupt systems – for example, attacks which affect payments to POCA customers.**

(c) The Chair asked that the Risk Profile be amended to clearly show GE accountability for managing each risk. KM suggested that the sign off by the GE owner should be included in any year end attestation process.

ACTION:MMF **Ensure the Risk Profile shows clearly which GE member is accountable for managing each risk. Include GE signoff, for the individual risks for which they are accountable, as part of the new yearend attestation process for year ending March 2017.**

(d) MMF explained that general controls had been identified and collected into a "Framework", so that the GE could ensure that the

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controls in place were at the right standard, and have the right effect enabling them to be evidenced for yearend attestation (year ending March 2017). The Committee asked if the Group Executive would have personal objectives aligned to the Framework. The CEO assured the Committee that personal objectives for GE members would be aligned to the General Control Framework.

ACTION: CEO **The CEO agreed to ensure that all areas in the General Control Framework were assigned to Group Executive members as part of their personal objectives**

(e) The Committee discussed the 'Tone from the Top' and agreed it needed more clarity as the project progressed. It was agreed that this would be the key messages, behaviours and communication that the CEO and GE demonstrated at all times. These needed to be aligned and to exemplify the values of the Post Office.

(f) The CFO explained the alignment with the Financial Controls project which was building systems to enable attestation that financial controls were working. He noted that this was work in progress.

(g) The Committee discussed the frequency of attestation and reporting and AG explained that in the Financial Services industry quarterly reporting would be expected. The CFO proposed the introduction of six monthly reporting to align with the external reporting calendar. The Chair noted that it took time to embed attestations and recommended that the Executive have "dry runs" prior to the year end attestation (year end March 2017).

ACTION: GC/CFO **The CFO/GC to ensure that the areas in the General Controls Framework are understood and that the Group Executive recognised their accountabilities to attest to the controls being in place in time to support the Directors' statement in the 2016/17 Report & Accounts.**

(h) The Committee asked for an update on the Control Framework at the next ARC with more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance.

ACTION: MMF **Produce a statement including more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance**.

(i) MMF updated the Committee on the progress in the Policy Framework project, explaining that the 'strawman' included in the paper was likely to change, and that the approach was being tested using the policies owned by the GC. The Committee asked for dates and timelines for establishing the succinct set of Key Policies, setting out what can be expected over the next quarters.

ACTION:MMF **Include dates and timelines in the Policy Framework document, with detail as to what the amalgamated policies include.**

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(j) The CFO highlighted the challenge in articulating a pricing policy across the wide range of products sold by the Business. The complexity was acknowledged and it was accepted that the policy, if required, may need to be restricted to a set of principles.

(k) The Committee asked Ernst & Young (EY) to provide a list of the key policies which they would expect to see in a market median company, to act as a benchmark.

(l) MMF introduced the Business Continuity project and explained the aim of the Business to benchmark against the measurable ISO22301 business continuity standard.

(m) The Committee were perturbed by the findings to date. The CEO was disappointed by the language in the report and challenged the extent to which the 'business continuity & crisis management is deficient, unpractised and not embedded within the organisation's culture'. The CEO gave examples of the recent flood crisis where offices had been given support and reopened because people were very aware of how to manage the network in a crisis. The CEO believed that, since separation from RMG, more could have been done to document and test the procedures in place.

(n) The Committee asked the GE sponsor of the paper to update the ARC on the progress being made. Including a list of top suppliers and whether they have contingencies in place; specifically before the next meeting.

ACTION:GC **Continue to update the ARC on the progress being made to improve Business Continuity. Including a list of top suppliers and whether they have Business Continuity contingencies plans in place before the next meeting.**

(o) MMF gave a progress update on Incident Reporting processes. The Committee asked for an explanation as to what constitutes a P1, P2 or P3 incidents how they are monitored and the SLA in place to report and deal with them. The Committee also asked how the Executive remediate the root cause of problems and challenge suppliers to change processes.

ACTION:MMF **At the next update, provide a report to define P1, P2 or P3 incidents and the SLA in place to report and deal with them. . Include how the Executive remediate the root cause of problems and challenge suppliers to change processes.**

(p) The Committee discussed the statement made in the Annual Report & Accounts that the Business complied with the 'spirit' of the UK Corporate Governance Code (Code) and the implications of changes in the Code. AG recognised that the Business was not legally caught by the Code and that significant work would need to be done to continue to state a compliance with the 'spirit' of the code. The key areas where the Business does not comply with the Code are those concerned with reporting and risk management maturity, particularly providing evidence of the review of the internal

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controls.

(q) The Committee agreed that the Executive should focus on improving risk management before any public benchmarking statement. The Committee asked the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the Code would look like.

ACTION: GC **The Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would look like.**

(r) The GC supported the decision to withdraw from making a statement in the Report & Accounts but recognised the importance of benchmarking against the best practice of the Code albeit designed for public companies.

(s) The Committee agreed that the Business should pull back from a reference to the Code in the Report & Accounts but agreed that a statement was necessary to explain the Business was still maintaining high standards.

ACTION: GC/CFO **The Executive would discuss how it would reference the Corporate Governance Code in the Report & Accounts, and revert to the Committee by email before discussing with the Board Chairman**

(t) After providing feedback on its elements, the Committee noted the Risk Update.

POLARC 16/04 **INTERNAL AUDIT UPDATE**

(a) GH introduced the Internal Audit Update focussing on the following key points:

Contract Management. Significant progress has been made with 50% of actions now complete and the other 50% on track for completion by the end of March. A further report would be provided at the March ARC.

Property and Health & Safety compliance. Good progress with a new Head of Property Compliance now in place and although there are still actions to complete GH believed the controls were improving.

Open Actions. A detailed revised report would be provided for the March ARC. The Committee recognised the number of internal audits and reports due in the last quarter and asked for assurance that the internal audit team had enough resource to complete the work. GH gave assurance that the plan would be delivered. The Chair asked for reports to include feedback on closure of high rated actions.

ACTION: GH **Included post audit assurance in the ARC report in relation to audit actions rated as high.**

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(b) GH circulated a paper detailing the Internal Audit Planning Process and the Draft Audit plan proposed for 2016/17. The Committee were asked to feedback any comments to GH who would collate and share with the Chair in February before returning to the Committee with a final proposal

ACTION: Committee members **Committee members to feedback to GH on the audit plan proposal**

(c) Committee members agreed that all audit reports with a red report rating would be circulated in full the Committee as soon as the report was available. Audit reports with an amber or green report rating would be summarised and reported at the subsequent ARC meeting.

ACTION: GH **GH to ensure that all reports with a red rating are circulated to the Committee and to the Chair of the POL Board.**

(d) Having taken all the discussion points into consideration, the Committee noted the outcomes of the recent audits and reviews and further noted the current and upcoming work.

POLARC 16/05 **FINANCIAL CONTROLS PROGRESS REPORT**

(a) The CFO introduced the Financial Controls Progress Report and recognised the importance of the work to give the Executive and the Board the confidence to sign the 2015/16 Accounts. He explained that the project had started by testing its methodology by checking the fixed assets, as this was a relatively easy task. The next reconciliation would be the income numbers, as this was the most complex area and material to the accounts. The CFO explained the interfaces between the systems involved which complicated the reporting process. He did not believe that systematic errors existed as these would lead to complaints from customers and clients, but could not yet prove this was the case.

(b) The Chair asked the CFO to focus on ensuring the systems were secure and providing the correct information, with a plan to automate as soon as possible.

(c) The Chair asked for progress reports at every ARC and for Financial Reporting to be flagged in the risk reports.

ACTION:CFO **Provide Financial Reporting progress reports at every ARC and include in the risk reports.**

(d) Having taken all the discussion points into consideration, the Committee noted the Financial Controls Progress Report.

POLARC 16/06 **POSTMASTER COMPENSATION ISSUE / SIGNING OF INTERIM ACCOUNTS**

Postmaster compensation

(a) The CFO introduced the Provisions for Compensation paper and explained the background to the understatement of the provision.

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The error had arisen because agreements with subpostmasters had not been captured accurately, and the provisions based on this information had been wrongly calculated. After significant work the provisions had been increased by £67m in September 2014 and £87m in March 2015. Adjustments to both accounts were supported by EY.

(b) The CFO stressed that there were no implications for payments to subpostmasters or adjustments to the EBITDAS in the reports.

(c) The Post Office Interim Reports and Accounts for September 2015 and the Post Office Holdings Company Report & Accounts could now be signed and published.

(d) The Chair asked why the mistake had not been discovered sooner by the Business or EY, and if both the CFO and AG were now absolutely sure of the accuracy.

(e) The CFO stressed that the compensation provision would always by its nature be an estimate as individual branch details change, but that he was now comfortable that the provision was prudent and would cover the right level of compensation. AG agreed and emphasised that the provision was an estimate as individual contracts changed during the process. The Chair pointed out that the recording and aggregating of information had been completed incorrectly and asked for assurance from AG that the provision was now accurate. AG explained that the auditors had checked the last nine months of actual payments and that a lot of work had been done to check the manual processes with a branch by branch analysis, and that they were now comfortable with the provision as restated.

(f) The Committee asked why EY had not identified the problem during the original External Audit. AG explained that they had done limited testing and with hindsight should have focussed more on the manual processes. This was being addressed in this year's external audit plan.

(g) The Committee asked what other provisions were made in the Balance sheet and how they were tested.

ACTION: CFO **The CFO was asked to provide the next meeting with an analysis and assurance of the provisions on the balance sheet.**

ACTION: CFO/AG **The CFO to agree with EY the audit approach for each financial statement area.**

(h) Having taken all the discussion points into consideration, the Committee noted the progress and the next steps.

Interim Report

(i) The Interim Report for the six months ended 27 September 2015, had been circulated to the Committee.

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(j) The Committee challenged whether the provision was a true 'timing error' as reported in the narrative to the interim report. The CEO promised to check the narrative before the accounts were signed on Monday 25th January.

ACTION: CEO

The CEO promised to provide a briefing pack including; the interim report; the press statement; and Qs & As to the Board before publication of the interim accounts.

(k) The Committee asked for clarification about a second restatement in the accounts concerning cash and debtors. The CFO explained that this was a technical classification which EY had requested at the end of 2014/15, and was not a new issue. The Committee asked for this issue to be included in the Qs & As circulated as it would be easy to conflate the two issues.

(l) Richard Callard explained that the mistake had knocked the Minister's confidence in the Business and its reporting.

(m) Having taken all the discussion points into consideration, the Committee noted the Interim Report.

POLARC 16/07 **REPORT FROM POMS ARC**

(a) The Chair welcomed Amanda Bowe, Post Office Management Services Limited Non-Executive Director and Chair of ARC, to the meeting by conference call.

(b) AB introduced the Report from Post Office Management Services ARC and explained that work was underway to establish a risk framework and risk appetite for POMS.

(c) AB highlighted two key risks:

- the role of Post Office as the Appointed Representative of POMS, and
- POMS oversight of branch compliance.

(d) AB stressed the importance and risks to both Post Office and POMS of poor branch compliance and its mitigation through 1st and 2nd line oversight arrangements.

(e) AB acknowledged that POMS was at an evolutionary stage in its development and had resource and capacity risk especially in its Risk and Compliance function.

(f) AB explained that she was meeting the External Auditors in February and currently waiting to agree the POMS audit plan.

ACTION: GH

It was agreed that the POL and POMS audit plans should be aligned.

(g) The Committee thanked AB for the POMS ARC report, which contained the right level of detail from the wholly owned subsidiary

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(h) The Committee noted the report.

(i) AB left the meeting.

POLARC 16/08 ANY OTHER BUSINESS

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

POLARC 16/09 DATE OF THE NEXT MEETING

(a) It was noted that the next meeting of the Committee would be 17th March 2016.

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Chair **Date**

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Post Office Limited ARC Committee

Status Report as at: 11/03/2016

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
21 September 2015 15/30 (f)	Strategic risk/Risk update -To look separately at the management of the ATOS contract.	**CFO**	May ARC	We paused this in the light of the more urgent issues across the IT partner estate including Project Trinity. We now plan to revert in May.	Open
21 September 2015 15/30 (e)	Strategic risk/Risk update -To present a report at the next ARC on contract management for both procurement and in-life contracts.	**General Counsel**	March ARC	For noting at the March ARC meeting.	Closed
22 January 2016 POLARC 16/02 (c)	Minutes of the Meeting held on 10 November 2015 To report back on the finalisation of the Audit Fees.	**CFO**	March ARC	To be covered in the meeting	Closed
22 January 2016 POLARC 16/02 (d)	Minutes of the Meeting held on 10 November 2015 To report back on the implementation of the recommendations from the Financial Crime Audit at the March ARC.	**General Counsel**	March ARC	Update contained in the IA papers for the March ARC	Closed
22 January 2016 POLARC 16/02 (e)	Minutes of the Meeting held on 10 November 2015 To circulate the report on security of customer data to the ARC	**General Counsel**	March ARC	Paper to be submitted for noting to the March ARC	Closed
22 January 2016 POLARC 16/03 (b)	Risk Upate To reconsider the Top Risks and whether they should include failure to achieve cost reduction targets; failure to renegotiate an effective MDA with RMG; and cyber security attacks - for example, attacks which affected payments to POCA customers.	**Mike Morley-Fletcher**	March ARC	Group Risk Profile - included in agenda item 4 for March ARC	Closed
22 January 2016 POLARC 16/03 (c)	Risk Upate To ensure the Risk Profile shows clearly which GE member is accountable for managing each risk. Include GE signoff, for the individual risks for which they are accountable, as part of the new year end attestation process for year ending March 2017.	**Mike Morley-Fletcher**	March ARC	Group Risk Profile i) Included in Group Risk Profile. ii) GE accountability for individual risks will be included as part of the new year end attestation process for year ending March 2017	Closed

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
22 January 2016 POLARC 16/03 (d)	Risk Upate To ensure that all areas in the General Control Framework were assigned Group Executive members as part of their personal objectives.	**CEO**	March ARC	This is currently in progress and will be completed as part of 2016/2017 objective setting.	Closed
22 January 2016 POLARC 16/03 (g)	Risk Update To ensure that the areas in the General Controls Framework are understood and that the Group Executive recognised their accountabilities to attest to the controls being in place in time to support the Directors' statement in the 2016/2017 Report & Accounts.	**General Counsel / CFO**	September	General Control Framework - Covered and to be carried forward in the controls update	Closed
22 January 2016 POLARC 16/03 (h)	Risk Update To produce a statement including more details of controls, GE owners and subject matter experts, plus a timetable for when the ARC will receive assurance.	**Mike Morley-Fletcher**	March ARC	General Control Framework - included in agenda item 4 for March ARC	Closed
22 January 2016 POLARC 16/03 (i)	Risk Update In to include dates and timelines in the Policy Framework document, with detail as to what the amalgamated policies include.	**Mike Morley-Fletcher**	March ARC	General Control Framework Included in agenda item 4 for March ARC	Closed
22 January 2016 POLARC 16/03 (n)	Risk Update To continue to update the ARC on the progress being made to improve Business Continuity. Including a list of top suppliers and whether they have Business Continuity contingencies plans in place before the next meeting.	**General Counsel**	March ARC	Business Continuity - Included in agenda item 4 for March ARC - top suppliers identified and BC plans requested	Closed
22 January 2016 POLARC 16/03 (o)	Risk Update To provide, at the next update, a report to define P1, P2 or P3 incidents and the SLA in place to report and deal with them. Include how the Executive remediate the root cause of problems and challenge suppliers to change processes.	**Mike Morley-Fletcher**	March ARC	Incident Reporting - Details of P1, P2, P3 and reporting SLA included in agenda item 4 for March ARC	Closed
22 January 2016 POLARC 16/03 (q)	Risk Update For the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would like.	**General Counsel**	May ARC	Corporate Governance Capability - EY are assisting us in developing a plan for updating the May ARC	Open

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
22 January 2016 POLARC 16/03 (s)	Risk Update The Executive would discuss how it would reference the Corporate Governance Code in the Report & Accounts, and revert to the Committee by email before discussing with the Board Chairman.	**General Counsel / CFO**	Late April	Corporate Governance Disclosure - Draft wording agreed by RCC and to be discussed by the ARC at the March meeting	Closed
22 January 2016 POLARC 16/04 (a)	Internal Audit Update To include post audit assurance in the ARC report in relation to audit actions rated as high.	**Gary Hooton**	March ARC	Update to be provided at the March ARC	Closed
22 January 2016 POLARC 16/04 (b)	Internal Audit Update Committee members to feedback to GH on the audit plan proposal	**All**	end Feb	Audit plan to be considered by ARC at March meeting	Closed
22 January 2016 POLARC 16/04 (c)	Internal Audit Update To ensure that all reports with a red rating are circulated to the Committee and to the Chair of the POL Board.	**Gary Hooton**	ongoing		Closed
22 January 2016 POLARC 16/05 (c)	Financial Controls Progress Report To provide Financial Reporting progress reports at every ARC and include in the risk reports.	**CFO**	March ARC		Closed
22 January 2016 POLARC 16/06 (g)	Financial Controls Progress Report To provide the next meeting with an analysis and assurance of the provisions on the balance sheet.	**CFO**	March ARC		Closed
22 January 2016 POLARC 16/06 (g)	Financial Controls Progress Report To agree with EY the audit approach for each financial statement area.	**CFO**/Angus Grant	March ARC	Included in EY paper	Closed
22 January 2016 POLARC 16/07 (f)	Report from POMS ARC To align the POL and POMS audit plans.	**Gary Hooton**	end March	The ARC will be updated on the audit plans at the March meeting	Closed

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Contract Management Report

Author: Jane MacLeod
Meeting Date: 17 March 2016

Executive Summary

Context

During 2015 the contract management processes at Post Office were reviewed by Internal Audit. Significant deficiencies were identified in Post Office's processes and actions were allocated to address these. The majority of these actions related to the procurement process and actions to address these were allocated to the procurement team.

In addition, it was recognised that the in life management of contracts across Post Office required improvement and various steps were initiated to address these deficiencies.

Questions this paper addresses

- What were the risks and deficiencies identified as requiring improvement?
- What steps were identified to address these?
- What progress has been made in addressing these issues??

Conclusion

1. Details of all material contracts have been collated across each function and it is now possible to assess the 'top' contracts (being those with a value/cost >£5 million.
2. Contract managers have confirmed that they hold signed copies of all material contracts and we are currently scoping plans to load copies of all contracts onto an existing contracts database which will aid compliance. Among other functionality, the database allows automatic reminders to be sent to relevant managers of upcoming renewal and termination dates.
3. Contract management training has been scoped and sourced and is due to be rolled out to a pilot group shortly.
4. Cultural changes will be required to embed contract management as a recognised skill and fundamental responsibility; this will take time however the successful implementation should result in more effective management of Post Office' obligations.

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Input Sought

The Committee is asked to note the status of these developments and that further work will be required across each function commencing in Q1 2016/17.

The Report

Key actions arising from the Audit

5. The results of the Audit on Contract Management within Post Office were presented to the POL ARC in September 2015. The following issues were highlighted:

Issue	Response
Supplier contract portfolio is not fully known	Each function has been required to identify the material contracts for which they are responsible and confirm that they have copies of the signed contracts and all amendments. The IA team now holds a consolidated list of 'material contracts' being those having a value/cost >£5 million. We have recommended that electronic copies of all contracts entered into by POL and POMS should be stored centrally in a database.
The contract management framework ('CMF') developed in 2012 remain in draft and requires further development, implementation and finalisation	Largely actions for procurement, progress against which are reported separately in the Internal Audit report.
Staff have the ability to define their own roles and responsibilities in relation to management of contracts	In relation to each 'material' contract, each function was required to identify • the GE member accountable for each such contract, and • the SLT member responsible for managing each contract (or where there are multiple executives responsible for different aspects of a contract, those SLT members and the part of the contract for which they are responsible)

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Issue	Response
Management are unable to effectively foresee and manage expiration of contracts	'Bravo' is a contracts database which has been identified as suitable for use as a central repository for all contracts. The field structure is being reviewed to ensure that it meets PO's objectives; in particular, Bravo can record notice and termination dates and issue alerts to named managers based on upcoming notice/expiry periods.
There is little analysis and management of risks to drive contract management	Further analysis will be undertaken to ensure that all obligations (whether to be performed by Post Office or the contracting party) contained in each Material Contract and the timing of these obligations have been identified. Further, the relevant contract manager will be required to advise what MI is produced to monitor performance (both quantitative and qualitative as relevant) of all obligations whether to be performed by PO or the other party/ies. This work will commence in Q1 2016/17.

What additional steps were identified?

6. We have sourced additional e-training from the International Association of Commercial and Contract Management which will shortly be provided to a pilot group. Dependent on the response to this training, further cohorts have been identified for training.

7. During 2016/17 the following additional controls will be developed:

- Role profiles/job descriptions to be reviewed and amended as necessary to ensure that responsibility for management of specific Material Contracts is recorded.
- Objectives to be set for relevant managers relating to contract management and defining how performance will be measured.
- Each responsible executive will be required to sign an attestation annually in relation to each Material Contract confirming (among other steps) that:
  - the responsible executive has read and understood the main provisions in the most up-to-date version of the contract(s);
  - the contract(s) are concurrent with the requirements;
  - the contract(s) have not been extended and/or amended except in accordance with Post Office's delegated authority and signing processes;

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- Performance is being reported accurately in accordance with the contract(s);
- The main/material provisions of the contract(s) have not been breached; and
- Payments have only been made to reflect actual performance and the provisions of the contract(s) in accordance with approved processes.

8. We are looking at resourcing options to start the loading of contracts and completion of the linked contract summaries into the contract database.

9. Good contract management is cultural and it will therefore take time to embed best practice across the organisation. The work currently being progressed in relation to accountabilities will assist the contract management initiatives.

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Cyber Security and Information Assurance Update

Author: Julie George Sponsor: Jane Macleod Meeting date: 21 March 2016

Executive Summary

Context

Cyber security and the protection of customer data has been a high profile issue for many corporates in the last 12-18 months following a series of highly public data breaches caused by 'cyber attacks'.

To that end the ARC asked for a review to give assurance regarding the security of customer data

Questions this paper addresses

- Do we have a Cyber Security and Information Assurance Management System and Framework in place that meets best practice standards to protect Post Office business and customer data? Has this been externally validated?
- Are these requirements reflected in supplier's contracts and what measures and controls are in place to ensure these are adhered to?
- Have there been any significant (>20 customer data records) instances of unauthorised access to Post Office data in the last year? Do we report to the Information Commissioner if customer data is compromised?
- How do we ensure we plan for potential threats and what else do we need to consider?

Conclusion

1. In the last 3 years Post Office has implemented a Cyber Security and Information Assurance Management System and Framework that is based on international industry acknowledged best practice and which enables Post Office to demonstrate compliance to all current information security regulations. This has been externally certified and accredited annually for Payment Card Industry Data Security Standards (PCI/DSS) and Information Security Management (ISO 27001); additionally this framework has been regularly audited by Post Office external partners.
2. Post Office has developed a 'House Position' that is reflected in Procurements and all new and renegotiated contracts. Suppliers are risk assessed based on the level of Post Office data they access, process and store and a structured assurance process is undertaken on a regular basis.
3. There have been no significant instances of unauthorised access to Post Office data in the last year. Any instances of personal data breaches are risk assessed

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by Information Security and Assurance Group (ISAG) and the Information Commissioner is contacted dependant on the outcome of the assessment.

4. A quarterly Cyber Threat Assessment review is undertaken by external specialist experts to determine if there is any Post Office data available on the Dark Web. Cyber Threat intelligence is also collected from UK Government, Post Office specialist suppliers and Cyber/Information Security professional organisations. This is shared with our risk and IT colleagues, as well as our major suppliers.

5. In terms of what else needs to be done, more scenario planning and workshops need to be undertaken to ensure Post Office are able to address any major issue from initial reporting to external communications, clients, partners and media. This is essential to effectively address (in this instance) any major Cyber Security incident/breach, to ensure it is part of our contractual obligations to deliver Government Services and should be a sub-set of the Business Protection Team work; this will also enable clear accountabilities and responsibilities.

Input Sought

6. The ARC, is asked to note this paper.

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The Report

Cyber Security and Information Assurance

Following a major breach in 2012, and a subsequent external review by Deloitte of the information security capability within Post Office, the Information Security and Assurance Group (ISAG) was formed and suitably skilled resources were recruited externally.

The Management System and Framework

7. Taking into consideration the recommendations within the Deloitte review of early 2013, a new best practice management system and framework was introduced to protect the business. This was designed to demonstrate legal, regulatory and contractual practices.

8. Post Office is a transforming and complex business, therefore the management system and framework introduced had to be flexible enough to cope with any current or proposed cyber and information security regulation across a variety of industries. Key points to note since the introduction of the management system and framework:

   - Annual external audits have been successful, as have ad-hoc audits by clients.
   - The Threat Library is regularly updated to reflect current and potential issues.
   - Risks and controls are regularly reviewed, assessed and updated as part of an ongoing industry standard Group-wide Information Security Management System.
   - The risk model used is an industry standard model in line with Post Office Enterprise Risk methodology.

Contracts and Supplier Assurance

9. Procurement exercises and new contracts include the Post Office's 'Cyber Security, Information Assurance and Data Protection House Position' and renewed contracts are reviewed and updated to ensure inclusion. This ensures that suppliers/partner and joint ventures are protecting Post Office data to an agreed best practice standard, in line with our information security management system and framework.

10. Assurance activities are undertaken as a BAU process to ensure compliance to Post Office 'House Position'. The amount of assurance activity undertaken on suppliers, partners and joint ventures is based on the criticality of systems, services and data, it is also dependent on the assessed level of risk. This activity provides the 'Top Twenty' Supplier List:

    - Regular meetings are held with the Top 20 suppliers to ensure risks are assessed and mitigated with appropriate controls, also that any incidents are appropriately reported and managed;
    - Regular assessments and due diligence exercises are carried out via Cyber Security questionnaires (questionnaires are available for information, if

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required). Dependent on the risk assessment of the information provided, on-site verification activities are undertaken to validate results;

- Business, Privacy and Payment Card Impacts are assessed, this ensures that not only can Post Office information be identified when accessed, processed or stored by individual suppliers etc, but also the overarching impact on the business is understood. This activity is essential to ensure that the overall cyber security and information estate across Post Office is understood and protected and that any impacts to contractual, legal and regulatory requirements are managed and planned for;
- Technical security architecture is reviewed, advised upon and Penetration tested by specialist external independent third parties. This confirms that appropriate protection against threats, such as Distributed Denial of Service (DDOS), are in place (further detail on this element is described in the appendices); and
- Cryptographic controls are advised upon and implemented based on the level of risk associated with the information. Post Office Encryption Standard ensures appropriate use and management of cryptographic controls (e.g. preserves the integrity of sensitive information and confirms the identity of the originator of transactions or communications.

Breaches and Incidents

11. Over the last year there have not been any significant instances of unauthorised access to Post Office data, and over the last 4 years there have been only a few incidents that could be described, or were reported, as 'Major':

- One such incident occurred in late 2012 (termed at the time Project Rainbow), whereby encrypted Post Office Card Account Data was mismanaged by our direct supplier Hewlett Packard's supply chain (J P Morgan who then sub-contracted services to Marshall Resources). Further detail provided in appendices.
- A second similar incident occurred in the autumn of 2013 where Post Office were advised that an encrypted back up disk thought to contain Post Office Card Account (POca) data held by JP Morgan on behalf of Hewlett Packard had gone missing. Following a Post Office investigation led by the newly formed Information Security and Assurance Group, the disk was found and processes at Hewlett Packard and J P Morgan updated to prevent this type of incident recurring.
- On 28 February 2014, allegedly twenty-nine Customer Referral Forms, along with a 2011 desk diary containing Bureau de Change orders, were recovered from a skip outside the recently decommissioned Southport Crown Branch. The documents contained customers' personal information, along with a limited amount of investment information for eleven individuals. The incident was not 'self-reported' to the ICO at the time of incident as the information was deemed to be below the threshold for notification. Later in the year, and following a complaint, the ICO investigated the case and determined that regulatory action against Post Office would not be appropriate.

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12. The suspected DDOS attack on Post Office website reported in August 2015 was reviewed by specialist investigators commissioned by Post Office. The investigators concluded that it was unlikely to have been a DDOS attack:

- There was no factual evidence available to suggest that it was DDOS Attack.
- There wasn't the usual residual activity they would normally see relating to this type of attack, and they could find no evidence of data extraction or loss.
- This conclusion was further underpinned by another commissioned report from specialists that confirmed that there was no Post Office data found on the Dark Web or anywhere else on the web.

Potential threats and what else do we need to consider?

13. To ensure Post Office remain vigilant and proactive around keeping customer and colleagues' information safe, the Dark Web will be searched regularly by our commissioned specialists to ensure that we remain informed of any information leaks.

14. Recent high profile incidents have shown that not only is Cyber Security and Information Assurance important and newsworthy, what is also essential is the ability to effectively manage incidents including well-defined accountabilities and responsibilities. Alongside this is the necessity for our CEO/GE and Board to have adequate and appropriate messages to give to the media.

15. A Data Protection audit is underway by PwC and the scope extends to areas of Cyber Security. The timing of this audit is fortuitous since it will assist Post Office in preparing for the forthcoming Data Protection Regulations; it will also provide a holistic view across our suppliers and will validate the location of Post Office data.

16. Scenario planning and workshops need to be undertaken to ensure Post Office are able to address any major issue from initial reporting to external communications, clients, partners and media. Aside from being an essential business practice this is part of our contractual obligations to be certified to ISO 27001 (Information Security Management System) for Government Services. Planning is underway to address this requirement, involving all relevant business areas (which will incorporate the Business Protection Team).

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4) Risk & Control Report

Author: Mike Morley-Fletcher

Meeting date: 17 March 2016

Executive Summary

Context

This paper updates the ARC on progress against the project plan for developing POL's Risk Framework, in particular how we have been developing POL's Group Risk Profile, Internal Control Environment, Assurance mechanisms and Corporate Governance capability.

Questions

1. Is implementation of the Risk Framework on target?
2. How has the Group Risk Profile changed since last time the ARC saw it, are the Key Further Actions reasonable and what are we learning from our Risk Incident Reporting process?
3. How have we developed the Internal Control Environment?
4. How have we developed our Assurance mechanisms?
5. How have we developed our Corporate Governance capability and how will we disclose this in the Annual Report & Accounts?

Conclusion

1. The plan is on schedule (see Appendix 1) despite some resource shortages. In addition, due to the needs of the Financial Controls Framework project, we have been able to bring forward introducing a Self-Assurance Regime to provide more comprehensive assurance to Management and ultimately the Board for inclusion in the 2016/ 17 year end Annual Assessment. We will pilot this at the half year 2016/ 17. In consequence, we have pushed back the creation of a business-wide Assurance Map to Q1 & 2 2016/ 17. A summary of Work Done since January ARC and Next Steps is included in Appendix 2.
2. Management's evaluation of top risks has not changed, except for risk 12, Pensions Risk (risen from 3-3 to 4-3, amber to red risk rating) and inclusion of Health & Safety (risk 25, an amber risk). Key Further Actions have been identified and will be monitored. Risk and Action information will be included in the Business and Strategy planning process for 2016/ 17. Work with business areas (other than IT, which has a formalised process) is continuing to develop the maturity of our Risk Incident Reporting process.
3. Internal Audit have progressed framing several key components of our Internal Control Environment and ensuring that these are being documented and gap analysed, so that Management can make appropriate remediations. These include the General Control Framework, review of key policies and business

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continuity procedures. These actions should enable Management to take credit for these controls in dealing with their risks, ensure the controls are efficient and practical, and self-assure themselves that these controls are working as designed. They can then provide assurance to the ARC/ Board – see 4 below.

4. Internal Audit has developed two forms of self-assurance for Management that are flexible and scalable, leveraging off our desire for improved assurance for financial reporting purposes. These consist of a high level Executives' Declaration and a Control Self-Assessment by local control operators. Both have support from RCC and will be tested and rolled out in 2016/ 17 to provide additional assurance as part of the Board's Annual Assessment.

5. Following RCC and ARC direction, compliance with the UK Corporate Governance Code is not felt appropriate at present. In consequence, the following draft for inclusion in our 2015/ 16 Annual Report & Accounts has been developed by RCC for ARC approval, *"PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*.

Input Sought

The Committee is asked to review the attached papers and provide feedback, support and approval as appropriate.

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Risk Framework: Project Plan

Version: 10th March 2016

Four Components	Q3 31 Dec 2015	Q4 31 Mar 2016	Q1 30 Jun 2016	Q2 30 Sep 2016	Q3 31 Dec 2016	Q4 31 Mar 2017
a) Develop Group Risk Profile & Key Further Actions	Refine Top Risks; Drive consistency in RM tools and techniques	Confirm Controls & Key Further Actions; Develop Incident Reporting		Half year refresh of Risks & KFA; Develop risk measures and dashboards	Compare actions/ residual risk to Risk Appetite	Full year refresh of Risks & KFA; Redraft statement on Risk Appetite
b) Enhance Internal Controls Environment * coordinate with Financial Control Framework project	Design General Controls Framework *; Design Policy Framework & conduct Gap Analysis	Conduct Gap Analysis & Implement Quick Wins; For CS, conduct Gap Analysis & Remediate Policy Gaps	Remediate Control Framework Gaps; For non-CS, consider which policies to include	For non-CS, conduct Gap Analysis & Remediate Policy Gaps, as required		Include in ED & CSA – see c) below
c) Develop Assurance Mechanisms to support Board's Annual Assessment (effectiveness of Risk Management and Internal Control systems)	CHANGE: Implementation of Self-Assurance Mechanisms and Assurance Map switched; Develop Self-Assurance mechanisms: Executives' Declaration + Control Self-Assessment		Develop Assurance Map; Develop Year End Board Annual Assessment and sign off process	Dry run of Self-Assurance mechanisms	Implement Year End Board Annual Assessment and sign off process	Revise Assurance Map; Year End Self-Assurance (ED & CSA)
d) Develop Corporate Governance Capability (and disclosures for Annual Report & Accounts)	Research & agree Corporate Governance positioning & wording	Draft ARA Statement (Principle Risks and mitigations, GCF and Assurance)				Draft ARA Statement
ARC Updates	Sept; Nov	Jan; Mar		Sept		Jan; Mar

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Appendix 2 –Risk and Control Framework: Summary of Work Done and Next Steps

We have completed all key and time-critical components against the four main components of the plan (see Appendix B for a copy of the updated plan). Some of the main achievements have been, and next steps:

Work Done	Next Steps
a) Risk Profile and Actions – see paper 4a)	
Group Risk Profile: • Changes suggested by ARC and GE Risk Owners since last reporting have been made. • Risk Owners have identified Current Controls and Key Further Actions (KFA) for each of the 25 Top Risks – Red Risk KFA are provided to ARC for information. Incident Reporting: • Risk Champions have reported further incidents (mainly IT) and these, with past incidents, have been mapped against the Top Risks. As these build up we expect this will enable us to challenge our GRP, both the focus of the risks and evaluation.	• Risk Owners will monitor and report the completion of KFAs on a quarterly basis. • Information on the Top Risks and KFA will be included in the Business and Strategy planning process for 2016/ 17. • The Central Risk team will work with Risk Champions in other business units (e.g. besides IT) to clarify what "significant" incidents are, so that we can encourage fuller reporting and challenge our risks (April).
b) Internal Controls Environment – see paper 4b)	
bi) General Controls Framework (GCF): • Subject Matter Experts (SME) engaged for each of the components of the framework. • Supporting tools and templates have been created and piloted with Finance as part of the Financial Controls Framework (FCF) review.	• Work with CEO and HR to ensure General Controls are reflected in GE role descriptions and/ or objectives (April). • Review state of existing controls (Q1/ 2016) in order to populate the self-assessment templates for dry run at half year 2016/ 17 and full roll out at year end.

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Work Done	Next Steps
bii) Policy Framework (key policies): • Completed self-assessment of Corporate Services policies. • Remediations in progress: those for Partner Banking Agreement project (end of March), others (end of April). • Key Policy Framework for non-Corporate Services reviewed and refreshed with business stakeholders.	• Complete remediation of all Corporate Services policies (April). • Use EY's benchmarking to confirm the list of non-Corporate Services key policies and complete a current state assessment to steer which further polices need remediating (April).
biii) Business Continuity: • Revised BC and CM policies are continuing to be used to ensure our disciplines are in line with best practice guidelines. • Crisis Management process construct revised with a high-level view of assignable roles & responsibilities and an explanation of escalation routes.	• Complete phase 1: - Delivery of revised, improved and tested Crisis Management processes (April). - Delivery of Business Continuity activities (May). • Commence phase 2: BC Programme Management Structure.
c) Assurance Mechanisms (& assessment of effectiveness of Risk Management and Internal Control systems) – see paper 4c)	
• Two forms of self-assurance have been developed for Management, that are flexible and scalable: a high level Executives' Declaration and a Control Self-Assessment by local control operators. Both have been approved by RCC.	• Dry run of both forms at half year 2016/ 17 • Full roll out of both forms at year end 2016/ 17 to support Board's Annual Assessment.
d) Corporate Governance Capability (& disclosure in the Annual Report & Accounts)	
• Following RCC and ARC suggestion, compliance with the UK Corporate Governance Code is not sought at present. In consequence, the following draft has been developed by RCC for ARC approval, *"PO maintains standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability"*.	• Ernst & Young have provided (recently) a review of our compliance gaps, which the Central Risk team will analyse to develop for the May RCC (and ARC) a route map to compliance (over the next 2 or 3 years). This will enable RCC and ARC to determine if this is appropriate for our needs and practical.

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4a) Group Risk Profile and Key Further Actions

Author: Mike Morley-Fletcher, Head of Risk and Assurance Date: 17th March 2016

Executive Summary

Context

The purpose of this paper is to provide an update on the progress made by the Group Executive in completing the profile of our Top Risks ("Group Risk Profile"). This involved identification of *Key Further Actions* ("KFA") to manage the Top Risks previously identified in December. Completion is designed to provide assurance to the ARC that the GE, via the RCC, is actively challenging and monitoring the Top Risks, ensuring that they are within our expected Risk Appetite and that appropriate Key Further Actions are being taken.

This will also provide input to the Business and Strategy planning processes for 2016/ 17 and our risk governance disclosures in the Annual Report & Accounts, including disclosure of our "Principal Risks".

Questions

1. Are the Key Further Actions identified appropriate and sufficient to manage the Top Red Risks, over the next 12 months, to their target evaluations?
2. What do risk incidents reported tell us about our Top Risks, their evaluations and the success over time of our Key Further Actions?
3. What are the next steps?

Conclusions

1. Key Further Actions for our most significant risks, the 14 Red Risks, are hereby presented to the March ARC for approval. KFAs for Amber risks have also been identified and are being monitored in case their profile changes, but are not reported to ARC. The RCC believes that their Risk Mitigation Plans, and the KFA highlighted, are those most appropriate at this moment to manage the Red Risks. As they progress with their actions, they will review the sufficiency of these actions and, where necessary, identify any further actions.
2. The majority of risk incidents reported are against IT Availability, due to IT's established formal reporting process, reinforcing the significance of this risk. Reporting processes in other areas are less established and the Central Risk team has a project plan with Risk Champions to develop this.
3. As next steps, risks and KFAs will be included as input to the Business and Strategy planning processes for 2016/ 17 and disclosed in the Annual Report & Accounts as our "Principal Risks". Going forward, Risk Owners, assisted by Risk Champions, will monitor completion of actions on a quarterly basis and the risks will be reviewed bi-annually by the RCC/ ARC (next due September 2016).

Input Sought

The Committee is requested to review this report and provide any input or suggestions it has on the Key Further Actions.

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Work Done

1. Changes to the GRP

GE risk owners, with assistance from their Risk Champions and the Central Risk Team, reviewed their risk registers to confirm their Current Controls and their Key Further Actions. They considered whether they were accurate, appropriate and sufficient. As a result, the following changes were identified and included:

- Risk 7) Transformation Complexity, in consideration of project Trinity has been renamed "Transformation IT Delivery". The evaluation is currently the same.
- Risk 12) Pension Cost risk evaluation has risen from a 3 - 3 (impact/ likelihood) to a 4 - 3, an amber to a red risk rating.
- Risk 20) PO Brand has been retitled as "Corporate Reputation" to ensure it is clear that it includes all elements of our brand, not just the commercial aspects. Risk ownership was moved to Neil Hayward and Mark Davies.
- Risk 25) Health & Safety was added as an amber risk to reflect the importance of the wellbeing of our colleagues and customers.

In addition, the January ARC suggested changes which have been enacted as follows: adding "Cost Reduction" (risk 26, under risk ownership of Al Cameron, a risk mitigation plan was developed), making cyber risk more explicit in the detailed descriptions of risk 11) IT Availability and 19) Information Security Breach, and separating out risk 9) the RMG relationship from 2) Market Developments/ Competition (non-FS).

There are now 26 Top Risks, 14 Red and 12 Amber risks. RCC reviewed these risk and actions and approved them on 2nd March for presentation to the ARC.

2. Learnings from Incident Reporting

Significant incidents reported to the Central Risk team are being mapped to the Group Risk Profile (see Appendix 4 for incidents since August 2015) to help us challenge the Top Risks, their focus and evaluations. This could also show us if Key Further Action are being successful and, if incidents reported do not map to the existing profile, this may suggest new risks we should be tracking.

- The number of incidents which map to IT Availability (risk 11) is high in comparison to the other risks; this is mainly due to the existence of an established reporting process for IT incidents (see 3. below) which does not yet exist for other types of incidents.
- Overall the number of risk incidents reported from other parts of the business continues to be low. The Central Risk team has developed a project plan with Risk Champions to encourage reporting of significant incidents from more parts of the business.

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3. IT's Incident reporting process

IT incidents are subject to an agreed process which is managed by ATOS. All IT incidents are rated according to a defined criteria based on the impact that the incident will have on services which includes Post Office users, customers and clients. IT incidents are rated P1 – P3 as follows:

Priority	Priority Meaning	Communication following Incident Logging	Incident Updates	Resolution Target
P1	Any failure that results in the **total loss** of the service or an essential back end IT component. The Incident has an immediate and /or potentially prolonged adverse impact on one, some or all of the following: - Post Office Customer, Branch, clients, employees or POL brand and reputation	Within 15 mins to PO stakeholders and user community	Every 30 mins	4 elapsed hours
P2	Any failure that results in a **partial loss** of the service, or back end IT component.	Within 20 mins to PO stakeholders and user community concerned	Every 60 mins	8 elapsed hours
P3	Any failure that has the **potential to become** service, customer, or internal IT user affecting but can also be controlled and mitigated through effective management e.g. manual workarounds are in place.	Within 2 hours to the user community concerned, if applicable	No target applicable. Updates agreed between Service Desk and User	3 working days

- A number of SLAs have been agreed with our suppliers and these vary across systems and services. All SLAs are monitored and reported on by ATOS through monthly reports, highlighting where SLAs have been breached (if any).
- ATOS are also responsible for monitoring and ensuring that a root cause analysis is carried out and reported for all P1 incidents. The root cause analysis reports are submitted to the IT Service Delivery Director who manages the relationship with the IT suppliers and contain specific actions taken/ planned to remediate the issue and ensure that it does not recur in the future. Any exceptions (outside the SLAs), including overall service availability times, are monitored and exceptions are taken up with the suppliers and service improvement plans are developed, agreed and monitored.

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Support materials

Details of risk (titles, descriptions and GE owners), their evaluations (net and target) and Key Further Actions are included in the attached documents – details of Current Controls are not presented here, but are included in local risk registers:

- Appendix 1a: Group Risk Profile – a summary of our Top Risks with their net evaluation displayed on a Heat Map. *Use to consider the significance of the risks, particularly which are Red (need actioning to bring the net evaluation to the target) and which Amber (monitor to alert if turning Red).*

- Appendix 1b: Risk Descriptions. *Use to consider if risk is accurately focused on the right event, causes and outcomes.*

- Appendix 2: Summary of Key Further Actions for Red Risks – descriptions of each risk, plus the most significant further actions risk owners are planning to take to manage the risks, over the next 12 months, to their target evaluations – sorted by risk owner. *Use to consider if appropriate and sufficient actions have been identified.*

- Appendix 3: Harm Table. *Use to explain evaluation criteria.*

- Appendix 4: Significant incidents reported since August 2015 mapped to the Top Risks in the Group Risk Profile. *Use to challenge the focus and evaluation of our risks, whether Key Further Actions are successful and if new risks should be considered.*

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GROUP RISK PROFILE - Mar 2016

Version: 10th March 2016

Appendix 1a

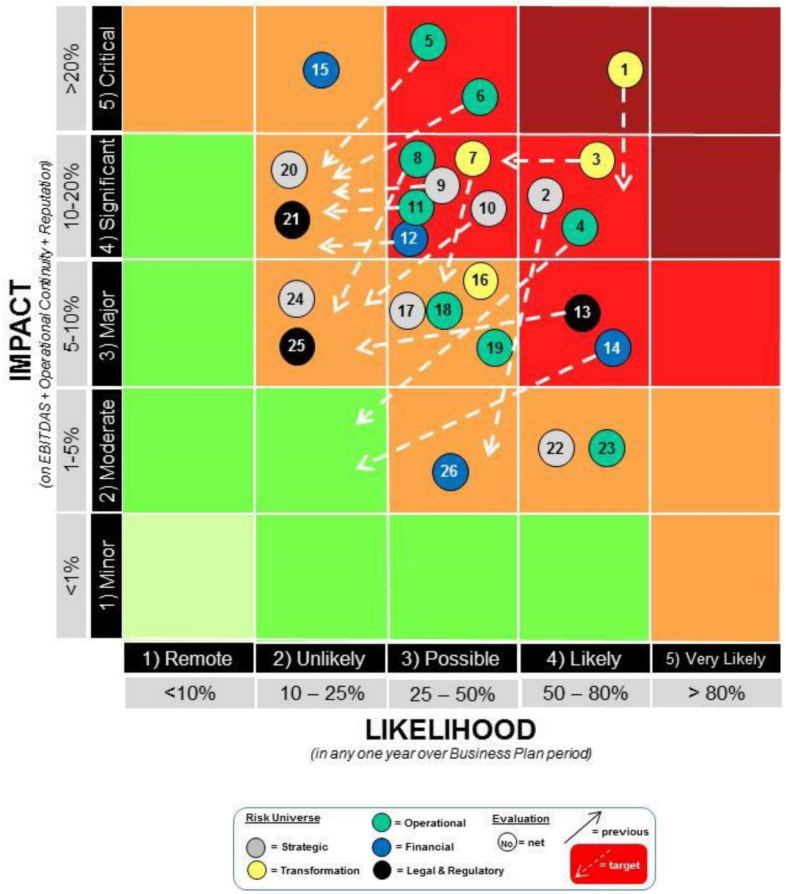
See overleaf (Appendix 1b) for full list of risk descriptions)

3 Year Plan Objectives - *illustrative example*	Targets - *illustrative example*
- Modernising our physical network (incl. complete network transformation, develop Crown network, roll out Front Office solution, develop low cost branch operating model)	Achieve EDITDAS breakeven by 2017/18
- Ensuring customer relevancy & ownership (incl. build own insurance business, modernise product set)	Complete Network Transformaton + in-branch/ back office systems
- Streamlining our operating model (incl. develop digital & data capabilities, tackle uncompetitive spend, build capable & engaged workforce)	Transition to new operating model
	Control of value chain (esp. insurance)

KEY RISKS

Ref)	Title	Owner	Risk Cat	Previous	Net (I/L)	Target (I/ L)
RED RISKS - *for actioning to bring the net evaluation to the target*						
1	Industrial Relations (Transformation)	Neil H	Trans		5 - 4	4 - 4
2	Market Developments/ Competition (non-FS)	Martin G	Strat		4 - 4	2 - 3
3	Transformation Benefit Realisation	David H	Trans		4 - 4	4 - 3
4	Third Party Relationship Management	Jane McL	Oper		4 - 4	2 - 2
5	Network Proposition	Kevin G	Oper		5 - 3	4 - 2
6	People Capability	Neil H	Oper		5 - 3	4 - 2
7	Transformation IT Delivery	David H	Trans		4 - 3	3 - 3
8	Customer Experience	Martin G	Oper		4 - 3	3 - 2
9	Royal Mail Alignment	Martin G	Strat		4 - 3	4 - 2
10	Market Developments/ Competition (FS)	Nick K	Strat		4 - 3	3 - 2
11	IT Availability	Al C	Oper		4 - 3	4 - 2
12	Pension Cost	Neil H	Fin	3 - 3	4 - 3	4 - 2
13	FS Regulatory Supervision	Nick K	Leg & Reg		3 - 4	3 - 2
14	Financial Reporting and Controls	Al C	Fin		3 - 4	2 - 2
AMBER RISKS - *for monitoring to alert if turning Red*						
15	Government Funding	Al C	Fin			
16	Transformation Resources	David H	Trans			
17	Investments Decisions	Al C	Strat			
18	FS Sales Capability	Nick K	Oper			
19	Information Security Breach	Jane McL	Oper			
20	Corporate Reputation	Neil H	Strat			
21	Regulatory Compliance Breach	Jane McL	Leg & Reg			
22	Government Alignment	Martin G	Strat			
23	Digital Competency	Martin G	Oper			
24	NFSP Alignment	Neil H	Strat			
25	Health & Safety	Neil H	Leg & Reg	New		
26	Cost Reductions	Al C	Fin	New		

NET RISK PROFILE (including Targets)



Note:
- *Objectives and Targets are from Business Plan 15/16 - 17/18. Used as illustrative example until updated for Business Plan 16/17 - 18/19.*
- *A risk's "net" evaluation is after consideration of the effect of current controls; it's "target" evaluation is the estimate of where the risk will be in 12 months after the effect of planned Key Further Actions (see overleaf for details of Key Further Actions).*
- *For ARC/ governance purposes, Red Risks are for actioning and have Key Further Actions designed to bring the net evaluation to the target; Amber Risks are for monitoring, to alert if the risk is turning Red. Risk owners may well have Key Further Actions for amber risk, but they are not reported to the ARC.*
- *Further details of current controls and further actions are held by risk owners in their business area Risk Registers.*

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Appendix 1b

RISK DESCRIPTIONS - Mar 2016

Version: 10th March 2016

Details of Risks and Evaluations

Ref	Risk Owner	RU Category	Title	Description	Previous	NET Impact	NET Lik'hood	NET Score	TARGET Impact	TARGET Lik'hood	TARGET Score	Difference
1	Neil Hayward	Transformation	Industrial Relations (Transformation)	Unions don't support change and undermine transformation through prolonged business-wide industrial action.		5	4	20	4	4	16	-4
2	Martin George	Strategic	Market Developments/ Competition (non-FS)	unable to respond quickly enough to new entrants with different strategies/ business models, current competitors with new products/ technologies, who take market share and/ or profitability		4	4	16	2	3	6	-10
3	David Hussey	Transformation	Transformation Benefit Realisation	Business Transformation programme not aligned to strategic objectives, not able to quantify, track and deliver benefits/ success criteria, nor keep cost of change within planned budget		4	4	16	4	3	12	-4
4	Jane MacLeod	Operational	Third Party Relationship Management	fail to select, contract, measure, monitor and exit key in-source or out-source relationships/ contracts successfully and/ or unintentional breach of contractual terms by PO		4	4	16	2	2	4	-12
5	Kevin Gilliland	Operational	Network Proposition	POL is unable to retain and or/find sufficient new retail partners because of the complexity and controls of the current proposition and value to the retailer, which leads to a decline in network numbers below 11,500		5	3	15	4	2	8	-7
6	Neil Hayward	Operational	People Capability	there is no clear prioritisation of capabilities required to deliver the business strategy		5	3	15	4	2	8	-7
7	David Hussey	Transformation	Transformation IT Delivery - Integrated Service Model	appointment of Fujitsu for the branch Point of Service (PoS) solution will have an adverse effect on the planned IT Service Model, impacting the quality of transformation and project deliverables		4	3	12	3	3	9	-3
8	Martin George	Operational	Customer Experience	our customer experience, propositions and channel strategy fail to deliver what customers want		4	3	12	3	2	6	-6
9	Martin George	Strategic	Royal Mail Alignment	misalignment of objectives and unsuccessful renegotiation of MDA or renegotiation on disadvantageous terms		4	3	12	4	2	8	-4
10	Nick Kennett	Strategic	Market Developments/ Competition (FS)	unable to respond quickly enough to new entrants with different strategies/ business models, current competitors with new products/ technologies, who take market share and/ or profitability - includes BoI is not aligned (strategically or financially) to assist POL's growth plans		4	3	12	3	2	6	-6
11	Al Cameron	Operational	IT Availability	failure of infrastructure or application environments, either due to internal issues or cyber attack, leads to lack of IT availability		4	3	12	4	2	8	-4
12	Neil Hayward	Financial	Pension Cost	cost of servicing the current DB scheme becomes onerous (EBITDAS) and plans to address this cause IR issues	3 - 3	4	3	12	4	2	8	-4
13	Nick Kennett	Legal & Regulatory	FS Regulatory Supervision	growth, transformation and/ or compliance breaches (e.g. FS mis-selling risk, non-compliant product distribution, design or marketing) trigger supervision and regulatory requirements		3	4	12	3	2	6	-6
14	Al Cameron	Financial	Financial Reporting and Controls	inadequate financial controls to prevent financial misstatement and lack of compliance with accounting and governance standards		3	4	12	2	2	4	-8
15	Al Cameron	Financial	Government Funding	funding is insufficient to support the investment and transformation programme		5	2	10	4	1	4	-6
16	David Hussey	Transformation	Transformation Resources	fail to access the right people (their capacity and capability) to deliver the transformation portfolio		3	3	9	3	2	6	-3
17	Al Cameron	Strategic	Investments Decisions	sub-optimal investment decisions for strategic initiatives (including selection, assessment, pricing and management) made due to weakness in subject expertise, quality financial data and evaluation processes and clear accountabilities		3	3	9	2	2	4	-5
18	Nick Kennett	Operational	FS Sales Capability	FS sales capability unable to deliver FS growth targets, either through design or execution		3	3	9	2	2	4	-5
19	Jane MacLeod	Operational	Information Security Breach	fail to adequately deploy and effectively manage information assurance and cyber security policies, standards and controls within the business and our partners/ suppliers, results in a breach of company data (colleague/ customer)		3	3	9	2	2	4	-5
20	Neil Hayward	Strategic	Corporate Reputation	threat to PO Brand Reputation (with Government, public, customers, colleagues and retail partners) from issues that are seen to compromise our social purpose (e.g. Transformation, Sparrow)		4	2	8	4	1	4	-4
21	Jane MacLeod	Legal & Regulatory	Regulatory Compliance Breach	fail to comply with key laws or regulations (in particular Competition, Money Laundering, Bribery & Corruption, Data Privacy) causing fines, sanctions or suspension of business activity		4	2	8	2	2	4	-4
22	Martin George	Strategic	Government Alignment	misalignment of objectives and lack of Government support for our strategy (e.g. 25-40% cost savings reduce services)		2	4	8	1	2	2	-6
23	Martin George	Operational	Digital Competency	lack of digital competency to spot and implement quickly enough (e.g. new products, customer journey, back office)		2	4	8	1	2	2	-6
24	Neil Hayward	Strategic	NFSP Alignment	relationship with NFSP does not progress in line with the aims of the Grant Agreeement, due to the behaviour of the NFSP or changes to the agent proposition which the NFPS believe are unacceptable		3	2	6	3	1	3	-3
25	Neil Hayward	Legal & Regulatory	Health & Safety Breach	fail to comply with laws or regulations and deploy adequate safeguards for the safety and wellbeing of our people and customers	New	3	2	6	3	1	3	-3
26	Al Cameron	Financial	Cost Reductions	fail to meet cost reduction targets on time	New	2	3	6	1	2	2	-4

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Appendix 2

SUMMARY OF KEY FURTHER ACTIONS (RED RISKS ONLY) - Mar 2016

Version: 10th March 2016

Details of Risks and Evaluations														Key Further Actions		
Risk Owner	RU Category	Ref	Title	Description	Previous	NET Impact	NET Lik'hood	NET Score	TARGET Impact	TARGET Lik'hood	TARGET Score	Difference	Details of Key Further Actions	Action Owner	Action Completion
Neil Hayward	Transformation	1	**Industrial Relations (Transformation)**	Unions don't support change and undermine transformation through prolonged business-wide industrial action.		5	4	20	4	4	16	-4	• Escalate CWU's refusal to follow Dispute Resolution Process to CWU General Secretary • Analyse results of IA Contingency planning 'war game' and develop plan for gaps	Tom Moran Tom Moran	Mar-16 Mar-16
	Operational	6	**People Capability**	there is no clear prioritisation of capabilities required to deliver the business strategy		5	3	15	4	2	8	-7	• Redefine organisation design and structure • Define capability heatmap for current and future state	Jonathan Cormack Jonathan Cormack	Mar-16 Dec-16
	Financial	12	**Pension Cost**	cost of servicing the current DB scheme becomes onerous (EBITDAS) and plans to address this cause IR issues	3 - 3	4	3	12	4	2	8	-4	• Complete consultation on closing Defined Benefit plan to future accrual • Present alternative de-risking plans to GE for approval	Natasha Wilson Natasha Wilson	Jun-16 Sept-16
Martin George	Strategic	2	**Market Developments/ Competition (non-FS)**	unable to respond quickly enough to new entrants with different strategies/ business models, current competitors with new products/ technologies, who take market share and/ or profitability		4	4	16	2	3	6	-10	• Complete Mails Stategy and seek approval from Board • Identify purpose, target customer segments, propositions & channel strategy necessary to deliver profitable, sustainable growth • Complete Government Services strategy	Mark Siviter Martin George/ Radha Davies Chris Doutney	Mar-16 Jun-16 Jun-16
	Operational	8	**Customer Experience**	our customer experience, propositions and channel strategy fail to deliver what customers want		4	3	12	3	2	6	-6	• Develop Customer Strategy • Develop Channel Strategy	Pete Markey/ Radha Davies Radha Davies/ Alison Japp	Mar-16 Jun-16
	Strategic	9	**Royal Mail Alignment**	misalignment of objectives and unsuccessful renegotiation of MDA or renegotiation on disadvantageous terms		4	3	12	4	2	8	-4	• Finalise initial set of negotiations • Reinstate MDA management board • Initiate strategic discussions to explore options post-MDA	Gordon Rose/ Mark Siviter Gordon Rose/ Mark Siviter Gordon Rose/ Mark Siviter	Mar-16 Mar-16 Sept-16
Kevin Gilliland	Operational	5	**Network Proposition**	POL is unable to retain and or/find sufficient new retail partners because of the complexity and controls of the current proposition and value to the retailer, which leads to a decline in network numbers below 11,500		5	3	15	4	2	8	-7	• Develop high level branch proposition and present network strategy update to Board • Design new branch models and choose technical solutions	Kevin Seller Kevin Seller	Jun-16 Jun-16
Nick Kennett	Strategic	10	**Market Developments/ Competition (FS)**	unable to respond quickly enough to new entrants with different strategies/ business models, current competitors with new products/ technologies, who take market share and/ or profitability - includes BoI is not aligned (strategically or financially) to assist POL's growth plans		4	3	12	3	2	6	-6	• Identify purpose, target customer segments and associated propositions and distribution channels to define sustainable, customer centric growth strategy • Tactical and longer term negotations with BOI underway to enhance PO position (digital and wider)	Henk Van Hulle Jonathan Hill	Jun-16 Jul-16
	Legal & Regulatory	13	**FS Regulatory Supervision**	growth, transformation and/ or compliance breaches (e.g. FS mis-selling risk, non-compliant product distribution, design or marketing) trigger supervision and regulatory requirements		3	4	12	3	2	6	-6	• Completion of key actions in the network conduct risk action plan (separate workstreams on performance management, training, awareness and comms) • Agree approach to resolving network regulatory conflict of interest issues	Kevin Gilliland/ Jonathan Hill Nick Kennett/ Kevin Gilliland	Dec-16 Apr-16
David Hussey	Transformation	3	**Transformation Benefit Realisation**	Business Transformation programme not aligned to strategic objectives, not able to quantify, track and deliver benefits/ success criteria, nor keep cost of change within planned budget		4	4	16	4	3	12	-4	• TFCG review of cost programmes in weekly review meetings • Review and implement revised Benefits Tracking Framework/ Governance • Ensure new Business Cases provide more detailed analysis of identified benefits • Conduct Cost & Benefit Tracking reviews, on prioritised basis	Nick Sambridge Nick Sambridge Nick Sambridge Martin Edwards/ Nick Sambridge	Weekly Mar-16 Mar-16 Ongoing
	Transformation	7	**Transformation IT Delivery** - Integrated Service Model	Appointment of Fujitsu for the branch Point of Service (PoS) solution will have an adverse effect on the planned IT Service Model, impacting the quality of transformation and project deliverables		4	3	12	3	3	9	-3	• Work with Fujitsu, other IT Supply Chain members and Atos to agree future Service Model • Ensure that the IT Service Model is clearly considered during the planned review of the IT Strategy • Continue to mobilise a robust Service Model based on Industry Standards • Improve IT Supplier relationships through heightened governance, with a greater involvement from business stakeholders	Neil Wilkinson Neil Wilkinson Neil Wilkinson Neil Wilkinson/ Gill Tait	Jun-16 Jun-16 Jun-16 Apr 16
Al Cameron	Operational	11	**IT Availability**	failure of infrastructure or application environments, either due to internal issues or cyber attack, leads to lack of IT availability		4	3	12	4	2	8	-4	• Development of BC/DR plans covering POL procedures • Review BCP & DR testing frequency & rigour • Migrate Back Office to up-to-date infrastructure • Separation of EUC services from RMG	Sharon Gilkes Sharon Gilkes Irvin Newbit Sharron Gilkes	Jun-16 Jun-16 Sep-16 Apr-16
	Financial	14	**Financial Reporting and Controls**	inadequate financial controls to prevent financial misstatement and lack of compliance with accounting and governance standards		3	4	12	2	2	4	-8	• Complete financial controls framework mapping & allocate resource to remediate gaps • Implement annual process of Executives' Declaration (Apr-16) and Control Self-Assessment • Income reconciliation between source data and Core Finance	Dave Carter Dave Carter/ Mike Morley-Fletcher Dave Carter	Jun-16 Mar-17 Apr-16
Jane MacLeod	Operational	4	**Third Party Relationship Management**	fail to select, contract, measure, monitor and exit key in-source or out-source relationships/ contracts successfully and/ or unintentional breach of contractual terms by PO		4	4	16	2	2	4	-12	• Develop Contract Management framework • Improve CAF process to ensure Legal & other risks are assessed • Annual attestation about compliance with policy	Heads of Legal Heads of Legal Heads of Legal	Jun-16 Jun-16 Jun-16

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Appendix 3

HARM TABLE - MEAUREMENT CRITERIA

Version: 18th Feb 2016, post RCC & ARC

Use EBITDAS target of £100m

Risk Scoring	Impact on*				Likelihood of*	
	Label	Financial** (EDITDAS)	Operational Continuity (Operations, IT, Colleagues)	Reputational (Stakeholder, Customer, Colleagues, Third Party, Media, Regulator)	Label	Probability
5	Critical	>20% of financial target or significant impact on all objectives	National service disruption/ significant location/s or business function/s for >3 days	- withdrawal of stakeholder/ customers/ colleagues/ 3rd party support, or - extensive national media coverage, or - formal regulatory intervention	Very Likely	>80%
4	Significant	>10-20% of financial target or significant impact on all objectives	National service disruption/ significant location/s or business function/s for <3 days	- significant challenge from stakeholder/ customers/ colleagues/ 3rd party support, or - some national media coverage, or - formal regulatory investigation	Likely	>50-80%
3	Major	>5-10% of financial target or significant impact on all objectives	Regional service disruption/ major location/s or major business function/s for <3 days	- major questioning from stakeholder/ customers/ colleagues/ 3rd party support, or - extensive local media coverage, or - informal regulatory enquiry	Possible	>25-50%
2	Moderate	>1-5% of financial target or significant impact on all objectives	Local service disruption at several locations or business functions for >3 days	- moderate concern from stakeholder/ customers/ colleagues/ 3rd party support, or - some local media coverage, or - informal regulatory conversations	Unlikely	>10-25%
1	Minor	0-1% of financial target or significant impact on all objectives	Local service disruption at several locations or business functions for <3 days	- neglible interest from stakeholder/ customers/ colleagues/ 3rd party support, or - no media coverage, or - no regulatory interest	Remote	0-10%

*Note: * any one year over Business Plan time horizon*
*** generally use financial measure first, then enhance if an additional operational or reputational impact applies too*

Our risk evaluation can be on a basis of:	
GROSS risk	= the risk evaluation ***before*** taking into account the effectiveness of controls currently in place. Sometimes referred to as "inherent" risk.
NET risk	= the risk evaluation ***after*** taking into account the effectiveness of controls currently in place. Sometimes referred to as "residual" risk.
TARGET risk	= the risk evaluation ***if*** further actions were taken to manage the risk to an acceptable level (i.e. ultimately to meet the desired risk appetite).

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Appendix 4. Significant incidents reported since August 2015 against Top Red Risks

	Rating based on harm table: qualitative 'opinion'		Quantitative data: incidents reported				
	14 'Red' Top Risks	Score	08/15	09/15	10/15	01/16	03/16
1	Industrial Relations (Transformation)	5 - 4					
2	Market Developments/ Competition (non-FS)	4 - 4	1		1		
3	Transformation Benefit Realisation	4 - 4					
4	Third Party Relationship Management	4 - 4		1			
5	Network Proposition	5 - 3					
6	People Capability	5 - 3					
7	Transformation Complexity	4 - 3					
8	Customer Experience	4 - 3					
9	Royal Mail Alignment	4 - 3					
10	Market Developments/ Competition (FS)	4 - 3					
11	IT Availability	4 - 3	4	5	9	3	3
12	Pension Cost	4 - 3					
13	FS Regulatory Supervision	3 - 4				1	1
14	Financial Reporting and Controls	3 - 4			1	1	

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4bi) General Control Framework update

Author: Deana Herley Sponsor: Mike Morley-Fletcher Meeting date: 17 March 2016

Executive Summary

Context

To get the best from our general controls we are seeking to understand which ones are key, how they inter-relate to each other, and how we can combine them in a "General Controls Framework" ("GCF") to provide the foundations for more effective control. We are supporting the business to check these controls exist, that they are focused correctly and operating as we would want. Having piloted our approach within Finance, developing tools and templates, we have received support from General Executive (GE) Control Owners to implement more widely.

Questions this paper addresses

1. What progress have we made?
2. What are the next steps?
3. How do we ensure general controls are represented in accountabilities?

Conclusion

1. To date we have identified prospective GE Control Owners and SMEs* (see Appendix 1) and developed a roll out plan (see Appendix 2), plus supporting tools including a Test Plan and Reporting Template, a Self-Assessment Template, guidance to support completers and consistent Assessment criteria. We have tested our approach with Finance, in preparation for a Current State Assessment across the organisation (April to June), actioning a dry run at the half year (July to September), in preparation for full roll out at the year-end (January to March 2017), for inclusion in the Board's Annual Assessment and to support our 2016/ 17 year-end reporting.

   ** 5 GE Control Owners (Paula, Neil, Al, Jane and David) and 12 SMEs.*
2. We will be working collaboratively with SMEs to perform initially a current state assessment to map the environment to our GCF. The Self-Assessment Template will be populated with the findings from this work. This will be the prime mechanism by which GE Control Owners with their teams assess the effectiveness of the control environment going forward, devising action plans to address any weaknesses or gaps identified and ultimately signing off their self-assessment. The project timeline is to complete in time to provide support for the Board's year-end Annual Assessment of Internal Controls.
3. We have explored with the CEO and HR how best to ensure that General Controls are represented in GE accountabilities, either through role descriptions or objectives, or a combination of both, depending whether they are current or new responsibilities.

Input Sought

The Committee is asked to review the information provided and feedback on the proposed approach and timings.

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Appendix 1 – General Control Framework – Details of GE Owners and proposed SMEs

GCF Component	Owner (GE)	SME Deliverer (SLT)
A) PURPOSE & DIRECTION		
1) **Strategy, objectives and targets**	Paula Vennells	Martin Edwards, Strategy Director
2) **Code of Business Standards** and **Tone from the Top**	Neil Hayward	Colin Stretch, Head of Employee Relations
3) **Social Purpose**	Paula Vennells	Mark Davies, Communications & Corporate Affairs Director
B) PLANNING & REVIEW		
4) **3 Year and Annual Plans**	Alisdair Cameron	Martin Edwards, Strategy Director
5) **Risk assessments**	Jane MacLeod	Mike Morley-Fletcher, Head of Risk and Assurance
6) **Performance monitoring**	Alisdair Cameron	Dave Carter, Financial Controller
C) ORGANISATIONAL DESIGN & DELEGATION		
7) **Organisational Structure, with responsibilities and Segregation of Duties**	Neil Hayward David Hussey	Tom Moran, Head of ER and Engagement and Alison Japp, TOM
8) **Delegation of Authority, including Capital Investment limits**	Jane MacLeod	Alwen Lyons, Company Secretary and Dave Carter, Financial Controller
9) **Staff calibre, experience and qualifications, including personal development and appraisal**	Neil Hayward	Sarah Malone, Head of Learning, Resourcing
10) **Senior Management remuneration**	Neil Hayward	Natasha Wilson, Director of Reward and Pensions
11) **Operational, financial and regulatory policies (and control activities) framework**	Members of GE	Various SLTs, see Policy Framework project
12) **IT policies (and control activities) framework**	Alisdair Cameron	Chris Broe, CIO
D) GOVERNANCE & FEEDBACK		
13) **Board** and **Audit Committee**	Jane MacLeod	Alwen Lyons, Company Secretary
14) **Assurance capability**	Jane MacLeod	Mike Morley-Fletcher, Head of Risk and Assurance
15) **Whistleblowing** and **Complaints**	Jane MacLeod	Mike Morley-Fletcher, Head of Risk and Assurance and *TBC for complaints*
16) **External Reporting**	Alisdair Cameron	Alwen Lyons, Company Secretary and Dave Carter, Financial Controller

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Appendix 2 – Project Plan – Overview

Set out below is an overview of our approach and timings to prepare the business for attestation of GCF effectiveness reporting at year-end 2016/ 17, including key activities and reporting milestones.

Month	Activity	Update to ARC
2016		
January	Design GCF ✓	ARC
February	Scope testing and developing tools ✓	
March	Current State Assessment preparation ✓	ARC
April	Current State Assessment of GCF components	
May		
June		
July	Dry Run Preparation & Engagement	
August	Dry Run Assessment	
September	Dry Run Reporting	ARC
October	Remediations	
November		ARC
December		
2017		
January	Year End Preparation & Engagement	ARC
February	Year End Assessment	
March	Year End Reporting	ARC
April	Lessons Learnt	

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4bii) Policy Framework Project update

Author: Mark Rodgers Sponsor: Mike Morley-Fletcher Meeting date: 17th March 2016

Executive Summary

Context

The purpose of the Policy Framework Project ("PFP") is to ensure that we know what our key policies are and that they are up to date, implemented and that we can demonstrate this to the Board. An additional benefit is if we need to share with third parties, as we currently do for the the Partnership Banking Agreement ("PBA"), which requires us to provide evidence of 5 key policies.

The Project is prioritised into two sequential, but independent, phases: the first for Corporate Services policies; the second for policies owned by other areas of the business. Our external auditors, Ernst & Young, have offered to provide benchmarking on the type of policies that should be considered in phase 2.

This paper provides an update on the progress of the Policy Framework Project.

Questions?

1. Are we on target with the plan, especially in respect of Corporate Services and in supporting the Partnership Banking Agreement project?
2. What are the next steps?

Conclusion

1. We have a clear plan for a phased approach using the Key Policies Framework and tools for policy assessment, review and drafting. We are currently on schedule to complete the review and remediation of Corporate Services policies in time to meet the end-March 2016 deadline for the PBA project. Remediation of 16 out of the 18 CS policies is underway and resources for the other 2 have been identified (see Appendix 1). The review of Non-Corporate Services policies will commence in April 2016.
2. We will seek RCC confirmation of the desired list of Non-Corporate Services policies (see Appendix 2) using benchmarking provided by Ernst & Young as guidance. Then, using lessons learned to date, we will complete the current state assessment of key Non-Corporate Services policies and project manage any resultant remediations with policy owners.

Input Sought

The Committee is requested to review this report and provide any input or suggestions it has on the project's goals, direction and progress.

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Appendix 1: Corporate Services – progress to date

Policies required under the Partner Banking Agreement are shown in **bold.**

Policy	Policy Owner	Existing Policy reviewed	Policy Drafted and Stakeholder review underway	Target date for Policy Approval
Corporate Governance, including				
P01/ 01) Board Constitution	Alwen Lyons	No existing policy	No *(*See Note 1)*	*(*See Note 1)*
PO1/ 02) Conflicts of Interest	Alwen Lyons	Yes	In progress	April 2016
PO1/ 03) Enterprise Risk	Mike Morley-Fletcher	Yes	In progress	April 2016
PO1/ 04) Internal Audit Charter	Garry Hooton	N/A *(*See Note 2)*	N/A *(*See Note 2)*	N/A *(*See Note 2)*
PO1/ 05) Whistleblowing	Nisha Marwaha	Yes	Yes	April 2016
PO1/ 06) Investigations	Nisha Marwaha	No existing policy	Yes	April 2016
Security				
PO1/ 07) Physical Security	John Scott	In progress	In progress	April 2016
Information Security, including				
PO1/ 08) Cyber and Information and Security Policy	Julie George	Yes	Not required, RCC approved during 2015 *(*See Note 3)*	Not required, RCC approved during 2015 *(*See Note 3)*
PO1/ 09) IS - Acceptable Use	Julie George	Yes		
PO1/ 10) Business Information Systems Policy	Julie George	Yes		
PO1/ 11) Information Assurance Policy (incl. Data Protection)	Julie George	Yes	In progress Data Protection amendments required	April 2016
Financial Crime, including				
PO1/ 12) Fraud Risk Management	**John Scott**	**Yes**	**Yes**	**End March 2016**
PO1/ 13) Anti-Bribery and Corruption (incl. Gifts Policy)	**Ben Foat**	**Yes**	**In progress**	**End March 2016**
PO1/ 14) Anti-Money Laundering (incl. Counter Terrorism & Sanctions)	**John Scott**	**Yes**	**In progress**	**End March 2016**
PO1/ 15) Cyber Fraud (Part of 08 above)	Julie George	Yes	In progress Forensics amendments required	April 2016
PO1/ 16) Prosecution Policy (England & Wales)	Rodric Williams	Yes	Completed Feb 16 *(*See Note 4)*	Completed Feb 16 *(*See Note 4)*
Business Continuity, including				
PO1/ 17) Business Continuity (incl. Disaster Recovery)	**Jonathan Waples**	**Yes**	**In progress**	**End March 2016**
PO1/ 18) Crisis Management	Jonathan Waples	No existing policy	In progress	April 2016

Notes

* *Note 1.* There is no overarching Board Constitution policy. Direction is provided by the existing Articles of Association, Matters reserved for the Board, ToRs, Delegation of Authority
* *Note 2.* The Internal Audit Charter is denoted N/A because it is already a compliant document with Internal Audit International Professional Practice Framework Standards.
* *Note 3.* Information Security Policies 08, 09 & 10 have been reviewed and already meet policy standards. RCC approved these policies during 2015. The next reviews will be as per the policy review cycle in each case.
* *Note 4.* The Group Prosecution Policy (England & Wales) was approved by the Board in February 2016.

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Appendix 2: Key Policy Framework (non-CS policies)

The Key Policy Framework is a strawman of possible 'Big P' policies* – this is a latest suggestion for Non-Corporate Services. These will be benchmarked, reviewed by RCC and presented to ARC in May 2016.

Policies required under the Partner Banking Agreement are shown in **bold.**

Framework Ref:	Key Framework Policy (Big P)*	Proposed Policy Sponsor (GE Owner)
P02/ 01	Commercial, including A. Brand Guidelines/ Tone of Voice B. Customer (including Treatment)	Martin George
P02/ 02	Social Purpose - Distribution Network Coverage *(Entrustment Letter, Nov 2013)***	Kevin Gilliland
P02/ 03	Change Management *(Delivering Change methodology)***	David Hussey
P02/ 04	Finance, including A. Accounting and Reporting B. Treasury Risk Management C. Capital Expenditure Approval *(TFCG ToR)*** D. Procurement	Alisdair Cameron
P02/ 05	Human Resources, including **A. Talent and Resourcing***** B. Reward and Recognition C. Learning and Development D. Performance, Attendance and Behaviour E. Health & Safety F. Code of Business Standards	Neil Hayward

Notes

** 'Big P' policies are those which are "materially" important because they provide directions and instructive content, regarding the extent and style of what and how our Board expects the company and our staff to behave. These policies meet the "key" needs of our stakeholders.*

*** Where there is no policy document, details of alternative documentation that provide the direction of a policy are given in italics. For instance we do not have a Board Constitution policy, but direction is provided by the Board approved Articles of Association, Matters referred to Board, Terms of References, Delegation of Authority.*

**** The HR Vetting policy is one of the policies within the Talent and Resourcing Policy that is required for the Partners*

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4biii) Business Continuity & Crisis Management Project update

Author: Jonathan Waples Sponsor: Jane McLeod

Meeting date: 17th March 2016

Executive Summary

Context

Activities are developing to draw Business Continuity (BC) & Crisis Management (CM) disciplines in line with best practice guidelines, as defined by the Business Continuity Institute, and measured against ISO22301:2012 Social Security – Business Continuity Management Systems.

Questions this paper addresses

1. Is there a clear plan, with defined milestones, to deliver the best practice goals?
2. Does progress to date meet expectations re Crisis Management process construct and Business Continuity capabilities for top suppliers?
3. Does progress to date match that expected from the plan, and what does this suggest for the future?

Conclusion

1. A plan has been devised and shared with management and the sponsor; phase one milestones will deliver revised, improved and tested Crisis Management processes by the end of April 2016, and BC activities by the end of May; phase 2 is estimated for completion by early August; and phase 3 by end of October 2016.
2. The January RCC request for a view on our Crisis Management process construct is outlined in the body of this report, consisting of a high-level view of assignable roles & responsibilities and an explanation of escalation routes.
   In addition, the ARC requested a view on top suppliers and their Business Continuity capabilities, and a reach-out to top suppliers has been initiated to request visibility of BC planning & capability as well as testing regimens.
3. The plan is currently on-track, but contingency has now been exhausted by resource involvement in significant BAU activity – there is no other central Business Continuity resource. We are considering whether the plan requires rebase-lining to accommodate future slippage, which will push out delivery times. Potential further risks to project completion could come from other resource pinches or actual crises.

Input Sought

The Committee is requested to review this report and highlight any input or suggestions it has on the project's goals or progress.

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The Report

1. Is there a clear plan, with defined milestones, to deliver the best practice goals?

A plan has been shared with management and the sponsor; phase 1 milestones are scheduled to deliver revised, improved and tested CM processes by the end April 2016. BC activities under phase 1 are scheduled through to the end of May. See Appendix 1, for a high-level view of progress to date and future planned activity.

2. Does progress to date meet expectations voiced at the previous RCC?

Crisis Management Construct:

The Crisis Management construct should dovetail the *incident* management processes for various business units, where they exist (ISAG, IT, Security etc.), and accommodate distinct communication routes as well as defined escalation points and their triggers. Appendix 2 demonstrates this escalation & comms management flow.

This flow differs only slightly from previous versions, however it does utilise a capability for escalation, communication & management currently undeveloped. Provisioning this capability would require deployment of a Crisis Management System, or development of an in-house alternative, potentially making use of the Grapevine system already in use at POL - a paper has been prepared for the Head of Security.

Top Suppliers' Capability:

POL's standard contract schedule includes business continuity requirements, verified at time of procurement, however on-going reviews have not been routinely recorded. So a reach-out to top suppliers, identified from the list held by the Internal Audit Team, has requested visibility of suppliers' current BC planning & capability as well as testing regimens. Once available, the information will be complied and shared, including a summary for RCC and ARC.

3. Does progress to date match that expected from the plan, and what does this suggest for the future?

Project Activity vs BAU:

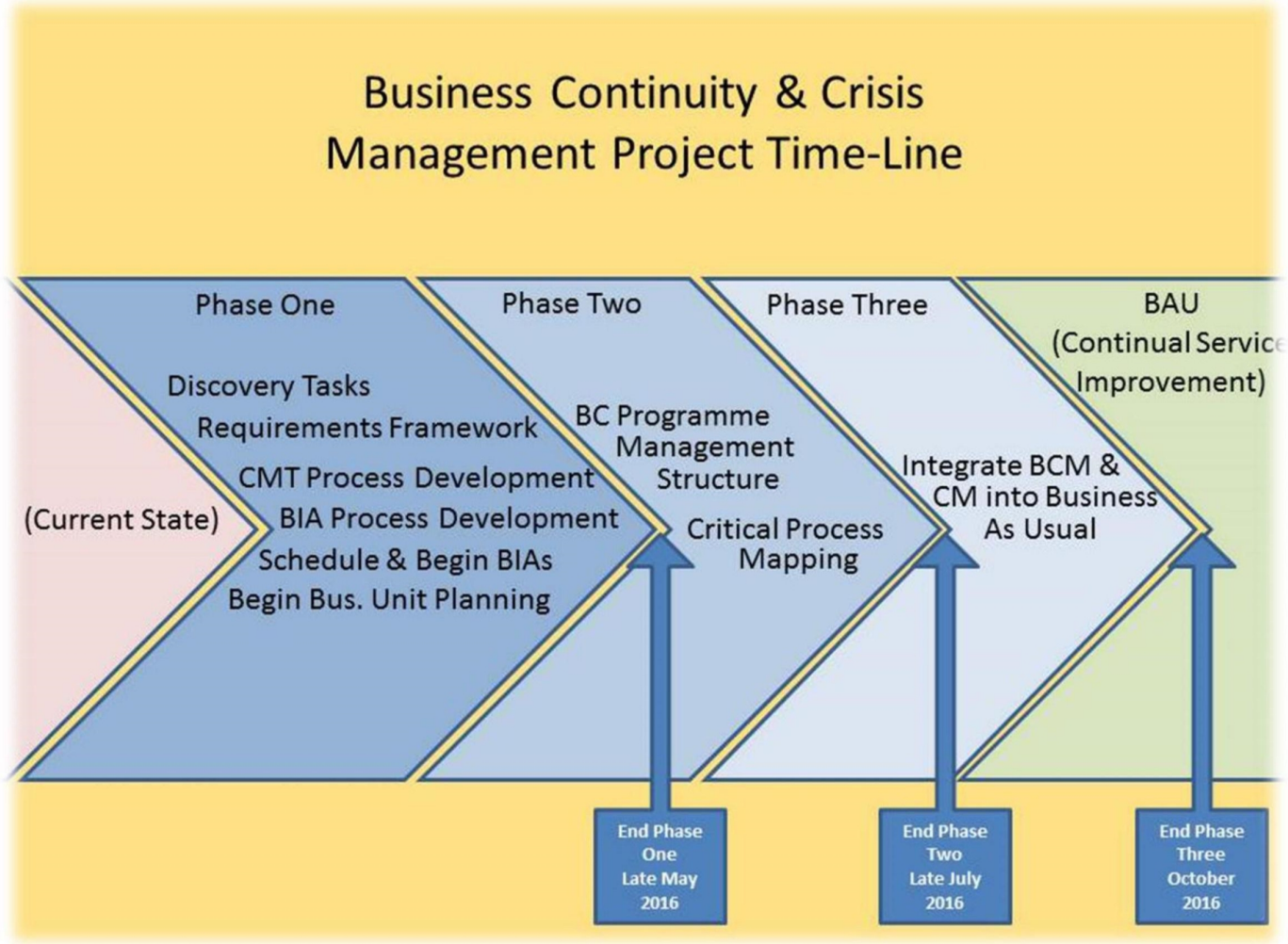
During the course of the Discovery Phase significant resource time has been expended on project activity due to the pressures of significant business as usual demands, as the project SME is the only qualified resource available. To avoid this, we are considering whether BAU activities could be managed by another resource, for instance within the current Central Risk team, with escalation when required.

Potential for Rebase-lining:

The plan has adapted to take on new priorities, and is still expected to achieve the initial goals. The risk identified in response to question 3 however, whilst not impacting delivery on project goals to date, has eroded contingency during this phase, and for future activities, making delay to subsequent plan activities a significant risk. Plan rebase-lining is being reviewed to accurately set expectations on final delivery.

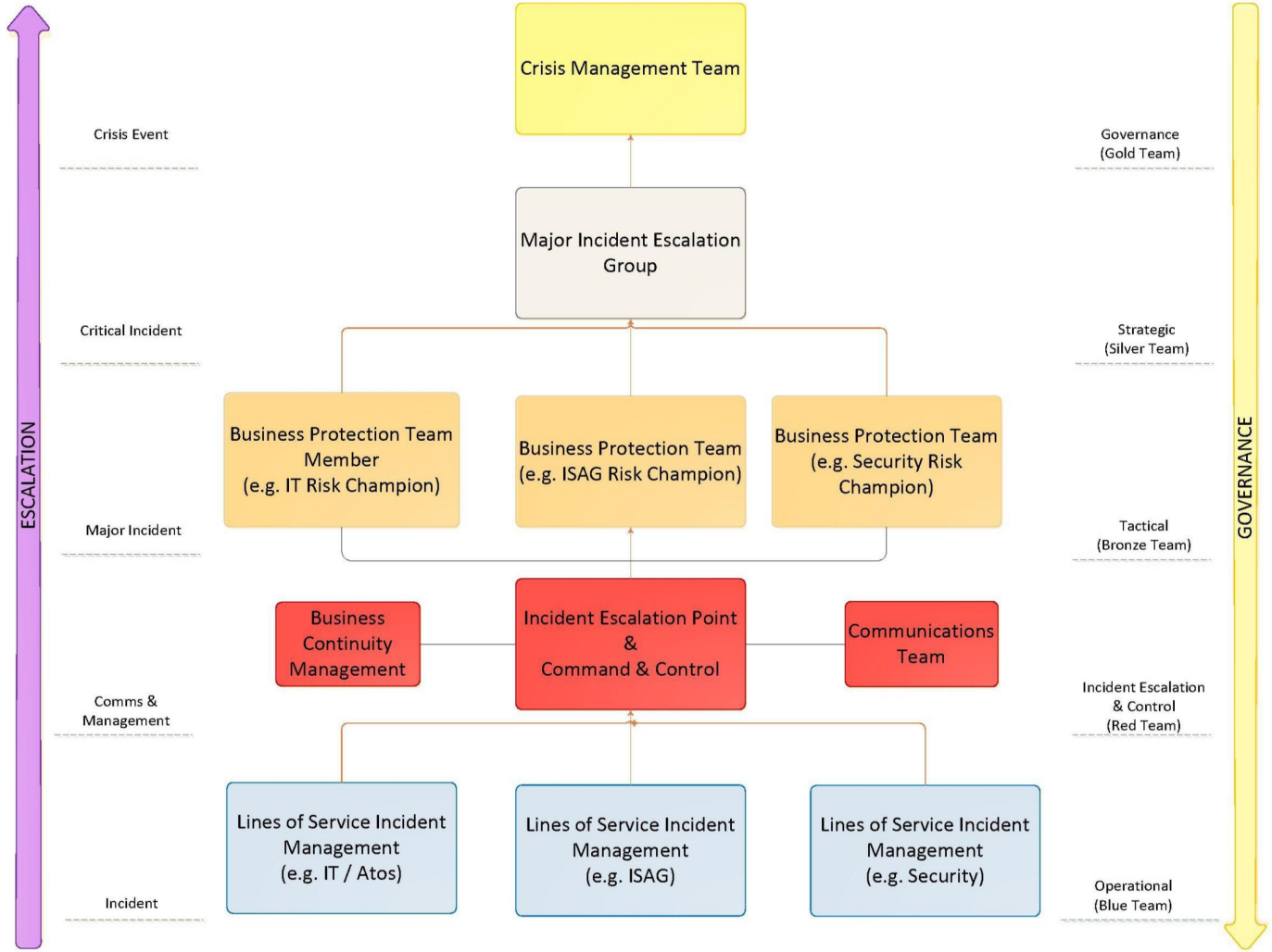
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Appendix 1: High Level Business Continuity Project Plan



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Appendix 2: Crisis Management Construct - Overview



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Internal Audit Report

Author: Garry Hooton
Meeting date: 17 March 16

Executive Summary

Context

The purpose of this paper is to update the Committee on the PO Internal Audit and Business Transformation Assurance activity and key outcomes. This includes details of the work completed since the last Audit and Risk Committee (ARC) in January; and the progress against the 2015/16 Internal Audit Plan which is due to complete for the May RCC/ARC, see **Appendix 1**.

Questions this paper addresses

1. What progress has been made since the January ARC?
2. Is the Internal Audit Plan on track?
3. Do we have the resources we need to deliver the plan and actions arising?
4. Have any significant issues arisen that the committee should be aware of?

Conclusion

1. During the period three audits, one Internal Audit (IA) and two Business Transformation Assurance (BTA), **see Appendix 2**, have been completed, with actions being agreed with management, but they have not yet been finalised with GE Sponsors. This period is when the IA team focus on drafting the **Internal Audit Plan for 2016/17** – see separate paper – and the team have continued to contribute in a **business assistance** capacity to the Property Compliance Forum.
   We have also reviewed and updated our approach to annual and individual review reporting as part of our internal continuous improvement activity, see **Appendix 3.**

2. The IA plan is designed to run through to 31 March with the remainder of the audits due for reporting at the May ARC. These audits are now either being cleared with management or are well underway, except for Client Contract Management and Workforce Planning. Whilst scoped, we have moved the fieldwork of CCM to April, given the transition of reporting accountabilities from Management Services to product pillars is not yet complete. This will allow time for changes to embed. The consequential freed up resource has been invested in developing and piloting our proposed methodology to check the effectiveness of the **General Control Framework** (GCF) and **Control**

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Self-Assessment (CSA) – see separate paper. Workforce Planning cannot currently be resourced (see item 3. Below). We expect to complete all reviews for the May RCC/ ARC (see **Appendix 1**).

3. We continue to be impacted by the long term sickness of one of the team (since November) which has affected the delivery of audits in Q4. We have another member of the team due to go on maternity leave in mid-March.

4. There are no significant issues that we believe the committee should be made aware of.

Input Sought

The Committee is asked to note and provide directions as necessary.

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The Report

2015/16 Reviews in Progress

5. The following reviews are in progress:

Activity	In Progress
Internal Audit	• Data Protection • SISD Delivery • Common Digital Platform • Social Media • Assurance Framework • Agent Remuneration • FRES • Treasury Operational Risk
BTA	• Cross Towers Governance and PAA • End to end Financial Management of Transformation • Digital Programme Mobilisation • Winning with Retailers

Updates on Completed Reviews

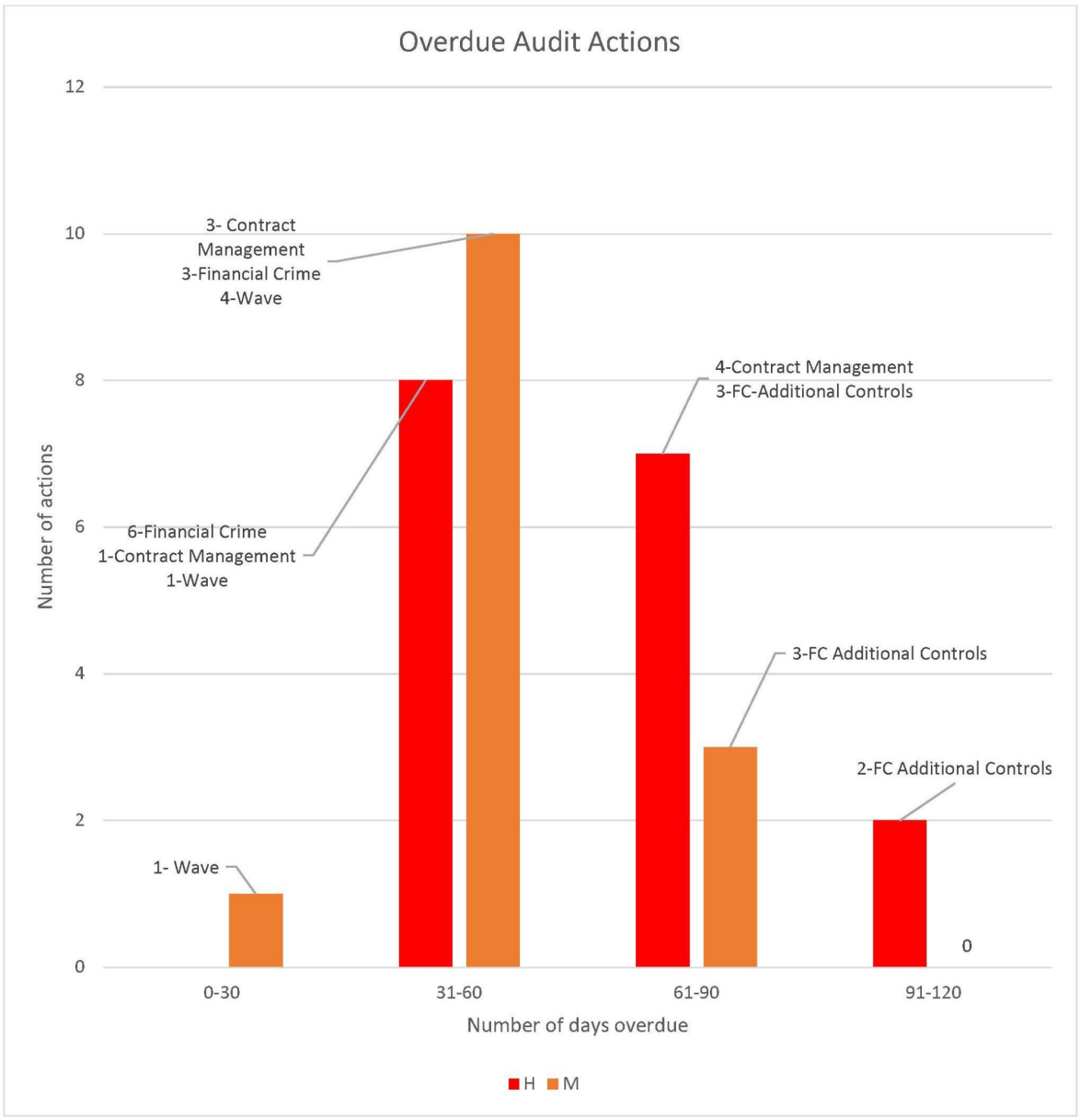
6. Actions arising from our Internal Audit activity are tracked and reported. A process is being designed and implemented which will allow agreed audit actions to be tracked and esculated to the GE sponsor monthly to reduce the number of overdue actions. The details below highlight progress since the last meeting.

Contract Management
Since the last update in January, limited progress has been made on implementing actions primarily due to the departure of the Procurement Director and the handing over to an Interim Head of Procurement. However, work has been done on amending Bravo to ensure that the right information is being collected around contracts. A detailed follow up of Contract Management is within our proposed audit plan for 2016/17.

Financial Crime
A Fraud Policy is currently being drafted as a part of the Policy Framework Project which will address 6 of the 10 overdue actions. Progress has been made with 10 further due actions implemented. Additional actions relating to internal controls in prevention and detection of Financial Crime require further action from the business (5 of 13 due actions have been implemented).

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Summary of Overdue Actions



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Business Assistance

7. Internal Audit has continued to work with Legal to assist Property with the implementation of adequate governance and controls to address regulatory compliance requirements. We have also continued to attend the Property Compliance Forum to monitor progress.

8. Further to the update from the Head of Property to the last RCC meeting, we note below our view on the progress made and residual risks:

Progress with Statutory Compliance activities

- a formal plan is now in place to address all of the required statutory compliance checks/risks assessments for the elements and sites. However, our Facility Management providers have still not managed to achieve full compliance across the PO property estate.
- We understand the electrical testing programme was only performed on a limited part of the electrical circuits as tests were performed during trading hours and the electricity in the branches could not be closed down. The certificates obtained are hence classified as not "satisfactory" and premises will need to be visited again to test the remainder of the circuits and to carry out remedial work. The Head of Property is taking up this issue with CBRE (Facility Management service providers).
- Health and Safety requirements for residential properties are not effectively managed. The suppliers (CBRE and BNP Paribas) will provide a plan to achieve full compliance for residential properties by the first week of March.

Property Compliance Governance

- an exercise to produce a Property Compliance Control Framework has commenced. This is scheduled to be completed by the end of March 2016. The early findings reveal the needs for: strengthening the Facility Management Department to allow a more efficient monitoring of the suppliers' activities; clarifying the scope of 'Safety, Environment and Wellbeing' in relation to Property Compliance and Health and Safety management; update and improve current policies and handbook.
- The exercise aims at addressing all the gaps identified and designing a new operating model covering all roles and responsibilities with regards to property compliance.

Ongoing issues not yet fully addressed

- There is no formal mechanism to escalate the issues and risks identified to a higher management level or committee. Responsible person – duty holders and compliance persons (to provide first line controls) have not yet been trained to fulfil their duties. Initial training is due by the end of February 2016.
- The responsibilities to be taken on by the new Property Compliance Manager going forward have still not been finalised.

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Business Transformation Assurance

9. During Q4 the BTA team have completed two reviews, with two more due to finalise shortly. These reviews are generating recommendations for programmes going forward and aim to create more effective and efficient processes within Transformation and across Post Office as a whole.

10. The BTA plan has been impacted by the changes to the underlying Transformation Plan and progress, namely the putting on hold of the Branch Technology Transformation Programme (BTTP) which includes the Common Digital Platform (CDP) and Front Office system replacements. This has resulted in a number of planned assurance reviews being put on hold. If there are permanent changes to BTTP then a more comprehensive re-planning of BTA activity will be required.

11. Overall six reviews for the upcoming quarter have been identified and approved at Transformation Risk Assurance Group (TRAG); of which three reviews have been scoped and fieldwork is in progress and three are still in the process of being scoped. A full list is included within **Appendix 2**

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Internal Audit Plan – proposal for 2016/17

Author: Garry Hooton Sponsors: Mike Morley-Fletcher Meeting date: 17 March 2016

Executive Summary

Context

During December 2015 to February 2016, we have developed a risk-based Internal Audit Plan (the 'Plan') for 2016/17, based on our team's research and input from ARC, GE members and their teams. The Plan includes 12 prospective reviews (based on current resource levels) and an additional separate 'watch' list of other reviews identified for consideration now or during the year if risk profiles/ priorities change (these are not resourced).

We now seek confirmation that individually and collectively these reviews represent an appropriate Plan to support senior management in their activities and provide assurance to the Audit & Risk Committee (ARC) over key risks to the Post Office. Additional assurance is provided by the Business Transformation Assurance programme and further assurance is planned through the introduction in 2016/17 of Control Self-Assessment for Financial Reporting Controls – see separate paper.

Questions this paper addresses

1. Does our approach to planning focus the Plan on the right priorities to support the Post Office objectives?
2. Does the Internal Audit Team have sufficient resources to deliver the plan?
3. What are the next steps?

Conclusion

1. We have followed a standard risk-based approach to draft the Internal Audit Plan that is consistent with Internal Audit Standards. We researched a range of risk types that most organisations face as well as reviewing those identified by management in their risk registers and via discussion - a number of these are among management's Top Risks in the Group Risk Profile and particular attention has been given to those when prioritising selection. Also we sought assurance expectations from our key stakeholders: the ARC Chair and members, GE members, Senior Managers and other assurance providing functions. The Plan has been drafted taking into account the following considerations:
    a. Total audit universe.
    b. Top identified risks and risk registers from business units.
    c. Current control frameworks.

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d. Assurance already received.
e. Feedback from senior management.
f. Findings and follow up from previous years.
g. Other items identified by Internal Audit and ARC members.

In addition to the Internal Audit Plan, assurance on the Business Transformation is provided under the Business Transformation Assurance Programme. The BTA plan for 2016/17 is being rebased and will be approved by the Transformation Risk Assurance Group (TRAG) shortly, and subsequently reported to the ARC. The Head of Internal Audit oversees the delivery of this activity, led by Deloitte. Internal Audit also provide assistance to Post Office Managed Services (POMS) in the planning, sourcing and delivery of Internal Audit activity, which is resourced from POMS's budget, and overseen by the POMS ARC.

2. The reviews proposed for 2016/17 will be delivered by a combination of our Internal Audit staff and our co-source service providers (PwC) who facilitate specialist skills when required – this approach is consistent with 2015/16. Current permanent resources consist of 5 FTE (4 Internal Audit Managers and 1 Head of Audit), supplemented by the PwC co-sourcing arrangement which is equivalent to approximately 1 ½ FTE. As noted above, resourcing for POMS audits comes from POMS's budget. This level of resource is considered sufficient to deliver the Plan as currently constructed.

3. Further suggestions from ARC members will be considered for inclusion. We expect to be able to circulate the approved plan to GE members at the end of March, to enable local planning and preparation.

Input Sought

The Committee is requested to review the proposed Plan, identify and discuss any items that are on the 'watch' list that could be swapped or suggest items not listed for consideration.

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Detail

Explanation of plan and proposed candidate list

4. The table below (see Appendix 1 for further detail) outlines the proposed audits to take place in 2016/17, including timings sorted by Main Sponsor. The plan for the year is indicative based on current known risks and priorities. However, internal and external events may mean that priorities and risk profiles change, and management may have additional requests during the year for advisory support or audit assistance. In consequence, we may consider amending the plan as the year progresses. We will seek ARC approval for all changes.

Ref	Proposed Review	Main Sponsors	Period
1	**Identity and Access Management (Joiners, Movers, Leavers)**	A. Cameron (N. Hayward*)	Q1
2	**IT & Operations Governance and IT Risk Management**	A. Cameron	Q1
3	**FS Training and Competence schemes - PO Network**	N. Kennett (K. Gilliland)	Q1
4	**Branch Audit (revisit and update)**	K. Gilliland	Q2
5	**IT Disaster Recovery and Resilience**	A.Cameron (J.MacLeod)	Q2
6	**Financial Controls Framework Programme - Independent Testing**	A. Cameron	Q2
7	**FS Sales Compliance**	N. Kennett (K. Gilliland)	Q3
8	**Network Branch Service Centre - Handling of Agents Queries and Complaints**	K. Gilliland (A. Cameron)	Q3
9A,B	**Business Continuity and Crisis Management - PO**	K.Gilliland (J. MacLeod)	Q3
10	**Procurement Process**	A. Cameron	Q4
11	**IT Third Party Management**	A. Cameron	Q4
12	**FS Sales Operations -1st Line of Defence**	N. Kennett	Q4

* associated GE members are included in brackets

5. Although not included in our Plan the additional areas in our watch list are for consideration during the year should either our assurance needs for those areas selected decrease or risk levels for items on our watch list increase – we will monitor both dimensions throughout the year.

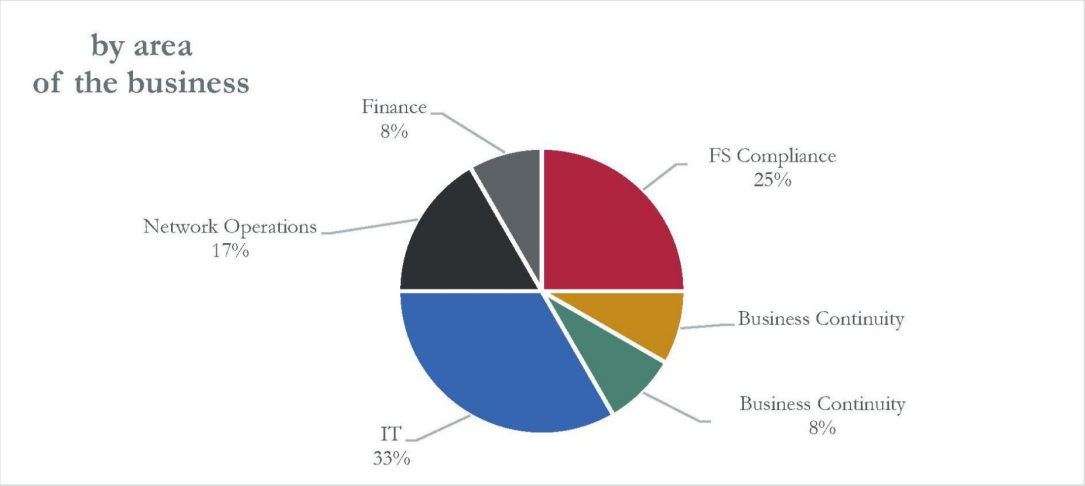
Watch List		
A	**Product Development**	M. George
B	**Digital Channels**	M. George
C	**Third Party Contact Centres Management**	M. George
D	**HR Policies and Processes**	N. Hayward
E	**POCA – Lesson Learned**	M. George
F	**Cyber Security**	J. MacLeod
G	**Business Planning and Investment**	A Cameron
H	**Property Regulatory Compliance Assurance**	K. Gilliland

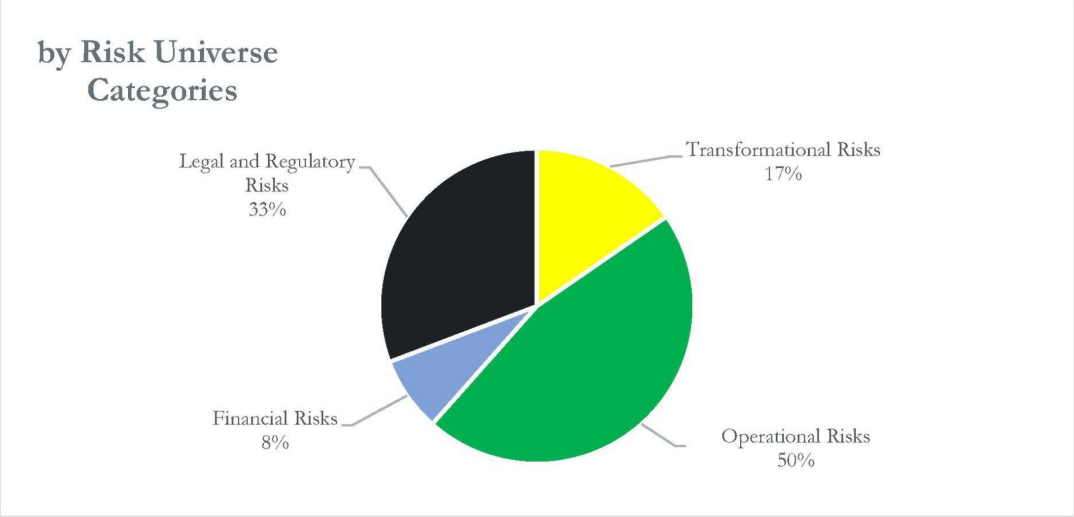
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6. In addition, we will conduct full follow up reviews on three audits performed in 2015/16:

Ref	Follow Up Review	Main Sponsors	Period
1	**Project Wave**	M. George	Q1
2	**Financial Crime**	J. MacLeod	Q1
3	**Contract Management**	A. Cameron (J. MacLeod)	Q2

7. A breakdown by **Business Area** and **Risk Universe Category** is shown in the diagrams below (see also Appendix 2) :





Financial Risks: although we have selected only one review associated to the financial risk category, the review of the Financial Controls Framework Programme (following KPMG work on financial processes) will be performed on several processes covering a number of financial risks.

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8. The **criteria** used to determine the reviews for inclusion include:
   - Link to Top Risks in Group Risk Profile.
   - Link to Strategy and our key priorities (i.e. *simpler to run, better for customers, great place to work*).
   - Changes involving: *people, systems, processes, suppliers, clients, etc*.
   - Regulatory environment.
   - Known incidents or non-compliance issues.
   - Level of controls provided by other assurance providers.
   - Frequency of audit coverage.
   - Status of audit actions.
   - Financial materiality.
   - Potential impact on reputation and customer experience.
   - Value added by performing a review at a specific point in time.
   - Resources.

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Appendix 1 - Draft Internal Audit Plan by Sponsor (Detail)

Martin George

Ref	Proposed Review	Rational for the review	Objectives	Period
Watch List				
A	**Product Development**	Some of the products launched in the past have not delivered the expected returns impacting PO profitability.	Provide assurance over the design and effectiveness of the product development process.	N/A
B	**Digital Channels**	PO business is becoming more digital, requiring effective management of digital risks. The lack of digital competency is one of the top risks in the Group Risk Profile.	Assess how risk appetites have been set and controls designed around the digital channels.	N/A
C	**Third Party Contact Centres Management**	A high volume of sales and customer interactions are made via a number of Contact Centres managed by third party service providers. This area has not been audited previously.	Assess the effectiveness of the processes, controls and management information in place to monitor the third parties providing Contact Centres services for key PO products (including managed services such as Fujitsu for mobile products).	N/A
E	**POCA Lessons Learnt**	The implementation of the new POCA agreement presents risks in delivery of service, and overall brand reputation.	Review POCA lessons learned, followed implementation of new process.	N/A

Nick Kennett

Ref	Proposed Review	Rational for the review	Objectives	Period
3	**FS Training and Competence schemes - PO Network**	Risks of non-compliant practices around the product distribution process and staff training is top of the POMS risk register. This area has not been previously audited.	Assess the training provided to PO and Agency employees involved in the selling process. Review the process for assessing competence in selling FS and Insurance products.	Q1
7	**FS Sales Compliance**	Increasing sales is a key success factor for the FS business. New processes in place, such as roll out of the Customer Relationship Managers (CRMs) to boost sales within Agency Network. Exposure to compliance risks.	Assess compliance behaviours across all the sales channels: CRMs operations, agents and counter staff, FS and MS. Considering the results of the Video Mystery shoppers, products cancellation and rejection.	Q4
12	**FS Sales Operations -1st Line of Defence**	Risks around the role of the AR in monitoring sales operations are key in the risk Universe.	Assess the effectiveness of the controls provided by the first line of defence around sales operations (including oversight of Insurance products).	Q3

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Kevin Gilliland

Ref	Proposed Review	Rational for the review	Objectives	Period
4	**Branch Audit (revisit and update)**	Recent changes in the 'Field Auditing Team' and 'Branch Standards Team' may impact effectiveness of the Second line of defence functions.	Provide assurance over the effectiveness of Second line of defence provided by the Branch field audit team.	Q2
8	**Network Branch Service Centre - Handling of Agents Queries and Complaints**	Given the recent changes to the Agents contracts and the overall Network proposition it is important to ensure that Agents receive adequate support from PO to develop an engaged and sustainable Network. This area has not been previously audited.	Provide assurance over the effectiveness of the Network Branch Service Centres support in dealing with complaints queries from agents.	Q3
9A	**Crisis Management - Network**	The risks around the availability of IT systems and the support from the NFSP are among the Top Risks within the Group Risk Profile which could impact operations of the Network.	Review Crisis Management processes across the Network.	Q3
Watch List				
H	**Property Regulatory Compliance Assurance**	Property and Health and Safety teams are reviewing the Property Regulatory Compliance process and control framework to improve their effectiveness.	Provide assurance on the effectiveness of the compliance processes and controls over PO property.	N/A

Neil Hayward

Ref	Proposed Review	Rational for the review	Objectives	Period
Watch List				
D	**HR Policies and Processes**	Previous audit highlighted areas for strengthening within HR policy and application of processes.	Review of end to end HR processes, including: Payroll, Recruitment, Talent Management and Flexible Benefits.	N/A

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Alisdair Cameron (Finance)

Ref	Proposed Review	Rational for the review	Objectives	Period
6	**Financial Controls Framework Programme - Independent Testing**	KPMG have been engaged to map the key financial controls. The risk of financial misstatement is a Top Risk in the Group Risk Profile.	For a number of selected finance controls, assess the effectiveness of the design; the implementation of KPMG recommendations and perform sample tests to validate KPMG deliverables. The initial pilot will be conducted on the Postmaster Compensation Controls.	Q2
10	**Procurement Process**	Recent changes in the procurement process and resourcing. Weaknesses in the contract management processes were identified by Internal Audit in 15/16.	Provide assurance over the effectiveness of the procurement processes.	Q4
Watch List				
G	**Business Planning and Investment**	The risk of taking sub-optimal investment decision is a top one. There are currently a high number of investment initiatives and changes across the business. Effective processes are required to support both sound investment planning and delivery.	Assess the adequacy of monitoring controls surrounding Business Planning and Investment processes (focusing on: i. Non-Transformation investment and ii. "other business investments")	N/A

Alisdair Cameron (IT)

Ref	Proposed Review	Rational for the review	Objectives	Period
1	**Identity and Access Management (Joiners, Movers, Leavers)**	Gaps in the identity and access management (IAM) processes have been identified by external and internal audit in the last years. A new IAM process will be deployed with the implementation of the EUC tower.	Review the end to end identity and access management processes, including joiners, movers and leavers process (employees and contractors) defined by the business.	Q1
2	**IT & Operations Governance and IT Risk Management**	In supporting the PO strategy IT adopted the SIAM (service integrator and management) model for its services, which requires a clear governance structure and effective risk management on PO side to ensure desired objectives and benefits are achieved.	Review the IT & Operations organisation structure and defined processes to ensure the IT risks are managed. Service Integrator and Management model is adequately governed.	Q1
5	**IT Disaster Recovery and Resilience**	Continuity and availability of systems (infrastructure, applications) is critical to customer services.	Review PO service (application and infrastructure) agreements and processes in place to ensure continuity and availability of service is guaranteed. Assess the links between DRP and BCP and crisis management processes.	Q2
11	**IT Third Party Management**	The IT & Operations organisation, set up a newly Vendor Management team from 2016. This model requires clear definition of roles and responsibilities and clear assurance processes between PO, Atos and the other suppliers.	Review the controls and processes defined by IT & Operations Vendor Management team and widely within the IT & Operations organisation to ensure the IT supply chain is effectively managed according to contracts.	Q4

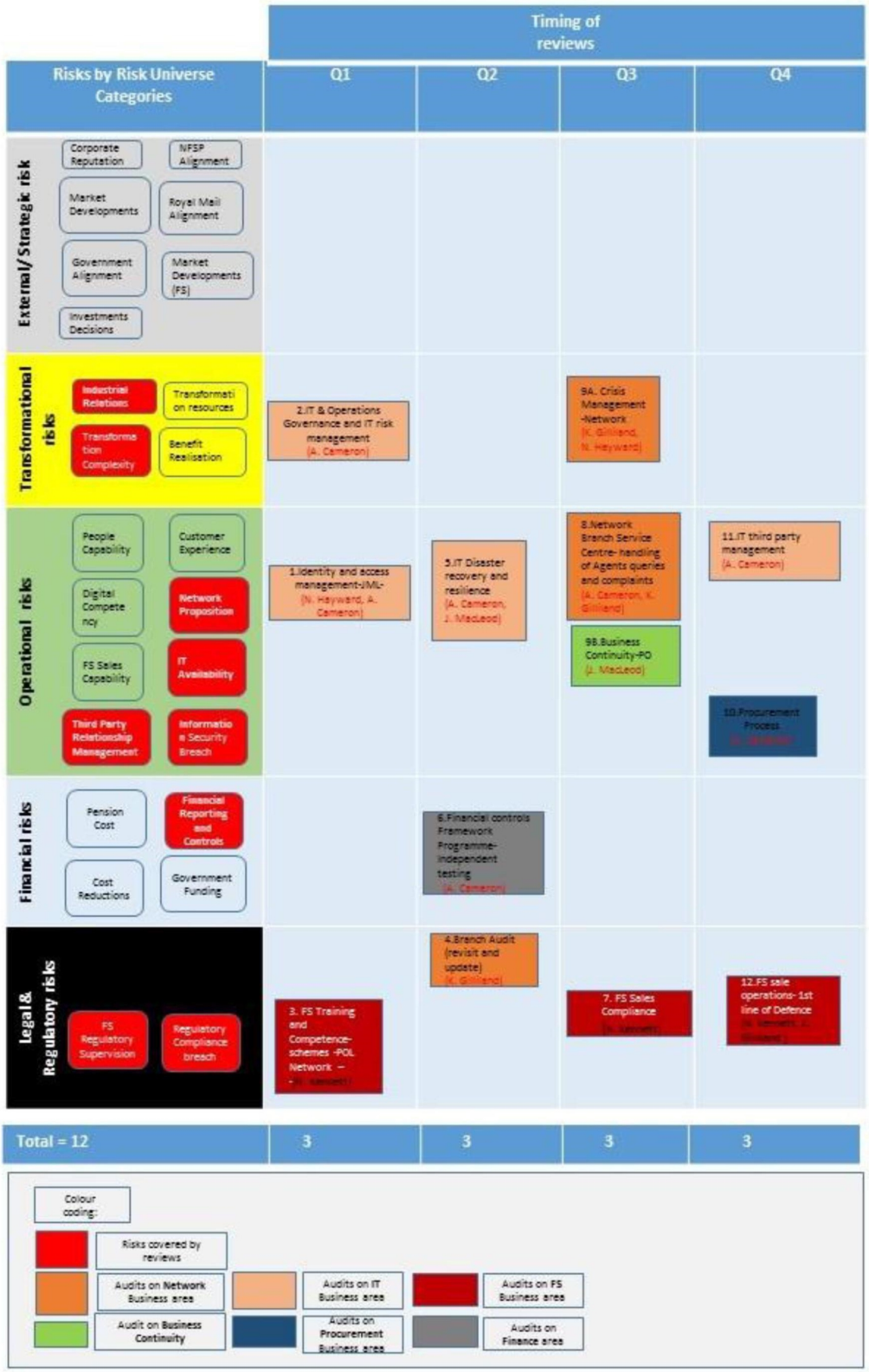
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Jane MacLeod

Ref	Proposed Review	Rational for the review	Objectives	Period
9 B	**Business Continuity - PO**	Ensuring continuity of customer service is a critical aspect of the PO business. A new BC process was developed in 2015. Links to the IT Disaster Recovery review planned for 2016.	Review design and effectiveness of the Business Continuity Processes across PO operations. Ensure PO has adequate DRP agreements with IT suppliers and links to PO BCP and crisis management are considered within those agreements.	Q3
Watch List				
F	**Cyber Security**	PO business is becoming increasingly digital and the cyber threats are increasing.	Review and assess the cyber risks and the controls designed and implemented to protect PO from cyber-attacks.	N/A

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Appendix 2- by Risk Universe Categories and Business Areas



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POST OFFICE BOARD

AUDIT RISK AND COMPLIANCE COMMITTEE MEETING

AML and CTF Risk Update

Author:John Scott Sponsor: Jane MacLeod Meeting date: 17th March 2016

Executive Summary

Context

- During 2015 a review of Post Office's Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) Framework was commissioned from external consultants (Promontory). This was completed in December 2015 and delivered in February 2016. The report highlights a significant number of areas for improvement. Coincidentally in February 2016 HMRC advised Post Office that it would undertake an AML/CTF compliance audit.
- This paper updates the Committee on the scope of these two activities and the work being undertaken to address issues.

Questions this paper addresses

1. What are the AML/CTF risks for Post Office?
2. What are the key recommendations of the Promontory report?
3. What is Post Office's response to the Promontory report and the HMRC audit?

Conclusion

AML/CTF Risks

1. Post Office is regulated by HMRC for (i) bureau de change (walk in on demand, buy back and branch pre order), (ii) third party cheque encashment, and (iii) bill payments. AML Regulations require a series of mandatory activities such as Customer Due Diligence checks and completing and filing suspicious activity reports, with risk based activities such as staff vetting, training, risk based monitoring of activities, and controls built into the design of products.
2. The products and services which are assessed to carry the greatest risk are bureau de change, cheque encashment, MoneyGram, personal & business banking and services provided to third party money bureau services by Supply Chain.
3. Additionally, there are a number of products and services (particularly with BoI, Partner Banks, FRES and MoneyGram) where Post Office is not directly regulated, but has an obligation to ensure that AML/CTF controls are in place.
4. A number of potential non-conformances in the Network were identified in the last 12 months. Additionally we are aware that law enforcement services are investigating a number MSB clients for suspected AML/CTF breaches.

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5. We have recently been advised by HMRC that they propose to conduct an AML/CTF compliance audit on Post Office. This audit will be conducted over a 9 month period and will require the supply of significant amounts of documentation, interviews with relevant staff as well as managing visits to over 150 branches including Crowns, multiples, and agency branches.

6. Receiving a less than 'satisfactory' audit findings may have potentially material adverse impacts on relevant business activities, as well as creating issues with stakeholders such as HMRC, Treasury, BIS and the FCA (as the regulator for both POMS and Payment Systems); and will also be of concern for Post Office's principals (Bank of Ireland and POMS), financial services clients including under the Banking Services Framework and also for the ultimate provider of the POCA Banking Services.

What are the key recommendations of the Promontory Report

7. The Promontory report made 59 recommendations in a number of key areas which are further described in this paper. These include governance oversight, policies and procedures, resourcing and MI.

What is Post Office's response to the Promontory Report and the HMRC Audit?

8. Post Office accepts these recommendations and we are currently developing a plan to assess and implement the recommendations. Details of the plan and observations of issues arising under the compliance audit will be reported regularly to the ARC

9. Implementation of the recommendations will require resource, systems and data and this work cannot be absorbed into the current Financial Crime team resource. We are therefore establishing a project to manage the implementation of the Promontory recommendations and respond to, and manage the requirements of the HMRC Audit.

Input Sought

10. Re-affirm the Board's Risk appetite in relation to AML/CTF (regulatory) risks as averse.

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The Report

What are the AML/CTF risks for Post Office?

11. Post Office is regulated by HMRC for Money Service Business (MSB) specifically bureau de change, third party cheque encashment and bill payments. This requires a series of mandatory activities such as Customer Due Diligence checks, completing and filing suspicious activity reports, risk based activities such as staff vetting, training, risk based monitoring of transactions and activities, and controls built into the design of products.

12. Those products and services which carry the greatest risk are bureau de change, cheque encashment, MoneyGram, personal & business banking and services provided to third party MSBs by Supply Chain.

13. Post Office operates under Appointed Representative (AR) agreements with Bank of Ireland and Post Office Management Services Limited (POMS) for several regulated products and services, and has a number of partnerships and strategic distribution alliances with suppliers including GVS Prepaid Limited and First Rate Exchange Services Limited (FRES). These are directly supervised by a combination of FCA, PRA and HMRC. Post Office's AML/CTF responsibilities for these products and services are limited but there is an obligation to ensure that Post Office is not used as a conduit for money laundering or terrorist financing, a requirement to report suspicious activities, provide appropriate AML/CTF training for relevant individuals, and maintain adequate transaction records.

Background to the Promontory Report

14. The incoming MLRO conducted an internal review in the first half of 2015 which identified, among other findings, weaknesses and deficiencies in the knowledge and application of Post Office's regulatory responsibilities, poor access to the data and MI required to support AML/CTF monitoring requirements, and insufficient liaison with key clients and suppliers. Contemporaneously we suspected high levels of non-conformance across Post Office counters and became aware, in conjunction with law enforcement agencies, of significant money laundering activities by Supply Chain customers.

15. In addition, the requirements of the 4th Money Laundering Directive will be introduced in the UK within the next 18 months and will require significant changes for Post Office.

16. Accordingly, I commissioned Promontory to review Post Office's framework and controls as applied to anti-money laundering and counter-terrorist financing activities. The final report was delivered in February 2016 and identified a number of controls and activities that need to be introduced to ensure that our regulatory obligations are met as well as ensuring that we would be best placed to meet the requirements of the 4th Money Laundering Directive. A copy of the Promontory report is available on request.

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Promontory recommendations

17. Promontory's review includes 59 recommendations and highlights a number of key areas that require enhancement; in particular:

- Board, GE and R&CC accountability and oversight;
- Requirements for improvement in Post Office AML/CTF policy;
- Improved governance, MI and reporting;
- Enhanced risk assessment and awareness both across the Post Office and at specific product and service level;
- Better recording of risk decisions;
- Improved policies and procedures across the business that impact AML/CTF regulatory activities;
- Development of AML/CTF transaction and non-conformance monitoring at customer and product level;
- Enhanced Training, awareness and communication across the business;
- Improvements in the Suspicious activity reporting ('SARs') processes;
- Other System improvements; and
- Supply Chain due diligence and monitoring.

18. Additionally, the Security team have identified that Politically Exposed Persons and Sanctions screening had not previously been identified as a requirement for Supply Chain Money Service Business clients (MSBs). The contracts currently in place for MSB clients also need to be reviewed and updated, as they do not include specific regulatory obligations.

HMRC Compliance Audit

19. In February 2016 we were advised by our regulator (HMRC) that they will be undertaking regulatory supervision of Post Office during 2016. This audit will include a review of all back office regulatory activity as well as visits to branches to test compliance (number yet to be ascertained but potentially 100-200). HMRC have advised that as one of the top 3 regulators within the UK, they expect to be subject to forensic audit by FATF[1] as part of their UK audit in 2018. HMRC advise that by most metrics ((financial, branch, people, complexity), Post Office is the largest and most key organisation that they supervise. HMRC therefore expect that FATF will audit HMRC's supervision of the Post Office. Accordingly the current audit is part of HMRC's own preparation for the FATF review.

20. As part of the review HMRC has already identified that our processes for ensuring that new branches are pre-registered with HMRC prior to opening, are flawed and

[1] The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

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we are therefore liable to correct the under-reporting and pay outstanding registration fees.

What is Post Office's response?

21. Post Office currently does not have the internal resources to address either the Promontory findings or respond to the audit. Accordingly we are setting up a project and will contract with the necessary specialist resource to be able to address both requirements in parallel over the next 9 months (being the expected duration of the HMRC audit). A steering committee has been established which I chair and which includes not only representatives from relevant parts of the business, but also external financial crime legal specialists. A project manager has been appointed and protocols have been agreed to manage the interaction with HMRC.

22. A comprehensive training, awareness and communication programme around AML compliance is being implemented, including training of all Post Office employees for the first time (not just customer facing).

23. We are currently procuring licences to Thomson Reuters Worldcheck to enable PEPs and Sanctions screening to be undertaken.

24. We are also undertaking a review across the branch network to confirm the gaps in registration so as to ensure that we can correctly register all branches as quickly as possible and remediate the registration fee issue. There is also a reasonable risk that we will be fined for historic non-compliance.

What are the possible outcomes?

25. Banking clients are under increased regulatory supervision in relation to AML/CTF, and under the new Partner Banking Framework, there is more focus on Post Office's AML/CTF activities. Again, they will be concerned to ensure that Post Office is compliant with its regulatory responsibilities.

26. Post Office understands that it is important that it appropriately implements the Promontory recommendations and deftly handles the HMRC audit. Any other outcome is likely to have potentially material adverse impacts on relevant business activities, as well as creating issues with stakeholders such as HMRC, Treasury, BIS and the FCA (as the regulator for both POMS and Payment Systems).

27. Adverse findings would also be of significant concern to both principals (Bank of Ireland and POMS), our partners under the Banking Services Framework, and also for the ultimate provider of the POCA Banking Services.

28. In the extreme, this could lead to HMRC fines or HMRC revoking our Money Service Business registration.

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Lessons Learnt – Postmasters' Compensation

Author: Sharon Bull Sponsor: Al Cameron Date: 17 March 2016

Executive Summary

Context

1. We identified that a provision for compensation for Sub-Postmasters (SPMs) was understated in our accounts at September 2014 and March 2015. This was corrected in the interim accounts as at September 2015. We agreed to provide a summary of the lessons learnt, including changes to the relevant processes.

Questions this paper addresses

2. The purpose of this paper is to update the ARC on changes that have been implemented. The specific questions covered in this paper are:
   - What were the contributing factors and what changes have been made to the NTP compensation provision process?
   - What are the wider cultural learnings and considerations?

Conclusion

3. The NTP compensation process and controls are much stronger and work is ongoing to improve them even further.

Input Sought

4. The ARC is asked to note the changes that have been implemented.

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The Report

What were the contributing factors and what changes have been made?

5. The main learnings and the steps undertaken to improve the processes are set out below:

	Issue	Change
1	Multiple, unconnected databases were used to store data	A single database capturing all of the data for each branch has been built and will be fully operational before year-end
2	Data sources were not cross-checked	Cross-references have been designed, with each item of data having at least one point of cross-reference
3	The flow of information was incomplete	The information flow has been re-designed, with all information passed to both the network and the finance teams
4	Details of conditional resignations and values, the primary driver of provision, were not stored in one place	All CRPs have been captured on a single spreadsheet, supported by monthly sample testing. From February 2016, all new offer letters are held centrally including indicative amounts.
5	The end-to-end process was not understood	The process has been documented and is currently under review by the KPMG controls team.
6	Accountabilities for individual process steps and between the different teams were unclear	Accountabilities have been agreed for each individual and team and will be included within objectives for 2016-17
7	Controls were not formally identified, owned or tested	Controls will be included within the self-assurance and internal audit testing plans for 2016-17
8	The provision and its movements were not reconciled to the underlying activity set or the forecast of the programme cost	A full listing has been developed showing the situation of each branch within the NT journey. This is used to check movements and completeness. The provisions have been agreed at high-level to the overall business case for NT: a branch by branch business case is nearing completion.
9	The external audit did not satisfactorily test the completeness of the provision	The external audit has been re-designed to ensure adequate testing (see separate paper)

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What are the wider cultural learnings and considerations?

6. Across Finance, we are pursuing an end-to-end programme to improve the control environment. This is set out in a separate paper, updating the Committee on the progress made. The intention is that we should have every control that we rely on clearly identified and owned. Owners will be required to self-assurance that they have the evidence the control is working at pre-determined intervals and this will be supported by Internal Audit testing.
7. For financial reporting, this process will be completed in 2016-17. Decisions can then be made whether to extend this discipline into other areas of the business.
8. Bonus schemes include the right to claw-back awards in certain circumstances.

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Financial Reporting and Controls

Author: Dave Carter Sponsor: Al Cameron Date: 17 March 2016

Executive Summary

Context

1. We agreed to provide an update to each ARC on the plans and progress to create sustainable and controls to support reliable financial reporting.

Questions addressed in this report

2. The questions covered in this paper are:
   - What progress has been made?
   - What are we doing to provide assurance that we can sign the 2015-16 financial statements?
   - What are the longer term plans to create sustainable and reliable financial reporting?

Conclusions and recommendations

3. We have continued to progress the various workstreams as set out in the table in the main report below.
4. No further issues have been identified, although there is focused activity to review aspects of income on some government contracts: specific aspects, such as profit shares, are managed on spreadsheets that have been owned outside of Finance.
5. Plans are in place to ensure we have appropriate support for the 2015-16 financial statements. A management attestation process has been created and signed off by the Group Executive. A revised audit plan has been agreed with EY. Both are covered in separate agenda items at this ARC.
6. Longer term plans to develop a sustainable control environment in 2016-17 are on track.

Input Sought

7. The ARC is asked to comment on the progress and plans.

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The Report

Progress and Plan

8. Details of the progress and plans are set out below:

Workstream	Progress since January	Plans to support the 2015-16 year-end	Plans to support the 2016-17 year-end
Governance	The weekly control meetings are embedded operationally	Continue	Continue until BAU
Structure and Accountabilities	The core role changes have been agreed with individuals and are fully operational. More junior role accountabilities have been agreed.	The role changes will be embedded as part of the consultation process expected to start in early April	
Systems	New BI architecture has been delivered, reducing complexity and the need for manual intervention. Balance sheet reporting update completed, p/l underway.	New income, expenditure and spend reporting will be reconciled at end March and will fully replace current reporting from end April.	Progressively replace income spreadsheets with embedded system capability. Re-plan the core CFS architecture to enable product and channel reporting from the systems.

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Workstream	Progress since January	Plans to support the 2015-16 year-end	Plans to support the 2016-17 year-end
Controls	Phase 1 complete, subject to final review and sign off – gap analysis over Fixed Assets, Project Accounting, Bill to Cash and Record to Report	Phase 2 Complete – gap analysis on payroll, treasury, settlement, control environment Phase 3 started – gap analysis on purchase to pay and taxation	Phase 3 complete Remediation of control gaps completed.
Income reconciliation	The ability to reconcile income for each product from source systems to the financial reporting has been demonstrated and the method proven	Complete the reconciliation for Periods 1-10 YTD for both volumes and values, extending the volume analysis to reconcile with client settlement and comparing the terms to the contracts	Consider the need to repeat
Postmasters' Compensation	Further planned controls have been implemented	Review and test	
Balance Sheet	The financial reporting risk has been assessed for each balance sheet account and actions agreed to mitigate it Open purchase orders have been reviewed and cleared	Deliver the required actions, including substantial post balance sheet event testing	

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Workstream	Progress since January	Plans to support the 2015-16 year-end	Plans to support the 2016-17 year-end
Self-certification	Management attestation process has been agreed	Management attestation process implemented	Self-assurance software implemented. Self-assurance required over every financial control at regular intervals
Assurance	External Audit re-plan agreed	External audit undertaken	Internal Audit testing of self-assurance

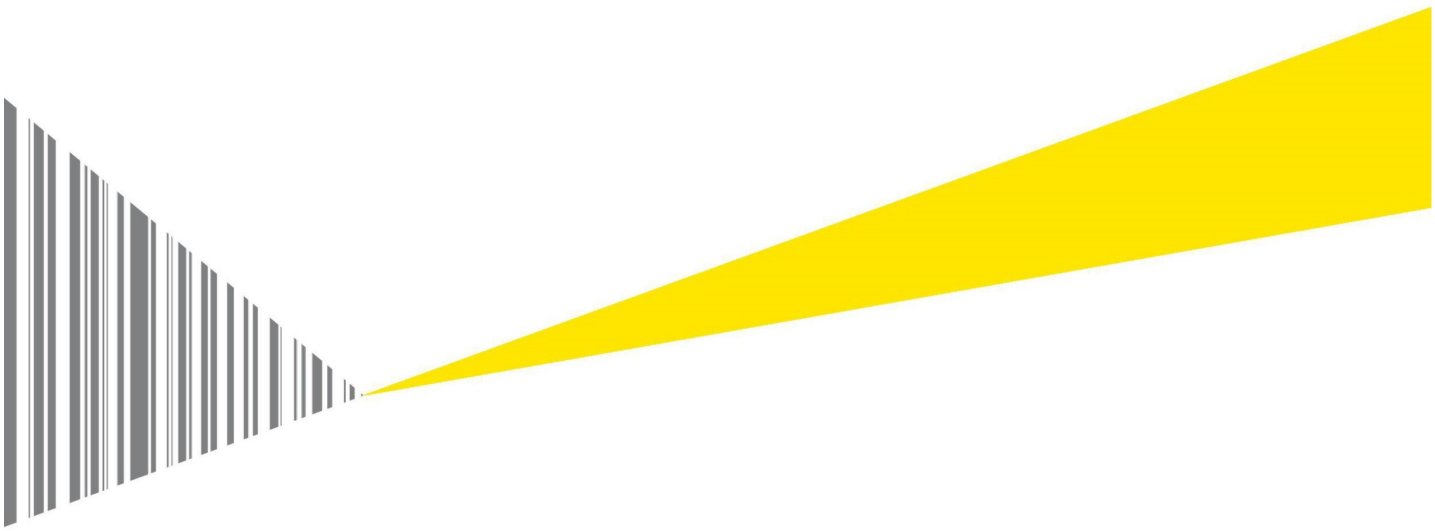
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Post Office Limited

Planning Audit Report to the Audit and Risk Committee

for the 52 weeks ending 27 March 2016

17 March 2016



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INVESTOR IN PEOPLE

17 March 2016

Private and confidential

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

Audit Planning Report

We are pleased to attach our updated audit planning report for the forthcoming meeting of the Audit Committee in which we outlines our audit approach to consider all relevant emerging business and financial statement risks which could materially affect the consolidated financial statements of Post Office Limited ('POL').

The purpose of this report is provide the Audit and Risk Committee with a basis to review our proposed audit approach and scope for the audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit and Risk Committee's service expectations.

The audit is designed to express an opinion on the consolidated financial statements of POL for the 52 weeks ending 27 March 2016. This report summarises our assessment of the key issues which drive the development of an effective audit for POL.

This report is intended solely for the information and use of the Audit Committee, Board of Directors and management, 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 17 March 2016 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Peter McIver

Engagement Partner

For and behalf of Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 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.

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 22/01/2016.

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 and Risk 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.

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Overview of audit strategy

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Overview of 2015/16 audit strategy

Audit risks

Our risk assessment is based on our understanding of your business risks and how they impact the consolidated financial statements. For our 2015/16 audit the key risks, which are described further in Section 2 are as follows:

Risks	Changes from prior year
Significant Risks	
► Postmasters compensation provision is not complete due to the underlying records of agreements with postmasters, on which the this provision is based are incomplete	Given the historical data integrity issues associated with the provisioning process and the assumptions embedded in the calculations (success rates on finding replacement postmasters and conversion anniversary payment instances and amounts); We deem this an ongoing area of audit focus. Risk is highlighted following last years restatement.
► Revenue recognition across diverse range of revenue streams*	No change from prior year; still considered a significant risk in the current audit.
► Classification and completeness of exceptional items and utilisation of Government Grant.	In the prior year we had an associated risk of exceptional items primarily with classification only. In the current year we have associated risk against completeness and existence to broaden our area of focus.
► Risk of management override around estimates and judgements* In particular we note that Management makes critical estimates and judgements in the following areas: • Classification of exceptionals; • Revenue recognition; • Provisions; • Pension assumptions; and • The appropriateness of Management's impairment policy as it becomes more likely that Post Office will be cash generative without reliance on government grants.	No change from prior year; still considered a significant risk in the current audit.
Other areas of audit focus (Inherent Risks)	
► 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.

**Fraud risk as defined by auditing standards and professional judgment*

Our audit approach is designed to appropriately respond to the above 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.

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Overview of 2015/16 audit strategy Cont'd

Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of a misstatement that could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality has been set at £10.8m, which represents 1% of the 2015/16 forecast 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.

Our assessment requires professional judgement and takes into account qualitative as well as quantitative considerations. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

We will report all individual uncorrected audit differences over £542,000.

Audit scope

POL's consolidation is 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 and which we will cover in our audit for the first time as its initial audit.

Through on-site work, we will cover 100% of the Group's revenue, the Group's Total assets and 100% coverage of Profit Before Tax is expected from a full scope audit for all components of the Group.

We have specifically considered the scope of our audit in response to the identified risks above, which has impacted the components in which we performed our work and the extent of our procedures performed in these areas. Section 4 provides an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant reporting unit auditors.

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01



Risk-based audit approach

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

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Risk based approach

approach | audit emphasis | based audit | scope and execution | delivery

The table below is a summary of POL's risk universe obtained from POL's Risk and Assurance team:

POL'S RISK UNIVERSE				
Strategy	Transformation	Operational	Financial	Legal & Regulatory
► Market dynamics ► Stakeholder Relations/ Alignment ► Governance and Control ► Planning and Resource Allocation ► Strategic Investments	► Strategic Alignment ► Project Planning ► Resource Management ► End Users ► Financial Management ► Benefit Realisation ► Change Management (complexity and capability) ► External Events	► Commercial ► Network and Sales ► Financial Services ► Supply Chain ► Marketing ► Operations ► People ► IT ► Information ► Premises (Crown/HO) ► Procurement ► Fraud and Security ► Business Continuity	► Market ► Liquidity and Credit ► Unplanned Costs ► Accounting and Reporting ► Taxation	► Regulatory Compliance ► Legal

We have considered the above risks in our identification of significant and other financial statement risks and have identified the following areas where there is a higher risk of material misstatement:

RISK ASSESSMENT

Key financial statement risks for audit
Postmasters compensation provision is not complete due to the underlying records of agreements with postmasters, on which the provision is based are incomplete*
Revenue recognition across diverse range of revenue streams*
Classification of exceptional items and utilisation of government grant*
Risk of management override around estimates and judgements*
Pension valuation and accounting
VAT Accounting
Horizon Subpostmasters claim
SAP CFS accounting system

Our audit approach to address these risks and other areas of audit emphasis is included in pages 10 to 16 of this report.

**Significant risk as defined by auditing standards and professional judgment*

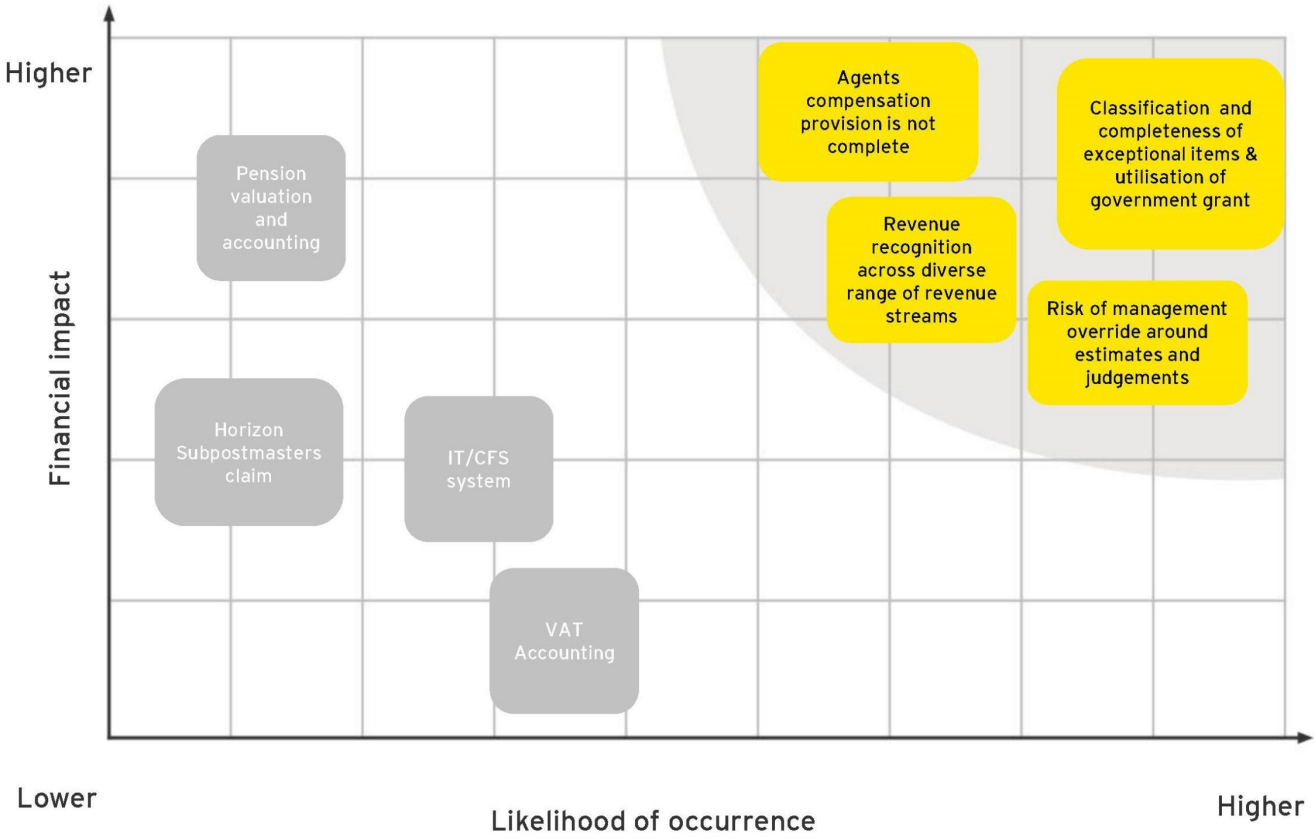
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Risk based approach

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.

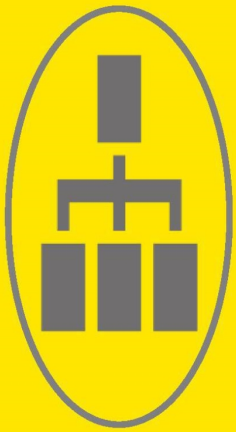
Of the risks identified, we consider some of them to be significant to our audit and these require special audit consideration. Auditing standards define significant risks as those with a high likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated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



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02



Areas of audit emphasis

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

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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.

Areas of emphasis	Summary of planned audit procedures
Postmasters compensation provision The Postmasters compensation provision is a key area which carries a material level of reporting risk. There is a risk that the postmasters compensation provision is not complete due to the underlying records of agreements with postmasters, on which the this provision is based being incomplete. Given the historical data integrity issues associated with the provisioning process and the assumptions embedded in the calculations (success rates on finding replacement postmasters and conversion anniversary payment instances and amounts); in the current year we deem this an area of significant audit focus. Further in preparing the financial statements for the current year, the comparative figures for the year ended 29 March 2015 will be restated as reported in the 27 September 2015 interim financial statements. For the above reasons above this is an area of audit emphasis as it will be important to ensure that the provision has been appropriately monitored and adjusted through out the year so that at the year end it is complete and accurate.	► We will perform an independent reconciliation of the total branches as well as an analysis of their data and status at 27 March 2016. We will compare this to managements results and use this to identify anomalies and challenge the provision analysis provided by Management. ► To ensure that every branch in the Post Office Network is classified correctly we will independently categorise each branch into their categories at 27 March 2016, based on their individual attributes and we will challenge POL's assessment by comparing results. ► Our sample based testing will include checking the attributes and classification of the branches in the network. This will be done by checking signed contracts (where applicable) and ensuring that where a provision is applicable, it has been recognised in the correct period by obtaining the signed contracts and checking that the dates of the signed agreements. We will also ensure that, branches selected for testing are not duplicated in any other category. If our sample identifies unusual items or categories, these will be communicated to POL and investigated and adjusted where necessary. ► To check the validity and accuracy of POL's records we will undertake sample based testing on the Conditional Resignation Pack (CRP) contracts and checked dates for correct cut off and sign off. We will also trace the contracted amounts of these CRPs per POL's records to the payment listing and bank statements, showing the amount being settled post year end. ► We will performed an unrecorded liabilities test by reviewing all cash payments made to postmasters in the months subsequent to the year end (up until the date of signing the financial statements). We will independently sample selected payments and vouch to actual bank statements and also ensure that provision is accrued in correct period. ► To further gain assurance on the completeness of the provision at the balance sheet date, we will performing a reasonableness test on each category of the postmaster's compensation elements by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This will involved understanding the number of open projects and how the estimated costs to complete are computed and corroborating this to tests performed on the branch reconciliation. ► We will discuss with the management the progress they have made since interim in their plans for implementing a formal policy of procedures and controls for the postmasters compensation process and assess the new controls and check those implemented by management to address the risks around completeness of the provision and we will carry out additional testing where appropriate.

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Areas of audit emphasis

Significant risk	Summary of planned audit procedures
Revenue recognition across diverse range of revenue streams 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. 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. We also note that reward and incentive schemes are based on achieving profit targets which may also place undue pressure on Management to achieve revenue forecasts, which makes us identify revenue recognition as a fraud risk.	► 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.

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Areas of audit emphasis (cont'd)

Significant risks	Summary of planned audit procedures
Classification and completeness of exceptional items and utilisation of Government Grants 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. 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. 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 *Government Grants*. Network Transformation related costs make up the largest element of exceptional costs in the income statement. Risks include: ► Agents compensation charge is not complete due to the underlying records of agreements with postmasters, on which the this charge is based are 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.	► 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.

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Areas of audit emphasis (cont'd)

Significant risk	Summary of planned audit procedures
Risk of management override around estimates and judgements 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: • Classification of exceptionals; • Revenue recognition; • Provisions; • Pension assumptions; and • The appropriateness of Management's impairment policy as it becomes more likely that Post Office will be cash generative without reliance on government grants. These areas involve a level of Management judgement, and thus gives rise to the risk that some transactions may be inappropriately accounted for.	► 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. (i) We will develop a journal entry approach specific to management override over classification of exceptionals and revenue recognition; this will include : ➢ 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). (ii) Our journal entry approach specific to management override over provisions included: ➢ 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. (iii) We will perform testing on the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. (iv) We will review accounting estimates used in provisions for evidence of management bias. (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. (v) In addition to the above we will focus on evaluating the business rationale for significant unusual transactions around estimates and judgements.

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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
Pension valuation and accounting 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. 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.	► 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 Companie's 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.
Horizon Subpostmasters claim 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. 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. 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.	► 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.

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Areas of audit emphasis (cont'd)

Areas of emphasis	Summary of planned audit procedures
VAT Accounting The POL VAT recovery ("partial exemption") method is a key area which carries a material level of reporting risk. 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. During the year management increased the recovery rate applied in the system from 40% to 55%. 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.	► 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.
IT audit and SAP CFS (core finance system) post implementation The following IT applications are in scope for our audit: HNGX, POLSAP, SAP HRP and SAP CFS. 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. 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.	► 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.

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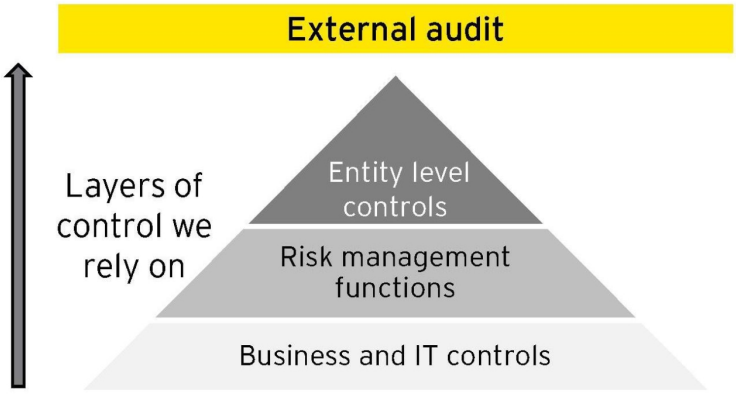


Controls based audit

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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, network cash, purchase to pay, 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 and work is being undertaken by consultants to enhance internal controls and systems. We will communicate to you any significant deficiencies in internal control that we identify and follow up last years items. 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.

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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.

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Controls based audit

Risk based approach | Areas of audit emphasis | **Controls based audit** | Audit scope and execution | Service delivery

We outline below an overview of our audit approach broken down by the key stages of the audit.

Processes and controls work

We identify key financial processes and key controls which provide the platform for POL's internal financial control environment.

We walk through those key processes and controls end to end to assess whether they have been designed effectively. Where the design is effective and it is practical to do so we then test the implementation of relevant controls to assess whether our preliminary decision to take a controls reliance strategy is still appropriate.

Similar to prior year we will test controls for POL's payroll, network cash, purchase to pay, cash settlement, revenue and fixed assets processes.

IT system and controls testing

In order for us to place reliance on IT controls and reports generated by the key financial systems IT systems (HNGX, SAPHR, CFS and POLSAP) for our audit, we need to be able to rely on the IT general control environment throughout the whole year. This includes effective controls over access and the ability to make system changes. We plan to perform this testing and issue reliance using our IT specialist team for support.

Data analytics

We plan to use bespoke data analytics tools to form part of our substantive testing in the following financial statement audit areas across the CORE locations:

- **General ledger:** testing the whole population of data to analyse trends
- **Revenue analytics:** testing of the entire population and to analyse trends.
- **General journals:** testing the entire population to identify potential instances of management override

Substantive procedures

We design and perform substantive procedures so that the combination of our procedures (including tests of controls) provides sufficient appropriate audit evidence

- **Test of details:** these provide direct audit evidence of transactions or balances and include recalculations and obtaining corroborating evidence and external confirmations. (Refer to Appendix A)
- **Detailed analytical procedures:** provide evidence when applied to large volumes of transactions that tend to be predictable over time.

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Audit scope and execution

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Audit scope and execution

Risk based approach | Areas of audit emphasis | Controls based audit | **Audit scope and execution** | Service delivery

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.

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.

We set our audit scope to ensure that we are able to perform sufficient work to be able to give an opinion on POL's consolidated financial statements a whole. We determine the extent of audit work to be performed based on our assessment of the risks of material misstatement (set out in Section 1) and of the materiality of the Group's business operations in that component. We have based our scoping on the latest forecast data provided by management and will recalculate based on the final reported information.

Full scope

- Components deemed significant based on size or pervasive significant risk factors.
- Audit procedures will be performed for Group reporting purposes to the allocated proportion of group performance materiality covering all significant accounts and processes of that component to the group
- Full scope components will be Post office Limited (Parent entity) and First Rate Exchange Services ('FRES') and Post Office Management Services Limited ("POMS").

Statutory scope

- For components that are insignificant to the Group but that require local statutory audits, our teams will perform their audits outside the Group audit cycle and update us at the centre with any significant findings. We perform an annual assessment to review the results of statutory procedures performed and consider their impact on the group financial statements. Statutory scope components will be Post Office Management Services Limited ("POMS").

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Audit scope and execution



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 forecasting 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.

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Service Delivery

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Service Delivery

Risk based approach → Areas of audit emphasis → Controls based audit → Audit scope and execution → **Service delivery**

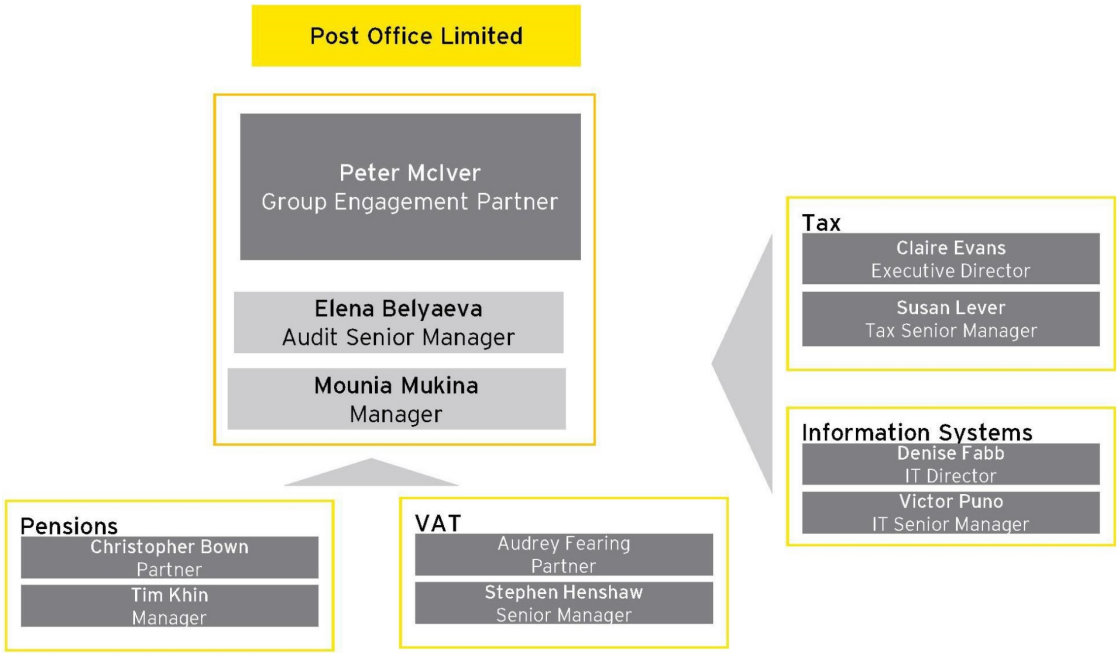
Your POL audit team

The POL engagement team is led 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 ten 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 is supported by Elena Belyaeva 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.



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Service Delivery

Risk based approach | Areas of audit emphasis | Controls based audit | Audit scope and execution | Service delivery

2015-16 EY services

	Services and deliverables
Financial reporting	► **Express opinions on, and report to the Audit and Risk Committee the results of, our audits of:** ► 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:** – 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:** ► 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 *Interim Financial Reporting*.
Internal control communications	► **Express our views on control themes and observations, including recommendations for improvements in controls and procedures.** ► 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	► **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:** ► 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

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Service Delivery

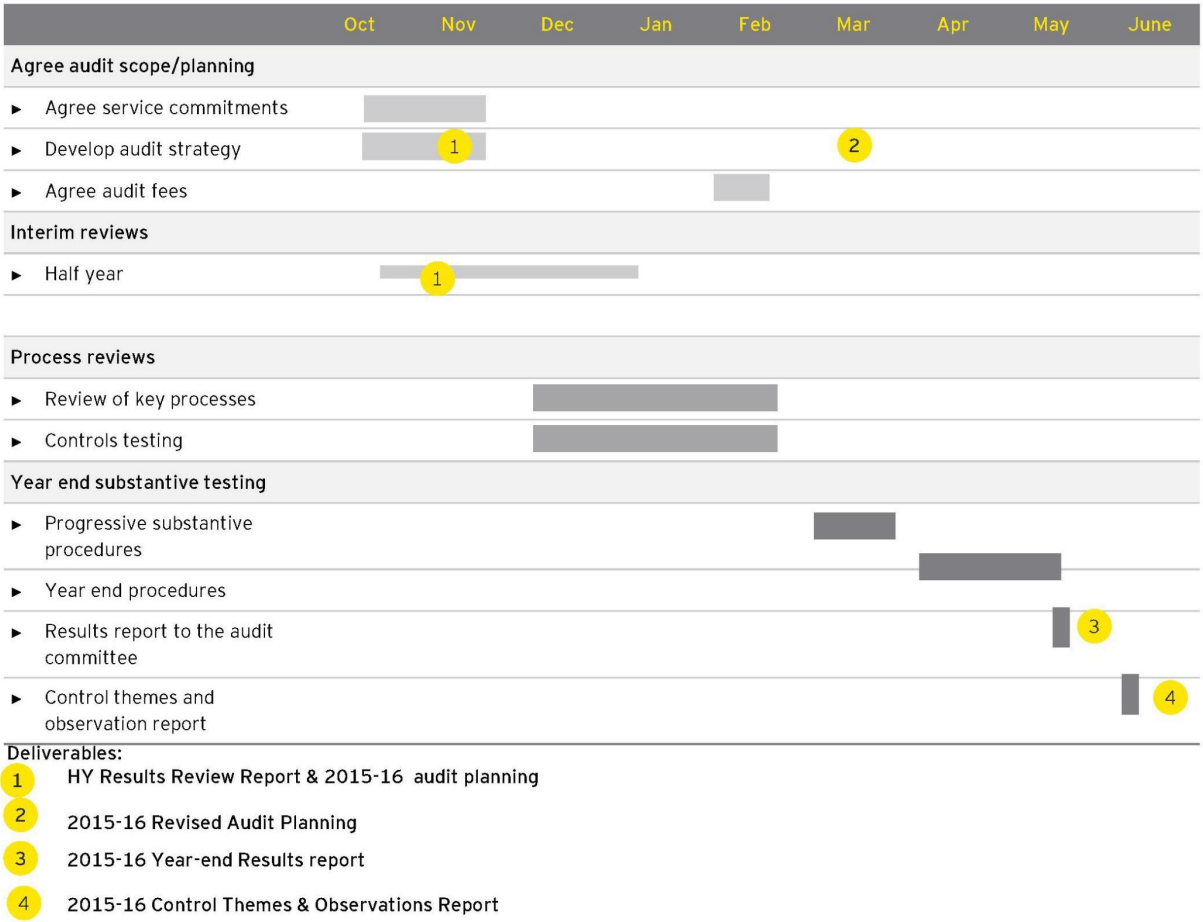
Risk based approach | Areas of audit emphasis | Controls based audit | Audit scope and execution | Service delivery

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.



Deliverables:

1. HY Results Review Report & 2015-16 audit planning
2. 2015-16 Revised Audit Planning
3. 2015-16 Year-end Results report
4. 2015-16 Control Themes & Observations Report

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Appendices



Appendix A Nature of **Substantive Audit procedures**

Appendix B **Audit fees**

Appendix C **Independence report**

Appendix D **Required communications with the Audit and Risk Committee**

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Appendix A

Nature of our Substantive Testing

In this section we address at a high level the nature of the substantive tests which we will performed on significant financial statements line items.

We have designed our substantive procedures so that the combination of our procedures (including tests of controls) provides sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and enables us to draw reasonable conclusions on which to base our opinion.

The procedures below are listed in the order of the financial statements:

BALANCE SHEET

Intangible Assets and Property Plant and equipment

We will obtain a schedule of tangible and intangible assets, including capitalised leases, and related additions, disposals, reclassifications and depreciation, depletion and/or amortisation and agree balances to the respective general ledger accounts.

For significant additions (including capitalised labour, borrowing costs and other acceptable costs) and disposals during the period, we will examine invoices, capital expenditure authorizations, leases and other data that support these additions and disposals.

For all significant additions in the year we will examine and verify evidence to support the existence and ownership of property, plant and equipment and/or intangible assets.

We will re-perform the depreciation, depletion and amortisation expense with reference to the entity's accounting policies and applicable financial reporting framework

We will review and examine support for rentals under operating leases and for significant charges to repairs, maintenance and other expense accounts to determine if they should capitalised or expensed.

We will use the information obtained during the audit to determine whether management has identified appropriate indicators of impairment and verify that appropriate adjustments are made in accordance with the entity's accounting policies and applicable financial reporting framework.

- We will discuss with management the impact on the financial statements and forecasting as it becomes more likely that Post Office will be cash generative without reliance on government grants.

Investment in joint venture (including Share of post tax profit from joint ventures)

We will verify the existence and ownership of recorded investments through confirmation or, when appropriate, examination of evidence of ownership

We will inspect financial statements of investees and other evidence of current value, cost or equity amount of investments and test that investments are classified, recorded and measured in accordance with the entity's accounting policies and applicable financial reporting framework.

We will recalculate all changes in the value of investments and verify that they are properly recorded in the income statement , balance sheet and other comprehensive income.

We will instruct PricewaterhouseCoopers to report the results of their full scope audit of First Rate Exchange Services Holding Limited to us, in line with our reporting timetable; in addition

- 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.

Retirement benefit surplus

We will examine the composition and computation of post-employment benefit obligations and other employee related non-current provisions for reasonableness including all 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.

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Appendix A

Nature of our Substantive Testing

Retirement benefit surplus (continued)

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.

Trade and other receivables

We will obtain sufficient detail to enable us to ensure correct classification presentation and disclosure of trade and other receivables by comparison to prior year, interim and our knowledge of changes in the business.

We will verify the existence of the trade receivables balance at year end through subsequent cash receipts testing.

We will re-perform the client prepared reconciliations at year end and review for evidence of unusual non -standard journals and investigate as necessary.

We will perform analytical review procedures to identify peaks in sales volume in the last few weeks of the year. We will test that the cut-off is correct by inspecting sales registers , billings and other supporting documents before and after the year end date.

We will evaluate the adequacy of the allowance for doubtful debts . This includes the following:

- Consideration for industry , economic and climate expectations .
- We will also discuss management credit control and bad debt policies and procedures and follow up as appropriate.
- We will inspect and verify the aged debt listing and confirm that old debts have been appropriately provided .
- We will also test the receivables ageing by selecting a sample of invoices to ensure that the clients aged debt listing is consistent with the supporting documentation.

We will evaluate the adequacy of other adjustments to trade receivables, such as rebates, credit memos and discounts. This will include discussions of managements policies and procedures in relation to these issues . Where appropriate we will test completeness and calculations by inspecting after payment date and credit notes to support completeness.

We will inquire about and review the list of credit balances included in trade and other receivables. Based on this we will investigate why major credit balances have arisen and consider the impact on year end receivables and ensure that the correct accounting treatment is applied.

We will re-perform the translation of all foreign currency balances included in trade and other receivables at year end.

We will understand the make up of the client receivables balance at year end. We will obtain and re-perform all material reconciliations performed by Management to support the year end balance by vouching amounts and cut off information o third party supporting documentation (i.e. customer information). We will also check the settlement by the client receivable post year end to verify the existence of the client receivable at year end.

For Prepaid expenses, deferred charges , accrued income and other assets we will perform the following:

- Verify the existence and carrying amounts through examination of supporting documents, or confirmation or a combination of both.
- We will investigate all unusual items and trace significant items to supporting documentation (e.g. invoice, contract etc) for reasonableness.
- We will review all prepayments and trace significant items to bank statements to confirm amounts actually have been paid before the year end. Where apportionment has been made we will re-compute the prepaid amount to test for accuracy.
- We will inquire as to the completeness of prepayments and assess reasonability thereof by reviewing the profit and loss account and cashbook for evidence of significant expenditure which may indicate a prepayment to be recorded at the balance sheet date.
- For accrued income in addition to the revenue procedures listed below and to ensure that revenue has been included in the correct period, in addition to the procedures we will perform on revenue, we will performed detailed cut-off procedures over revenue postings before and after period end, and checked 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

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Appendix A

Nature of our Substantive Testing

Cash and cash equivalents

We will obtain a complete list of bank accounts (debit and credit balances) and obtain direct confirmations of bank balances for all accounts, and bank accounts closed during the period to confirm the existence and valuation of cash including any contingencies, liens, pledges, restrictions on the entity's assets, guaranteed amounts, etc.

- We will agree confirmed balances to Management prepared reconciliations and ensure correct classification presentation and disclosure in the financial statements
- We will also check the appropriateness of the presentation of balances within the financial statements (e.g. overdrafts classified as current liability) and consider the impact of any set off agreements and banking covenants.

We will check all of POL's bank reconciliations as of period end, including cash-in-transit accounts, (e.g., in subledgers) to verify the proper reconciliation of bank statements and general ledger accounts. All unusual items and material reconciling items will be investigated.

We will test the cut off cash receipts and payments for transfers between different bank accounts at the balance sheet date. This will include checking the completeness of these receipts and payments transfers pre and post year and ensuring that receipt/payment is only recorded in one account on the ledger.

We will re-perform the translation of all major foreign currency cash balances at year end.

Trade and other payables (including client payables)

We will obtain sufficient detail to enable us to ensure correct classification presentation and disclosure of trade and other payables by comparison to prior year, interim and our knowledge of changes in the business.

We will examine the fluctuations of trade and other payables 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

We will re-perform the client prepared control account reconciliations at year end and review for evidence of unusual non -standard journals and investigate as necessary by understanding how they have occurred and whether they have been treated correctly.

We will evaluate the adequacy of other adjustments to trade payables .This will include discussions of managements policies and procedures in relation to these issues . Where appropriate we will re-perform calculations and support the completeness by inspecting after payment date.

We will inquire about and review the list of debit balances included in trade and other payables Based on this we will investigate why major debit balances have arisen and consider the impact on year end payables and ensure that the correct accounting treatment is applied.

We will re-perform the translation of all foreign currency balances included in trade and other payables at year end.

We will perform a search for unrecorded liabilities at the year end date by inspecting post year end bank statements and selecting significant payments post the year and identifying those payments relating to liabilities in existence at the balance sheet date to ensure that liability was accrued in correct period.

We will also select invoices which have been posted but not yet paid, after period end and obtain supporting documents ensure that liability was accrued in the correct period and;
Further we will review purchase invoices received post year end and ensure that these liabilities have been accrued on reporting period where applicable.

We will compare client payables pre and post year end and verify completeness at year end by agreeing significant balances to supplier statements, ensuring that the reconciling items have been treated correctly and vouching post year end payments. We will also obtain and re-perform all material reconciliations performed by Management to support the year end balance by vouching amounts and cut off information to third party supporting documentation (i.e. supplier statements and invoices).

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Appendix A

Nature of our Substantive Testing

Trade and other payables (including client payables) Continued

We will review summaries of activity for the month pre and post year end balance sheet date (cut-off date). This will involve comparing the activity to that expected and with the same period in the prior year and budget. Where actual activity significantly differs from our expectation we will ascertain the reason for this change and corroborate this to our other testing procedures.

- We will also inspect a sample of transactions from the activity listing before and after the cut-off date. Inspect supporting documentation to ensure that the transactions were recorded in the proper period; we will also compare the results of this cut off to cut off in related areas.

For deferred income and to ensure that revenue has been included in the correct period, in addition to the procedures we will perform on revenue, we will performed detailed cut-off procedures over revenue postings before and after period end, and checked 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.

Interest bearing loans and borrowings

We will obtain a summary of interest bearing loans and borrowings and interest , obtain a summary from Management and agree balances to the general ledger. We will re-perform the calculations of interest expense and interest payable for reasonableness . We will also test compliance with the terms, maturities, restrictive covenants, or other provisions of the loan agreements in place.

For new agreements in the period under audit, we will inspect original or authenticated copies of interest bearing loans and borrowings agreements, or other related documents to test the terms, restrictive covenants and other pertinent provisions of the loans and borrowings.

We will review confirmation replies (including those for assets and liabilities) for evidence of liens, security interests, derivatives and assets pledged as collateral for loans, cross-reference to the corresponding general ledger accounts and verify proper disclosures.

We will confirm directly with third party all loans and borrowings to check amounts owed, terms, collateral, restrictions and the entity's compliance with the provisions of the agreements.

Provisions (postmasters compensation)

We will perform an independent reconciliation of the total branches as well as an analysis of their data and status at 27 March 2016. We will compare this to managements results and use this to identify anomalies and challenge the provision analysis provided by Management.

To ensure that every branch in the Post Office Network is classified correctly we will independently categorise each branch into their categories at 27 March 2016, based on their individual attributes and we will challenge POL's assessment by comparing results.

Our sample based testing will include checking the attributes and classification of the branches in the network. This will be done by checking signed contracts (where applicable) and ensuring that where a provision is applicable, it has been recognised in the correct period by obtaining the signed contracts and checking that the dates of the signed agreements. We will also ensure that, branches selected for testing are not duplicated in any other category. If our sample identifies unusual items or categories, these will be communicated to POL and investigated and adjusted where necessary.

To check the validity and accuracy of POL's records we will undertake sample based testing on the Conditional Resignation Pack (CRP) contracts and checked dates for correct cut off and sign off. We will also trace the contracted amounts of these CRPs per POL's records to the payment listing and bank statements, showing the amount being settled post year end.

We will performed an unrecorded liabilities test by reviewing all cash payments made to postmasters in the months subsequent to the year end (up until the date of signing the financial statements). We will independently sample selected payments and vouch to actual bank statements and also ensure that provision is accrued in correct period.

To further gain assurance on the completeness of the provision at the balance sheet date, we will performing a reasonableness test on each category of the postmaster's compensation elements by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This will involved understanding the number of open projects and how the estimated costs to complete are computed and corroborating this to tests performed on the branch reconciliation.

We will discuss with the management the progress they have made since interim in their plans for implementing a formal policy of procedures and controls for the postmasters compensation process and assess the new controls and check those implemented by management to address the risks around completeness of the provision and we will carry out additional testing where appropriate.

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Appendix A

Nature of our Substantive Testing

Provisions (other)
We will review all other provisions for correctness and completeness, including whether the other liabilities are consistent with our understanding of the entity's business, we will test recorded amounts by performing recalculations of the provisions and vouching inputs to supporting documentation.
We will review accounting estimates used in provisions for evidence of management bias. For all significant new provisions we will review whether they have been appropriately identified and meet the requirement of IAS 37 and IAS 1 respectively. In addition to the above we will focus on evaluating the business rationale for significant unusual transactions around estimates and judgements.
Our journal entry approach specific to management override over provisions included: ➢ 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. We also will perform testing on the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.
To further gain assurance on the completeness of the provision at the balance sheet date we will performed an unrecorded liabilities test by reviewing a sample material of cash payments in the months subsequent to the year end (up until the date of signing the financial statements). We will independently sample selected payments and vouch to actual bank statements and also ensure that provision is accrued in correct period.
To further gain assurance on the completeness of the provision at the balance sheet date, we will performing a reasonableness test on each category of the provisions by comparing costs incurred to date against budgeted costs and estimated costs to complete for the various programmes. This will involved understanding the number of open projects and how the estimated costs to complete are computed and corroborating this to other tests performed.
Equity
We will obtain an equity reconciliation schedule, including shares and retained earnings, agree to general ledger accounts and test movements from prior period-end to current period-end to verify proper accounting for changes in equity (e.g., profit distributions, other equity reductions or increases) and determine completeness and compliance with laws and regulations including taxation issues. Further we will reconcile opening balances with prior period workpapers and closing balances with the consolidation schedule and agree significant movements to supporting documentation to determine that it is valid, accurate and complete.
If applicable, we will verify that all dividend payments are appropriately approved and declared, and that tax regulations have been followed.
We will review board of director, shareholder and committee meeting minutes as well as changes to the articles of incorporation for issues affecting the financial statements including the notes. If applicable, confirm all significant transactions with the share registrar and agree any changes where applicable to the general ledger.

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Appendix A

Nature of our Substantive Testing

INCOME STATEMENT

Revenue

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 obtain all new significant revenue contracts and any changes to existing contracts with customers and check that the accounting treatment is 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 also examined 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 have corroborated management's explanations for movements using our knowledge of developments in the industry and business.

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.

We will confirm receipt of the Network Subsidy Payment included in revenue and review any updates to the terms and conditions of the agreement.

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Appendix A

Nature of our Substantive Testing

People costs excluding restructuring costs

We will develop and document an expectation for changes in people costs (including pension cost). This involves compare the average pay per employee to prior period including employee benefits and performing a detailed analytical review to analyse and evaluate the movements on a monthly basis using full population of data extracted from the system.

We will examine the fluctuations of people cost (including pension cost) 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.

In addition, we will review full population of data for anomalies, and review reconciling items between data and ledger.

We will perform sample detailed tests of individuals payroll including joiners and leavers (ensuring that these amounts have been agreed to supporting source documentation)

We will also test the correctness of journal entries in connection with pensions and post retirement expenses, current payments and for changes in pension reserves by reviewing movements in pensions accounts throughout the year and agreeing significant movements to supporting documentation (where applicable actuarial valuation report)

Other Operating costs

We will understand the contents of other operating costs administrative and other operating expense accounts (e.g., in the areas of professional services fees, repairs and maintenance, leases and rents, management compensation, political contributions and donations, and miscellaneous). We will compare this with previous period and against budget and investigate significant or unusual fluctuations, including the lack of expected fluctuations. Through corroboration of our other testing procedures.

All significant transactions identified in the" contents of administrative and other operating expenses" we will agree to underlying documentation for reasonableness and business purpose.
In addition we will test a sample of transactions and vouch to underlying documentation for reasonableness and business purpose.

We will obtain an analysis of amounts charged to legal and professional fees and verify through a review of lawyers' fees that all lawyers and in-house legal counsels, who handle significant litigation or other claims, have been covered by them.

Exceptional items

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 Transformation costs (exceptional items) 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 a 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.

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Appendix A

Nature of our Substantive Testing

Taxation

We will review the deferred and current tax positions and ensuring appropriate accounting, recognition and disclosure. This involves:

- Reviewing the assumptions and forecasts used in Management's assessment of the adequacy of provisions for tax liabilities ;
- Assessing the deferred tax implications pertaining to uses of losses and the expected manner of recovery of the pension surplus;
- Testing the reconciliation of the current period financial reporting income financial reporting to taxable income, and validating the split between permanent and temporary differences, and compare reconciling items with those in prior periods and examining support;
- Testing computations of provisions for current and deferred income taxes for the current period and reconcile to appropriate balance sheet and income statement accounts.
- Investigating the recoverability of deferred tax assets, in accordance with the entity's accounting policies and applicable financial reporting framework.
- Reviewing the movement of income tax account balances from prior period (including those currently payable or deferred) and changes in recoverability for deferred tax assets.
- Determining whether appropriate provision has been made for any tax positions taken by the entity or other tax contingencies (e.g., as a result of related party transactions) that may be challenged by tax authorities.

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Appendix B

Audit fees

As part of our reporting on our independence, we set out below a summary of fees for the year ending 27 March 2016.

£	2016	2015
- Post Office Limited core audit fee*	346,000	391,000
Total audit fees	**346,000**	**391,000**
-IAS34 Half year review of consolidated accounts	**40,000**	**40,000**
- CFS implementation review (one off fee)	-	70,000
- Note Circulation Scheme ISAE 3000 Report	78,000	78,000
- BIS Agreed Upon Procedures Report	12,000	12,000
- DVLA Agreed Upon Procedures Report	13,000	13,000
-Turnover Certificate	2,500	2,500
Total non-audit services	**145,500**	**215,500**
Total*	**491,500**	**606,500**

*Excludes out of pocket expenses incurred

Please note the following regarding our fees:

- The audit fee has been reduced to reflect our investment in the relationship with POL
- Our time incurred on the 31 March 2015 restatement and testing of the Post Masters compensation Provision of £75,000 has been written off.
- A separate fee of £26,000 (2015 £26,000) will be charged for the audit of Postal Services Holdings Company Limited.
- A separate fee of £70,000 will be charged for the audit of Post Office Management Services.

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Appendix C

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.

Required communications	
Planning stage	**Final stage**
▸ 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.	▸ 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.

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Appendix C

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.

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Appendix C

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	Our partners and client facing (technical) staff are prohibited from investing in any audit client around the World. 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. New starters are required to confirm their compliance with the firm's independence policies on commencement of their employment.
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	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. 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.
Business relationships	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. In addition, all new business relationships must be notified and approved by the lead audit or client service partner before committing the firm.
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	Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to: ► 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. Where no satisfactory safeguards exist we do not carry out the non-audit service.

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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.

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Appendix D

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 ▸ 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 Any limitations on the Group audit, for example, where the Group engagement team's access to information may have been restricted		✓	An overview of the planned approach for the audit is included within this report. We will report on any further items with our year end audit report.
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.

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Appendix D

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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Notes

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Notes

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Production Approach for Report and Accounts 15/16

Author: Mike Granville Sponsor: Alisdair Cameron March 2016

Executive Summary

Context

1. Post Office is now commencing the process to enable the publication of the 2016/17 Annual Report and Accounts (ARA) during June/July 2016. This paper outlines the development and production timeline for the document and the proposed approach to format, tone and key messages.

Questions

2. The following questions are addressed in this paper:

- What are the key dates for production of the ARA?
- What is the proposed structure of the document?
- Who has responsibility for production?
- What tone, style and narrative approach should be adopted for the ARA?
- What will be the general stakeholder and communication approach on publication?
- What are the cost implications of the approach?
- What other approaches to the ARA have been considered?
- What are the next steps?

Conclusions

3. The ARA will be compiled by Communications, Company Secretariat and Finance, with appropriate sectional sign off by Directors, in order to be presented for Board approval on 24 May. Publication will be scheduled for late June/early July.
4. The format of the document will retain the general structure that was successfully used in 2015 with some developments which take into account Ernst and Young (EY) feedback.
5. The development and production of the document will be undertaken in house (working with EY) with costs absorbed within existing budgets. The significant cost savings achieved in previous years will therefore be maintained.
6. The narrative approach will emphasise that significant progress is being made in a challenging environment, but there remains much to do necessitating the continued imperative of transformation. The themes of *'better for customers, simpler to run, great place to work'* and values, *'care, challenge, commit'* will be woven through the narrative.
7. Communication and stakeholder liaison at the point of publication will be determined nearer the time to enable full account to be taken of environmental issues that will then apply. Broadly the ARA will be presented as a positive 'reference point' in the continuing journey of progress and company transformation.

Input Sought

8. ARC endorsement of the approach, process and timescales outlined in this paper to produce the 2015/16 Annual Report and Accounts.

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The Report

Background

9. Post Office Ltd now has a clear track record in producing its own ARA as an independent company separate from Royal Mail. The document stands as a statutory accounting record and, although the document does not in itself have a shareholder market impact, it is a key reference point for stakeholders and interested parties to understand business confidence, progress and performance. It is also a prompt for internal and external communication of key messages which can be used positively in terms of promoting Post Office strategy. Conversely it can carry a risk as being used as a focal point for marshalling stakeholder opposition to our strategy.

10. The 2015/16 ARA will be published in late June/early July. It will show significant year on year progress – particularly on EBITDAS and subsidy reduction – and it will show this has been achieved via flat income and significant cost reduction. It will be published at a time when a further series of cost reduction measures (Crowns, Supply Chain, Pensions) will be live in the external environment; when potential post 2018 strategy discussions with Government are underway; and when Government may still be conducting its own consultation on future policy options. Post Office will be driving forward with its 'transformation at pace' narrative and with its activity to embed the 'better for customers, simpler to run, great to work for' themes and the 'care, challenge, commit' values. The ARA will recognise the need for further cost reductions but also note the opportunities for growth they will enable and reveal. In its comparisons with the prior year, the ARA will make reference to the restatement of subpostmasters' compensation provision for 2014/15.

- **What are the key dates for production of the ARA?**

11. Work on the ARA commences in March with agreement on the overall approach via GE and the ARC. Narrative content and Finance work with the auditor takes place over April, enabling clearances on the final document through the ARC and Board to be achieved in May. Signing can then take place in early June with publication taking place in late June/early July. The precise date for publication will be determined nearer the time. In 2015 we published on 10th July.

12. A table of key dates in given at Appendix 1.

- **What is the proposed structure of the document?**

13. The structure of the document for 2014/15 provides an efficient template which minimises production costs, meets professional guidelines and provides a platform

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for appropriate narrative. The content structure will therefore continue to be based on four elements;

- *Overview* – high level pictorial representation of highlights together with the Chairman's foreword and Chief Executive's Statement
- *Strategic Report* – background description of the nature of the Post Office's business and its overall strategy followed by a narrative on performance and progress built around business transformation, service to customers, our people and our role as part of the community. Within this structure the themes of 'simpler to run', 'better for customers' and 'great place to work' will be emphasised. This is then underpinned by the CFO's Financial Review and Business Risks
- *Governance* – information on Board members and Committees, corporate governance approaches and Directors' Remuneration Report
- *Financial Statements* – detailed financial information – such as cash flows, balance sheet, auditors report.

- **Who has responsibility for production?**

14. The content in the above sections will be compiled by Communications, Company Secretariat and Finance liaising with GE Directors. Responsibilities for preparing the relevant sections is outlined at Appendix 2. The overall document – both 'Front Half' (Overview, Strategic Report and Governance) and 'Back Half' (Financial Statements) – will be subject to overall ARC and Board sign off which will then devolve authorities for final signature.

15. Production will be 'in house' via the communications team – an approach which saved £60,000 in producing the 2015 document compared to previous years.

- **What tone, style and narrative approach should be adopted for the ARA?**

16. The general approach of the document will reflect continued, confident progress in an ambitious transformation being undertaken in the face of challenging markets. It will be made clear that there is much still to do and a continued need for bold and recognisably difficult decisions to create a sustainable future. The tone will be one of determined and professional implementation of a challenging task and a track record of delivery.

17. Within this framework, the business themes (better, simpler, great) and values (care, challenge, commit) will recur. The positive narrative of delivering for customers and communities will be presented as inseparable from the delivery of commercial results - 'two sides of the same coin'. The narrative and structure will take account of feedback from EY on the 2014/15 ARA as outlined at Appendix 3.

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- **What will be the general stakeholder and communication approach on publication?**

18. A full stakeholder and communications plan covering external and internal audiences will be established for publication. The precise detail and timings will be determined later to take account of the environment at the time. The approach will be one of transparency, demonstrable progress and ongoing challenge which will illustrate the benefits of, and need for, continued transformation.

- **What are the cost implications of the approach?**

19. As in 2015, preparation and production activity will be kept in-house. The small costs incurred in production (e.g. limited hard copy printing) will be absorbed within existing budgets.

- **What other approaches to the ARA have been considered?**

20. Consideration has been given to a radical change in format. However, necessary budgetary constraints and the experience of the 2015 format (which met statutory and stakeholder expectations) suggest that continuing to adopt the current approach is appropriate. We are not looking for the ARA to signal a significant shift of strategic approach – we are aiming for it to be a record of progress and validation of the continuing professional, determined transformation strategy.

21. Consideration has been given to more extensive outsourcing of the activity. This would incur additional cost, and introduce risk to tight timescales (it will be important that the ARA is published promptly). The 2015 experience indicates that a strong product can be produced in house.

- **What are the next steps?**

22. Following consideration by the GE, the ARC is now asked to endorse the overall approach and timescales for the Annual Report and Accounts. Activity will then progress in accordance with the timeline given at Appendix 1.

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Appendix 1

High Level Timetable showing key dates

Date	Activity
10 March	GE Meeting to cover high level approach to ARA document and key messaging
17 March	ARC to cover high level approach to ARA document and key messaging (including Board photographs – individual shots)
10 March to 18 April	'Front Half Content' liaison between Communications and GE members
8 April	Flash Results for Year End available from Finance
11 April to 6 May	Finance Liaison with EY / Finance collation of 'Back Half Content'
8 April to 18 April	Communications collation of 'Front Half Content'
18 April	Collated 'Front Half Content' circulated to GE for comment
12 May	Full Report/Accounts draft and EY Report to ARC and Chairman
17 May	Full Report/Accounts draft sent to the Board with associated Communications Plan
19 May	ARC – review of full Report and Accounts
24 May	Board – approval and delegations to prepare for publication. (*This date is subject to all necessary internal and external work required to satisfy requirements on all numbers*)
June (date tbd)	Signing of Report and Accounts
June/ early July (tbd)	Publication of Report and Accounts with associated PR / Stakeholder Plan

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Appendix 2

Format / Structure / Responsibilities for content production within the 2015/16 Report and Accounts

Section of Report	Responsibility for collation (links to Directors as appropriate)	Responsibility for section sign off
Overview		
Our Year in Numbers	Mike Granville / Paul Swanton	Mark Davies
Chairman's foreword	Mike Granville / Mark Davies	Tim Parker
Chief Executive's statement	Mike Granville / Mark Davies	Paula Vennells
Strategic Report		
The business and strategy of the Post Office	Mike Granville	Al Cameron
Our transformation	Mike Granville	David Hussey / Al Cameron
Our service to customers	Mike Granville	Martin George / Nick Kennett / Kevin Gilliland
Our people	Mike Granville	Neil Hayward
Part of the Community	Mike Granville	Mark Davies
Financial Review	Briony Tristram / Dave Carter	Al Cameron
Business Risk	Mike Morley-Fletcher	Jane MacLeod
Governance		
Overall Structure	Victoria Moss	Alwen Lyons
Board of Directors	Victoria Moss	Alwen Lyons
Corporate Governance	Victoria Moss	Alwen Lyons/ Jane MacLeod

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Directors' report	Victoria Moss	Alwen Lyons
Directors' remuneration report	Victoria Moss / Natasha Wilson	Ken McCall / Alwen Lyons
Financial Statements		
Statement of Directors' responsibilities	Briony Tristram / Dave Carter	Al Cameron
Independent Auditor's Report	Briony Tristram / Dave Carter	Al Cameron
Consolidated income statement	Briony Tristram / Dave Carter	Al Cameron
Consolidated statement of comprehensive income	Briony Tristram / Dave Carter	Al Cameron
Consolidated statement of cash flow	Briony Tristram / Dave Carter	Al Cameron
Consolidated balance sheet	Briony Tristram / Dave Carter	Al Cameron
Consolidated statement of changes in equity	Briony Tristram / Dave Carter	Al Cameron
Notes to the financial statements	Briony Tristram / Dave Carter	Al Cameron
Parent company financial statements	Briony Tristram / Dave Carter	Al Cameron
Corporate Information	Briony Tristram / Dave Carter	Al Cameron
Overall full document sign off process to ensure narrative coherence	Communications, Finance and Company Secretariat will develop key points in each section and then develop narrative in liaison with responsible Directors. Sign off for narrative coherence at key stages.	Mark Davies Al Cameron
Production and Publishing	Paul Swanton	Mark Davies

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Appendix 3

Comments received from Ernst and Young on 14/15 Annual Report and the approach to be taken for the 15/16 Report

Subject to ARC approval, we have agreed not to publish a statement about compliance with the UK Corporate Governance Code. Our approach is to maintain standards of corporate governance appropriate for our ownership structure, our commitment to our social purpose and our strategy for commercial sustainability. However, we will seek to follow EY's advice, based on last year's ARA, on the balance and understandable nature of the report with the approach outlined below.

(Note – a paper entitled '*Corporate Governance capability and ARA disclosure'* is being taken at the ARC on 17 March).

Points made by EY are in italics followed by the approach that Post Office will take for the 2015/16 document.

The following points relate to the document generally:

1. *In the accounts 'the strategy' doesn't jump out – it is important because there should be clear links to the strategy and other parts of the report (e.g. KPI and risk sections). Leading practice is to have a key with the strategy that runs through the whole report.*

   The Business and Strategy of the Post Office will be made clear at the start of the 'Strategic Report' section. This will introduce the key strategic themes – Simpler to Run, Better for Customers and Great Place to Work. These key themes will then provide a key to subsequent sections in the report – 'Our transformation' (simpler to run), 'Our service to customers' (better for Customers) and 'Our people/part of the community' (great place to work).

2. *The business model is not described.*

   A high level description of the business model will be included in the 'Business and Strategy' section.

3. *The KPIs are listed at the front and then the financial ones are in the financial review section. All the KPIs should be disclosed with some context and after the strategy, and linked to it. Targets should be added and report on whether or not the target was met.*

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KPIs will be collated in one place within the report and linked to the strategy section above with a general overall indication given on our position against targets. Processes have been established to cross check overall coherence of the report.

4. *The business and strategy review and financial review cover much of the same ground – however, the business and strategy review section puts a much rosier spin on it than the financial review (this could be interpreted as not being balanced?). Potentially there could be a cut down of pages by removing the repetition between these two sections and between the Chairman and CEO introductions.*

   We will avoid repetition through having a differing focus for the Chairman and CEO sections. The Chairman section will focus on the high level direction, development and governance of the company; the CEO section will comment on 'in year' achievement and the 'forward year' drive for continued transformation with the ambition, determination and confidence to face the challenges ahead. The 'Business and Strategy Review' will be shortened to provide the primarily narrative framework which is supported and underpinned by the numbers and factual statements in the Financial Review.

5. *Risk section is good – it could be improved by adding a description of each risk e.g. emerging, increasing, decreasing. Some companies also add a map showing the level of risk and likelihood of it occurring. This section should be improved for FY15/16 – especially if the plan is to provide a viability statement.*

   The Risk section will be developed to show the trajectory of the risk – although we won't provide a 'heat map' of level of risk/likelihood (the complexity of the Post Office environment and operation across multiple markets would mean that explanation of any such mapping would need to be substantial).

The following points refer to the Corporate Governance section;

6. *We would suggest putting the part about Post Office not being listed etc. at the front. It is Government owned so we all own it - as well as the public being customers.*

   The overview of ownership and governance structure will start the Corporate Governance part of the report.

7. *Board bios etc. – it is best practice to describe the skills each member brings to the board.*

   This point will be taken into account in the biographies provided.

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8. *Best practice is to have the Chair of each Board committee write the committee overview. (It was done the previous year for the RemCo but not the other committees – 2015 does not seem like the RemCo report is either).*

   We will liaise with the Committee Chairman to ensure they are comfortable that their views are reflected in the reports from the Committees. The Directors' remuneration report is a specific issue given the greater extent of data which will need to be included.

9. *All the board committee reports lack content and specific, relevant information. The audit committee does not describe significant issues and how the AC addressed them or how the effectiveness of the auditor was assessed.*

   As above the Board committee reports will be strengthened to include relevant information and content.

10. *Nomination committee section – Post Office could have described the process they went through to appoint the new CFO and General Counsel. For 2012/16 this should include the new Chairman.*

    This content will be included in the Nomination Committee Section.

11. *Fair, balanced and understandable is not mentioned in the audit committee report and there is no mention of how this assessment was made.*

    The approach taken will be to produce the report as per the statement at the start of this Appendix.

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Investment Strategy Considerations

Author: Tim Giles and Ross Mitchell, Aon Hewitt Date: 8 March 2016

Introduction

The following paper summarises recent discussions with the Trustee of the Royal Mail Pension Plan ('RMPP') and Post Office Limited's ('POL') advisors with regards to the future strategy of the Scheme.

Appendix - Post Office Limited Q4 2015 Quarterly Report

The attached report details the Section's position as at 31 December 2015.

As a result of active members exiting the business highlighted through the 2015 valuation process, the resulting smaller number of active members has significantly reduced the cost of future accrual in nominal terms (the cost as a percentage of salary roll is still high, but the salary roll has diminished). While the 31 March 2015 valuation has not been completed, the Trustee has reflected this change to the membership data and applied it to the 31 March 2012 valuation basis.

The report highlights the following:

- On the Trustee's technical provisions basis the Section is expected to remain above the crossover point[1] until beyond 2022.
- When considering a more prudent measure of the Section's liabilities, the gilts ABO basis, the Trustee estimates that the Section will remain above the crossover point until c.2021.

Appendix - Buy-out estimate for the POL Fund of the Royal Mail Pension Plan

The attached report details LCP's estimate of the cost of buying out the POL Section with an insurance provider. The report highlights the following:

- Based on market conditions as at 22 February 2016, the estimated cost of buy-out, including accrual to 31 August 2016, was £375m leaving a surplus of £40m.
- The LCP report also details the sensitivity of this position to enhancement in member benefits.

[1] This has been defined by the Trustee as the point at which the 95th percentile of expected outcomes from its stochastic model moves into deficit.

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Commentary

The following sections provide further details of Aon Hewitt's advice regarding the ongoing strategy of the Scheme in addition to further considerations when interpreting analysis detailed in the attached appendices.

Monitoring of crossover point

Despite the improvement in the Section's funding position, recent correspondence with Trustee has focused on the following three scenarios for the Section's investment strategy.

a) run the Section with a low risk investment strategy with continuing accrual.

b) as in a) but with no accrual after August 2016.

c) as in b) but with benefits being insured through buy-out.

Recent discussions to date have been on the use of a 'buy-out' basis when valuing the Section's liabilities. This has in part been driven by recent discussions regarding the Section's covenant.

While it is possible for the Trustee to make steps to implement a) and b) before the ongoing consultation has concluded, it would be significantly more challenging for progress to be made towards c).

As noted above, recent analysis has shown that under the Trustee's technical provisions basis, it may be possible for the Section to remain open indefinitely. It was however acknowledged by the Trustee that other factors, such as the Section's covenant, make this measure less relevant and inappropriate. The ISC acknowledged this and the communication issues which it may cause.

Following the receipt of advice from Aon Hewitt, POL has confirmed it was happy with proposals set out and encouraged the Trustee to make any steps to derisk the Plan given prevailing market volatility. Given this market environment it was noted that the Trustee's proposals seemed appropriate irrespective of the outcome of the ongoing consultation.

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Use of surplus

Discussions to date indicated that the Trustee would like for any surplus to be passed to members. It should be noted that under Project Robin, it is not possible for the transfer payment to be passed to POL. Given any surplus accrued to date is a result of these assets; we believe that it would be reasonable to assume this remains the case.

While no decision has been reached as to which members' benefit would be supplemented with any surplus, we understand that this would likely be designed to reflect the prospective loss of benefit.

Potential for buy out

As noted above, LCP's analysis indicated that the estimated buy-out surplus at 22 February 2016 was c. £40m. This implies that it is feasible for the Scheme to be bought-out should the Section be closed to future accrual in August 2016.

This is substantially different to the gilts ABO position identified by the Trustee as at 31 December 2015. There are good reasons for these differences:

a) The buy-out number from LCP will place a higher value on the liabilities as insurers' basis is generally more prudent, pricing in a greater degree of uncertainty.

b) LCP has included future benefits being accrued between January and August 2016.

c) Market conditions have moved since 31 December 2015.

We would highlight that the risks associated with the Section remaining open are likely understated by the less-prudent nature of the Trustee's ABO basis.

The risk remains substantial that insurance pricing conditions and accrual of benefits move against you to remove any buy-out surplus. While this does not directly impact POL's response regarding the derisking of the Section's investment strategy, POL may wish to discuss the risks connected with any crystallisation of the pension liabilities by insurance in terms of the potential amount and timing of any potential payments from POL.

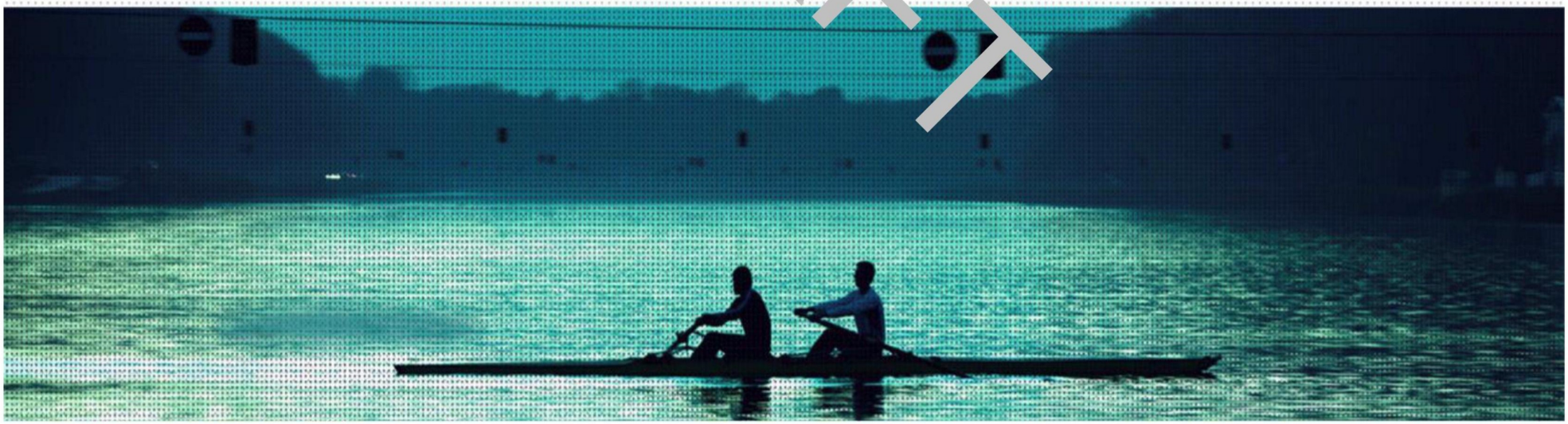
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Quarterly Report
Post Office Limited

Post Office Limited
2015 Q4

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1. Executive summary

Strategic parameters

Return objective	Gilts + 1.5% p.a.
Objective for return-seeking	Cash + 3.1% p.a.
Target date	31 Mar 18

Funding position

Technical provisions basis	30 Sep 15	31 Dec 15	3m Δ
Asset value	£378.0m	£370.9m	→
Liability value	£241.9m	£244.6m	→
Surplus / (deficit)	£136.1m	£126.3m	→
Funding ratio	156.3%	151.6%	→
Current accrual cost (% of pay)	46.6%	44.9%	→
Projected crossover point	Late 2022	-	→

On the technical provisions basis, the median projection is for the Section to remain in surplus to at least the end of 2022. In order to project benefit accrual beyond that point reliably, we would need more detailed liability data from the Scheme Actuary.

Gilts ABO basis	30 Sep 15	31 Dec 15	3m Δ
Asset value incl. conts to TD	£436.2m	£422.9m	→
Liability value incl. accrual to TD	£399.1m	£383.3m	→
Surplus / (deficit)	£37.1m	£39.5m	→
Funding ratio	109.3%	110.3%	→
Current accrual cost (% of pay)	55.4%	53.3%	→
Projected crossover point[1]	Late 2020	2021	→

Sponsor accounting basis [2]

Backdated to 31 March 2015, the liability values have been approximately updated to reflect the prelimnary results of the 2015 valuation. That is, the 2012 valuation basis applied to the 2015 member data. This improved the funding position by £39.4 million on the technical provisions basis as at 31 March 2015.

[1] Calculated on an accrued to date basis
[2] Will be available following completion of the actuarial valuation

Investment performance

%	Return-seeking	Cash return	Relative return	
Last 3m	0.4	0.1	0.2	
Last 12m	1.5	0.6	0.9	
Plan YtD	-0.3	0.4	-0.8	
Since 31/3/2012	4.8	0.6	4.1	

£m, movement due to interest rates	Liability hedge assets (5.5 yrs)	Gilts ABO liabilities (6 yrs)	Relative return	
Last 3m	-12.7	-16.3	3.7	
Last 12m	0.8	2.4	-1.6	
Plan YtD	-19.1	-26.0	6.9	
Since 31/3/2012	65.3	123.0	-57.7	

Compliance with invt plan	30 Sep 15	31 Dec 15
Liability hedging		
Matching/return-seeking split		
Allocation within return-seeking		
Currency hedging		

This quarter the return-seeking assets generated a positive return, but lagged their objective. Gilt yields rose during the quarter, reducing the liability value, though the benefit of this was mostly offset by the liability hedge, as one would expect.

At quarter end, the nominal liability hedge was overweight relative to its target. Within return-seeking, investment grade credit was overweight due to the recent allocations to CLOs and infrastructure debt, and developed equities underweight.

Risk management (Gilts ABO basis)

		30 Sep 15	31 Dec 15	3m Δ
Surplus VaR (12m, 5%)		£6.8m/1.6%	£7.1m/1.7%	→
Crossover date at risk (5%)		c.24 mths	c.35 mths	↗
Prob. of ≥£40m deficit in 12m		0.0%	0.0%	→
Prob. of ≥£40m deficit at TD [3]		0.0%	0.0%	→
Liab. hedge	– nominal	6.44 yrs	6.36 yrs	→
	– real	5.82 yrs	5.84 yrs	→
Collateral adequacy[4]		253bps	243bps	

[3] Calculation allows for projected asset returns between quarter end and target date
[4] Collateral would run out if nominal yields move by this much, and real yields by half as much

Risk to the funding position was broadly unchanged on most metrics over the quarter.

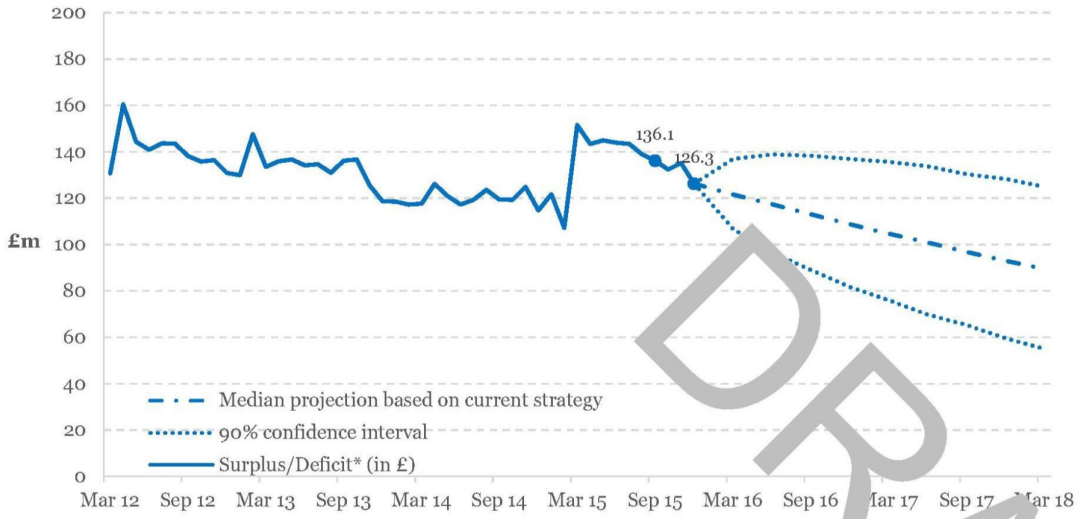
Against the updated Gilts ABO liabilities, the hedge now represents nearly the full 6.0 years of accrual.

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2. Performance

2.1 Evolution of surplus - technical provisions basis



Backdated to 31 March 2015, the technical provisions proxy has been updated using preliminary data from Towers Watson. This represents a valuation of March 2015 member data, using the assumptions from the 2012 valuation. CSDB revaluation for actives is assumed to be RPI. The effect was to increase the surplus by £39.1 million at 31 March 2015.

Chart 2.1 shows the history of the funding position on the technical provisions basis and the projection out to March 2018. As at the quarter end, the median projection was that the Section would reach March 2018 with a technical provisions surplus of around £90 million.

Note: Here and throughout the report, the central projection is the median, and the funnel of doubt represents the 5th and 95th percentiles.

2.2 Projected crossover dates

The projected crossover dates as	30 September 2015	31 December 2015
Technical provisions median	Late 2022	-
Technical provisions 5th percentile	late 2019	July 2020
Gilts ABO median	Late 2020	2021
Gilts ABO 5th percentile	October 2018	December 2018

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Post Office Limited
2015 Q4

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Introduction

- This presentation has been prepared by Lane Clark & Peacock LLP ("LCP") for Post Office Limited ("POL") in respect of POL Fund of the Royal Mail Pension Plan ("RMPP").
- We are happy for POL to share this presentation with Chris Hogg for information only.
- The purpose of the presentation is to set out our estimate of the current cost to the POL Fund of securing benefits on a buy-out with an insurer. We also highlight the uncertainties in our estimate, some of which are material, ahead of accurate pricing being obtained from insurers.
- We understand that POL does not plan to make any decisions based on this information as further advice may be appropriate depending on the nature of the decision.

Clive Wellsteed FIA
Partner
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Charlie Finch FIA
Partner
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Estimated buy-out position

Headline results	30 September 2015	22 February 2016 (incl accrual and contributions to 31 August 2016)
Asset value	£378m	£415m*
Gilts ABO valuation	£261m	n/a
Estimated buy-out cost [1] (leaving service benefits)	£315m*	£375m*
Estimated buy-out surplus	£63m*	£40m*
Estimated buy-out funding ratio	*120%**	*111%**

*Source: Approximate estimates using LCP's insurer pricing model and information provided by POL. *These figures are estimated.*

[1] The buy-out cost is the cost of securing the benefits for all members by the purchase of annuity policies from an insurance company.

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Sensitivity of buy-out position

Example benefit changes	30 September 2015	22 February 2016 (incl accrual and contributions to 31 August 2016)
Estimated buy-out funding ratio (leaving service benefits)	*120%*	*111%*
Estimated buy-out funding ratio (RPI-linked benefits)	*110%*	*102%*
Estimated buy-out funding ratio (leaving service benefits but with an uplift of one year of extra service)	*N/A*	*98%*

Example sensitivities (at 22 February 2016 with accrual and contributions to 31 August)	Central estimate at 22 February 2016	Price 5% higher than central estimate	Insurers assume members live 1 year longer than central estimate
Estimated buy-out cost (leaving service benefits)	£375m	£395m	£385m
Estimated buy-out surplus	£40m	£20m	£30m
Estimated buy-out funding ratio (leaving service benefits)	*111%*	*105%*	*108%*

Source: Approximate estimates using LCP's insurer pricing model and information provided by POL.

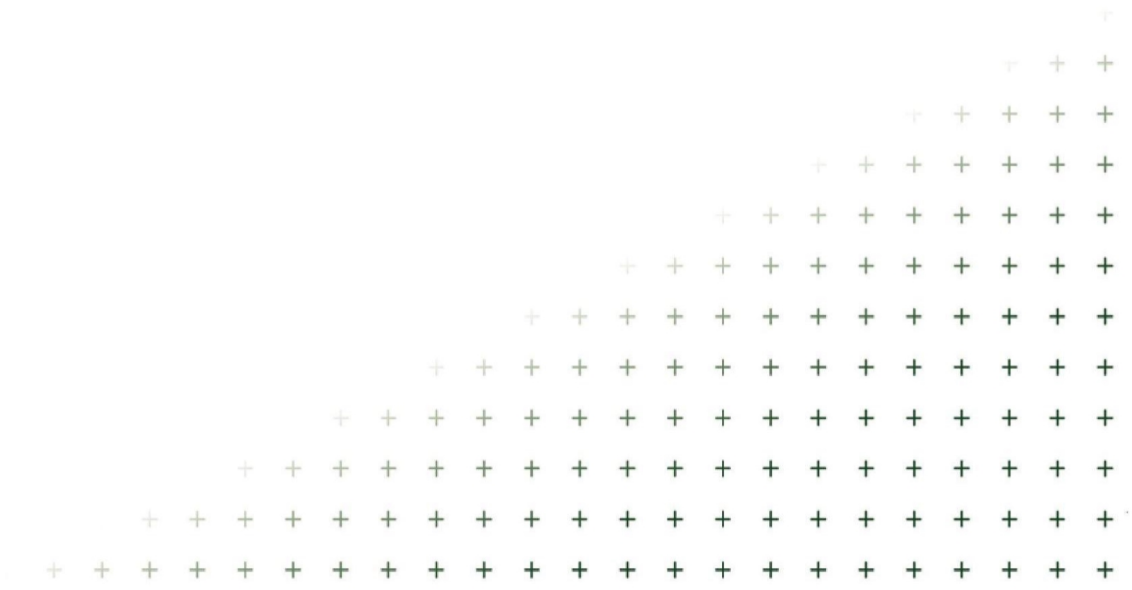
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Limitations in our estimates

- Commentary on the methodology and information used in producing our estimates is set out in the appendix.
- New reserving rules ("Solvency II") for all insurers became effective in January 2016. There is no transacted precedent since then on how insurers will price a long duration block of mainly deferred pensioner liabilities and so estimating buy-out pricing at the current time is more uncertain than normal.
- Accurate pricing will critically depend on third party insurer appetite, the yield and duration of suitable assets available to insurers to hold in their annuity portfolios, the availability of reinsurance to support the transaction pricing and insurer/reinsurer views on the longevity of the POL Fund members.
- We have set out our central view of the best price insurers could achieve in our estimate, but it would not be surprising to see variations in the best price (which could be material) against our central view.

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Appendix



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Methodology

- The estimate of the buy-out cost is based upon the POL Fund's gilt-based ABO valuation as at 30 September 2015, approximately adjusted to reflect our expectation of the price an insurer will charge.
- The assumptions adopted are set out on slide 9.
- The actual buy-out cost could be higher or lower than our estimate, potentially materially so, and can only be determined by seeking firm quotations from insurers and running a competitive selection process.
- There are a number of factors which will influence the ultimate buy-out position:
  - market conditions will be different from those applying at the valuation date and the assets held by the POL Fund are only partially matched against insurance company pricing;
  - the asset opportunities available to insurers at the time – particularly for long-dated debt-like instruments – as even a small change in the risk-adjusted investment yield can significantly impact pricing;
  - availability of longevity reinsurance particularly for non-pensioners, which make up a significant proportion of the liabilities;
  - insurance company pricing is particularly uncertain at the current time as insurers get to grips with the capital reserving requirements under Solvency II, which came into force on 1 January 2016.
  - the insurers' assessment of the life expectancy of the membership and the proportion married; and
  - the level of insurer competition and other transactions which are competing for insurer capacity.

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Information used

- The estimate of the buy-out cost relies on the information provided. In particular we have relied on:
  - summary information provided in the 31 March 2015 funding update, the Q3 2015 quarterly report, and the draft 2015 Q4 quarterly summary;
  - assets have been approximately projected forward from 31 December 2015 based on changes in suitable asset indices and the breakdown of the assets set out in the Q3 2015 quarterly report (we have assumed there have been no investment changes since 30 September 2015);
  - high-level allowance for benefit accrual and member and company contributions based on information in the Q3 2015 quarterly report; and
  - the sensitivity information in the Willis Towers Watson report dated 16 November 2015 setting out the POL preliminary results for the 31 March 2015 valuation and an estimate of the proportion of leaving service benefits that are CPI-linked.
- We understand that the gilts ABO valuation is based on:
  - leaving service benefits which are linked to CPI revaluation in future;
  - all accrued benefits including any salary increases granted to date of calculation; and
  - full gilt yield curves; and
  - no allowance for expenses.
- To the extent there are liabilities of the POL Fund that are not included in the Gilts ABO valuation, those liabilities will not be included in our buy-out cost estimate either.

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Assumptions used

The following table summarises the assumptions adopted as at 22 February 2016.

Assumption	Gilts ABO	Buy-out estimate
Discount rate	2.30%	2.15%
Inflation – RPI linked benefits	3.25%	3.25%
Inflation – CPI linked benefits	RPI price inflation less 1% pa	A deduction from RPI of 0.2% to 0.4% pa
Pension increases	Caps and floor applied used a fixed volatility model	Caps and floors applied using swap market rates
Pre-retirement mortality	Consistent with Statement of Funding Principles	
Post-retirement mortality	Consistent with Statement of Funding Principles Future improvements in line with the CMI 2014 core model with a 1.5% pa long term rate	
Marital assumptions	Consistent with Statement of Funding Principles	
Commutation	None	

The financial assumptions are based on full yield curves and have been expressed as approximate single-equivalent rates above.

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Scope

- This document is a visual aid to complement an oral presentation and does not constitute our written professional advice.
- Written advice about any matters discussed should always be sought in order to clarify the data relied upon, assumptions, conclusions and recommendations.
- If you would like any assistance or further information, please contact the partner who normally advises you.
- This document should not be passed to any third party without our formal written agreement as set out in the introduction (or by separate correspondence).
- Our work in preparing this document is subject to and complies with the Technical Actuarial Standard on reporting actuarial information (version 2), on data (version 1) and on modelling (version 1), together with the Pensions Technical Actuarial Standard (version 2) and the Transformations Technical Actuarial Standard (version 1).
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Review of ARC Terms of Reference

Author: Alwen Lyons Sponsor: Alwen Lyons

Meeting date: 17th March 2016

Executive Summary

Context

In line with best practice and as recommended by the UK Code of Corporate Governance a clear Terms of Reference ('TOR') for the Audit Risk and Compliance Committee ('ARC') should be in place and reviewed on an annual basis.

In September 2015 the ARC TOR was amended to incorporate areas of risk previously covered by the Pensions and Financial Services Board Committees, this change was approved by the Board on 22nd September 2015 with effect from 1st October 2015. See appendix 1 for current TOR.

Questions addressed in this report

1. Does the ARC have a clear and agreed TOR?
2. Has the Committee fulfilled the requirements of the TOR over the last year?
3. How will the Committee ensure it uses its time effectively in future and fulfils the requirements set out in its TOR?

Conclusion

1. The requirements specified by the TOR are clear and approved by the Board.
2. The analysis carried out confirms that the ARC has fulfilled the requirements of its TOR.
3. The draft ARC timetable set out in Appendix 2 is a proposed forward agenda for ARC meetings which will ensure the ARC fulfils the requirements of its TOR in 2016/17.

Input Sought

The members of the ARC are asked to:

1. Confirm they believe they have fulfilled the requirements of the ARC TOR as specified by the Board.
2. Feedback to the Company Secretary any comments on the proposed timetable for future agendas.

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The Report

1. The ARC is responsible for providing, among other responsibilities, oversight of Post Office's risk management systems, operational controls and key systems. It was recognised in September 2015 that the ARC should have sole delegated responsibility for oversight of risk across Post Office.
2. After the dissolution of the Pensions and Financial Services Board Committees the ARC TOR was updated to incorporate risk across the Post Office. The current TOR was agreed at the ARC meeting on 21st September 2015 and approved at the Board on 22nd September 2015.
3. The areas of the TOR (Appendix 1) have be assessed against the Committee agendas, papers and decisions to ensure that the Committee has fulfilled its requirements to the Board:
   a) The **'Purpose'** of the Committee is clear and agreed by the Board on 22nd September 2015.
   b) The **'Composition and Terms of Office'** have been adhered to throughout the year.
   c) The **'Meetings'** have convened in accordance with the TOR.
   d) All '**Other Governance Responsibilities'** have been discharged, including this review of the TOR.
   e) '**Auditing Services'** are provided by Internal and External Auditors and both the Head of Internal Audit and the External Auditors attend every ARC meeting. Internal and External audit plans are agreed by the ARC.
   f) The CFO attends the ARC and has time on the agenda to provide a regular update on the **'Accounting, Financial Control and Financial Reporting and Disclosure'.** The Interim and Annual Report and Accounts were reviewed by the ARC.
   The Annual statements and management's explanatory notes were reviewed at the May 2015 ARC in the presence of the External Audit partner. The External Audit partner also provided confidential feedback on management to the ARC members. A similar process was undertaken for the Interim Report at the November 2015 ARC.
   g) The ARC receives Risk and Internal Audit reports at every meeting. These reports covers the **'Risk Management, Operational Controls and Policies'**. The Board agreed a Risk Appetite Statement on 28th January 2015 and this will be reviewed during 2016/17. Management are putting in place a Risk framework which is regularly reviewed at the Executive Risk & Compliance Committee before discussion at the ARC. The work currently undertaken will integrate back into the internal audit plan, which will be agreed by the ARC. Areas of specific risk have been reported throughout the year and key further actions agreed, for example cyber security in November, and incidents such as the Subpostmaster Compensation Risk or the AML audit are reported when they arise.

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Reports have been received from Post Office Management Services Ltd ARC (POMS ARC) at every meeting since the POMS ARC first met in September 2015.

4. The analysis shows that the ARC has fulfilled the requirements specified in the TOR.
5. To enable the ARC to ensure it fulfils its TOR in 2016/17 a proposed ARC forward agenda timetable is provided at Appendix 2, for feedback from ARC members.

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APPENDIX 1

TERMS OF REFERENCE OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE AS APPROVED BY THE BOARD ON 22nd SEPTEMBER 2015

Purpose

1. The purpose of the Audit, Risk and Compliance Committee ("ARC" or the "Committee") is to assist the Board of Directors in fulfilling its fiduciary responsibilities by:
   (a) Contributing an independent view on the accounting, financial control and financial reporting practices of the Company;
   (b) Taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards; and
   (c) Providing oversight of the company's risk management systems, operational controls and key systems.
2. The responsibilities undertaken by the ARC under delegated authority from the Board will be subject always to the powers and duties of the Board, as set out in the Articles of Association

Composition and Terms of Office

3. The Committee shall serve as a standing committee of the Board. Its Chairman and members will be appointed by the Board. It shall consist of at least two independent non-executive directors.
4. Only non-executive directors shall be eligible for membership of the Committee. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed on an annual basis thereafter with the consent of the Chairman of the Committee but no director shall serve for more than six years.
5. The quorum shall be two directors, of whom one will have recent and relevant financial experience.
6. The Committee shall meet as often as required but at least three times per year.[1]
7. The Company Chairman and executive directors may be invited to attend any meeting, or any part of any meeting, by the Committee Chairman.
8. The CFO, the General Counsel, the Head of Risk Governance and the Head of Internal Audit (or those holding positions with responsibility for such roles, howsoever named) and the Director, Financial Services will be permanent invitees.
9. The Company Secretary shall act as Secretary to the Committee and shall attend all meetings to keep minutes and record actions.

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10. The Committee Chairman will report regularly to the Board. Minutes of each Committee meeting will be circulated to all members of the Committee and, once agreed, to all members of the Board.
11. The External Auditors may attend all or part of any Committee meeting at the invitation of the Committee Chairman. As a minimum the External Auditors will attend to present their external audit plan for approval and to present their reports.
12. The Company will provide current and new Committee members with any training, briefings or induction required. The Company Secretary, Head of Internal Audit and the External Audit Partner will keep members informed of relevant published guidance as necessary.

Meetings

13. Any member of the committee or the Company Secretary may convene a meeting. The External and Internal auditors may request a meeting with or without management present.
14. Meetings may be held in person or by telephone or other electronic means, so long as all participants can contribute to the meeting simultaneously.
15. Notice of each meeting shall be given to all those entitled to participate at least 2 working days before the meeting.
16. Meetings shall be planned in accordance with key reporting and financial planning dates.

Other Governance Responsibilities

17. The Committee will:
    (a) Review and update its terms of reference annually.
    (b) Conduct an annual evaluation of the performance of its duties and responsibilities and of its effectiveness, and discuss the results with the Board of directors.
    (c) Prepare an annual report on its activities for inclusion in the Annual Report and shall review and approve on behalf of the Board statements to be included in the Annual Report concerning financial controls, internal control and risk management.
    (d) In the absence of express authority from the Board, the Committee will not, without the concurrence of both management and the auditors, have either the responsibility or authority for altering the financial statements or the accounting procedures of the Company.

Auditing Services

18. The Committee will:
    (a) Review and recommend to the Board the nomination or discharge of the independent external auditors, the proposed fees (in consultation with management) and the acceptance of the scope and general extent of the engagement.

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(b) Formally review, challenge and approve the agreed annual external audit plans and approach.

(c) Periodically review the scope, resourcing and capabilities of the Internal Audit function.

(d) Review and re-approve the Internal Audit Charter on an annual basis.

(e) Approve each year in advance the Internal Audit plans and review both resources and any proposed amendments that may occur through the following year. The review should include methods employed by the internal auditors to assess risk and to prioritise the various audit proposals identified in the annual plan.

(f) Assume a primary role in the appointment, assessment and if necessary the discharge of the Head of Internal Audit.

(g) Ensure the independence of the external and internal auditors including an annual review of any non-audit services provided by either.

(h) Ensure free and effective communication between the Committee, external auditors and internal auditors and hold separate sessions, or informal meetings and contact as required. These meetings may discuss matters that any of these groups believes should be discussed privately with or without management.

(i) Ensure lines of communication are maintained with the Board.

Accounting, Financial Control and Financial Reporting and Disclosure

19. The Committee will:

(a) Review, discuss and consider with the external auditors their approach to risk assessment and the scope and plan of their audits.

(b) Review the annual financial statements which are to be submitted to the Board, including Management's explanatory notes. The review may include:

- Reports from the external auditors as to the results of their examination to date.
- Discussion of any problems regarding financial reporting which may need to be reported in the annual report to the shareholders including any disagreements that may have arisen between the auditors and management in any area.
- Meeting(s) with the senior financial executives who shall outline any problems as to financial policies, financial reporting or matters relating to internal control and any matters in contention with or under consideration by the external or internal auditors.
- The appropriateness of existing accounting principles being employed and any change in accounting policies or practices which the corporate auditors may refer to in their report to the shareholders, and the impact on the Company's financial statements.
- Any proposed changes in the presentation of the financial statements or accompanying notes which the auditors may recommend.
- reviewing the annual report and accounts and advising the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the Company's shareholders to assess the company's performance, business model and strategy

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- Other matters related to the conduct of the audit communicated to the Committee under generally accepted accounting standards.
- The Management Letter.

(c) The Committee shall review with management any half yearly trading statements or financial reports and the contents of any press release concerning the Company's financial performance or situation, before release to the public or to shareholders.

Risk Management, Operational Controls and Policies

Risk Management Framework

20. The Committee will:

(a) Review the overall risk management framework in place for the Company including its appetite for risk.

(b) Oversee the Risk and Compliance Committee activities and receive summary reports as appropriate.

(c) Review the Company's overall risk position; regularly review the risk register for the Post Office and its subsidiaries, and periodically invite management to outline risk management strategy and status within their specific business units.

(d) Review management's assessment of the degree of risk the Company prudently incurs in achieving a reasonable balance between the cost of managing risk and control systems and the benefits derived.

(e) Consider and review areas of specific risk as highlighted by the Risk and Compliance committee. This should include, but is not limited to, sufficient coverage of strategic risk, financial risk, operational risk, technology risk and cyber security, risk relating to the investment strategy and funding requirements of existing and new pensions schemes established for the benefit of previous, current and future employees, conduct risks relating to the financial services businesses operated by both Post Office Limited and its subsidiaries and joint ventures, reputation, legal and regulatory risks, major change initiatives and people risks.

(f) Review legal, regulatory and any other matters that may have a material impact on the financial statements, related Company compliance policies, and programmes and reports prepared to manage and monitor Company compliance policies.

(g) Consider whether any remuneration policy adopted by either Post Office or its subsidiaries, or the implementation of any such policy is consistent with Post Office risk appetite particularly in relation to conduct risk.

(h) Consider the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect Post Office and its subsidiaries.

Controls and Policies

21. The Committee will consider and review with the external auditors and the internal auditors:

(a) The adequacy of the Company's internal controls.

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(b) Recommendations for the improvement of the Company's internal controls, processes and systems.

(c) Significant findings (the "management letter" from external auditors) and recommendations together with management's responses.

(d) Any reportable restrictions experienced regarding scope or access to required information by either external or internal audit.

Fraud, Theft and Ethics

22. The Committee will:

(a) Review with management their fraud assessment, detection measures and their investigation of illegal acts, as appropriate.

(b) Review any summary of frauds, thefts and other irregularities of any size.

(c) Review with the internal auditors and the external auditors the results of any review of the compliance with the Company's codes of ethical conduct and similar policies including whistleblowing.

Risk Management – Other

23. The Committee shall specify from time to time the reports and management information which it requires in order to discharge its responsibilities. The minutes of the POMS ARC will be provided to the Committee for noting.

24. The Committee shall have the power to conduct or authorise investigations into any company matters within the Committee's scope of responsibilities. The Committee shall be empowered to obtain independent legal advice, and engage counsel, accountants, or others to assist it in the conduct of any investigation.

25. The Committee shall perform such other functions as may be assigned or delegated to it by the Board, and may review other items of an internal control or risk management nature which may from time to time be brought before the Committee.

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APPENDIX 2

ARC FORWARD PLANNER – proposed topics and allocation (assuming 5 meetings per year)

Items	10th Nov 2015	Proposed				
		1) Jan	2) Mar	3) May	4) Sep	5) Nov
1. Standing Agenda Items						
• Minutes and actions from previous ARC meetings	√	√	√	√	√	√
• Private meetings with auditors/ management	√	√	√	√	√	√
• Internal Audit Quarterly Report	√	√	√	√	√	√
• Risk Quarterly Report	√	√	√	√	√	√
• Financial reporting & Controls	√	√	√	√	√	√
2. Governance Items						
• Review of ARC Terms of Reference and Internal Audit Charter			√			
• External Auditor – review/ appointment/ re-appointment/ non-audit fees – recommendation to Board		√				
• ARC effectiveness self-assessment (triennial by independent)				√		
3. Financial Reporting and Disclosure						
• Financial statements – interim review	√					√
• Financial statements – full year review and recommendations to the Board				√		
• External Audit management letter		√				
• Review and approve External Audit plan		√				
4. Internal Audit and Risk Management and Control						
• PO Risk Profile (including Horizon Scanning)	√	√				√
• Internal Audit – approval of the upcoming plan	√		√			√
• Key Policies Framework - progress		√		√		
5. Compliance						
• Regulation				Keep free		Keep free
▪ Anti Bribery & Corruption		√				
▪ Anti Money Laundering		√				
▪ Competition Law		√				
▪ Data Protection		√				
• Conduct/ People						
▪ Customers (e.g. Vulnerable, Conduct issues)			√			
▪ Ethics and Code of Conduct			√			
▪ Fraud and Theft			√			

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CONT. proposed topics and allocation (assuming 5 meetings per year)

Items	10th Nov 2015	Proposed				
		1) Jan	2) Mar	3) May	4) Sep	5) Nov
6. Deep Dives						
• FS Deep Dives on specific issues		√		√		Keep free
• Pensions			√	Keep free	√	
• Health and Safety					√	
• Incident Management, Disaster Recovery & Crisis Management					√	
• Cyber / IT Security	√				√	
7. Other						
• POMS ARC		√	√	√	√	√
• Insurance Renewals					√	

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Annual Self Assessment of the Internal Audit Charter by Garry Hooton 3/3/16

Charter Component	Evidence
1. Goals of Internal Audit • To provide the Board with independent and objective assurance over Post Office organisations controls. • Provide assurance that the Post Office processes for identifying, assessing and managing risks are effectively deployed. • To help management improve their decision making processes, controls and operations through risk and control advice and support.	
2. Independence 2.1 Reporting Line • The Head of Internal Audit will report to the Chairman of the Audit Committee who is a Non Executive Director of the Board, and on a day to day basis to the General Counsel. The Head of Internal Audit has access to the Board Chairman, Non Executive Directors and the CEO. The Internal Audit staff report to the Head of Internal Audit.	• The reporting lines as described are in place and working effectively.
3. Role and Scope • The role of Internal Audit is to understand the key risks of the organisation and to examine and evaluate the adequacy and effectiveness of the frameworks of risk management and internal control as operated by the	• The role and scope is well understood and reinforced with regular meetings with management. Greater involvement at GE level has recently been formalised.

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Charter Component	Evidence
organisation. • Internal Audit, will therefore review, appraise, evidence and report on: • The adequacy and effectiveness of the frameworks of • Operational control across the organisation including outsourced services. • Financial control • Management control • The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss. • Company policies, standards and procedures including their use and appropriateness. • National and International legislation where applicable are effectively recognised and acted upon. • The operation of the organisation's corporate governance and risk governance arrangements. • Significant aspects of the organisation's activity including major projects and change programmes and as directed by the Audit Committee. • Fraud • Management remain responsible for establishing and maintaining systems for the prevention of fraud and theft. • The internal audit department may be requested to assist in the investigation of significant suspected fraudulent	

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Charter Component	Evidence
activities and notify the Audit Committee of the results. • Where regular audit work may reveal fraud risk or actual fraud and irregularities, this will be reported to management, the risk and audit committees. Other key stakeholders	
• The Internal Audit team will liaise with other providers of assurance including second line defence functions, external audit and Risk Governance Compliance.	• Liaison is in place with all of the relevant functions within Post Office and its key partners.
4. Access and Authority	
• The Post Office Internal Audit team have unrestricted access to all functions, records, property and personnel at all management levels including the external auditors and contractors insofar as it applies to authorised audits, reviews and investigations.	• No restrictions have been encountered.
• All members of the Internal Audit team will abide by company and professional standards with regards to confidentiality. Audit files and evidence will be appropriately secured.	• All team members are professionally qualified and abide by the relevant standards – all records are appropriately secured.
• Where information is of particular sensitivity, management may request that access be restricted to the Head of Internal Audit only.	• Such instances would be noted for ARC
• If required access has not been forthcoming and following due process remains as such and this has a significant restriction on the effective completion of an audit, the limitation should be reported. Effort to resolve the situation should be undertaken and only after these steps should such limitations be reported	• Escalation mechanisms are in place via General Counsel

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Charter Component	Evidence
to the Audit Committee.	
4.1 Reporting on activity • The findings on engagements shall be cleared upwards through line management and to the appropriate GE member. Reports will be summarised for the Audit Committee, who may request access to the full reports. Reports will also be provided to the CEO, CFO and Head of Risk Governance Compliance as appropriate. • Formal reports will be classified as confidential. Access to final reports by individuals not directly associated with the audit, shall be approved by the Head of Internal Audit and the owning Executive Committee member.	• Report clearance process is through line management and relevant GE member, prior to RCC and ultimately the ARC.
5.Audit Plan • The Head of Internal Audit will submit an rolling risk based plan for approval by the Audit Committee, review progress with the audit committee quarterly and where necessary amend the plan to reflect changing risk priorities. • The plan will project a maximum of 6-12 months into the future although some areas will require annual review. • This plan will also be made available to the Board and the Executive Committee and be flexible to requests from the business that arise during the year. • Audits will generally be planned alongside management and announced but at times visits,	• Annual plan to ARC each March meeting for approval with updates at each subsequent ARC, with requests for changes as necessary.

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Charter Component	Evidence
checks and investigations may be unannounced to the business area concerned. This includes all aspects of the group including head office functions • A follow up process will be implemented. The results of follow ups including the implementation rate of recommendations will be reported to the Audit Committee on a periodic basis.	• Process in place, under regular review
5.1 Management Requests Management may make requests for audits or reviews through the year. • Requests will be evaluated in terms of risks and effort will be made to address these requests wherever possible. • Other than short assignments, the Audit Committee should be informed of proposed changes to the plan especially where this will impact delivery or delay start of currently planned work. • The Chair of the Audit committee and the Head of Internal Audit will discuss significant changes to the plan and agree steps with the business. **6. Audit Committee Liaison** • The Head of Internal Audit should meet with the Chairman of the Audit Committee outside of regular audit meetings, without the presence of management at least twice a year. • The Head of Internal Audit may meet with any of the other members of the Audit Committee and with the external audit partner outside of Audit Committee	• All such requests are reviewed and referred as necessary • One meeting has already been held, further meetings will be planned.

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Charter Component	Evidence
meetings. • All members of the committee may request a meeting with the Head of Internal Audit to discuss risk, control and audit matters. • The Head of Internal Audit will ensure that all audit committee members are confident in fulfilling their responsibilities and provide support and guidance where requested.	
7. Staffing and Resource • The Head of Audit shall ensure that the department is sufficiently resourced to carry out its duties in terms of professional competency, business knowledge and awareness and technical proficiency. Additional technical training needed to ensure an audit can be effectively conducted should be arranged. • Specific audit tools to improve efficiency and effectiveness of audits (such as for extraction and analysis of large quantities of data) should be identified and obtained. • In accordance with international standards, the department should not undertake audit work where it does not feel it is sufficiently skilled to do so. In which case, specialised services or staff from either within the organisation or external to it should be considered and sought.	• Audit plan is prepared with resource constraints in mind. Exceptional additional work requests would be met by suitably qualified Co-source colleagues (subject to authorised additional budget). • Tools would be identified and sourced as necessary with the relevant business cases presented. • We have an existing Co-source agreement with PwC which is used in such circumstances.

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Charter Component	Evidence
8. Advice and support • Internal Audit should not be required to: • Perform operational duties • Operate controls, other than those within the department • Approve accounting transactions outside of the department. • Implement controls that are the responsibility of management.	• The IA team are not involved in any such activities.
• It is within normal accepted practice and International Internal Auditing Standards for Internal Audit to be requested to assist in a facilitative or consulting nature. Where this falls within the general remit of advising on risk and control this will be considered part of the service offering, with regard to resources available and time required.	• We are currently assisting Legal/Property with ensuring Property Compliance is effective.
• Where it is agreed as appropriate for a member of the IA team to provide significant input to an activity or project that is beyond the normal remit which means they should be temporarily seconded to another department or team, then the following will take place. • The request will be approved jointly by the Head of Internal Audit and the Chairman of the Audit Committee. • The resource impact on the approved audit plan should be approved by the Audit Committee who will either approve the reduction in scope to the audit plan or request the Board to approve temporary resource to address the short fall.	• Any such request would be referred to both GC and Chair of ARC
• The work conducted by the seconded member will be the responsibility of the receiving manager, not the Head of Internal Audit. The work will not be defined as internal audit.	

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Charter Component	Evidence
9. Standards of Audit Practice • The Head of Internal Audit will implement recognised international internal auditing standards and techniques such as those developed by the Institute of Internal Auditors, COBIT and COSO as appropriate to the Post Office.	• International Auditing Standards as published by the Global Institute of Internal Auditors are followed.

Head of Internal Audit Dated: 3rd March 2016

Garry Hooton

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'Horizon Spotting' Report

Author: Jane MacLeod
Meeting 17 March 2016

Executive Summary

Context

As part of its remit, the Board Audit Risk & Compliance Committee should consider legal, regulatory and other external developments on behalf of the Board in order to ensure that impacts on Post Office (including its customers, staff, suppliers and stakeholders) are understood and being appropriately managed. This report highlights current developments of relevance to Post Office and the work that is being done to monitor these.

Questions this paper addresses

1. What are the material legal, regulatory and other external risks the Post Office executive and Board should currently be aware of?
2. What work is being undertaken to assess, monitor and mitigate these risks?
3. Who is accountable for this work and how will it be reported through Post Office governance structures?

Conclusion

1. There are a number of material developments which either will or could impact Post Office and details of these are set out in this summary.
2. In each case work is being undertaken to monitor and assess the risks arising from these developments. The Corporate Services team is working with the different stakeholders to progress this assessment.
3. Governance structures and reporting lines will be developed to ensure there is appropriate representation from across Post Office in formulating responses to, and mitigation plans for, these developments.

Input Sought

The ARC is asked to note these developments.

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The Report

Money Laundering

1. The UK has, consistent with international developments, a comprehensive regulatory framework to mitigate against the risk of money-laundering and terrorist financing. Post Office is regulated by HMRC for a: bureau de change (walk in on demand, buy back and branch pre order), b: third party cheque encashment and c: bill payments. AML Regulations requires a series of mandatory activities such as Customer Due Diligence checks and completing and filing suspicious activity reports, with risk based activities such as staff vetting, training, risk based monitoring of activities, and controls built into design of products.
2. Those products and services which carry the greatest risk are bureau de change, cheque encashment, Moneygram, personal and business banking and services provided to third party money bureau services by Supply Chain.
3. Post Office's anti-money laundering ('AML') and counter-terrorist financing ('CTF') frameworks are still at an immature stage and work in this area has been absorbed by the pre-existing financial crime team, with no additional resource. Following suspected breaches of the anti-money laundering framework in branches last year, I commissioned a report from a regulatory specialist firm – Promontory, to assess the state of Post Office's framework (particularly in light of the 4th Money Laundering Directive enacted during June 2015 and which must be implemented by mid-2017) and identify those areas requiring improvement. That report has now been received and contains recommendations covering policies, procedures, MI, detection and monitoring tools and resourcing.
4. In addition, the new Partner Banking Framework has driven work to upgrade certain policies – including that in relation to AML.
5. We have recently been advised by HMRC that they propose to conduct an AML/CTF compliance audit on Post Office. This audit will be conducted over a 6-8 month timeframe and will require the supply of significant amounts of documentation, interviews with relevant staff as well as managing visits to over 150 branches including Crowns, multiples, and agency branches. HMRC have flagged that their review will include (but not be limited to) reviews of:
   - relevant activities and supervisory responsibility;
   - current operational structure in relation to relevant activities;
   - POL Compliance team roles and high level overview of compliance monitoring activity;
   - documentation covering AML Risk Assessment, policies and procedures,. staff training and Sub post office on-boarding procedures;
   - over counter transaction data (from Horizon System);
   - monitoring activity; and
   - bill payment, cheque encashment and MSB supply chain activity.
6. In order to manage this increased workload on top of the BAU activity for both financial crime and AML, we have established a project which I am sponsoring, to address both the compliance audit and the parallel work to respond to the Promontory recommendations.
7. 'Failing' the compliance audit is likely to have potentially material adverse impacts on relevant business activities, as well as creating issues with stakeholders such

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as HMRC, Treasury, BIS and the FCA (as the regulator for both POMS and Payment Systems); and will also potentially be de-stabilising for financial services clients including under the Banking Services Framework and POCA.

8. I will provide regular reports to the ARC on the progress of this work, the findings from it, and the implications for Post Office.

Brexit

9. The date for the EU Referendum has now been established as 23rd June. Although the Post Office trades within the UK, the embedded nature of the EU within UK economic, corporate and political life, and Post Office's complex supplier, Client and partner base, mean that the implications to Post Office of a potential exit vote are substantial.

10. There are a number of direct risks (such as changes in employment, procurement legislation etc) which would impact Post Office but which will play out over a lengthy period (at least two years notice of leaving the EU plus a potential period of more than five years for establishing replacement trade relations with the EU). There are also a number of indirect risks (impact on sterling, politics, economic growth, uncertainty, a further Scottish independence referendum) which may have more immediate impact. For example, if there is a Brexit vote, the policy and legislative implications may become all-consuming for Government's time and energy from Summer 2016 – at the very time Post Office and Government are seeking to determine the funding and policy arrangements that need to apply post 2018.

11. I will establish a steering group (reporting to the Group Executive – membership to be agreed) to oversee and coordinate the work to identify the potential risk areas and potential mitigation activities. In addition the corporate affairs and communication approaches of the company during the referendum campaign are being established (with due recognition of Post Office's public ownership status and any 'quasi purdah' arrangements that will be relevant to the referendum campaign period). The Post Office will prepare a position of 'informed readiness' to be effectively placed to readily navigate the very complex and uncertain environment in the case of potential Brexit.

General Data Protection Regulations (GDPR)

12. On 15th December 2015, the European Parliament and the Council of the European Union reached an informal agreement on the GDPR. It is expected that the European Parliament and the Council will formally adopt the GDPR early in 2016. Although these new regulations will not come into effect for 2 years, there will be significant changes required to Post Office's operations to ensure we are compliant as at the date of implementation.

13. The changes include:
    - Wider definition of 'personal data' ;
    - Stricter criteria for consent;
    - More onerous information security standards and notification requirements for breach;
    - More onerous governance and accountability requirements;
    - Greater emphasis on only holding the minimum data necessary;

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- Contracts – likely that new additional mandatory terms will be required.
- Right to be forgotten and data portability
- Profiling - There will be impacts on the extent to which profiling is permitted. This will have a material impact on data analytic solutions.
- Fines & compensation -
- Maximum fine for infringement will increase. Onerous notification requirements will be imposed where breaches have occurred, and
- Greater powers for regulator.

14. Scoping the impact of these new rules on Post Office will be a major exercise. I will shortly initiate a project to scope the impact of these regulations on Post Office to understand the scope of the work that will be required. The results of that scoping work will be reported to the Group Executive with the expectation that a formal project will be established to facilitate implementation.

Networks and Information Security Directive

15. This Directive will come into effect during 2017 and aligns cyber security reporting and standards across the EU. The Information Security team (reporting to me) are leading work to ensure that our systems will facilitate compliance; this includes working with the CIO function to ensure new technical controls are applied for the reporting of risk control requirements. This directive will align with the GDPR. Progress on implementation will be reported to the RCC.

Modern Slavery Act 2015

16. This legislation is now in force. The Act has introduced changes designed to increase transparency in supply chains. Specifically, large businesses will be required to disclose the steps they have taken to ensure their business and supply chains are free from modern slavery (that is, slavery, servitude, forced and compulsory labour and human trafficking). This will include making a statement each year of the steps taken (if any) to ensure modern slavery is not taking place in the organisations' own business and its supply chains. Businesses with a year –end of March 2016 will be required to publish a Statement covering that financial year. The statement will need to be approved by the board and signed by a director.

17. The HR and Legal teams are working together (under the leadership of the Group People Director) to scope the implications for Post Office and prepare the statement to be contained in the Post Office Annual Report.

Enterprise Bill

18. The Enterprise Bill which has now been tabled in parliament, includes proposals to cap termination payments to certain public sector employees at £95,000. This will impact Post Office and POMS. A number of government owned businesses have sought to be exempted from the effect of these provisions on the basis that they will voluntarily comply with the new rules. The components of pay that are included within the cap are drafted widely and it is therefore believed by commentators that this cap will catch a significant number of employees.

19. The impact on Post Office and POMS is being considered by HR and Legal and we are monitoring the progress of the Bill, as well as exploring whether Post Office and POMS could be exempted and if so on what terms. The key concern is that these restrictions will make it more difficult for Post Office as a commercial

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business to compete for the recruitment of staff from the private sector which is obviously not subject to any such restriction.

Senior Managers' Regime

20. The Senior Managers' Regime came into effect on 7 March 2016 for major banks and those insurance companies which are subject to Solvency II. The FCA has flagged that it proposes to extend the regime to all financial service entities (which would include POMS) by end 2018 although the scope and timing of this are as yet unclear. Appointed Representatives will also become subject to the regime in this timeframe. My team, together with representatives from Financial Services and POMS are monitoring developments with a view to assessing the impact that the extension of the regime will have on POMS as a regulated entity, and on Post Office as an appointed representative of each of Bank of Ireland and POMS.

21. Regular updates will be provided to the ARC from time to time as we obtain greater clarity on the requirements and implications.

Mails – International Data Capture

22. New EU regulations will come into effect in May 2016 requiring mail operators to capture sender and receiver information for international parcels. Penalties for non-compliance will be levied from December 2020. Aspects of the regulation are not clear – including in particular whether this regulation applies directly to Post Office, or whether the principal obligation applies to Royal Mail. Nevertheless, Post Office will need to make systems changes to allow this data to be collected and transmitted and RMG have raised a contractual change request to implement this change. Post Office is unlikely to be able to meet the May implementation date. Legal is supporting the mails team to understand the regulatory obligations, determine whether the primary liability falls on Post Office or Royal Mail, and to assess the risk of non-compliance. Updates on this will be provided to the executive Risk & Compliance Committee once the position has been clarified.