POL00401615

POST OFFICE LIMITED

Meeting:	Audit, Risk & Compliance Committee
Date:	24 November 2020
Time:	08:50 – 11.30
Location:	1.19 Wakefield, Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ / Microsoft Teams

Present:	**Invited Attendees:**
Carla Stent (Chair)	Tom Lee (Head of Finance Financial Accounting and Controls)
Ken McCall (SID)	Mark Underwood (LCG Operations Director): Item 4
Tom Cooper (NED, UKGI)	Christine Kirby (Financial Controls Manager): item 6
Zarin Patel (NED)	Amanda Bowe (Post Office Insurance ARC Chair): Item 7
Regular Attendees:	Ed Dutton (Product Portfolio Director – FS, ID & Insurance & Managing Director – Post Office Insurance): Item 8
Tim Parker (Group Chairman, POL)	Declan Salter (GLO Director): item 9
Nick Read (Group CEO)	Graham Hemingway (Historical Matters Portfolio Lead): Item 9
Alisdair Cameron (Group CFO)	Andrew Goddard (Managing Director - Payzone): Item 10
Ben Foat (Group General Counsel)	Amanda Jones (Retail & Franchise Network Director): Item 11
Andrew Paynter (Audit Partner, PwC)	Katie Secretan (Strategic Partnerships Director): Item 11
Sarah Allen (Senior Manager, PwC)	Dan Zinner (Group Chief Operating Officer): Item 12
Rachel Owens (Senior Manager – Digital Audit, PwC)	Saira Burwood (Head of SPO): Item 12
Johann Appel (Head of Internal Audit)	
Mark Baldock (Head of Risk)	
Jonathan Hill (Compliance Director)	
Rebecca Whibley (Senior Assistant Company Secretary)	
Join Microsoft Teams Meeting GRO United Kingdom, London (Toll) Conference ID: 690 753 133# Pin (if applicable): 58042	

Time		Item		Owner	Action
08:30 -08:50		Meeting with Auditors and ARC Committee without Management present		Auditors	Discussion
08:50	1.	Welcome & Conflicts of Interest		Chair	Noting
08:55	2.	Previous Meetings		Chair	Approval
		2.1	Minutes (22 September 2020)		
		2.2	Action List		
		2.3	Draft Risk and Compliance Committee Minutes (12 November 2020)		
09.00	3.	Risk, Compliance and Internal Audit Updates			
		3.1	Risk Update (Archer Dashboard)	Mark Baldock	Noting
		3.1.1	Risk Policy, including the proposed approach to Risk Appetite & Key Risk Indicators		Approval (onward submission to Board)

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09:10		3.2	Compliance Update	Jonathan Hill	Noting
09:20		3.3	Internal Audit Update	Johann Appel	Noting
09:30	4.	Suspense Accounts *There is an additional item in the reading room associated with this report.*		Mark Underwood	Noting & Approval
09:45	5.	Audit Plan 2020/21		Andrew Paynter	Noting
09:55	6.	Financial Reporting Controls Environment		Tom Lee & Christine Kirby	Noting
10:05	7.	Update from Subsidiaries: verbal update from Post Office Management Services ARC		Amanda Bowe	Noting
10:20	8.	Financial Conduct Authority Dual Pricing Change		Ed Dutton	Noting
10:30	9.	Historical Matters Unit (HMU) Governance Review		Declan Salter & Graham Hemingway	Discussion
10:45	10.	Payzone Risk Report		Andrew Goddard	Noting
11:00	11.	Deepdive: Multiple Partner Failure		Amanda Jones	Noting
11:15	12.	Deepdive: Transformation Office Change Update 2020 *There are additional items in the reading room associated with this report.*		Dan Zinner & Saira Burwood	Noting
	13.	Any other business		All	Noting

Items for Noting

These items will not be presented to the Committee and any questions should be sent to the Secretary for submission to the author for response. Questions and answers will be recorded as appendices to the meeting minutes.

	1.	PCI-DSS and Cyber Security Update		Noting
		1.1	PCI-DSS	Jeff Smyth & Rob Wilkins
		1.2	Cyber Security	Tony Jowett
		1.3	Joiners, Movers, Leavers	Tony Jowett
		1.4	Belfast Datacenter (Horizon) DR Post Test Briefing	Gary Walker
	2.	2.1	Data Governance	Jonathan Hill & Ben Foat
		2.2	Data Retention Policy & Digital Data Governance	Rob Wilkins
	3.	Law & Trends Forum		Sarah Gray & Ben Foat

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	4.	Agreed Upon Procedures	Tom Lee, Brian Kelly & PWC	
	5.	Procurement Governance & Compliance Report	Barbara Brannon	
Items for approval via Written Resolution *These items will not be presented to the Committee and approval will be sought via Written Resolution to be signed by members prior to the meeting. Any questions relating to these items should be sent to the Secretary for submission to the author for response.*				
	1.	Policies for Approval:	Jonathan Hill	Approval
		1.1 Summary Paper		
		1.2 Change Management		
		1.3 Conflicts of Interest		
		1.4 Protecting Personal Data		
		1.5 Freedom of Information & Environmental Information Regulations		
Next ARC Meeting: Tuesday 26 January 2020 at 09.00 to 11.30 in 1.19 Wakefield, Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ				

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2.1

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MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE OF POST OFFICE LIMITED HELD ON TUESDAY 22ND SEPTEMBER 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 09.00AM (VIA CONFERENCE CALL)[1]

Present:	**Invited Attendees:**
Carla Stent (Chair)	Barbara Brannon (Procurement Director): Item 2 **(BB)**
Ken McCall (SID) **(KM)**	Lisa Cherry (Group Chief People Officer): Items 5 & 5 **(LC)**
Tom Cooper (NED, UKGI) **(TC)**	Daisie Jope (Head of HR Organisation Effectiveness Project Lead): Item 5 **(DJ)**
Zarin Patel (NED) **(ZP)**	Helen Rhodes (Head of HR Organisation Effectiveness Project Lead): Item 5 **(HR)**
Regular Attendees:	Maxine Cross (Head of Reward and Pensions): Item 6 **(MC)**
Tim Parker (Chairman, POL) **(TP)**	Giannis Waymouth (Solicitor, Norton Rose Fulbright): Item 6 **(GW)**
Nick Read (Group Chief Executive Officer) **(NR)**	Tim Perkins (Head of Security, Safety & Loss Prevention): Item 7 **(TPE)**
Alisdair Cameron (Group CFO) **(AC)**	Ian Holloway (POI Director, Risk & Compliance): Item 8 **(IH)**
Ben Foat (Group General Counsel) **(BF)**	Mark Dixon (Treasurer): Item 9 **(MD)**
Andrew Paynter (Audit Partner, PwC) **(AP)**	Andy Bear (Account Manager, Locktons): Item 9 **(AB)**
Sarah Allen (Senior Audit Manager, PwC) **(SA)**	Jeff Smyth (Interim Group Chief Information Officer): Item 11 **(JS)**
Johann Appel (Head of Internal Audit) **(JA)**	Tony Jowett (Chief Information Security Officer): Item 11 **(TJ)**
Mark Baldock (Head of Risk) **(MB)**	Rob Wilkins (Cloud Services Director): Item 11
Jonathan Hill (Compliance Director) **(JH)**	Hugo Sharp (Deloitte Partner) **(HS)**
David Parry (Senior Assistant Company Secretary) **(DP)**	Rebecca Whibley (Assistant Company Secretary) **(RW)**
Apologies:	

		Action
1.	**Welcome and Conflicts of Interest**	
1.1	A quorum being present, the Chair opened the meeting and noted that participation was solely by conference call given the current Government guidance on home working. However, given the requirements of the Company's Articles of Association, the location of the meeting was agreed to be the Company's Registered Office.	
1.2	The Directors declared that they had no new conflicts of interest in the matters to be considered at the meeting in accordance with the	

[1] Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chair's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.

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	requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.	
2.	**Policies for Approval**	
2.1	*Barbara Brannon joined the meeting.* **Procurement Policy**: BB presented the Procurement policy. She explained the policy sets out the legal framework for Public Procurement Regulation under which POL operates as a public sector body. There is extensive and detailed regulation for awards over threshold and the team are also supported by the Legal Procurement manual supplied for context but currently being refreshed, which was to be completed by November 2020. Appendix A was provided for discussion and covers awards between £0 and £189,330, known as sub-threshold. These awards are most often the subject of the recent Procurement Risk Exception Form (PREN) process and resource, and so it has been presented as a separate appendix for discussion.	**Action: BB**
2.2	She advised that Appendix A had been reviewed by the legal team, along with the practices of similar public sector body organisations. Appendix A sets out the fully compliant process based on external legal opinion which would have resource and time to market implications for the team. She felt that it would be useful to discuss whether this should be adopted in full or whether there was confidence in the current approach. A discussion followed and TC and ZP commended BB on the strong policy but questioned whether the conservative approach to sub threshold cross border awards was appropriate, and whether a more pragmatic view should be taken. BB explained the conservative interpretation was taken due to the increasingly globalised market within which POL operates, and expressed a view that advertising all opportunities would be an ineffective use of resource (financial and people) due to the nature of the opportunities at POL, which are often professional services rather than transactional or one off in nature. It was likely that POL would have to solicit quotes and that simply advertising an opportunity would be insufficient, particularly with time-constrained activities. She highlighted that use of framework panels would limit the need to advertise but panel processes would have to be adhered to. Developing a bespoke POL framework (which larger organisations favour), would enable resource to be more effectively used and lessen the need for advertising. It was noted that Appendix C, which sets out the requisition and payment process for supplying goods and services post contract in POL, is separate too, but interacts with the Procurement Policy and has also been reviewed by the financial control and Internal Audit teams. Procurement were to present sourcing options to the GE and Board on a consulting OJEU to appoint a POL panel for professional services by March 2021. Further, Appendix A was to be removed and replaced with a sub-	**Action: BB**

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	section in main Procurement Policy on sub-threshold procurement by November 2020.	**Action: BB**
2.3	It was further outlined that: - Direct awards will continue to be treated as Risk Exceptions; - Opportunities would be advertised on Contracts Finder wherever possible; - All awards would be advertised on Contracts Finder, except those which are deemed highly sensitive. This would be at the discretion of the Procurement Director, but would be logged with the RCC and ARC for review; and - Time critical and/or commercially sensitive opportunities would be subject to a three quote process. TC advised his UKGI procurement specialist would review the policy by November 2020.	**Action: BB/TC**
2.4	Noting the varying standards of compliance across government agencies, subject to review and comments from the UKGI procurement specialist, the Committee **AGREED** the following: 1. The Procurement Policy be approved with some changes, namely the removal of Appendix A and setting out the high level guidance in respect of sub-threshold awards within the main policy document (as outlined above). 2. A working framework be developed with secured CCS panels to reduce the need for advertising professional services opportunities (due by 31 March 2021). 3. Continue to use the PREN process. 4. Automate the process to promote awards to market and to publish all awards for compliance subject to their commercial sensitivity and risk. *Barbara Brannon left the meeting.*	**Action: BB**
2.5	*Post Meeting Note re Procurement 23/09/2020* Following the ARC committee, a discussion took place between the Chair and BB to understand the operation of Procurement within POL in more detail, how management and the business teams are engaged to avoid rogue procurement, and how the policy and controls are implemented in practice. A discussion took place in respect of practical steps to implement what was agreed at the ARC meeting. It was acknowledged that there is a challenge to adopting such strong oversight by POL Board given available time, the nature of the majority of the risk exceptions submitted for review and whether it is adding value. It was discussed and agreed with the Chair that above threshold risks [>£189k] should continue to come to Board, with a bi-monthly retrospective report submitted to RCC and ARC for sub threshold risk	

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	exceptions. At the discretion of the Procurement Director and/or General Counsel, sub-threshold risk exceptions may be submitted to Board where it is outside of risk appetite. This should set out an overview of : • live exceptions by business unit, • work underway to mitigate and remove open risks, • exceptions occurring during that period in the form of a PREN, • late / avoidable incidents and • the approving GE member. • The frequency of this reporting will be reviewed after 6 months. For the avoidance of doubt, the risk exceptions logged will note any award which has not been the subject of a commercial process [including for reasons of lack of market competition] and/or has not been openly advertised to the market in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality.	
2.6	The following policies were **APPROVED** by the Committee: • Contract Execution • Vulnerable Customer • Physical Security • HMRC Fit and Proper	
3.	**Previous Meetings**	
3.1	The minutes of the meeting of the Audit and Risk Committee held on 27 July 2020 was **APPROVED** and **AUTHORISED** for signature by the Chair.	
3.2	Progress against the completion of actions as shown on the action log was **NOTED**.	
3.3	The draft minutes of the Risk and Compliance Committee held on 10 September 2020 were **NOTED**.	
4.	**Risk, Compliance and Internal Audit Updates**	
4.1	***Risk Update*** MB presented the Risk Update. He explained the dashboard (taken from Archer) presented the key risks to POL and that going forwards, risk trends would be presented to the Committee, driven by data taken from the monthly meetings with GE members. Updated risk appetite statements for Legal, Compliance & Governance and technology would be presented to the Committee in November and further statements would be brought before the Committee in January and March 2021.	**Action: MB**
4.2	He noted engagement levels with business units have increased as the business units have become more aware of their role as the first line of	

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	defence. However, risk articulation (being clear on the cause, event and impact of risk), alignment (ensuring risks are managed through Archer as a single source) and RAG ratings (to ensure they reflect Group standards) are areas requiring address.	
4.3	The following risks were noted by the Committee: • There are 473 central risks as at 31/8/20. • There are 15 enterprise (strategic) risks. Key enterprise risks include Commercial risk (lack of attractive proposition for potential post masters); Covid19; GLO (legal risks associated with this); and Financial (cash flow and funding). • There are 72 intermediate risks, with four rated as critical. These being, Government Services (drop in revenue); Digital Income (drop in revenue); Telco dependency on 3rd party provider; Customer demand (reduced as POL cannot meet demand including new demands/trends from customers). • There are 386 local risks with three critical local risks, including Industrial Action, Health and Safety (due to Covid19) and Impact of Covid19 on Change Portfolio i.e. being unable to complete changes required.	
4.4	The Committee requested MB consider the following: • Brexit • Global/climate change • Succession planning/people risk – NR remarked he would look at this particularly considering recent re-structure. • Technology risks particularly PCI compliance MB advised these would be reviewed for the next Committee meeting and that all risks would be tied/linked with policies.	
4.5	***Compliance Update*** JH presented the Compliance Update with the following points noted:	
4.6	**Telecoms**: The regulator has agreed to stop fortnightly reporting following strong call centre performance during the Covid19 pandemic. A meeting with Meredith Sharples and Ofcom is planned regarding POL's performance against the regulator's Fairness Commitments.	
4.7	**Fairness:** The team is working on ways to reduce the number of 'vulnerable clients' and whilst not in breach of the regulator, Annual Best Tariff Notifications will be sent to customers (required to be sent before 14 February 2021) who have been out of contract for more than a year and have not received an End of Contract Notification.	
4.8	**GLO/Freedom of Information (FOI) Requests/GDPR and data protection:** The team is extremely busy dealing with requests related to Historic Shortfall Scheme and related/linked FOI requests. He advised of 39 FOI enquiries considered vexatious which would be reviewed accordingly.	

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	Of serious concern and Committee discussion, was the discovery of 31,000 boxes previously unknown to the wider organisation, which are being reviewed by legal, HSF and Peters and Peters for any GLO implications. The Committee questioned whether management had a handle on data management controls such as archiving, and remarked on the lack of accountability within POL. NR remarked that this was an unacceptable incident and that he did not expect this to brought to the Committee's attention by compliance. A paper on data controls is expected at GE for discussion. The Committee recommended a data amnesty be organised for all Post Offices be considered. BF to determine the best way for this to be actioned and provide an update in November 2020.	**Action: NR/BF /DZ** **Action: BF**
4.9	**Financial Crime:** There continues to be a large increase in suspicious activities reports (SARs) during lockdown. The team is working closely with the banks to understand the reasons for the continued spike but noted that increased knowledge within the network had been key in identifying questionable transactions. The Committee requested management embed stronger controls in place toto help reduce the risk. .	
4.10	**Fujitsu:** JH advised of a new regulatory breach previously unknown at the time of pack publication. Many customers have not received planned communications and the team is working on the impact to customers. No Postmasters have been impacted and a report can be provided to the Board depending upon the regulator's response.	
4.11	The Committee advised management that stronger and improved internal governance controls are required to reduce these incidents.	
4.12	***Internal Audit (IA)*** JA presented the IA update.	
4.13	He advised of the positive progress against the 2020/2021 IA programme with seven reviews (five in POL, two in POI) completed since the last ARC meeting in July and no contentious issues to report. The plan would be reviewed against POL's new purpose recently published.	
4.14	The Committee noted the following audits have been reviewed since the last ARC meeting (27/7/20): • GLO Historical Shortfall Scheme -Data Validation • Maintain Minimum Control Standards during Covid-19 (needs improvement) • RMPP (DB Pension Scheme) -Data Errors (Final Draft Report) (not rated, lessons learned) • Health & Safety Response to Covid-19 (Final Draft Report) (needs improvement) • Belfast Exit Programme Assurance –Phase 1 -Interim Report.	

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4.15	The Chair sought and received assurance from HS that the IA plan and work completed to date was sensible and effective (when compared against other organisations).	
5.	**Deep Dive: Success Factors**	
5.1	*Lisa Cherry, Daisie Jope and Helen Rhodes joined the meeting.* LC explained this was an outstanding action from May 2019, following a request by ARC to understand whether Success Factors was fit for purpose, and was being fully utilised. It was noted that LC and the Chair had been in discussion prior to ARC to review the risks and future plans for the product.	
5.2	DJ noted that the complex nature of POL had made implementation challenging, and that the product had been developed to suit/fit POLs needs at the time of implementation. This has meant that manual workarounds were required, as well as not being fully utilised. A recent review by Deloitte had identified 51 new opportunities to improve the integrity of the system as well as functionality, connectivity, governance and reporting.	
5.3	Of the 51 opportunities, 21 'quick wins' were identified which DJ advised could be delivered relatively easily with minimal cost. 22 opportunities were identified as 'Priority' based on value-add and these had been 'combined' and worked up into 14 'prioritised opportunities'. Additionally, Helen Rhodes (who has a background in Success Factors) has joined POL (1/9/2020) as HR Services Director to oversee development of the HRSC and HR Service Delivery Model. An option to outsource the HRSC has also been considered, which would potentially change the shape of the HR delivery model and the Success Factors requirement.	
5.4	LC advised that in-view of the recent organisational re-structure, the complexity of POL, costs and other more pressing strategic priorities, it would not be effective to consider outsourcing at this moment. However, this decision could be reviewed in the longer term. She recommended that in the short-medium term (2-3 years), Success Factors remains as the central HR tool around which process improvements and the future HR TOM is built, and that the HRSC continues to be developed in-house. Longer term, annual health checks of suitability would be completed.	
5.5	The Committee **AGREED** to the approach but advised that accountability for Success Factors would lie with LC (or future incumbent). The Committee also asked for an update on the progress of the process improvement in January. *DJ and HR left the meeting.*	**Action: LC**
6.	**Pensions Assurance**	
6.1	*Maxine Cross and Giannis Waymouth (Norton Rose Fulbright, Solicitor) joined the meeting.*	

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	LC and MC reported that since the last ARC meeting, there had been several developments which had prompted the decision to now notify the regulator regarding material errors found in RMPP pensions, rather than not notify the regulator as had been previously recommended. This reversal had been driven by: 1. The potential for leak. 2. Pressure from the Unions - who are keen to be fully involved in the clawback process. 3. Unknown quantum figures at present - work to quantify this is expected to be completed by mid-October. 4. A decision to delay sending Annual Benefit Statements to RMPPP members - a holding statement to explain the delay will be sent to affected members.	
6.2	LC explained the first contact with the regulator would be via an informal tri-partite meeting, between Trustee/POL and the regulator, which is being arranged by the Trustee team – as the trustees hold the existing relationship for the scheme.	
6.3	KP noted the reasons for reporting to the regulator and advised that careful consideration should be given to the communication to affected members and the press (should there be a leak).	
6.4	ZP raised concern at the levels of stress/upset the clawback could cause for members, particularly where members had passed away, and requested the following be presented: 1. A strategic plan for claw-back. 2. Sight of the complications and controls in place. 3. A review of all quantum figures.	**Action: MC**
6.5.	Recognising the concerns of the Committee, and the fact that the directors may be personally liable, the Chair sought and received agreement from the Committee that Pensions Assurance should be discussed as a POL Board matter going forwards. TP agreed to this. *Lisa Cherry, Maxine Cross and Giannis Waymouth left the meeting.*	**Action: DP**
7.	**Suspense Accounts**	
7.1	*Tim Perkins joined the meeting.* TP presented the suspense accounts report and advised that findings from the historical suspense accounts review would be presented to ARC in November. Following a request from ARC in July, he explained the report would look at:	**Action: TPE**

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	1) The information presented to Postmasters regarding their customer accounts. 2) The trends prevalent or emerging in Postmaster customer accounts. 3) Any other processes/products that can be reviewed which would give rise to similar issues to those identified with stamps.	
7.2	Regarding Postmasters accounts, TP advised these are settled centrally at the end of a trading period and that branches are expected to complete trading period accounting 12 times a year on a 5-week, 4-week, 4-week schedule at the end of each trading period. Site visits, increased monitoring and support has reduced the need for chaser letters to be sent out, and all revised processes and letters have been independently reviewed and approved by Norton Rose Fulbright as reflecting the requirements of the Common Issues Judgment. A thorough review of POL's Loss Recovery policies and processes is now underway, and consideration is being given to other opportunities, such as the use of Branch Hub, to allow Postmasters to monitor the balances on their customer account(s). This review will conclude in Q3 2020-21.	
7.3	With regards to trends, the year on year balances settled centrally by branches has fallen in each trading period over the last 20 months. The reduction in balances settled centrally is driven by a reduction in both the volume of branches settling balances centrally and the average value being settled centrally. TC believed the balances settled per branch was high and could be reduced. The Chair requested that ways to reduce balances should be investigated and it was agreed that an update would be provided to the Committee in January 2021.	**Action: TPE**
7.4	In terms of reviewing similar products that could be considered at risk similar to stamps, no further products/processes had been identified. However, TP remarked that a high-level review of the product portfolio would be conducted instead, reviewing current and historical processes where known. The Chair recognised that governance had improved since last year, but recommended that she, NR and Declan Salter (GLO Director) have conversations to establish clear governance structures prior to the next Committee meeting. Additionally, a process is required where a chaser letter is sent to a Postmaster regarding their balances, which is then disputed. *Tim Perkins left the meeting.*	**Action: NR & Declan Salter**
8.	**Update from Subsidiaries:**	

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8.1	*Post Office Insurance (POI) Audit, Risk & Compliance Committee (ARC)* *Ian Holloway joined the meeting.* IH presented the update from the POI ARC meeting of 17 September 2020 with the following points noted:	
8.2	**Financial Performance:** This remains challenging and revenue to date in period five is down 63% driven by the impacts from Covid19 on travel (revenues down 91% year to date), lower than budgeted retention of household business, and to a lesser extent by lower protection volumes. Estimated EBITDA for 2020/21 is now a loss of £0.6m and cash balances have fallen from £8.8m to £3.3m. Focus is on costs, cashflow and the consideration of POI as a going concern. The current regulatory capital position whilst acceptable will continue to be closely monitored. A dividend policy agreed before the Covid19 pandemic is now on hold due to current circumstances, and POI 2019/2020 accounts are nearing finalisation. The main outstanding points being going concern and goodwill impairment. This will be assessed post the 6+6 reforecast in line with POLs approach and timeline.	
8.3	**Risk Management:** Clear plans exist to manage the operational risk of further Covid19 lockdowns and the impact of the current furlough scheme ending. Discussions continue with the FCA continue regarding complaint handling, and the approach for dealing with refunds for multi-trip annual travel policies written prior to the Covid19 has been approved by the POI ARC Committee (a sliding scale is operated with refunds ranging from 75% in the first month to 5% in month ten). Brexit remains high on the POI ARC risk agenda, and high declinature rates (c 70-80%) over the last three months for our travel business were noted (driven by Covid19). Tolerance is expected to be back in October, with a holistic review of the travel product now underway. Further work is required on vulnerable clients needs, and a "Dear CEO letter" has also been issued requiring firms to assess how they are continuing to meet the full needs of customers during the Covid19 crisis. A discussion on partner failure will be discussed at the next POI ARC meeting.	
8.4	The Chair thanked IH for the update and noted the challenging times POI faced, but requested the Committee remain informed.	
9.	**Corporate Insurance Renewal 2020/2021**	
9.1	*Mark Dixon and Andy Bear (Locktons) joined the meeting.* MD presented the Corporate Insurance Renewal update.	
9.2	The Chair noted that renewal for all insurance policies was IRRELEVANT and approval was being sought for delegated authority to NR and AC to	

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	finalise renewal terms. (The insurance renewal date is between two Committee meeting dates, and insurers do not provide terms outside 30 days of the renewal date.) MD and AB reported that conditions for crime (highest premium cost) and D&O insurance remain challenging (as per the 2019/20 renewal), along with the additional impact of Covid19 and increased Cyber Security threats, Locktons expect premiums to increase by 35%. The team is reviewing [illegible] such as IRRELEVANT from IRRELEVANT in IRRELEVANT	
9.3	Noting the difficult market conditions and the unknown impact(s) from Covid19, the Committee requested that IRRELEVANT Focus should be made on IRRELEVANT and a report would be circulated to the Committee before approval for delegated authority to be given. *Mark Dixon and Andy Bear (Locktons) left the meeting.*	**Action: MD**
10.	**PCI-DSS, Cyber Security and Joiners, Movers, Leavers**	
10.1	*Jeff Smyth, Tony Jowett and Rob Wilkins joined the meeting.* JS presented the PCI-DSS update noting the following: **PCI-DSS:** The Point-to-Point Encryption (P2PE) workstream remains on track overall, however the Payments release (Fujitsu) work is 3 weeks behind contracted milestone date due to the complexity of the solution and staff affected by Covid19. Pin Entry Device upgrade is expected to complete in September 2020 (95% complete) and an executive committee consisting of senior POL and Ingenico staff is meeting every 6 weeks which has improved governance. Ingenico remain committed to achieving full accreditation with Vocalink by 31 December 2020. The Target Operating Model (TOM) Workstream to review the Products and Processes that use Card Holder Data is progressing to plan, however the following key risks were noted: • Complexity of solutions/software – Fujitsu forecasting 10-15% (£504k) overspend which is being challenged. • Santander cannot migrate services to route through Vocalink within the timescales • Coronavirus impact especially if second wave or lockdown.	
10.2	**Cyber Security** TJ presented the cyber security update.	

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	The team has been focusing on developing business and IT strategies at pace and due to cost pressures has adopted the following principles for the 2020/21 cyber programme: 1. 2. 3. 4. IRRELEVANT Work is underway with MB to review the risk appetite in view of these changed priorities.	
10.3	**Joiners, Movers, Leavers (JML)** TJ presented the JML report. JML remains a key focus for the team, however progress has been hampered by the differing leaver types and associated tasks for each. An exercise for leavers completed during Covid identified that IT access for all leavers was removed on time, the HR leaving process was in all cases started on time and physical access and payroll were also terminated correctly for these leavers. However, areas for improvement include the process for return of laptops and other kit, some leavers had deleted and downloaded confidential data, as well as the cleanliness of data in HR and IT systems. The Committee noted the progress made but requested this be accelerated. *Jeff Smyth, Tony Jowett, and Rob Wilkins left the meeting.*	
11.	**Law & Trends** The Committee noted the paper. Any member comments questions are to be passed to BF.	
12.	**Bi-Annual Legal Risk Review (Non GLO/Starling)** The Committee noted the paper. Any member comments questions are to be passed to BF.	
13.	**Contract Management Framework (CMF)** The Committee noted the paper and **APPROVED** the development and deployment of short annual mandatory training on the CMF and Public	

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	Contract Regulations for all Contract Owners and Contract Managers, across the PO Group, via Success Factors. Any member comments questions are to be passed to BF.	
14.	**AOB**	
14.1	The Committee agreed that an additional meeting would be required to review going concern and the risks associated with GLO. Once funding talks are concluded, a meeting will be arranged.	
14.2	The Chair thanked DP for his contribution to ARC and wished him well in his future endeavours. RW (who would act as ARC Secretary going forwards) was welcomed to the meeting.	
14.3	There being no further business, the meeting was closed at 11.32am.	

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Chair **Date**

Meeting Actions:

Para No.	Action Detail	Action
2.1	**Procurement Policy**: The team are also supported by the Legal Procurement manual supplied for context but currently being refreshed, which was to be completed by November 2020.	**BB**
2.2	**Procurement Policy**: Procurement were to present sourcing options to the GE and Board on a consulting OJEU to appoint a POL panel for professional services by March 2021.	**BB**
2.2	**Procurement Policy**: Appendix A was to be removed and replaced with a sub-section in main Procurement Policy on sub-threshold procurement by November 2020.	**BB**
2.3	**Procurement Policy**: TC advised his UKGI procurement specialist would review the policy by November 2020.	**BB/TC**
2.4	**Procurement Policy:** A working framework be developed with secured CCS panels to reduce the need for advertising professional services opportunities (due by 31 March 2021).	**BB**
4.1	**Risk Update:** Updated risk appetite statements for Legal, Compliance & Governance and technology would be presented to the Committee in November and further statements would be brought before the Committee in January and March 2021.	**MB**
4.8	**GLO/Freedom of Information Requests/GDPR and data protection:** A paper on data controls (following the identification of 31,000 boxes of data) is expected at GE for discussion.	**NR/BF /Dan Zinner**

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4.8	**GLO/Freedom of Information Requests/GDPR and data protection:** The Committee recommended a data amnesty be organised for all Post Offices be considered. BF to determine the best way for this to be actioned and provide an update in November 2020.	**BF**
5.5	**Deep Dive: Successfactors:** An update to be presented in January to ARC.	**LC**
6.4	**Pensions Assurance:** ZP raised concern at the levels of stress/upset the clawback could cause for members, particularly where members had passed away, and requested the following be presented: 1. A strategic plan for claw-back. 2. Sight of the complications and controls in place. 3. A review of all quantum figures.	**MC**
6.5	**Pensions Assurance:** To add to the POL Board agenda going forwards.	**DP**
7.1	**Suspense Accounts**: TP presented the suspense accounts report and advised that findings from the historical suspense accounts review would be presented to ARC in November.	**TPE**
7.3	**Suspense Accounts**: The Chair requested that ways to reduce balances should be investigated and it was agreed that an update would be provided to the Committee in January 2021.	**TPE**
7.4	**Suspense Accounts:** The Chair recognised that governance had improved since last year, but recommended that she, NR and Declan Salter (GLO Director) have conversations to establish clear governance structures prior to the next Committee meeting. Additionally, a process is required where a chaser letter is sent to a Postmaster regarding their balances, which is then disputed.	**NR / Declan Salter**
9.3	**Corporate Insurance Renewal 2020/2021:** Noting the difficult market conditions and the unknown impact(s) from Covid-19, the Committee requested that IRRELEVANT be explored and to IRRELEVANT. Focus should be made on IRRELEVANT and a report would be circulated to the Committee before approval for delegated authority is given.	**MD**

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Post Office Limited Audit, Risk & Compliance Committee
OPEN ACTIONS

Number	Meeting Date	Minute Reference	Action	Action Owner	Due Date	Comment
1	22/09/2020	4.1	**Risk Appetite Statements**: Updated risk appetite statements for Legal, Compliance & Governance and technology would be presented to the Committee in November and further statements would be brought before the Committee in January and March 2021 .	Mark Baldock	January 2021 ARC Meeting (then Mar.2021)	07/10/2020: MB advised that Legal & Compliance, Technology & Operations will be brought in January 2021, with further specific appetites thereafter.
2	22/09/2020	4.8	**GLO/Freedom of Information Requests/GDPR and data protection**: A paper on data controls (following the identification of 31,000 boxes of data) is expected at GE for discussion.	Nick Read/Ben Foat/Dan Zinner	November 2020 ARC Meeting	03/11/2020: Ben Foat updated the GE on the matter in early October 2020. **Recommended for closure.**
3	22/09/2020	4.8	**GLO/Freedom of Information Requests/GDPR and data protection**: The Committee recommended a data amnesty be organised for all Post Offices be considered.	Ben Foat	Nov.2020	02/11/2020: A paper is included for noting on the ARC November Agenda under data governance. **Recommended for closure.**
4	22/09/2020	5.5	**Success Factors:** An update to be presented in January to ARC.	Lisa Cherry	January 2021 ARC Meeting	02/11/2020: This will be addressed at the January 2021 ARC Meeting.
5	22/09/2020	6.4	**Pensions Assurance:** ZP raised concern at the levels of stress/upset the clawback could cause for members, particularly where members had passed away, and requested the following be presented: 1.A strategic plan for claw-back. 2.Sight of the complications and controls in place. 3.A review of all quantum figures.	Maxine Cross	January 2021 ARC Or Board Meeting	02/11/2020: This will be addressed at the January 2021 ARC or Board Meeting as required.
6	22/09/2020	6.5	**Pensions Assurance**: To add to the POL Board agenda going forwards.	David Parry/CoSec	November 2020 ARC Meeting	02/11/2020: CoSec has added this to the Board agenda moving forwards. **Recommended for closure.**
7	22/09/2020	7.1	**Suspense Accounts**: TP presented the suspense accounts report and advised that findings from the historical suspense accounts review would be presented to ARC in November.	Tim Perkins	November 2020 ARC Meeting	02/11/2020: This item is included on the November ARC agenda and will be presented by Mark Underwood. **Recommended for closure.**
8	22/09/2020	7.3	**Suspense Accounts**: TC believed the balances settled per branch was high and could be reduced. The Chair requested that ways to reduce balances should be investigated and it was agreed that an update would be provided to the Committee in January 2021.	Tim Perkins	January 2021 ARC Meeting	02/11/2020: This will be addressed at the January 2021 ARC Meeting.
9	22/09/2020	7.4	**Suspense Accounts**: The Chair recognised that governance had improved since last year, but recommended that she, NR and Declan Salter (GLO Director) have conversations to establish clear governance structures prior to the next Committee meeting. Additionally, a process is required where a chaser letter is sent to a Postmaster regarding their balances, which is then disputed.	Nick Read/Declan Salter	Oct.2020	02/11/2020: Carla Stent, Nick Read and Declan Salter met on 5/10/2020 and had this discussion. **Recommended for closure.**
10	22/09/2020	9.3	**Corporate Insurance Renewal 2020/2021:** Noting the difficult market conditions and the unknown impact(s) from Covid-19, the Committee requested that a IRRELEVANT IRRELEVANT be explored and to IRRELEVANT Focus should be made on IRRELEVANT and a report would be circulated to the Committee before approval for delegated authority is given.	Ed Dyer ~~Mark Dixon~~	ASAP	02/11/2020: The Committee approved in the insurance renewal for 2020/21 by written resolution on 28/10/2020. The insurance was renewed in accordance with the resolution before expiry, save for the D&O insurance which has been extended for 14 days and work is on-going to enter into a new policy. Report provided in the Reading Room on final cost and cover. **Recommended for closure.**

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11	27/07/2020	4	**Pensions Assurance** Until the Committee was fully aware of the quantum involved, and in view of the current circumstances, the following was **AGREED**: 1.The Directors would only seek independent legal advice (if required) as a team rather than on an individual basis. 2.The Pensions team are to inform the Unions to avoid a whistle blow. A communication plan should be developed with Richard Taylor (POL Group Communications Director) should the issue become public knowledge. 3. A quantification of the error, a remediation plan and debrief should be presented to the Committee in September, where the Committee will consider the position/status. 4.Pensions Assurance will remain as a standing agenda item until further notice.	Maxine Cross	January 2021 ARC or Board Meeting ~~Sept 2020~~	02/11/2020: Points 1 & 2 are completed - Issue has been reported to the Pension Regulator. Richard Taylor has put in place reactive communications and a joint statement has been issued to employees. Point 3 is still outstanding and will be reported to January ARC or Board as required.	
12	27/07/2020	5	**Suspense Accounts:** The Committee noted the risk(s) of reviewing the historical suspense accounts and requested details of the following: 1.The balance information presented to Post Masters. 2.A trend analysis review of the end to end process of the financial operational controls process, to provide assurance to the Committee that there are no further potential issues. An update would be presented to the Committee in September.	Tim Perkins	November 2020 ARC Meeting ~~September 2020 ARC Meeting~~	02/11/2020: This item is included on the November ARC agenda and will be presented by Mark Underwood. **Recommended for closure.** Update 16/09/2020: Review work on historical suspense accounts remains ongoing and an update will be provided in November. A paper on balance information provided to Post Masters and trend analysis is included within the pack	Done
13	27/07/2020	6	**Update from Subsidiaries:** MSA agreement Amanda Bowe provided a verbal update from the POI ARC. She remarked management was monitoring the challenging trade environment, particularly within the travel insurance sector, and that commission payments from POI to POL would be reduced temporarily IRRELEVANT to improve cash-flow. A formal variation of this arrangement within the Master Services Agreement (MSA), is currently being completed. BF is tasked to complete this by September.	Ben Foat	End of November 2020, to update @ January 2021 ARC Meeting	Update 16/11/2020: POI and POL have in principle agreed the draft wording for of the variation documents, which will now be recommended to the respective Boards for approval in November 2020. Authority is being sort to authorise the respective CFOs to execute the variations in accordance with the contract approval process. Update 16/09/2020 - Sarah Gray: The variation to the MSA between POL and POI has been drafted by POI and has not been agreed by POL. The variation covers a reduction in the commission level t IRRELEVANT POL Legal to clarify with Brian Kelly (Director of Tax, Treasury and Working Capital) and Tom Lee (Financial Controller) on a call on 15 September whether the commission payments should be gross or net and if net, whether the definition of net revenue provided is acceptable. Once these points are agreed the variation will be finalised by Legal. If any amendments are suggested these will need to be	Done
14	19/05/2020	8.2	**European Electronic Communications Code:** The Department of Culture, Media and Sport (DCMS) were seeking to hold businesses to a compliance deadline of 21 December 2020. However, Ofcom was working to clarify timings and push the deadline into next year. This was a watching brief.	Jonathan Hill	November 2020 ARC Meeting ~~July 2020~~	02/11/2020: An update is provided in the Compliance Paper. Work is being done to implement the change sand mitigate the risks of not being compliant on time. **Recommended for closure.** Previous: Compliance and the Telecoms Team are commencing work now to understand how long the changes will take and the costs involved.	

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15	19/05/2020	10	**PCI-DSS & Cyber Security:** Jeff Smyth to share the presentation from the CEO to CEO session with Ingencio with the Committee.	Jeff Smyth	ASAP	Update 16/11/2020: Each of the reports that have been prepared as outputs from the CEO/CEO meetings have been shared with the ARC. The latest one is in the Reading Room. An additional action related to this audit point is to communicate that Worldline have recently acquired Ingenico and IT are resetting our CEO and CIO relationships with a new group of Worldline senior representatives. It is expected that work will be completed by early December. **Recommended for closure.**
16	19/05/2020	10.1.2	**PCI-DSS & Cyber Security:** Fujitsu relationship: A broader piece of work was being undertaken to look at the Fujitsu relationship across the business, particularly in relation to PCI – DSS, Telco and Freedom of Information Requests. The work would be brought to the May and June Boards	Jeff Smyth	May/Jun 2020	Update 16/11/2020: IT are regularly updating Post Office Board on Strategic Platform Mobilisation (SPM), Fujitsu Contract Extension and Telco so this action is addressed through those processes. We also have ongoing CEO/CEO sessions where Nick Read tables critical items with Paul Patterson (Fujitsu CEO). **Recommended for closure.**
17	25/11/2019	5.3	**Contract Management:** Auditors to provide examples of best practice for contracts management.	PwC/ Deloitte	Jan. 2020	03/11/2020: Mark Underwood (LCG Operations Director) has advised that the Contracts Management Framework is now complete and it draws on guidance from the National Audit Office. Therefore this action is **recommended for closure**.

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2.3

POST OFFICE LIMITED

MINUTES OF A MEETING OF THE RISK AND COMPLIANCE COMMITTEE OF POST OFFICE LIMITED HELD ON THURSDAY 12 NOVEMBER 2020 AT 11:00 VIA MICROSOFT TEAMS

Present:	**Attendees:**
Alisdair Cameron (Chairman) **(AC)**	Helen Rhodes (People Shared Services Director) (observing) **(HR)**
Lisa Cherry (Group Chief People Officer) **(LC)**	Meredith Sharples (Director of Telecoms) **(MS)**: Item 3.3
Ben Foat (Group General Counsel) **(BF)**	Tony Jowett (Chief Information Security Officer) **(TJ)**: Item 4
Amanda Jones (Group Retail and Franchise Network Director) **(AJ)**	Rob Wilkins (Cloud Services Director) **(RWI)**: Item 4
Cathy Mayor (Finance Director, Commercial) (deputising for Owen Woodley) **(CM)**	Mark Underwood (LCG Operations Director) **(MU)**: Item 5
Jeff Smyth (Group Chief Information Officer) **(JS)**	Tim Perkins (Head of Security, Safety & Loss Prevention) **(TP)**: Item 6
Regular Attendees:	Christine Kirby (Financial Controls Manager) **(CK)**: item 7
Johann Appel (Head of Internal Audit) **(JA)**	Brian Kelly (Finance Director - Tax, Treasury and Working Capital) **(BK)**: Item 8
Mark Baldock (Head of Risk) **(MB)**	Declan Salter (GLO Director) **(DS)**: Item 9
Jonathan Hill (Compliance Director) **(JH)**	Graham Hemingway (Historical Matters Portfolio Lead) **(GH)**: Item 9
Tom Lee (Head of Finance Financial Accounting and Controls) **(TL)**	Ed Dutton (Post Office Insurance Managing Director) **(ED)**: Item 10
Rebecca Whibley (Senior Assistant Company Secretary) **(RW)**	Karl Oliver (Head of Commercial Partnerships) **(KO)**: Item 12
Apologies:	Dan Zinner (Group Chief Strategy and Transformation Officer) **(DZ)**: Item 13
Owen Woodley (Group Chief Commercial Officer) **(OW)**	Saira Burwood (Head of SPO) **(SB)**: Item 13
Nick Read (Group CEO) **(NR)**	Andrew Goddard (Payzone MD) **(AG)**: Item 14
	Sarah Gray (Group Legal Director) **(SG)**: Item 15
	Rod Williams (Head of Legal, DR & Brand) **(RWIL)**: Item 16
	Barbara Brannon (Procurement Director) **(BB)**: Item 17
	Ed Dyer (Working Capital and Cash Management Lead) **(EDY)**: Item 19

1.	**Welcome and Conflicts of Interest**	**Action**
	The Chair opened the meeting and advised that all papers would be taken as read. No conflicts of interest were declared.	
2.	**Minutes and Action Lists**	
2.1	The minutes of the Committee meeting held 10 September 2020 were **APPROVED**, subject to an amendment to paragraph 3.3 requested by Ben Foat such that it reads: *"Legal – POL unable to comply with legislative and regulatory changes, resulting in fines, lost revenue, reputational and customer damage. It was noted that legal and regulatory changes are managed through the Law & Trends forum and reported to RCC and ARC to avoid this."*	
2.2	Progress on completion of actions as shown on the action log was **NOTED** as follows: Action 1 from 10 September 2020 para 3.6 GLO/Freedom of Information Requests/GDPR: This action was covered the Data Governance item (see paragraph 16). The action was closed. Action 2 from 10 September 2020 para 4 Pensions Assurance: Project Assurance Steerco has been created and was to meet monthly. Data was being recalculated and	

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	results would not be available until the end of November. An update would be provided to the Committee in January 2021. The action remained open. Action 3 from 13 July 2020 para 7 Suspense Accounts: This action was covered the Suspense Accounts item (see paragraph 5). The action was closed. Action 4 from 13 July 2020 para 3.5 Compliance Report (TelCo): An update was included in the Compliance Paper presented to the Committee. There was an error in the minutes for 13 July 2020 and the action should read: "*the Telco team was asked to consider ways to reduce the number of customers out of contract and to revert to the Committee with a statement/plan for November* ." The action remained open. Action 5 from 5 May 2020 para 3.15 Fit & Proper Policy: This policy would be presented to the Committee in January 2021 and HR have discussed involvement with Operations and it was agreed the policy was to be owned by Operations. The action was closed. Action 6 from 7 November 2019 para 10.6 MRLO Report: HMRC were still not conducting any meetings and the action was to be updated at the next meeting in January 2021. The action remained open. Action 7 from 7 November 2019 para 3.2 Supplier Contracts Out of Governance (SSK): SSK Procurement Project would now be formally closed and any future activity would sit under the Network Strategy workstream. Automation forms a clear part of this strategy and was fully backed by the Board. Network Strategy was due to go back to Board in January with an update on Automation and Technology (this included SPM dependencies and route to procure). In relation to the existing estate the procurement team were investigating a PCR compliant route to maintain the current estate and potential procurement of new with a target resolution date of 29/01/2021. The action remained open. Action 8 from 7 November 2019 para 3.3 Supplier Contracts Out of Governance (Brands/RAPP): A compliant tender process has been run and the contract has been awarded to the incumbent provider, with operational costs reduced. Contracts were nearing finalisation with a target completion date of end November. The action remained open. Action 9 from 7 November 2019 para 5.3 Cyber Security Incident Test: A desktop exercise to bed in new processes would be conducted in November and then in subsequent months an external party (Nettitude) would be used to conduct live tests. This action would otherwise be updated as part of the regular updates to the Committee. The action was closed.	
3.	**Risk, Compliance and Audit Update**	
	Risk	
3.1	Risk Dashboard: Mark Baldock introduced the paper, which had been circulated previously and was taken as read. In response to questions from the Committee, it was explained that the enterprise risk structure mirrors the Orange Book of Risk Management and was thematic. It was not expected that the risks would change from one month to another. It was the linked risks where the detail changed more frequently: there have been 72 new linked risks over the last three months and 100 linked risks were closed at an intermediate and local level. The question was when the changes in these linked risks impacted the enterprise risk and there needed to be a material change to impact the enterprise risk rating. The Chair highlighted that the dashboard needed to better highlight any changes in risk vs. the ongoing	

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	management of an existing risk. Ben Foat further commented that risk scores were given but the numbers were not defined. It was also highlighted that Declan Salter should be identified against the GLO risk and the impact score for the Starling and GLO risk should be five, not three. It was agreed that Mark Baldock would make these changes to the risk dashboard, including putting any new risks to the front of the dashboard moving forwards (from January 2021) and provide a verbal update on these elements to the Audit, Risk & Compliance Committee (ARC) in November. The Committee otherwise **NOTED** the Risk Dashboard for onward submission to the Audit, Risk & Compliance Committee (ARC).	**Action: MB**
3.2	Risk Policy: The Committee approved the Risk Policy, incorporating the approach to Risk Appetite, for onward submission to the ARC, subject to the following changes: - Compliance was to be added to the second line of defence. - It was to be made clear that the policy applied to the Historical Matters Unit (HMU). - The Board and ARC were not first line defence entities but sat above the defence line structure so should be removed as first line defence entities. - The Committee was the be added to the Risk Governance Structure. - The operational detail included on page 13 would be taken out placed in the Risk Management Framework such that it could be changed if needed without needing to revise the policy. It was also confirmed that the policy did not apply to Payzone Bill Payments Limited and Post Office Insurance, although these entities will have regard to the policy. Both were to adopt their own Risk Policies and despite Post Office Insurance having its own ARC, the Group ARC still oversaw both entities with reports from Post Office Insurance to the Group ARC. Material risks for Post Office Insurance were also included in the Risk Dashboard.	**Action: MB**
	Compliance	
3.3	Jonathan Hill introduced the paper, which had been circulated previously and was taken as read. The specific items below were highlighted and discussed by the Committee. Telecoms Comms Incident: Jonathan Hill confirmed that this was the fourth or fifth regulatory breach seen in the Telecoms area. Whilst it was serious, the number of customers impacted was low and it was hoped the penalty would be minimised. It was not clear how much the fine could be as it could be up to 10% of revenue but it was expected to be less than the fine for the Text Rely issue which was £175,000 as the present incident was not as serious, took less time to resolve and affected less customers. Meredith Sharples explained that the breach was caused by a Fujitsu system failure attributed to file size issues. The breach protocol was immediately instigated and the team engaged with Ofcom. The number of customers impacted was small and the team was working to recompense. Fujitsu were to bear the cost for the breach and a proposal was expected from them later this week. The Chair congratulated Meredith Sharples on dealing with the issue quickly but highlighted that the current contractual situation was untenable (the contract and systems were seven years old and there was no appropriate compliance team). Ultimately, what happens next depended on the on-going strategic discussions regarding the possible sale of the Telecoms business. Branch registration errors: In response to questions from the Committee, it was confirmed that it was hoped there may little or no penalty for branches completing Travel Money transactions after having been de-registered from HMRC.	

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	Money Service Business/Capita: It has been identified that high risk suspicious cash deposits from a Money Service Business (a money transmitter) were being accepted, via the bill payment reseller client Capita. The Chair highlighted that a decision had been taken to not use Money Service Businesses and therefore this practice must stop as soon as possible. Jonathan Hill explained that he was meeting with Capita next week (w/c 16 November 2020) and that they would be told to stop and a timeline would be agreed. Jonathan Hill indicated that the business would be seeking immediate termination and the Chair agreed with this approach. Compliance Monitoring: The Chair questioned whether it was right to pause mystery shopping due to the recent lockdown measures. Jonathan Hill explained that the decision was taken partly for safety (so mystery shoppers did not have to travel and go into branches), but also because no one was buying travel insurance due to the lockdown. As such, mystery shopping would recommence when travel was permitted. Anti-bribery and Corruption Training: It was explained that completion by the HR business unit was at 81.7% (compared to 96.5% across the business) (subject to revised figures being provided). Lisa Cherry was asked to ensure colleagues in her area completed this training as soon as possible and Jonathan Hill would provide her with the latest list of those who had not yet completed it. Whistleblowing Update: There were no thematic concerns and it was explained that the majority have been received from agent assistants and relate to allegations concerning Postmaster activity. A more centralised approach to Postmaster reported concerns was being taken (separate from the whistleblowing process) so as to ascertain any broad themes. Access to Cash: The Committee asked that the draft of the responses to the call for evidence on Access to Cash were circulated to the Group Executive (GE).	**Action: LC/JH** **Action: JH**
	Internal Audit	
3.4	Johann Appel introduced the paper, which had been circulated previously and was taken as read. The specific items below were highlighted and discussed by the Committee. Controls over Manual Revenue Adjustments: It was confirmed that third party data feeds were part of a separate audit planned for January 2021. The present audit has looked at manual revenue adjustments as a result of third party data but the team has not yet validated the third party data processes. Effectiveness of the Second Line during COVID-19: Ben Foat questioned whether the work being undertaken to put a Controls Framework in place was happening quick enough, noting there had been some delays in getting the project to the Project Review Board. The audit report emphasised that there could not be any more delays. It was agreed that this work should be taken to GE to discuss the need to develop the Framework and the approach that should be taken. Joiners, Movers & Leavers (JML): The Chair stressed the importance of completing this work. The risks for internal movers needed to be mapped and resolved. Lisa Cherry was asked to take this away. Further actions were also highlighted as needed to be completed prior to the report being submitted to the ARC: - The addition of Dan Zinner's comment to the Branch Hub (Programme Assurance) summary.	**Action: RW (agenda) /JA/BF** **Action: LC** **Action: JA**

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	- On the outstanding data privacy (document retention) action, it needed to be explained why the 31 October date had not been deliverable and what the new date was. If the issue could not be remedied, there needed to be detail as to what controls would be put in place. This should also be reflected in the Data Governance paper (see paragraph 16). Further, it was requested that: - Johan Appel send the headline details of the Special Investigation to the Chair. - Ben Foat and Jeff Smyth discuss offline the rules around deleting/not deleting data for legal reasons. The Committee otherwise **NOTED** the Combined Compliance and Internal Audit updates for onward submission to the ARC.	**Action: JA/JS** **Action: JA** **Action: BF/JS**
4.	**PCI-DSS and Cyber Security Update**	
	PCI-DSS Programme Update	
4.1	Jeff Smyth introduced the paper, which had been circulated previously and was taken as read. IN response to questions from the Committee, it was confirmed the Ingencio was to bear the cost of the programme over a certain threshold if they don't deliver. Fujitsu worked on a time/materials basis and the programme has previously signalled a £1.2m cost risk to the ARC. The team were now requesting some changes to the solution so more funding would be required and this was presently being costed. However, the programme was making good progress and was hitting its milestones. It was on track to go through accreditation and the payment solution had already passed accreditation with Global Payments. The Committee otherwise **NOTED** the PCI-DSS Programme Update for onward submission to the ARC.	
	Cyber Security	
4.2	Tony Jowett introduced the paper, which had been circulated previously and was taken as read. The Committee raised concerns about the number of people who had skipped the phishing training (178) and had been lured by the fake phishing campaign (391). It was explained that the numbers tended to go up and down a little, but ultimately, there was no real progress and as such the team were doing a deeper root cause analysis. The "volume" would also be "turned up" on the phishing comms. It was also highlighted that phishing has continued to be more prevalent in the external environment, particularly with COVID-19 scams. It was requested that Tony Jowett provide a list of all individuals who have not done the training to the relevant GE members. Jeff Smyth and Lisa Cherry also agreed to flag the need for comms with Nick Read and highlight the issue with the Leadership Group. Tony Jowett was further asked to update the paper for the ARC reflecting the action that was being taken. Tony Jowett also noted that his team were looking at tool to monitor culture shift and it was agreed that he would liaise with HR on the on-going culture work to build this into the business' longer term defence plans. The Committee otherwise **NOTED** the Cyber Security Update for onward submission to the ARC.	**Action: TJ** **Action: JS/LC** **Action: TJ** **Action: TJ/LC**
	Joiners Movers Leavers (JML)	
4.3	Tony Jowett introduced the paper, which had been circulated previously and was taken as read. At the request of Jeff Smyth, Johann Appel confirmed that the work undertaken was on track with the current roadmap, but that the roadmap was incomplete and needed updating as part of an outstanding audit action. The highest exposure areas were being prioritised (leavers and movers) due to the recent organisational design work. Lisa Cherry confirmed that all processes for leavers and movers were being reviewed to ensure all bases were covered and Tony Jowett and Helen Rhodes have weekly meetings with further regular touchpoints between the relevant teams. The regular list of leavers shared with IT has been expanded to	

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	include those at risk of redundancy such that this could also be monitored proactively. Tony Jowett was asked to put the detail relating to the focus on leavers and movers in the summary section of the paper for the ARC. The Committee otherwise **NOTED** the paper for onward submission to the ARC.	**Action: TJ**
	Belfast Data Center (Horizon) Disaster Recovery Post Test Briefing	
4.4	Gary Walker introduced the paper, which had been circulated previously and was taken as read. It was explained that each year the business is required to test disaster recovery at the Data Center in Belfast and this took place in August 2020. The test was partially successful with most transactions (48/52) being able to be traded out of the secondary site. Three transaction types failed and had to use the primary site. Post testing, the team have identified all root causes and implemented fixes. Smaller tests have then been carried out to check the fixes have worked. The current plan was to not to do another test of this size and scale this financial year but to ensure that as part of Belfast Exit there was equivalent activity in suitable point i.e. latter point of the next calendar year. The Chair commented that this was one of the business' biggest risks and felt that another test should be done at Easter given the recent test was only partially successful. Jeff Smyth explained that the test was expensive (circa £75,000) and also destroys all change programme activity hosted in the secondary data center. The Chair noted that £75k was a tiny sum compared to the cost and reputational damage of losing branch trading. It was agreed that the GE should agree the timing of the next test. The Committee otherwise **NOTED** the paper for onward submission to the ARC.	**Action: RW (agenda) GW**
5.	**Suspense Accounts**	
	Mark Underwood introduced the paper, which had been circulated previously and was taken as read. In response to questions from the Committee, it was outlined that since submission of the paper advice had been received from HSF and Peters & Peters. This confirmed that the outcome of the review of suspense accounts did not mean that the Historical Shortfalls Scheme needed to be altered, but that investigators could consider issues relating to Moneygram and cheques. The Chair questioned whether the KPMG report could and should be published. Mark Underwood explained that a decision could be taken to disclose the entire report or a redacted version. There was a question around the extent to which the report and its findings could trigger disclosure obligations, although the vast majority of the report was not disclosable. Mark Underwood was requested to ask the GE whether they wished the report to be fully disclosed or a redacted version. (*Post meeting note: Mark Underwood has advised that the ARC would be asked to discuss whether the KMPG report should be disclosed at its November 2020 meeting*). In conclusion, Mark Underwood explained that KPMG's view was that any further investigation would not uncover anything more and as such no further work on this topic was recommended. The Committee otherwise **NOTED** the report for onward submission to the ARC.	**Action: RW (agenda) MU**
6.	**Notification of Transaction Correction error**	
	Tim Perkins introduced the paper, which had been circulated previously and was taken as read. It was explained that an individual had posted transaction corrections without authorisation. The issue had been resolved and work was being undertaken to deal with the individual involved and discussions were being had with Accenture to see if a failsafe could be put in place to prevent this happening action. It was agreed that the outcome of the investigation into the error should be published in the interests of transparency (Tim Perkins to arrange). The Committee otherwise **NOTED** the paper.	**Action: TP**
7.	**Financial Reporting Controls Framework Update**	
	Tom Lee introduced the paper, which had been circulated previously and was taken as read. The Committee noted that there were no concerns highlighted in the report and **NOTED** the paper for onward submission to the ARC.	
8.	**Agreed Upon Procedures**	

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	Tom Lee introduced the paper, which had been circulated previously and was taken as read. The Committee challenged the number of findings in the Note Circulation Scheme (NCS) area. Tom explained that the bulk of these related to evidence that was not available due to COVID-19. The remaining issues were not major concerns and had been shared with Bank of England, who were comfortable with the findings. A detailed action plan has been set up and would be fully implemented by the end of the month. Tom Lee was asked to include these points in the executive summary section of the report. The Committee otherwise **NOTED** the report for onward submission to the ARC.	**Action: TL**
9.	**Historical Matters Unit (HMU) Governance Review**	
	Graham Hemmingway and Declan Salter introduced the paper, which had been circulated previously and was taken as read. It was explained that much progress had been made to set up the Governance of the new HMU, but it was not yet finalised. It was noted that this should be made clear in the paper to the ARC. Further Ben Foat explained that the HMU would follow the usual business policies and would only have an exemption in terms of litigation. Notably Post Office has not signed up to the Crown Services legal panel so this should be corrected. It was further noted that work was ongoing to address the backfill and funding as business-as-usual resource was continuing to support the HMU. The Committee otherwise **NOTED** the paper for onwards submission to the ARC.	**Action: GH**
10.	**Post Office Insurance Financial Conduct Authority Dual Pricing Change Impact**	
	Ed Dutton introduced the report, which had been circulated previously and was taken as read. It was explained that the recent prohibition on "Price Walking" (competitive new business prices followed by renewal prices increasing during contract) in Motor and Home Insurance blows the traditional insurance business model out the water and fundamentally means you cannot charge new customers different prices to existing customers. It was expected that this prohibition would come into other markets in due course. Post Office Insurance was still working through what this meant for the business, but it was thought that there would still be opportunities for competition as there would still be different views as to what a customer would cost. A new business policy would also have a positive value, unlike before. There were also strict rules on avoidance, but you can give vouchers for money off. The Chair requested that the piece be brought back to the GE in due course from a commercial and strategic perspective. At present, Post Office Insurance was still working through what the changes meant for them and a Board Committee was being set up. The impact would be clearer by January 2021. The Committee otherwise **NOTED** the paper for onward submission to the ARC.	
11.	**Committee Terms of Reference**	
	The Chair introduced the paper which had been circulated previously and was taken as read. The Committee **APPROVED** the draft Terms of Reference for onward submission to the GE, subject to the following amendments: - It should be specifically called out that the Committee has oversight of the HMU; and - The membership should be updated to include: Alisdair Cameron, Ben Foat, Jeff Smyth, Lisa Cherry, Amanda Jones and Cathy Mayor.	**Action: RW**
12.	**Deepdive: Multiple Partner financial stability update**	
	Amanda Jones introduced the paper, which had been circulated previously and was taken as read. In response to questions from the Chair, it was explained that the use of an external consultant was considered to provide insight as to what was really happening in a particular organisation vs. what can be ascertained from information in the public domain. This was support with looking at trading statements and brokers to help the business synthesise this information. The Chair was sceptical that this would make much difference, but agreed that it could be used to show early "red lights."	

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	Amanda Jones further explained that small retailers had done better than expected during the COVID-19 crisis. However, WH Smiths were having some difficulties but thought they were financially strong and well placed to recover. They have announced 25 high street closures, including six Post Offices. The business was already aware of two of these. There was likely to be some noise around these as they were recent franchises (Amanda Jones was asked to check the legal position regarding WH Smith closing recently franchised branches). WH Smith had also indicated that there were **IRRELEVANT** **IRRELEVANT** Furthermore, new core hours have been formalised from January 2021 and the plan was to maintain these hours rather than see more closures. The Committee otherwise **NOTED** the paper for onward submission to the ARC.	**Action: AJ**
13.	**Deepdive: Transformation Office Change Update 2020**	
	Dan Zinner introduced the paper, which had been circulated previously and was taken as read. It was explained that the ARC had asked for programme update and specifically wanted to know more about the Change Controls Framework. Saira Burwood further outlined that the paper was seeking ARC support for the future work to ensure sponsors and project leads were aware of their obligations under the change lifecycle. Ultimately, the paper was an update on what had been achieved thus far and the focusses for the next few months. The Committee **NOTED** the paper and the only comment was that it might benefit from being shortened.	
14.	**Payzone Risk Report**	
	Andrew Goddard introduced the paper, which had been circulated previously and was taken as read. On the whole, the risk management in Payzone had improved and there was now a better culture alongside monthly reviews of risks. The only area of concern was network resilience (cyber security) and it was confirmed that Post Office It has not yet done a comprehensive review of the Payzone network, but Andrew Goddard explained there had been disaster recovery work done for its Vodafone datacentres. A "hack" into the system was scheduled but had been postponed due to COVID-19. Ben Foat noted the good progress Payzone had made with respect of adopting Group Policies and questioned what operational processes were in place to implement the policies. Andre Goddard confirmed that policy implementation was part of management responsibilities and policies were being built into ways of working, but the work was on-going. Mark Baldock further noted that work with the Payzone Risk team had also gone well and the team were using the Post Office GRC tool. The Committee otherwise **NOTED** the Payzone risk report for onward submission to the ARC.	
15.	**Law & Trends Update**	
	Ben Foat introduced the paper, which had been circulated previously and was taken as read. The main issue that was highlighted related to the HMRC announcement in September 2020 that VAT should be charged on settlement payments made to third parties. The impact of this on recent settlements made to Postmasters as part of GLO and otherwise was still being worked through and was further complicated by the fact that some Postmasters had been employees. There was a need to work through all settlement payments made since 2016. The Department of Business, Energy and Industrial Strategy (BEIS) and UKGI were already aware. The Committee otherwise **NOTED** the Law & Trends Update for onward submission to the ARC.	
16.	**Data Governance**	
	Jonathan Hill introduced the paper, which had been circulated previously and was taken as read. It was explained that the update was requested by the ARC after the 31,000 boxes came to light that were previously unknown to the wider business to consider the broader lens of data management and accountabilities. At present, the	

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	remediation plan was outlined, but the sampling of the boxes had not yet started. The challenge was the way Post Office currently structures its data and information The Committee felt that the business needed to be sure that there was no data that was otherwise unknown to the wider business being stored elsewhere. The following points were discussed: - The Committee requested that Procurement check that there are no other contracts for data storage or archiving other than those with the Postal Museum and Oasis. - Writing out to branches for data might not be successful but that Tracy Marshall (Postmaster Effectiveness Director) was to take ownership of these requests to branches and Jonathan Hill was already working with Tracy to agree how best to do this. - A Record Retention programme had been completed earlier this year and person was being undertaken to realign data owners to new roles. - An individual needed to be assigned to go into each admin building to check cupboards and rooms to ensure there was no data that was unknown. - Jeff Smyth highlighted that this work could never be complete unless electronic data was also considered (which would include digitising paper records and tagging appropriately). - Rod Williams explained that colleague's emails when they leave can be retrieved, but OneDrive data was harder to retrieve as this was deleted very quickly. There needed to be debate on what was kept and for how long considering data protection obligations. Accordingly, the Legal, Data Protection, IT and Ruk Shah (MI & Analytics Director) were asked to work on a coherent recommendation on how the data retention policy should evolve and how it will be implemented. This should return to the RCC and ARC in January 2021. Further, the current paper needed to articulate the next steps and process that will be worked through. The Committee otherwise **NOTED** the report and **APPROVED** the next steps of: - to complete the remediation activity on an expedited basis in coordination with the Post-Conviction Disclosure Exercise and Historical Shortfall Scheme Activity; - for the legal team to conclude the agreed actions in respect of the assessment of all boxes stored at Oasis, on behalf of Post Office; and - for the GE to agree overall data governance accountability; for onward submission to the ARC.	**Action: BB** **Action: JH** **Action: BF/JH/JS** **Action: JH**
17.	**Procurement Governance & Compliance Report**	
	Barbara Brannon introduced the paper, which had been circulated previously and was taken as read. The following points were highlighted: - End User Computer Services (EUC): the project was re-baselined and as a result the revised plan targeted April 2021, which was later than the date provided to the Board. The Public Contract Regulations (PCR) risk was unchanged but the exit service risk was higher and IT were looking at the plan. - Common Digital Platform (CDP): The tender process has slipped and at present the application support and development services were unlikely to have been completely retendered or moved to other existing PCR compliant contracts by December as proposed to GE and Board and there were concerns in respect of resourcing and funding. - Smith & Williamson: This contract was just being finalised with Finance and would be submitted to the Board.	

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	- Audit Contract: A compliant extension option existed to extend but PWC were currently working at risk preparing an audit plan for 2020/21 while commercial terms are being negotiated. - Cheque Clearing: (*Greg Lewis joined for this update only*) A risk exception was submitted to Board in June 2020 to extend our cheque clearing services with Barclays (IRRELEVANT). The service was needed as Post Office has a IRRELEVANT g IRRELEVANT and have obligation with DLVA to IRRELEVANT IRRELEVANT a IRRELEVANT The recommendation was to complete an RFI before Christmas to understand the market and this would require a IRRELEVANT **IRRELEVANT** The Chair requested that these items should be covered in the paper for the Board, noting that the business needed to be as transparent as possible. The paper submitted to the Committee could be used, but should be cut down. It was then explained that the ARC approved the following approach to Procurement Risk Exceptions in September 2020: 1. Subthreshold exceptions (<£189,000) would be retrospectively reported to RCC and ARC every two months. This will become a standing item at ARC rather than an annual report. ARC will review this position within 6 months. 2. Above threshold risk exceptions (>£189,000) would continue to require prior approval from Board 3. Above threshold Pipeline risks, sourcing options and recommendations, progress reports for material procurements, and bi-annual strategic pipeline report would continue to be reported to the Board. Prior to March 2020, subthreshold exceptions were approved by the relevant GE member and SLP; and the Procurement Director. These exceptions were logged, with mitigation plans to bring into compliance where exceptions were made for an ongoing requirement rather than a one-off event. The Committee was asked what approach they now preferred for the subthreshold exceptions given the ARC approved approach. The Committee discussed the approaches including: RCC approval, continuing with GE, SLP and Procurement Director approval and GE approval. Ultimately, it was felt that the ARC approved approach was to instil more proactive and transparent behaviours and therefore having GE overnight would add value to the approach. Accordingly, the Committee: - **NOTED** the that no Procurement Risk Exceptions have been submitted to the Post Office Limited Board since September 2020 and the contracts in the Procurement pipeline; - **APPROVED** the approach to the cheque processing contract and the proposed next steps as outlined, subject to this being included in the paper for the Board; - **NOTED** the alteration in governance approved by the ARC; and - **APPROVED** that GE should approve any subthreshold risk exception requests moving forwards at its monthly meetings. *Post meeting note: It was agreed with the Company Secretary that as the Board report on Procurement would be near identical to the ARC report that the report would only be presented to the ARC but would also be shared separately with Lisa Harrington as the only member of the Board not on the ARC.*	**Action: BB**

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18.	**Policies for Approval:**	
	Jonathan Hill introduced the paper, which had been circulated previously and was taken as read. It was highlighted that the Freedom of Information (FOI) Policy was a new policy and a lot of work had been done to operationalise it. It had been developed as Information Commissioner's Office (ICO) Guidance recommended such a policy and it provided a framework for colleagues to help them understand the importance of FOI requests. Cathy Mayor flagged that the policy should include guidance on when FOI requests would not be granted and it was explained that this was dealt with under the roles and responsibilities section. It was also noted that the Committee felt Post Office had too many policies. As such, the following policies were **APPROVED** for onward submission to the ARC: • Change Management; • Conflicts of Interest; • Protecting Personal Data; and • Freedom of Information & Environmental Information Regulations.	
19.	**Directors & Officers Insurance Renewal**	
	Ed Dyer introduced the paper which had been circulated previously and was taken as read. It was confirmed that all insurance cover was now full yin place. The Chair congratulated Ed on his hard work, particularly as the commercial insurance market was very difficult at the moment. All cover is fully in place. The Committee otherwise **NOTED** the report for onward submission to the ARC.	
20.	**Review of draft Audit, Risk and Compliance Committee meeting agenda for 24 November 2020**	
	The draft ARC agenda for 24 November was **NOTED**.	
21.	**Any other Business**	
	There was no other business.	

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Central Risk Dashboard

ARC

13 November 2020

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1. Summary

Summary

As @04/11 the Post Office has **492** open risks compared to **483** in 9/2020 (a net increase of **19**). So **20** new risks were articulated in 10/2020. Cumulatively we have seen 75 new risks raised ands 100 risks closed since 8/2020. Key points to note include:

- **21** new risks identified at the intermediate level – primarily over Brexit (Commercial), POI, FCC, Health & Safety.
- **100** risks closed (**64** net increase since last reporting) - primarily at local level (**96**). The majority are in Commercial (**35**) and Operations & Supply Chain (**32**).
- **COVID-19** risks have been assimilated within BAU risk management.
- **Brexit risks** have been uploaded onto the GRC tool; where necessary scores are being reviewed and remediation plans captured by the Central Risk team working with frontline business units.
- **Risk Policy** and **Risk appetite/KRIs** statements revised - pending RCC/ARC approval
- **Strategy**: current risk profile under review as a result of the launch of a refreshed Post Office strategy. GE level risk survey being conducted in 11/2020.
- Historical Matters : Centra Risk in discussion with HMU and LCG regarding appropriate risk transfers

Central Risk Review

Central Risk seeing increasing levels of engagement from individual business units in managing the risks for which they are accountable (in their 1st line role).
Some areas of relative weakness remain. They include:

- Risk articulation: ongoing need to be clear on the cause, event and impact of the risk
- Alignment: Ensuring risks articulated elsewhere (such as in ARC and Board papers) are reflected and managed through RSA Archer
- Mitigations: sometimes need strengthening i.e. no mitigations at all, or not SMART (what, by who, by when)
- RAG ratings: need to ensure in some instances that risks have been rated in line with corporate standards
- Risk Assessment: need to carry out risk assessment on a monthly basis or before the expected response date

Risk Profile churn (cumulative)



Post Office Group: Risk weight[1] comparison (10/2020)



[1] Risk weight is calculated by taking individual risks (with the same impact and likelihood scores) and applying the same RAG rating to provide a cumulative total (i.e. 3 risks each with a 1:3 score have an overall risk weight of 9 (3x3). Risk weight is a more subtle measure of the risks being carried than a simple risk count.

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2. Enterprise Level: Summary

Summary

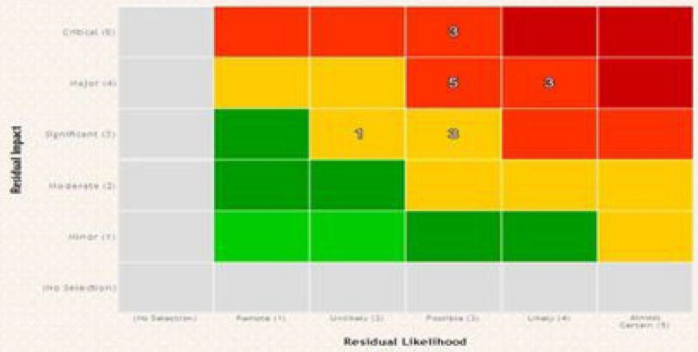
The Post Office has **15** active enterprise which provide the overall, thematic framework within which linked subsidiary intermediate and local risks sit.

Given their strategic nature enterprise risks do not see significant change in ratings month on month albeit 1 (Health & Safety) has been reduced to 4/4 to reflect the health and safety precautions in place in the business.

Central Risk have continued the work in the period to ensure that enterprise risk mitigation activity is shaped by the work and priorities of the linked intermediate and local risk rather than seen as standalone.

Legal, Operational and IT target ratings will be shaped followed by the planned approval of updated risk appetite statements and Key Risk Indicators expected in November.

Enterprise Risk Heat Map

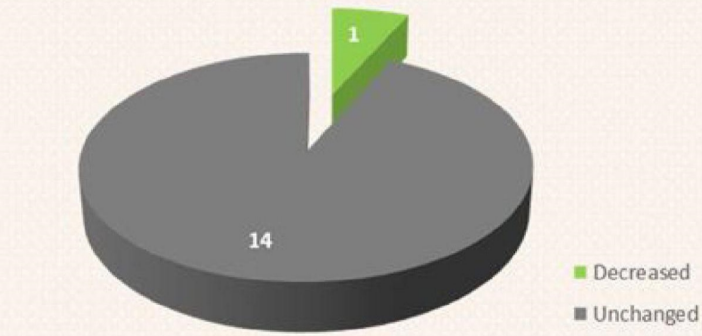


Key Risks

Key enterprise risks include:

- **Commercial:** Risk the Post Office Commercial proposition is unattractive because the existing products are too complex or confusing, new product are cost ineffective, unable to be scaled and unattractive to the market.
- **COVID 19:** Risk that the Post Office business employees and postmasters are adversely impacted by the spread of the COVID-19 virus and wider associated socio-economic activity.
- **Health & Safety**: Risk that the Post Office business and its staff are adversely impacted by health and safety event (e.g. pandemic), detrimental business activities and/or physical security.
- **Legal:** Risk the Post Office is unable to comply with legislative and regulatory changes.
- **Financial:** Risk that the Post Offices has insufficient funding and/or uncontrolled costs in the short-, medium and long-term.

Enterprise Risk rating change



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3. Enterprise Level: Key Risks

Risk #	Risk Owner	Enterprise Risk Title	Inherent RAG (I/L)	Previous Residual RAG (I/L) [Sept-20]	Latest Residual RAG (I/L) [Nov-20]	Trend	Actions/Mitigations	Target RAG (I/L)
12	Owen Woodley	**Commercial:** Risk the Post Office Commercial proposition is unattractive because the existing products are too complex or confusing, new product are cost ineffective, unable to be scaled and unattractive to the market.	(4/3)	(4/4)	(4/4)	→	• PO Strategic review - Commercial strategic review of what does the business look like after of Covid 19 currently underway to identify what Markets are critical for Post Office and the supporting operational functions and dependencies to support this, including key systems, staff, third parties, polices and operational hub. Proposed future Commercial structure and new purpose announced in 9/2020; In 10/2020, GE-1 roles level and GE-2 roles (for Customer Experience) have been defined. The remainder of GE-2 level will work on a 'lift and shift' reporting line basis from 11/2020. • Commercial Policy & Procedure review - Undertake policies and procedures review to ensure they remain adaptive and flexible to long-term (12/2020).	(3/3)
84	Al Cameron	**COVID 19:** Risk that the Post Office business employees and postmasters are adversely impacted by the spread of the COVID-19 virus and wider associated socio-economic activity.	(4/4)	(4/4)	(4/4)	→	• Government guidelines – followed and shared to guidelines of maintaining minimum distance (2m) between customers/staff. • PPE - issued and all DMB branches and depots are Covid Secure. • Vulnerable people - Extremely clinically vulnerable people shield during national lockdown and on return to workplace, undertake an individual risk assessment and adjustments are agreed where appropriate.	(3/3)
19	Al Cameron	**Health and Safety:** Risk that the Post Office business and its staff are adversely impacted by health and safety event (e.g. pandemic), detrimental business activities and/or physical security.	(4/5)	(4/5)	(4/4)	↓	• New COVID-19 Secure risk assessments - completed and updated for every DMB • Individual risk assessments - completed for vulnerable people. • Controls - monitored closely and evidence of compliance received. • New Bespoke risk assessments - completed for Tablet transaction and all RAs are backed up with advice and guidance issued to Managers and Colleagues. • Support Centres - unoccupied except for exceptional at risk workers and risk assessments completed and COVID secure and safe working practices implemented.	tbc
18	Ben Foat	[redacted]						
20	Al Cameron	**Financial:** Risk that the Post Offices has insufficient funding and/or uncontrolled costs in the short-, medium and long-term.	(5/3)	(5/3)	(5/3)	→	• PO Strategic review (Project NEO) - Commercial strategic review of likely post-COVID-19 environment to determine optimal operating requirements and associated required funding. • Cashflow monitoring - weekly budgeting implemented; industry cashflow impacts of COVID pandemic being monitored.	tbc

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4. Intermediate Level: Summary

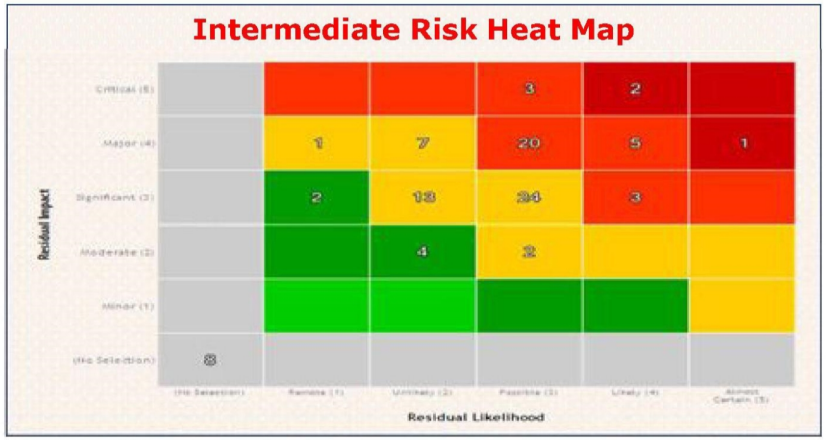
Summary

The Post Office has **95** intermediate risks of which **3** are rated as Critical, **31** Very High and **47** high.

The ratings of 73% of these risks remain unchanged since the last reporting period, while 17% has seen an increase and 10% a decrease. Central Risk are requesting an urgent update of Brexit and COVID-19 risks to agree them and their remediation plan by mid-November. The COVID-19 risks will form part of the weekly report to the GE sub-group.

28 intermediate risks are in the Commercial space. These include new risks for POI and Brexit risks.
4 new risks have been identified in the Health & Safety space and **5** around Financial Crime and Data Protection.

Intermediate Risk Heat Map

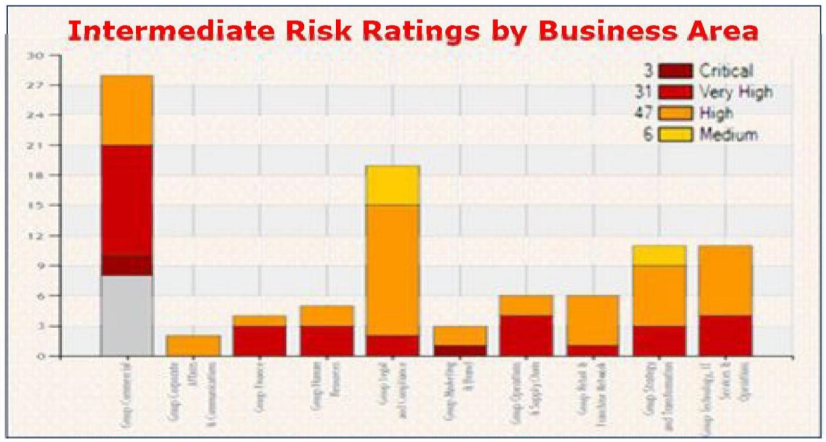


Key Risks

Key risks include;

- Government Services: Risk the Post Office's revenue from the provision of Government Services (i.e. Digital Check & Send, IDPs) may reduce over the short-, medium- and long-term.
- Telco Dependency: Risk Post Office has limited influence on Fujitsu's T&C's (or ability to exit) therefore undermining performance and change affordability.
- Customer Demand: Risk existing and emerging requirements of Post Office (new and existing) customers across the various sectors are not met such that customer demand declines rapidly in a 3-10 year timescale and the Post Office is unable to change cost base ahead of curve resulting
- Digital Income: Risk the on-line products and services generate a reduced income level compared to comparable physical products and services.
- Financial COVID 19: Risk Post Office is unable to manage its finances in accordance with requirements and financial constraints.

Intermediate Risk Ratings by Business Area



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5. Intermediate Level: Key Risks

Risk #	GE Risk Owner	Intermediate Risk Title	Inherent RAG (I/L)	Previous Residual RAG (I/L) [Sept-20]	Latest Residual RAG (I/L) [Nov-20]	Trend	Actions/Mitigations	Target RAG (I/L)
70	Owen Woodley	**Government Services:** Risk the Post Office's revenue from the provision of Government Services (i.e. Digital Check & Send, IDPs) may reduce over the short-, medium- and long-term.	(5/4)	(5/4)	(5/4)	⇨	• Remediation plan still needs to be agreed. • Reviewing a faster roll out of the tablet services to ensure ready for travel bounce-back period. • Discussing with marketing an awareness campaign to put PO services front of mind, emphasising ease and certainty that comes through transacting with the Post Office. • Regular meetings with Government Departments in the role PO can play.	tbc
53	Owen Woodley	**Telco Dependency:** Risk Post Office has limited influence on Fujitsu's T&C's (or ability to exit) therefore undermining performance and change affordability.	(4/5)	(4/5)	(4/5)	⇨	• Remediation plan has not yet been updated as requested (expired on 1/9/20). • Fujitsu contract ended in August 2020 and tendering process has concluded with an alternative supplier Talk Talk. The potential impact of this Fujitsu may not be proactive in ensuring they are meeting their contractual obligations and cause a risk a breakdown in the relationship. • Since the last review there has been a further incident in respect of Telco - Breach of regulatory communications re FJT P1 communications which will result in a full investigation from Ofcom resulting in a fine. An action plan to address the incident is in place but no to address the wider risk.	2/1
48	Emma Springham – tbc	**Customer Demand:** Risk the existing and emerging requirements of Post Office (new and existing) customers across the various sectors are not met.	(5/4)	(5/4)	(5/4)	⇨	• Increase investment in insights and the insights team to understand the customer needs better and develop products and proposition that align to customers – this decision that is needed at GE level. • Increase brand spend so PO awareness and consideration is high amongst new and existing customers and that they feel PO is a brand for them.	3/2
64	Owen Woodley	**Digital Income:** Risk the on-line products and services generate a reduced income level compared to comparable physical products and services.	(5/4)	(4/4)	(4/4)	⇨	• Digital & Innovation (D&I) team has established an agile way of concurrent deployment by having stood up 2 sprint teams (ACE and FARGO) and having installed a daily drum beat of stand-ups with the cross functional teams. FARGO is an internal capability and ACE is an external capability which can be scaled up at any time (with Accenture). • There is a weekly D&I governance meeting addressing demand and capacity which is headed by a permanent role within D&I.	3/2
89	Al Cameron	**Financial COVID 19**: Risk the Post Office is unable to manage its finances in accordance with requirements and financial constraints.	(4/5)	(4/4)	(4/4)	⇨	• Monitor industry cashflow impacts. • Weekly budgeting.	tbc

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6. Local Level: Summary

Summary

The Post Office has undertaken significant work in recent months to ensure all local risks are uploaded onto the GRC tool and linked directly to higher level enterprise and intermediate risk levels to provide an overall, risk profile across specific themes.

The current data shows (as at 4/11/20) we have **457** open Local Level risks. This is a **+71** net increase since 8/2020 (**54** new risks raised and **96** closed). The bulk of these low level risks have been categorised as Commercial (**61**), Operational (**63**) and Legal (**91**). The latter cover risks around potential non-compliance across various regulations (AML, ABC, vehicle safety, environment etc). There has also been **52** Security local risks and **32** Technology risks. Commercial has reported 1 new 'Critical' risk by the Telco team. This concerns a breach of regulatory communications following the FJT P1 communications incident which could result in an Ofcom investigation. A remediation plan is in progress to fully mitigate this risk.

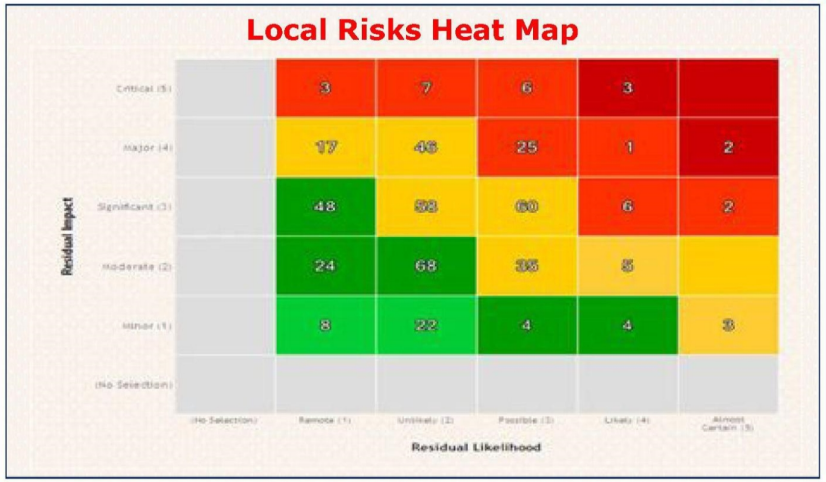
Central Risk are continuing to proactively liaise with Business Risk Leads to ensure local risks are correctly articulated, rated and their remediation updated, following the new proposed PO Structure and Purpose. Target ratings for most risks await the outcome of the risk appetite and KRI work.

Key Risks

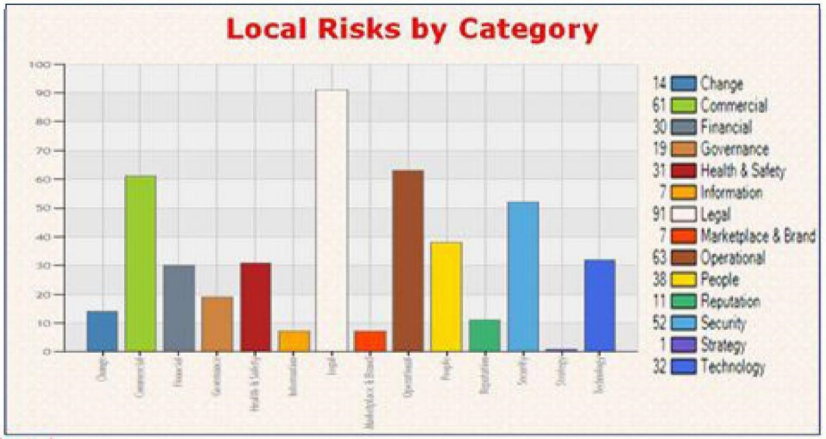
There are 5 Local Level risks whose current rating is Critical (20) namely:

- Industrial Action: Risk the Post Office Commercial proposition is unattractive because existing products are too complex or confusing, new product are cost ineffective, unattractive to the market and/or unable to be scaled. Key mitigation include refreshed IR Framework, direct comms to Field teams and employees, and regular review of IA contingency plans.
- Health and Safety Breach - Branch Network and Mental and physical health and safety: Risk of harm or breach of regulatory requirements and risks through crime such as violence and hate crime. Physical safety and associated effects continues to be a key concern for the business. This could be exacerbated by the combination of coronavirus measures and Brexit disruption, and contingency plans are in place for ensuring branches remained stocked but do not hold unnecessary cash.
- External Fraud: Risk of fraud being carried out by external parties.
- Telco - Breach of regulatory communications: Risk the FJT P1 communications incident will result in a full investigation from Ofcom resulting in a fine.

Local Risks Heat Map



Local Risks by Category



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7. Local Level: Key Risks

Risk #	GE Risk Owner	Local Risk Title	Inherent RAG (I/L)	Previous Residual RAG (I/L) [Sept-20]	Latest Residual RAG (I/L) [Nov-20]	Trend	Actions/Mitigations	Target RAG (I/L)
183	Amanda Jones	**Industrial action - Directly Managed Branches (DMB):** Risk of Industrial action because of proposed changes to the DMB network.	(5/4)	(4/5)	(4/5)	⇨	• IR Framework • Direct comms to employees • Regular review of IA contingency plans • Programme management held within DMB network. • Field teams kept up to date with plans and briefed on how programme activity will impact on the wider network	tbc
178	Amanda Jones	**Health and Safety Breach - Branch Network:** Risk of harm or breach of regulatory requirements.	(5/4)	(5/4)	(5/4)	⇨	• Develop greater awareness of safety responsibilities across whole Network • Implement new Accident investigation tool in DMBs, additional workshops for PiCs in DMBs in 20/21 to support launch of new Site Log Books and ensure all Managers and colleagues have completed all H&S training modules • Share best practice with Postmasters.	tbc
457	Al Cameron	**Mental and physical health and safety:** Risks through crime such as violence and hate crime	(5/4)	(5/4)	(5/4)	⇨	• Hate Crime campaign • Safety video on Branch Hub • Increasing the number of Health Check calls to branches	tbc
424	Al Cameron	**External Fraud:** Risk of fraud being carried out by external parties.	(5/4)	(5/4)	(5/4)	⇨	• Monitor emerging fraud risks (Nov 2020) • Branch holdings to be capped at £250k (Supply Chain)	tbc
510	Owen Woodley	**Telco - Breach of regulatory communications:** There is a risk the FJT P1 communications incident will result in a full investigation from Ofcom resulting in a fine.	(4/5)	N/A	(4/5)	New	• Outbound and inbound communications. • Weekly meetings held with FJT to track actions, ensure deadlines are met and minutes are documented. • No end date defined for inbound comms.	tbc

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8. Change Risks[1]

Themes	Previous Month's RAG Status	Current Month's RAG Status	Summary Points
Overall	Red	Amber	Overall RAG status changed from Red to Amber due to reduced 20-21 investment forecast, though benefits remains under budget. Continue to prioritise, delaying projects to accommodate current litigation position. Also considering impacts on security headroom. Historical Matters Business Unit will operate as a separate governance process. A simplified change portfolio structure has also been introduced.
Benefits	Red	Red	P6 year to date Change benefits were IRRELEVANT 6+6 forecast shows benefits IRRELEVANT below full year budget mainly driven by the decision to delay and reduce the scope of tranche 1 People Programme, reclassification of Blackhawk Giftcard benefits, removal of benefits associated with the Agents Remuneration Review, market condition impacts and migration delays on Insurance projects (further impacted by CV19) and agreed delay to DMB activity.
Investment	Red	Amber	Year to date at P6 Change budget underspent by IRRELEVANT Mainly driven by decisions to delay organisational and DMB changes. The 6+6 forecast reduced the FY20-21 investment to IRRELEVANT vs budget of IRRELEVANT Material changes driving reduction are latest assumptions of timing of settlements under HMBU and revised assumptions on DMB programme.
Risk	Amber	Amber	The number of Gold & Platinum projects reporting a Red risk status remains at 2.
Delivery	Amber	Amber	Four gold/platinum projects closed in period as well as Paystation Refresh completing delivery

Portfolio	Previous Month's RAG Status	Current Month's RAG Status	Summary Points
Banking, Payments & Other	Amber	Amber	ATM Banking Strategy and Paystation Refresh both reporting green, with Payzone and British Gas, reporting red in some areas. British Gas in closure
IT Platform Enablement	Amber	Amber	4 of 7 projects reporting green overall. PCI reporting red on cost and delivery. Fujitsu negotiations (Everest) is currently in the closure process
Mails, Travel, FS & Other	Amber	Amber	Telco Fujitsu Extension reporting green, Telco Strategy reporting amber and Identity Services and Mails strategy both reporting red in some areas. Identity Services in closure
Organisational Effectiveness	Amber	Amber	All People programmes reporting green, though Project Assurance reporting red
Postmaster & Network	Green	Green	4 of the 6 projects reporting green with DMB and Fit & Proper both reporting amber

[redacted]

[1] UKGI monthly report (P6 – 7/2020)

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1. Risk Policy

Policy GE Sponsor	Policy Owner	Contact Details	Review History
Alisdair Cameron	Mark Baldock	GRO	November 2019

1.1 Purpose and Principles

The Risk Policy is organised around 3 themes: Risk Governance, Strategy and Protocols. The Policy outlines the minimum control standards that apply to each of these themes. It is supported by a Risk Management Framework, which provides additional detail and guidance to support the identification and management of risk across the organisation.

The principles are based on ISO:31000 (Risk Management–Principles and Guidelines)[1]. They also have regard to the UK Corporate Governance Code (Guidance on Risk Management, Internal Control and Related Financial and Business Reporting). The principles include:

a) Risk management is fundamental to how Post Office is directed, managed and controlled at all levels
b) Risk must be embedded in all activities. Its underlying risk culture and approach is key to effective decision making
c) All material risks must be identified, measured, monitored, managed and reported
d) Risk management processes must be aligned and integrated with the delivery of Post Office's strategy
e) Risk management must follow a consistent, transparent and auditable methodology
f) Risk reporting must allow for the effective review, challenge and monitoring of risk exposure against Post Office's approved risk appetites
g) Risk Governance must adhere to the industry standard '3 lines of defence' model.

1.2 Key definition

The Policy definition of 'risk' is based on the ISO 31000 definition namely the effect of uncertainty on the Post Office achieving its strategic objectives. That effect may be positive, negative or a deviation from the expected. Risks are described in terms of causes, potential events and their consequences.

1.3 Application

This Policy applies to Post Office Limited (excluding Post Office Insurance, First Rate Exchange Services Limited and Payzone Bill Payment Limited although they will have regard to it) and to all Post Office employees, contractors and business operations.

1.4 Risk Governance

Post Office's Risk Governance arrangements are concerned with how risks are managed and reported within the organisation. Risk Governance includes:

- Structure: The Post Office risk management structure consists of the Board, ARC, RCC and Group Executive (GE)
- Roles and Responsibilities: Post Office follows the industry standard '3 lines of defence' model with regard to risk management governance, compliance and oversight
- Risk Reporting: Post Office has in place a reporting cycle for enterprise, intermediate and local risks. Specific dashboard reports are produced for each GE Business Unit and the corporate GE every month and the RCC/ARC every 2 months
- Escalation: Where the Risk Owner has insufficient authority to effectively manage the risk, they should escalate the risk to their relevant GE member, or equivalent senior leader.

[1] ISO 31000 is a family of standards relating to risk management codified by the International Organization for Standardization.

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1.5 Risk Strategy

The Post Office's Risk Strategy is concerned with specific risk policies and framework, appetite and attitude to risk, the techniques by which Post Office assess risks as well as the key priorities in any given year. Risk Strategy includes:

- Strategic objectives: This Policy and the supporting risk management framework is focused on managing the risks and opportunities of Post Office associated with its strategic purpose of 'We're here, in person, for the people who rely on us'
- Risk Appetite & Key Risk Indicators (KRIs): The Post Office's '3 lines of defence' risk management structure oversees Post Office's risk appetite and KRIs. Post Office assess risk appetite against a 5-tiered scale
- Exceptions: On occasions Post Office may need to accept risks that are outside of approved appetite or outside of existing procedures. Such circumstances must be exceptional, time-limited, formally documented (through a Risk Exception Note) and approved by the relevant GE member.

1.6 Risk Protocols

The Post Office Risk Protocols are the guidelines provided to the organisation for the management of risk. Risk Protocols include:

- Risk Management Process: The Post Office Risk Management Process is consistent with the principles of ISO: 31000 and it has a number of sequential components including Establishing the Context, Risk Assessment, Monitor & Review and Consultation
- Harm table: The Post Office corporate HARM table describes the risk impact/likelihood scales (on a standard 1-5 scale) which must be applied
- Risk Hierarchy and Classification: Post Office has a three-level risk hierarchy: Enterprise, Intermediate and Local risks. The Post Office risks are allocated one of fourteen categories consistent with those advocated by HM Government's 'Orange Book'
- Risk articulation: All risks across the risk hierarchy must be expressed in terms of their cause(s), the risk event itself, and their impact.

1.7 Minimum Control Standards

Post Office has a number of minimum control standards which apply to the management of its risks. Below is an example of the relationships between the risk area and the required minimum control standards:

Risk Policy Area	Risk Description	Minimum Control Standards	Accountability	Assessment Timing
Risk Governance (Roles & Responsibilities)	Risk that the GE and Post Office Groups do not perform their 1st line function and fail to proactively identify, assess, own and manage their risks and/or maintain their associated internal control measures	**Detective control**: Monthly, Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) review and update their risks (including current residual risk score, mitigating actions, target risk rating etc.) to the corporate GRC tool.	Risk Leads Risk Owners	Monthly

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GROUP POLICIES
RISK POLICY

Version 1.1 – Final - Draft

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Chief Executive's Endorsement
Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This Policy supports these to help us ensure the highest standards of risk management are met and maintained.

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1. Overview

1.1. Introduction by the Policy Owner

The risk landscape in which Post Office operates is volatile, uncertain and complex, with increasing demands from its customers and greater scrutiny from regulators, legislators and Government. This will continue.

This is why Post Office must focus relentlessly on actively monitoring and strengthening its approach to risk management and promoting a consistent risk-intelligent culture.

Failure to effectively manage its risks will adversely impact Post Office's ability to deliver its business strategy, will undermine the protection and preservation of its reputation and brand, and the delivery of consistent, high-quality services.

In doing so Post Office acknowledges that risk exists in everything it does. So everyone in the organisation has a duty of care to manage these risks. However, risk management is as much about exploiting opportunities as it is about managing threats. Given this Post Office will inevitably take a certain amount of risk in order to achieve its strategic objectives.

This Risk Policy (with its clear principles and mandatory minimum control standards) is an important tool in managing risks efficiently and effectively.

1.2. Purpose

This Policy is organised around 3 themes:

- **Risk Governance**: This focuses on how Post Office risk management activity is **organised**. It describes (i) the relevant Committees (and their respective roles with regard to risk and how they interact), (ii) the '3 lines of defence' risk management model (and where accountability and responsibility are placed within it) and, (iii) the criteria by which risks should be escalated to provide the requisite oversight;
- **Risk Strategy**: This focuses on Post Office's overall **approach** to risk management. It describes how risk management activities are aligned, the level of risk maturity being sought and the level of risk exposure (appetite) that is acceptable; and,
- **Risk Protocols**: This defines the risk management **activities** that must be undertaken, how they will be undertaken and their frequency.

The Policy also outlines the **minimum control standards** that apply to each of these themes.

It is supported by a Risk Management Framework (a series of separate but interlinked documents) which provides additional detail and practical guidance to support the consistent and robust identification and management of risk and opportunities across the organisation.

This Policy, the supporting Framework and other material is accessible on Post Office's Central Risk intranet site.

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1.3. Principles

The Post Office's Risk Policy principles are based on ISO:31000 (Risk Management–Principles and Guidelines).[1] They also have regard to the UK Corporate Governance Code (Guidance on Risk Management, Internal Control and Related Financial and Business Reporting)[2]. There are 7 principles:

1. Risk management is fundamental to how Post Office is directed, managed and controlled at all levels;
2. Risk must be embedded in all Post Office activities. Its underlying risk culture and approach is key to effective decision making;
3. All material risks must be identified, measured, monitored, managed and reported on a continuous basis at an individual and aggregate level;
4. Risk management processes must be aligned and integrated with the delivery of Post Office's strategy and in such a way that supports an enterprise wide approach;
5. Risk management must follow a consistent, transparent and auditable methodology and proactively recognise external factors, opportunities, and uncertainties;
6. Risk reporting must allow for the effective review, challenge and monitoring of risk exposure against Post Office's approved risk appetites; and,
7. Risk Governance must adhere to the industry standard '3 lines of defence' model to ensure clear accountability and appropriate segregation of duties.

1.4. Application

This Policy applies to Post Office Limited[3] which includes the Historical Matters Business Unit but excludes Post Office Insurance, First Rate Exchange Services Limited and Payzone Bill Payment Limited although they will have regard to it. The Policy also applies to all Post Office employees[4], contractors and business operations.

1.5. Compliance

This Policy is mandatory for all Post Office employees, contractors and business operations and applies wherever in the world Post Office Limited's business is undertaken. All Post Office third parties who do business with the Group (including consultants, suppliers and business partners) will be required to agree contractually to this Policy or have their own equivalent Policy.

Where significant non-compliance with the Risk Policy is identified the matter must be referred to the Chief Finance Officer and the Head of Risk.

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[1] ISO 31000 is a family of standards relating to risk management codified by the International Organization for Standardization.

[2] The UK Corporate Governance code, (formerly known as the Combined Code) is part of UK company law with a set of principles of good corporate governance aimed at companies listed on the London Stock Exchange. It is overseen by the Financial Reporting Council.

[3] Post Office Limited is wholly owned by the Department for Business, Energy and Industrial Strategy (BEIS). Its business consists of the core products and services provided by Post Office Group (mails, telecoms, government services (including identity & licences) and retail), as well as selling the services of Group Companies and joint ventures (Post Office Insurance, First Rate Exchange Services Limited and Payzone Bill Payments Limited). However, this Policy is not applicable to Post Office Insurance, First Rate Exchange Services Limited and Payzone Bill Payment Limited.

[4] In this Policy "employee" and "staff" means all persons working for the Group (excluding Post Office Insurance, First Rate Exchange Services Limited and Payzone Bill Payment Limited) or on its behalf in any capacity including employees at all levels, directors, officers, agency workers, seconded workers, volunteers, interns, and contractors.

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2. Risk Governance

Post Office's Risk Governance arrangements are concerned with how risks are managed and reported within the organisation.

2.1. Structure

The Post Office risk management structure consists of the:

- **Board**[5], informed and advised by the Audit, Risk & Compliance (ARC). They have overall accountability for the assessment and management of risk, taking a strategic view of the risks faced by Post Office;
- **ARC**[6]**/RCC**[7]. They support the Board in its assessment and management of risks. The ARC reviews Post Office's risk policy, risk appetite and attitude to risk to ensure these are appropriately defined and communicated so that parameters and expectations are understood; and,
- **Group Executive (GE)**[8]. The GE, led by the Chief Executive, has operational responsibility for Post Office risk management and systems of internal control.

2.2. Roles and Responsibilities

Post Office follows the industry standard '3 lines of defence' model with regard to risk management governance, compliance and oversight. This means:

- The **GE and Post Office Groups** (and their subsidiary business units) perform the **1st line function**. They are accountable for identifying, assessing, owning and manage their risks. They are also accountable for the design, implementation and maintenance of the associated internal control measures;
- The **Central Risk** team perform the **2nd line function**. They oversee the corporate approach to risk management. This involves defining and implementing risk standards, policies, procedures and guidance. They also assist the 1st line function in the management of their risks in line with good practice as well as monitor compliance and effectiveness. Furthermore, they are accountable for reporting to the Board, ARC and GE on Post Office risk performance as well as advising on emerging risks and changing risk scenarios; and,
- **Internal Audit**, who operate independently of 1st and 2nd Line functions, are the **3rd Line**. They provide an independent evaluation of the adequacy and effectiveness of Post Office's framework of governance, risk management and control.

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[5] The Board is collectively responsible for setting Post Office's strategic direction and primary business objectives. It establishes a robust governance framework and ensures that the Company has financial and human resources required to achieve its agreed objectives. It is chaired by a non-Executive Director.

[6]. The ARC is a Committee of the Board from which it derives its authority. It provides oversight of Post Office's Group's risk management systems, operational controls and key systems, including monitoring exposures to the Group Risk Appetite.

[7] The Risk and Compliance Committee (RCC) is a standing committee of the Group Executive (GE). Its authority is subject to the powers and duties of the Company Board, as set out in the Articles of Association and the Framework Document. The purpose of the RCC is to support the GE in fulfilling their responsibilities in the effective oversight of risk management, internal control and assurance, and compliance in the Group.

[8] The GE is a Committee of Post Office senior management responsible for day to day Post Office operational management.

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2.3. Risk Reporting

All Post Office risks must be monitored, reviewed and recorded regularly to determine whether, or not, the corporate risk profile has changed and to gain assurance that corporate risk management rules and procedures are effective. Such regular (and incremental) reporting has a number of benefits including:

- ensuring responses are effective and efficient;
- building up knowledge to improve risk identification and analysis;
- providing a better link between risks and objectives, key dependencies, core processes and stakeholder expectations;
- detecting and preparing for changes and trends in existing risks, including the extent to which risks are aligned with approved appetite;
- identifying and preparing for new and emerging risks; and,
- identifying good risk management practice, building on it and disseminating it to other parts of the organisation.

Post Office has in place a reporting cycle for enterprise, intermediate and local risks. Specific dashboard reports are produced for each GE Business Unit and the corporate GE every month and the RCC/ARC every 2 months. These reports include (but are not limited to) information on risks trends, compliance levels and associated actions. The data is taken directly from Post Office's Governance, Risk & Compliance tool which provides a 'single source of truth'.

2.4. Escalation

Post Office has a 3 tier risk hierarchy (see Section 4.3) with each risk having a designated Risk Owner accountable for proactively managing their risks to within an approved level of appetite.

Where the Risk Owner has insufficient authority to effectively manage the risk, they should escalate the risk to their relevant GE member, or equivalent senior leader. This should be done in circumstances where:

- treatment of the risk requires decisions/actions beyond what the Risk Owner is authorised to decide and/or there are commercial constraints;
- the risk may impact multiple business areas and/or addressing the risk requires action by multiple stakeholders;
- addressing the risk requires corporate changes; or,
- grievances from stakeholders have been received to which the Risk Owner cannot impartially and/or effectively respond.

When a risk is escalated, the Risk Owner must provide the receiving manager with complete information about the risk to enable the latter to act appropriately. Risk ownership can only be transferred when a risk has been escalated and accepted. Escalation does not require the impact and/or likelihood rating of a risk to be 'artificially' inflated to give it visibility.

2.5. Transfer

Risk ownership can be transferred where the risk has:

- been escalated;
- to be reallocated within the organisation due to internal restructure; or,
- has changed and it needs to be reassigned.

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When a risk is transferred, the Risk Owner must provide the new owner with complete information about the risk to enable them to manage the risk appropriately. Risk ownership can only be transferred when a risk has been accepted by the new Risk Owner.

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3. Risk Strategy

The Post Office's Risk Strategy is concerned with specific risk policies and framework, appetite and attitude to risk, the techniques by which Post Office assess risks as well as the key priorities in any given year.

3.1. Strategic Objectives

This Policy and the supporting risk management framework is focused on managing the risks and opportunities of Post Office associated with its strategic purpose of 'We're here, in person, for the people who rely on us.' Such focus increases the probability of success (and reduces the likelihood of failure) in:

- supporting Post Office Postmasters (i.e. making sure that Postmasters feel that they have a role in shaping the business);
- building a fit for purpose network (i.e. having the right branches in the right place); and,
- focusing relentlessly on Post Office core strengths and customers (i.e. defending and growing main products and services that are so critical to Post Office income.

3.2. Risk Appetite[9] & Key Risk Indicators (KRIs)[10]

Post Office has in a place a series of risk appetite statements and KRIs to:

- allow the Board, GE and ARC to understand the organisation's aggregated and interlinked levels of risk to determine acceptability or not;
- provide further assurance that the strategic objectives will be secured and early warning where these are under threat;
- allow the business to focus limited resource to manage risks outside of tolerance and tolerate risks which lie within the thresholds;
- support management in making decisions with an understanding of the degree to which the business is exposed to the consequences of a risk event; and,
- flex and adapt to the changing business environment.

The Post Office's approach is based on industry-standard principles[11] namely:

- Scope: Risk appetite/KRIs are primarily articulated at the enterprise risk level and guide/shape the management of linked (but subsidiary) intermediate and local risks;
- Complex: Risk appetites/KRIs are complex given that excessive simplicity, while superficially attractive, is counter-productive;
- Measurable: Risk appetites/KRIs are measurable so are based on relevant, accurate and readily available existing data;
- Flexible: They are not single, fixed concepts. There will be different (and tailored) appetites for different enterprise risks; and,

[9] Risk Appetite is the amount of overall risk an organisation is willing to pursue (or retain) to achieve the relevant strategic objective. It is a qualitative assessment generally made at enterprise risk level.
[10] Key Risk Indicators (KRIs) are measures put in place to show the underlying trend of specific risks. KRIs are predictive. They are a set of 'guide rails' to provide context within which individual risk impact and likelihood ratings can be considered. KRIs are a quantitative assessment again generally made at enterprise risk level.
[11] Institute of Risk Management: Risk Appetite & Tolerance Guidance paper – 9/2011. Gartner: Ignition Guide to Drafting and Operationalizing Risk Appetite – 2/2020

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- Manageable: The approach considers Post Office's risk management capability and the organisation's willingness and capacity for taking risks and level of maturity in managing them.

The Board, RCC and ARC will approve all final draft Risk Appetite Statements and associated KRIs. They may also request, as necessary, the Group Executive commission work to articulate additional Risk Appetite Statements/KRIs as well as seek assurance Post Office is adhering to approved Risk Appetite Statements/KRI thresholds.

The Post Office's '3 lines of defence' risk management oversee its risk appetite and KRIs as follows:

1st Line	Group Executive	• Effectively and clearly communicate goals and objectives, strategy, achievement metrics, and relevant time periods for pursuing the objectives related to developing risk appetite statements. • Set the Risk Appetites and approved tolerance levels that ensure enough risk is being taken to ensure Post Office strategic objectives are met • Secure Group Command consensus on statements and approach. • Commission revisions of Risk Appetite Statements and KRIs as needed.
	Group and individual Business Units	• Validate or raise concerns about the ongoing viability of existing Risk Appetite Statements approved by the GE /Board • Monitor existing KRIs to determine adherence to Risk Appetite Statements that apply to the Group
2nd Line	Central Risk/Compliance	• Produce Post Office corporate policy/standards for Risk Appetite and KRIs • Develop (in discussion with 1st Line) initial set of corporate Risk Appetite Statements and KRIs • Facilitate ongoing development of new (and enhancements to existing) Risk Appetite Statements and KRIs • Provide assurance of 1st Line compliance with standards in this area • Escalate areas of non-compliance to Group Executive and Board/ARC
3rd Line	Internal Audit	• Provide, as part of its agreed Audit plan, an independent and objective evaluation of the adequacy and effectiveness of the risk management and control, making recommendations for improvement • Report to RCC/ARC on its findings, particularly around areas of non-compliance

Post Office assess risk appetite against a 5-tiered scale (see section 9.1).

3.3. Exceptions

On occasions Post Office may need to accept risks that are outside of approved appetite or outside of existing procedures.

Such circumstances must be exceptional, time-limited, formally documented (through a Risk Exception Note) and approved by the relevant GE member.

Central Risk report regularly on all open Risk Exception Notes to the GE and ARC. They are accountable for assuring the relevant business unit are proactively managing in a timely fashion and the necessary mitigating actions are being taken to close the exception.

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4. Risk Protocols

The Post Office Risk Protocols are the guidelines provided to the organisation for the management of risk. These include detailed rules and procedures, how risks are classified, as well as the risk management methodologies, tools and techniques used.

4.1. Risk Management Process

The Post Office Risk Management Process is consistent with the principles of ISO: 31000.

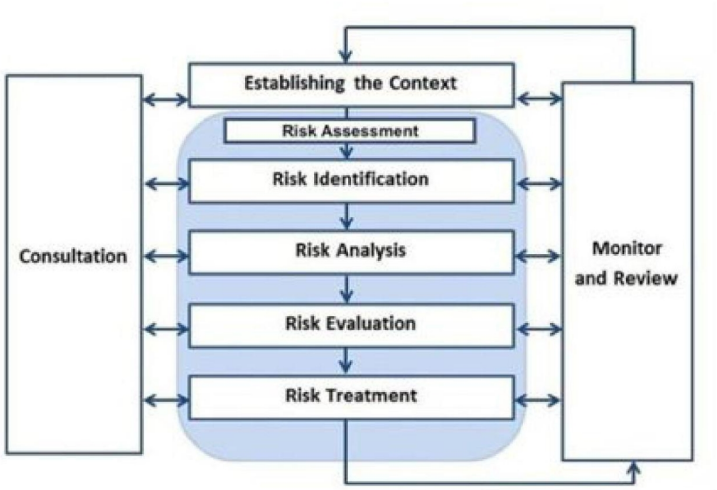

Figure 1: Post Office Risk Management process

It has a number of sequential components:

1. **Establishing the Context**: Post Office risks should be understood in the context of the organisation itself, the activities it undertakes and the range of skills and capabilities available to it. Consideration must also be given to the environment in which Post Office operates, its external stakeholders and their expectations.
2. **Risk Assessment**: This is the means by with which Post Office should evaluate and prioritise the risks it faces through:
   a) Risk Identification: Techniques by which Post Office identifies all the risks its faces be they existing, new or emerging
   b) Risk Analysis: whereby each risk is assessed in terms of its potential impact and likelihood (see Section 3.2) and its relationship to the associated approved appetite (see Section 0)
   c) Risk Evaluation: a risk profile is produced providing a significance rating to each risk and therefore a tool for prioritising treatment efforts;
   d) Risk Treatment: implementation of actions to respond to risks including decisions on whether to tolerate, treat, transfer or terminate
3. **Monitor & Review:**
   This is focused on (a) reacting to early warning indicators of the need to make interventions, (b) reviewing emerging risks and opportunities, (c) reviewing whether risks owners are implementing the responses for which

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they are accountable and, (d) reporting on the success (or otherwise) of the interventions to date and whether additional activity is required.

4. **Consultation:** This should ensure that (a) appropriate decisions and actions are taken to respond appropriately to a particular risk, (b) different areas of professional expertise and views are appropriately considered in the management of risks and (c) sufficient information and evidence to facilitate risk oversight and decision making are provided.

4.2. Harm Table

Post Office assess each risk by demonstrating the relationship between the likelihood of the risk materialising (on a standard 1-5 scale) and the impact of the event should the risk materialise (again on a standard 1-5 scale) to provide an overall risk rating.

The Post Office corporate HARM table describes the impact/likelihood scales which must be applied. This is provided at section 9.2.

Each active risk should have 3 ratings namely:

- **Inherent**: the level of risk before any control activities are applied;
- **Current Residual**: the latest level of risk considering the effectiveness of the controls currently in place; and,
- **Target**: the level of risk that is desired when any planned additional controls have been implemented. This must be consistent with the associated approved risk appetite.

All of these should be recorded on the Post Office's Governance, Risk & Compliance tool.

4.3. Risk Hierarchy and Classification

Post Office has a three-level risk hierarchy. These are:

- **Enterprise Risks:** The Post Office's key business risks are grouped into fourteen enterprise-level themes which mirror HM Government's approach to enterprise risk classification (as described below). These risks are Post Office-wide and so are of corporate importance. Each enterprise risk is owned by a single GE member. Central Risk provide an update on the management of these enterprise risks at each RCC and ARC;
- **Intermediate Risks:** These are sub-categories of an enterprise risk to which they are linked. They are often the key risks faced by individual business areas; and,
- **Local Risks:** These are sub-categories of intermediate risks, to which they are linked. They are often more specific, local risks faced by individual business units.

The Post Office risks have been categorised as follows, consistent with those advocated by HM Government's 'Orange Book'[12].

[12] HM Government: Management of Risk (Principles and Concepts) – June 2019

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4.4. Risk Articulation

All risks across the risk hierarchy must be expressed in terms of their cause(s), the risk event itself, and their impact:

- **Cause**: A cause is an element which alone or in combination with other causes has the potential to give rise to the risk. They are generally (but not exclusively) external;
- **Event**: An event is an articulation of the potential adverse or beneficial circumstances that could result from the cause – in effect the risk itself. A risk may have multiple causes and consequences and can affect multiple objectives. Post Office risks should be classified (see section 4.3) against the Event not the Cause or the Impact; and,
- **Consequences/Impact**: Consequences are the outcome of a risk event materialising. Outcomes can be positive or negative. They can also be direct or indirect. It is also possible to express them qualitatively or quantitatively. They should be assessed using Post Office HARM table (see Appendix 9.2).

4.5. Governance, Risk & Compliance (GRC) tool

All Post Office risks (across all levels of the risks hierarchy) must be identified, analysed, evaluated and managed using the Central Risk GRC tool.

4.6. Incidents

All non-IT incidents should be reported by the Incident Reporter. The Incident Owner responds to incident based on the Post Office risk appetite, identifying the root cause as well as putting appropriate action plans and all controls in place.

By working closely with the respective Risk Business Partner, the Incident Owner must also consider any impact the incident has had on the current risks and controls (mapped where relevant) or whether the incident constitutes a new risk to the business that has not been recorded within the risk register. The Incident Owner manages action plans through to closure.

IT related incidents are reported (new) or escalated (existing) through the IT Service Desk.

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5. Minimum Control Standards

Post Office has a number of minimum control standards which apply to the management of its risks.

They cover a range of control types (i.e. directive, detective, corrective and preventative) to ensure risks are managed to within the acceptable level of risk appetite.

Risk Policy Area	Risk Description	Minimum Control Standards	Accountability	Assessment Timing
Risk Governance (Roles & Responsibilities)	Risk that the GE and Post Office Groups do not perform their 1st line function and fail to proactively identify, assess, own and manage their risks and/or maintain their associated internal control measures	**Detective control**: Monthly, Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) review and update their risks (including current residual risk score, mitigating actions, target risk rating etc.) to the corporate GRC tool.	• Risk Leads • Risk Owners	Monthly
Risk Governance (Risk Reporting)	Risk that the GE is unable to fulfil its responsibility of having a sound understanding of risks facing Post Office	**Detective control:** Monthly, Central Risk Business Partner produce and circulate to their linked GE member a Risk Dashboard showing the latest position of their enterprise, key intermediate and local risks (including Risk Heatmap, risk weighting, risk trends etc) as reflected in the corporate GRC tool.	• Central Risk Business Partner	Monthly
	Risk that the Board, RCC/ARC are unable to fulfil their responsibilities of having a sound understanding of risks facing Post Office	**Detective control:** Bi-monthly, Central Risk produce and submit to RCC and ARC a Risk Dashboard showing the latest position of the group key enterprise, intermediate and change risks (including Risk Heatmap, risk weighting, risk trends etc.) as reflected in the corporate GRC tool.	• Central Risk	Bi-monthly
	Risk that Post Office Groups do not perform their 1st line function and fail to proactively monitor and update risk response to mitigate the risk	**Detective control:** Monthly, Individual Risk Owners (supported by their Risk Lead and Central Risk Business Partner) monitor that all risks have effective risk response outlining the actions appropriate to mitigate the risk and when a risk reaches its expected response date, review mitigation actions to either close the actions or postpone the due date, as reflected in the corporate GRC tool.	• Risk Leads • Risk Owners	Monthly
	Risk that the GE is unable to fulfil its responsibility of having a sound understanding of new and emerging risks facing Post Office	**Preventative control:** Bi-annually, Central Risk identify new and emerging risks likely to impact Post Office in the sectors in which competes and the environment in which operates. Summary of these risks is reported in the GE Risk trend paper submitted to GE members.	• Central Risk	Bi-annually

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Risk Policy Area	Risk Description	Minimum Control Standards	Accountability	Assessment Timing
Risk Governance (Escalation Principles)	Risk that Post Office Groups fail to report and act appropriately to issues of concern	**Detective control:** Risk Owners escalate a risk to their relevant GE member or equivalent senior leader when they have insufficient authority to effectively manage the risk. The Risk Owner provide the receiving manager with complete information about the risk. Risk ownership can only be transferred when a risk has been escalated and accepted. Evidence of the acceptance is maintained by Central Risk Team in the corporate GRC tool.	• Risk Owners • Central Risk Business Partners	Ad-hoc
Risk Strategy (Risk Appetite & Key Risk Indicators)	Risk that Post Office Groups do not assess risk appetite in accordance with the Post Office Risk Appetite	**Preventative control:** Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) assess risk appetite against a 5-tiered scale, including open, flexible, neutral, cautious, averse risk appetite scale, as reflected in Post Office Risk Appetite Statement.	• Risk Owners • Risk Leads • Central Risk Business Partners	Ad-hoc
	Risk that the Risk Appetite statements and KRIs are not periodically reviewed and approved by Board/RCC/ARC	**Detective control:** Group Executive review Risk Appetite Statements and KRIs supported by the Central Risk as needed. Risk Appetite Statements and associated KRIs are approved by Board/ARC. Additional Risk Appetite Statements/KRIs are requested from Board/ARC to Group Executive, as necessary.	• Group Executive • Central Risk • Board/ARC	Ad-hoc
	Risk that the Risk Appetite statements and KRIs are not periodically monitored by Post Office Groups	**Detective control:** Group and individual Business Units monitor existing KRIs to determine adherence to Risk Appetite Statements that apply to the Group. Any concerns about the ongoing viability of existing Risk Appetite Statements approved by the GE /Board are raised by Group and individual Business Units. Areas of non-compliance to Group Executive and Board/ARC are escalated by Central Risk.	• Group and individual Business Units • Central Risk	Ad-hoc
Risk Strategy (Exceptions)	Risk that the business goes outside of existing procedures, legislation or regulation for new / existing process and do not consider how they can control and reduce the impact	**Preventative control:** A Risk Exception is requested using a Risk Exception Note (REN) where business requirements make it necessary to depart from an approved appetite or operate outside of existing procedures. The REN is completed by the Business unit/project manager and approved by the relevant GE member. All approved RENs are uploaded and monitored in the corporate GRC tool by Central Risk.	• Group and individual Business Units • Central Risk	Ad-hoc

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Risk Policy Area	Risk Description	Minimum Control Standards	Accountability	Assessment Timing
Risk Strategy (Exceptions)	Risk that the Exceptions are not reviewed and updated regularly	**Detective control:** Monthly, Central Risk check if there are any overdue Risk Exception Notes and information requires updating as evidenced in the corporate GRC tool.	Central Risk	Monthly
	Risk that the GE is unable to fulfil its responsibility of having visibility on the open Post Office Risk Exceptions	**Detective control:** Bi-monthly, Central Risk report on all Risk Exception Notes to the GE and ARC, as reflected in the corporate GRC tool.	Central Risk	Bi-monthly
Risk Protocols (Risk Management Process)	Risk that Post Office Groups do not perform their 1st line function and fail to assess and evaluate their risks in line with the rating standards outlined in the Harm Table	**Preventative control:** Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) evaluate their risks in terms of their potential impact and likelihood in accordance to Post Office corporate Harm Table, as reflected in the corporate GRC tool.	• Risk Owners • Risk Leads • Central Risk Business Partner	Ad-hoc
	Risk that Risk Owners overstate the level of mitigation against specific risks, thereby understating the risk likelihood / impact	**Detective control:** Internal Audit through their annual audit programme will assess the effectiveness of controls and report controls that are not designed or operating effectively to mitigate the state risk.	Internal Audit	Ongoing
Risk Protocols (Harm Table)	Risk that Post Office HARM table does not reflect the current corporate view on the calibration of impact and likelihood risk ratings	**Preventative control:** Annually, Post Office Harm Table is reviewed by GE members with the support of the Central Risk. Reviewed Harm Table is submitted for approval by Central Risk to ARC.	• GE • Central Risk • ARC	Annually
	Risk that Post Office Groups do not perform their 1st line function and fail to properly score their risks	**Preventative control:** Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) score their risks against the inherent, current residual and target risk rating as reflected in the corporate GRC tool.	• Risk Owners • Risk Leads • Central Risk Business Partner	Ad-hoc
Risk Protocols (Risk Articulation)	Risk that Post Office Groups do not perform their 1st line function and fail to properly articulate their risks	**Preventative control:** Individual Post Office Risk Owners (supported by their Risk Lead and Central Risk Business Partner) articulate their risks in terms of their cause(s), the risk event itself, their impact and classified against the event, as reflected in the corporate GRC tool.	• Risk Owners • Risk Leads • Central Risk Business Partner	Ad-hoc

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6. Linked material & Contacts

6.1. Linked material

This Policy is underpinned by the Risk Management Framework and other supporting risk material accessible on Post Office Central Risk intranet site.

This Policy is consistent with, and aligned to, other Post Office policies and standards including, but not limited, to:

- Anti-Bribery & Corruption Policy
- Business Continuity Management Policy
- Change Policy
- Code of Business Standards
- Financial Crime Policy
- Health and Safety Policy
- IT Disaster Recovery
- Risk Management Framework
- Treasury Policy
- Vulnerable Customer Policy
- Whistleblowing
- Internal Audit Charter

6.2. Contacts

Post Office Head of Risk or Central Risk team.

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7. Governance

Post Office Chief Finance Officer is the Policy sponsor.

Post Office Head of Risk is Policy owner. They are accountable for ensuring that the Central Risk team provides assurance over compliance with the Policy and the supporting the Risk Management Framework.

The Policy will be reviewed every year. ARC will approve any changes.

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8. Definitions

Appetite
This is the level of risk that the Group is prepared to accept or pursue or before action is deemed necessary to reduce it; also, sometimes called 'risk tolerance'.

Control
This is any action taken to reduce the likelihood and/or magnitude of a risk.

Exception
There are on occasion exceptional situations where business requirements make it necessary to depart from an approved policy and operate outside of risk appetite. In these circumstances the business can choose to accept this risk and formally request a risk exception for a defined period of time.

Governance
This is the system by which organisations are directed and controlled. It defines accountabilities, relationships and responsibilities in the organisation as well as determine the rules and procedures and monitors performance.

Impact
This is the estimated result including financial, operational and reputational that would be realised if a risk event would occur.

Incident
An incident is an event, where individual operational controls either did not exist or did not operate as intended, or the incident was not anticipated, and which has, or could have, resulted in a financial impact (direct or indirect), a regulatory implication, a customer consequence or a significant operational impact.

Likelihood
This is the evaluation or judgement regarding the chances of the risk materialising. Likelihood is also called 'probability' or 'frequency'.

Risk
Risk is defined as the effect of uncertainty on the Post Office achieving its strategic objectives. That effect may be positive, negative or a deviation from the expected. Risks are described in terms of causes, potential events and their consequences.

Risk Management
This is the co-ordinated activities designed and operated to manage risk and exercise internal control within an organisation.

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9. Appendices

9.1. Risk Appetite scale

	Appetite rating	Risk taking philosophy	Tolerance for Uncertainty[13]	Decision choice[14]	Prioritisation of Strategic Objective[15]
	Open	Will take risks and **accept the possibility of failure**	Will **accept the possibility of failure**	Will choose the **option with the highest return**	**Will accept risks could materialise** and the achievement of (some) strategic objectives could be compromised
	Flexible	Will **take justified risks**	Will choose the option which has **some degree of risk**	Will accept risks materialising subject to being **able to proactively manage their adverse impact**	**Will accept (under certain conditions) risks could materialise** the achievement of (some) strategic objectives could be compromised
	Neutral	**Prefers, on balance, safe delivery to risk taking**	Will **accept, on balance, risks** could materialise	Will accept risks could materialise but only if **adverse impact is limited and heavily outweighed by benefits**	Would **prefer ideally not to accept** risks materialising if this meant the achievement of (some) strategic objectives could be compromised
	Cautious	Will take a **conservative approach to risks**	Will **accept some risks** could materialise	Will accept some risks materialising but only if activity is essential and the **possibility and extent of failure is limited**	Would be **somewhat reluctant** to accept risks materialising if this meant the achievement of (some) strategic objectives would be compromised
	Averse	Will **avoid nearly all risks** where at all possible	Has an **extremely low appetite for any risks** to materialise	Will always select the option with the **lowest risk**	Would be **extremely reluctant** to accept risks materialising if this meant the achievement of (some) strategic objectives would be compromised

[13] **Tolerance for uncertainty**: How willing is Post Office to accept uncertain outcomes? This illustrates the Board's appetite to trade off certainty to achieve a given objective. A low rating demonstrates the Board's need for certain outcomes, while a high rating shows the Board will pursue an objective even with an uncertain outcome.

[14] **Decision choice**: When faced with multiple decision options, how is Post Office willing to select a decision that puts a strategic objective at risk? This question assesses the Board's acceptance that a given choice may lead to failure to meet a strategic objective. A Board who are averse will only choose options that pose a minimal threat to the strategic objective's achievement. A Board open to this risk are willing to trade off the possibility of failure for a high-risk, high-reward decision.

[15] **Prioritisation of strategic objective**: How willing is Post Office willing to trade off this specific objective against achievement of other objectives? This demonstrates the Board's willingness to pursue achievement of a given strategic objective over achievement of another. A Board who are averse to this would never trade off completing the objective in question for failure of other objectives. A Board which is open would be willing to accept this trade-off.

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9.2. HARM Table

RISK SCORING	IMPACT ON									
	Financial (inc. strategic)	Operational (inc. people, change technology, information security)	Customer	Reputational (inc. third party, legal and regularity)						
Critical - 5	£20m> or could have a long term impact on commercial viability	- Exceeds operational capacity to respond, breach of Government commitments - Fatality and/or prosecution - Loss of critical system or complete network outage	- Significant boycott of products and services - Breach of coverage or scope of services to meet social purpose or entrustment	- High profile legal case - Maximum regulatory penalties, removal of ability to operate, public enquiry - Complete loss of confidence e.g. staff, clients, partners, customers - Sustained hostile national media coverage and online narrative	A(5)	A(10)	A(15)	A(20)	A(25)	
Major - 4	£5m> - <£20m or could substantially weaken the business	- Major operational impact felt throughout the business - Multiple major injuries - Partial loss of critical systems or critical system vulnerabilities left unpatched	- Alienate/lose a significant group of customers, Postmasters or partners	- Material legal dispute with negative outcome - Substantial censure sanctions imposed or large scale penalties, material customer detriment - Minister exercising powers, parliamentary inquiry - Major adverse national media campaign	N(4)	N(8)	A(12)	A(16)	A(20)	
Significant - 3	£100k> - <£5m or significant effect on achieving business objectives	- Operational impact felt in multiple areas - Major injury with adverse HSE outcome or multiple minor injuries e.g. assault on branch - Significant loss of systems	- Customer / Postmaster dissatisfaction impacting business achieving objectives e.g. innovation - Safeguards and controls to protect vulnerable customers	- Reportable to regulators, m sanctions, small fines, minor/no customer detriment - Minister discussion - Substantial adverse national media campaign	T(3)	N(6)	N(9)	A (12)	A (15)	
Moderate - 2	£50k > - <£100k or moderate effect on achieving business objectives	- Small operational impact felt to a single area - Minor injury with adverse HSE outcome or major injury with no personal liability outcome - Moderate loss of non critical systems	- Small number of customers contained within 1 product or channel, or where there is no scope for customer, Postmaster or partner detriment	- Low level repeated penalty breaches e.g. waste water - Adverse notification from regulators - Some adverse media and online reaction	T(2)	T (4)	N(6)	N(8)	N(10)	
Minor - 1	£0> - <£50k or negligible effect on achieving business objectives	- No measurable operational impact to business - Minor personal injury with accidental outcome - Insignificant loss of systems	- No or very minor customer impact to a small number of customers, Postmasters or partners	- Low level legal issue - No regulatory impact e.g. penalty notice - Little media / online reaction	T (1)	T(2)	T(3)	T(4)	N(5)	
					Remote - 1	Unlikely - 2	Possible - 3	Likely - 4	Almost Certain - 5	
					Almost an inconceivable event	Event is unlikely but could occur	Event is still unlikely but more possible to happen	Risk will probably occur in most circumstances	Risk is expected to occur in most circumstances or has materialised	
					LIKELIHOOD					

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10. Control

10.1. Policy Version

Date	Version	Updated by	Change Details
1 November 2019	1.0	Jenny Ellwood	Reviewed and refreshed to reflect new Head of Risk position and ensure Business hold accountabilities for identification and management of their risks
1 November 2020	1.1	Mark Baldock	Annual review and amends

10.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit & Risk Committee

Committee	Date Approved
POL RCC	
POL ARC	

Policy Sponsor: Chief Finance Officer
Policy Owner: Head of Risk
Policy Author: Central Risk Team
Next review: November 2021

10.3. Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

3.2

Title:	Risk Appetite & Key Risk Indicators: A Proposed Approach	**Meeting Date:**	24 November 2020
Author:	Mark Baldock, Head of Risk	**Sponsor:**	Al Cameron, Group Chief Finance Officer

Input Sought: Noting & Approval

The Audit & Risk Committee (ARC) is asked to approve the approach to Risk Appetite and Key Risk Indicators (KRIs). This will:

- be primarily articulated at the enterprise risk level;
- be assessed against a 5-tiered scale;
- be tailored for different enterprise risks;
- take into account our willingness and capacity for taking risks and our level of maturity in managing them;
- be managed using the 3 lines of defence model;
- be reported monthly as part of the Group Executive (GE) Dashboards and every two months as part of the RCC/ARC Dashboards; and
- be subject to yearly review;

The Committee is also asked to note that, subject to approval, the approach will be initially applied to 3 enterprise risk groupings namely (i) **Legal & Compliance**, (ii) **Operational** and (iii) **Technology & Security**. Their specific application will be subject to separate approval by the RCC and the ARC, currently targeted for January 2021.

Executive Summary

This paper seeks ARC approval to the Post Office's approach to Risk Appetite and Key Risk Indicators (KRIs). It describes:

- the principles that underpin the approach
- the associated benefits
- how Risk Appetite and KRIs should be assessed
- how accountability should work
- proposed Next Steps and the indicative timeline

The Post Office's approach is based on industry best practice.

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3.2

Report

- What are Risk Appetites and Key Risk Indicators and why are they important?
- What are the principles that underpin our proposed approach?
- How have we approached this work?
- What are the proposed Next Steps and the indicative timeline?

Background

1. The Post Office's draft Risk Policy[1] is organised around 3 themes namely (i) **Risk Governance** (which focuses on how Post Office risk management activity is organised), (ii) **Risk Strategy** (which considers the Post Office's overall approach to risk management and (iii) **Risk Protocols** (which defines the risk management activities that must be undertaken.

2. The Risk Strategy component is specifically concerned with the techniques by which Post Office should assess risks. This includes **an approach to Risk Appetite** and **Key Risk Indicators (KRIs)** such that we can meet our strategic objectives of (i) supporting Post Office Postmasters, (ii) building a fit for purpose network and, (iii) focusing relentlessly on Post Office core strengths and customers.

3. This paper details the Post Office's specific approach to Risk Appetite and KRIs. These are defined as follows:
   - **Risk Appetite**: The amount of overall risk an organisation is willing to pursue (or retain) to achieve its strategic objectives. It is a qualitative assessment generally made at enterprise risk level.
   - **KRIs**: The measures put in place to show the underlying trend of specific risks. KRIs are predictive. They are a set of 'guide rails' to provide context within which individual risk impact and likelihood ratings can be considered. KRIs are a quantitative assessment again generally made at enterprise risk level.

Approach

4. Our approach is based on industry-standard principles[2] namely:
   - Scope: Our Risk appetite/KRIs will be primarily articulated at the enterprise risk level but will also help guide/shape the management of linked (but subsidiary) intermediate and local risks;
   - Complex: Our Risk appetites/KRIs are likely to be complex. Excessive simplicity, while superficially attractive, may be counter-productive;
   - Measurable: Our Risk appetites/KRIs will be measurable so will be based on relevant, accurate and readily available existing data;
   - Flexible: They will not be single, fixed concepts. There will be different (and tailored) appetites for different enterprise risks; and,
   - Manageable: Our approach will take account our risk management capability, our willingness and capacity for taking risks and our level of maturity in managing them.

[1] The Post Office's draft Risk Policy v1.1 has been tabled separately for RCC/ARC approval in 11/2020.
[2] Institute of Risk Management: Risk Appetite & Tolerance Guidance paper – 9/2011. Gartner: Ignition Guide to Drafting and Operationalizing Risk Appetite – 2/2020

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Benefits

5. We consider such an approach will:
   - allow the Board, GE, RCC and ARC to understand our aggregated levels of risk to determine acceptability or not;
   - provide assurance that our strategic objectives will be secured and provide early warning where achievement is under threat;
   - allow the business to focus limited resource to manage risks outside of tolerance and tolerate risks which lie within the thresholds;
   - support GE in understanding the degree to which the business is exposed to the consequences of a risk event; and,
   - be able to flex and adapt to the changing business environment.

Assessment

6. We propose the Post Office assess appetite (at the enterprise level) against a 5-tiered scale which ranges from '**Averse**', through '**Neutral**' to '**Open**.'

7. We will also take into account other factors including our **tolerance for uncertainty** (how willing are we to trade off certainty to achieve an objective), **decision choice** (how willing are we to make a decision, from a number, that risks a strategic objective) and **strategic priority** (how willing are we to trade off an objective against achievement of other objectives)

8. Our proposed Risk Appetite scale is provided at Appendix 1.

Accountability

9. The Post Office's '3 lines of defence' risk management governance structure will oversee both the initial application, and ongoing management, of our approved Risk Appetites and KRIs as follows:

1st Line	Board/ARC[3]	• Approve all final draft Risk Appetite Statements and associated KRIs. • Request, as necessary, the Group Executive commission work to articulate additional Risk Appetite Statements/KRIs • Seek assurance Post Office is adhering to approved Risk Appetite Statements/KRI thresholds
	Group Executive	• Effectively and clearly communicate goals and objectives, strategy, achievement metrics, and relevant time periods for pursuing the objectives related to developing risk appetite statements. • Set the Risk Appetites and approved tolerance levels that ensure enough risk is being taken to ensure Post Office strategic objectives are met • Secure Group Command consensus on statements and approach. • Commission revisions of Risk Appetite Statements and KRIs as needed.
	Group and individual Business Units	• Validate or raise concerns about the ongoing viability of existing Risk Appetite Statements approved by the GE /Board • Monitor existing KRIs to determine adherence to Risk Appetite Statements that apply to the Group
2nd Line	Central Risk	• Produce Post Office corporate policy/standards for Risk Appetite and KRIs • Develop (in discussion with 1st Line) initial set of corporate Risk Appetite Statements and KRIs • Facilitate ongoing development of new (and enhancements to existing) Risk Appetite Statements and KRIs • Provide assurance of 1st Line compliance with standards in this area • Escalate areas of non-compliance to Group Executive and Board/ARC

[3] After initial RCC discussion and approval

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3rd Line	Internal Audit	• Provide, as part of its agreed Audit plan, an independent and objective evaluation of the adequacy and effectiveness of the risk management and control, making recommendations for improvement • Report to RCC/ARC on its findings, particularly around areas of non-compliance

Reporting

10. Following ARC approval of the individual Risk Appetites (and linked KRIs) for specific enterprise risk groupings the target risk ratings of the relevant enterprise risk as well as each linked (but subsidiary) intermediate and local risks will be calibrated to ensure alignment.

11. This will mean that any risk in this grouping
    - identified as being **outside of appetite** must be proactively **treated** with mitigation actions clearly articulated, owners allocated, and dates identified;
    - assessed as being **within appetite** can be simply **tolerated** such that no further mitigations will be required.

12. Central Risk will include an assessment of enterprise risks against their approved Risk Appetite (along with the latest KRI trends) as part of the monthly GE Dashboards and bi-monthly RCC/ARC Dashboards

13. An illustrative Dashboard is provided at Appendix 2.

Next Steps

14. The ARC are asked to **approve** that our Risk Appetites and KRIs and **note** that, subject to approval, the approach will be initially applied to 3 enterprise risk groupings namely (i) **Legal & Compliance,** (ii) **Operational** and (iii) **Technology & Security**. This will be subject to separate RCC/ARC approval, currently targeted for 1/2021.

Appendix 1: Post Office Risk Appetite scale
Appendix 2: Post Office Risk Appetite Tracker & KRI's

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Appendix 1: Post Office Risk Appetite scale

	Appetite rating	Risk taking philosophy	Tolerance for Uncertainty[4]	Decision choice[5]	Prioritisation of Strategic Objective[6]
	Open	Will take risks and **accept the possibility of failure**	Will **accept the possibility of failure**	Will choose the **option with the highest return**	**Will accept risks could materialise** and the achievement of (some) strategic objectives could be compromised
	Flexible	Will **take justified risks**	Will choose the option which has **some degree of risk**	Will accept risks materialising subject to being **able to proactively manage their adverse impact**	**Will accept (under certain conditions) risks could materialise** the achievement of (some) strategic objectives could be compromised
	Neutral	**Prefers, on balance, safe delivery to risk taking**	Will **accept, on balance, risks** could materialise	Will accept risks could materialise but only if **adverse impact is limited and heavily outweighed by benefits**	Would **prefer ideally not to accept** risks materialising if this meant the achievement of (some) strategic objectives could be compromised
	Cautious	Will take a **conservative approach to risks**	Will **accept some risks** could materialise	Will accept some risks materialising but only if activity is essential and the **possibility and extent of failure is limited**	Would be **somewhat reluctant** to accept risks materialising if this meant the achievement of (some) strategic objectives would be compromised
	Averse	Will **avoid nearly all risks** where at all possible	Has an **extremely low appetite for any risks** to materialise	Will always select the option with the **lowest risk**	Would be **extremely reluctant** to accept risks materialising if this meant the achievement of (some) strategic objectives would be compromised

[4] **Tolerance for uncertainty**: How willing is Post Office to accept uncertain outcomes? This illustrates the Board's appetite to trade off certainty to achieve a given objective. A low rating demonstrates the Board's need for certain outcomes, while a high rating shows the Board will pursue an objective even with an uncertain outcome.

[5] **Decision choice**: When faced with multiple decision options, how is Post Office willing to select a decision that puts a strategic objective at risk? This question assesses the Board's acceptance that a given choice may lead to failure to meet a strategic objective. A Board who are averse will only choose options that pose a minimal threat to the strategic objective's achievement. A Board open to this risk are willing to trade off the possibility of failure for a high-risk, high-reward decision.

[6] **Prioritisation of strategic objective**: How willing is Post Office willing to trade off this specific objective against achievement of other objectives? This demonstrates the Board's willingness to pursue achievement of a given strategic objective over achievement of another. A Board who are averse to this would never trade off completing the objective in question for failure of other objectives. A Board which is open would be willing to accept this trade-off.

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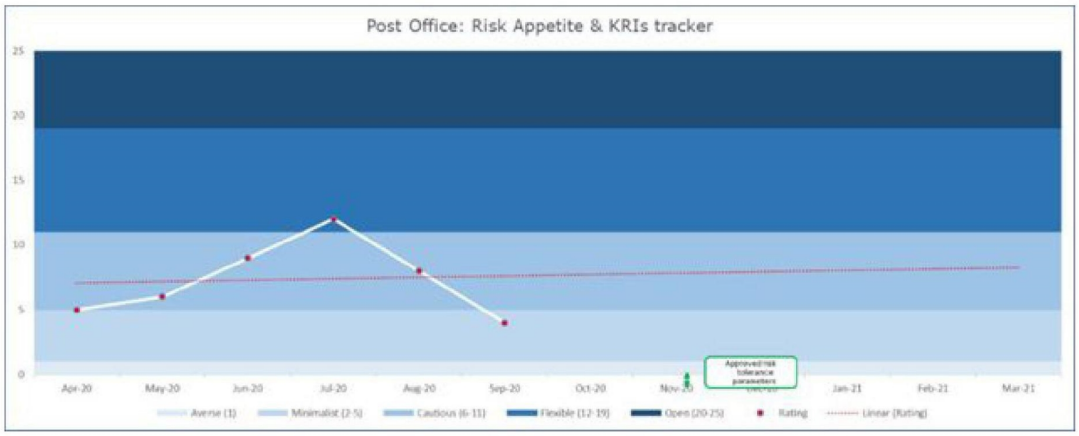
Appendix 2: Risk Appetite/KRI tracker (illustration)



	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
KRI 1												
KRI 2												
KRI 3												
KRI 4												

Illustrative Commentary

The approved risk appetite for this specific enterprise risk grouping is **Averse**. This means the Post Office will avoid taking pretty much any risk in this area where at all possible and has an extremely low appetite for any such risk materialising.

The current enterprise risk is currently assessed at 2:2 in terms of its potential adverse impact and the likelihood of it materialising. Although year to date trends show the risk rating has been reducing in recent months it remains **outside of appetite**. As such further mitigations are required in addition to those already in place to reduce the risk further.

Although 3 of the 4 KRIs are trending Green there is some evidence of volatility in recent months which, if it continues, will place increasing pressure on the enterprise risk rating even if, in the near future, it is brought within tolerance.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

3.3

Title:	Compliance and Audit Report	**Meeting Date:**	24 November 2020
Author:	Jonathan Hill: Director, Compliance Johann Appel: Head of Internal Audit	**Sponsor:**	Al Cameron: Chief Financial Officer Ben Foat: General Counsel

Input Sought: Noting

The Committee is asked to:

1. note the Compliance update, in particular:
   - The Telecoms incident in respect of customer communications, which has been reported to Ofcom;
   - The financial crime risk of Capita's (a Post Office bill payment reseller) MSB customers and the need to review all bill payment reseller controls;
   - The temporary suspension of conduct risk branch mystery shopping during the latest Covid-19 national lockdown

and;

2. note the Internal Audit update, specifically progress being made with delivery of the Internal Audit programme and completion of audit actions.

Executive Summary

This paper provides an update on key and emerging risks, compliance matters and an update on the latest internal audit position.

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Compliance

Telecoms

Comms incident

1. On 17th September 2020, Fujitsu notified Post Office of a P1 incident affecting inbound and outbound customer communications between February and September. The total number of affected inbound comms is 7,846 and the number of affected outbound comms is 153,684 (following a deduplication process as some comms are issued in two formats). The outbound comms has impacted c.107,300 unique customers.
2. Some of the communications are regulated and could result in consumer harm. The Post Office breach protocol process was followed and Meredith Sharples informed Ofcom verbally on 27th September of the incident. This was followed up with a detailed letter on 23rd October. Ofcom are now reviewing the content of the letter and deciding on whether to open a formal investigation. A copy of this letter is attached in Appendix 1.
3. Given the variety of outbound communications that have been impacted, addressing and rectifying consumer harm has been a complex process as there are 33 different comms that were impacted which include, but not limited to, cease notifications, overdue payment reminders, confirmation of engineer appoints. The team have prioritised their work according to the impact on customers as set out in the table below. Details of the specific comms impacted was provided to Ofcom.

Priority	**No. of impacted comms (not customers)**
1. Customer's services were ceased	2,877
2. Potential financial impact on the customer	115,830*
3. Customer inconvenienced - communications relates to regulation	3,650
4. Customer inconvenienced - communications does not relate to regulation	21,133
5. No customer impact	9,551

* Please note that 99,689 of the priority 2 comms are e-bill notification communications where we inform the customer that their bill is ready online.

4. The final RCA with Fujitsu is still being worked through. However, we understand that the main cause of the incident is a result of a file that become too large. Once deleted this appears to have rectified the issue. Fujitsu have put in further checks to confirm that outbound comms are going out and inbound comms are arriving correctly.
5. Of the 7,846 inbound communications, the Fujitsu team has reviewed 2,644 as at 5th November. Where any consumer harm is identified the customers are being made good, as if the communications failure had not happened. The Post Office team is checking the remediation work being done by Fujitsu. We are pressuring Fujitsu to confirm when it expects to have completed this exercise and are pushing for it to be closed by end November/early December.

Fairness

6. Post Office met Ofcom on 20th October to discuss how Post Office is meeting the Fairness Commitments we have signed up to. Ofcom view these commitments as "reputational regulation" whereby they publicly expose Communication Providers for practices that they believe are unfair. Ofcom expressed appreciation for the work done but continued to

reference Post Office having a high pricing differential between in contract and out of contract customers. This was explained by the telecoms team as being a result of having low acquisition pricing, thus driving a larger gap. This is not abnormal for the industry. Ofcom made no further comment and, as a result, no action is being be taken by the Telecoms Team other than to monitor the differential. If this became greater we could expect Ofcom to ask more questions, although we think it is more likely that it will address this at an industry level.

7. Ofcom plan to issue a statement with press coverage on their review of the market early next year to "name and shame" the worst providers as well as note good practice. We are expecting further informal follow up questions. Ofcom were understanding that our current position in the sale process meant that we were limited in our ability to make changes currently. This means that no action needs to be taken right now. However, once the sale process/RFP status becomes clearer this will need to be reassessed.

Annual Best Tariff Notifications

8. The telecoms team have delayed the implementation of the introduction of Annual Best Tariff Notifications from October to December2020, within the regulatory timetable. These letters will inform customers who are currently out of contract that they could save money by signing up to a new contract and will present Post Office's best offers. The ABT must be sent by 14th February 2021 and there is a very low risk to the implementation deadline however the letters are expected to drive more calls to the contact centre and drive complaints as people will query why their current price is higher than the new offers in their communications.
9. Ofcom had previously expressed concerns about the amount Post Office customers who are out of contract. According to Ofcom the average number of out of contract customers in the industry is 40%, (the highest is 61% and lowest is 24%)[1]. Post Office have 58% customers who are out of contract, however some of these customers are on rolling 30 day contracts and would not necessarily be better off moving to a longer-term contract. If these customers were not included, it is estimated that Post Office would be below 50%. As noted below, we are due to start sending Annual Best Tariff Reminders to customers, which we expect will further alter the percentage. Of the customers receiving the ABT notifications, the Telecoms Team anticipate 5% will churn and 35% of customers will re- contract onto new pricing. The Team will evaluate the effectiveness of the reminders before reviewing any further action.

Voice only customers

10. Post Office met with Ofcom on 1st October to discuss their plans for the voice only market. In 2017, Ofcom reached a voluntary agreement with BT to reduce its pricing for voice only customers by £5. This voluntary agreement is set to end at the beginning of next year and Ofcom confirmed during the meeting that they are looking to agree a further voluntary agreement with BT. We are now awaiting the consultation which will detail the agreement so that we can assess the impact to Post Office. We expect the impact to be minimal as Ofcom thought the introduction of retail price regulation would be unlikely and are looking to have a similar basket control that was agreed before.

European Electronic Communications Code

11. Ofcom have now issued their statement and consultation on the European Electronic Communications Code and detailed the regulations they plan to introduce. This requires significant changes to be made in telecoms however Ofcom have staggered the implementation deadlines, with the first tranche not due to be implemented until December

[1] https://www.ofcom.org.uk/__data/assets/pdf_file/0031/199075/bb-pricing-update-july-20.pdf

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2021.

12. Please refer to Appendix 2 for a summary timeline of all key regulatory developments. This has been noted in the Law and Trends Forum.

Data Protection

GLO and Historic Shortfall Scheme

13. Compliance continues to work with the Historical Matters Unit to identify, locate and provide all data required to support the various ongoing initiatives, in particular:
    a. Servicing 220 Data Subject Access requests that vary in complexity from access to Shortfall information through to full requests requiring extensive searches of Post Office systems and archives.
    b. Considering the implications of information to be provided to the Enquiry which includes personal data relating to the 2015 Mediation Scheme. We continue to work with internal Legal on making a representation to the Enquiry to provide pseudo-anonymised data rather than full disclosure.
14. Post Office continues to receive a higher-than-normal number of complex FOI requests in relation to Historic Matters.
15. Given the sensitivity of these requests, Post Office is working with external Counsel, Legal and Communications on the responses and, where appropriate, decisions on disclosure are referred to the HMU Steerco. We continue to meet the FOI response timelines as set out in legislation and we have had no complaints from the ICO in respect of our handling of these cases.
16. Examples of FOI requests since the September RCC include:
    a. The number and value of Transaction Corrections issued by Post Office over the last 12 months
        i. The business does not hold the information in the format that was requested by the individual. by the individual.
        ii. FOI does not require an organisation to create new information, neither is it advisable to do so. to create new information, neither is it advisable to do so.
        iii. However, recognising that the information requested would be useful for resolving HSS claims the Data Protection, HSS and business teams have worked up a process that will allow for accurate Transaction Correction information to be issued to HSS applicants and to the HSS resolution team to verify claims. accurate Transaction Correction information to be issued to HSS applicants and to the HSS resolution team to verify claims.
    b. Information relating to 'out of date' scratch cards and whether Postmasters suffered any losses as a result of this.
        i. Where scratch cards went out of date Post Office should have carried the loss and not passed it through to Postmasters. However, anecdotally it is reported that some Post Office auditors who had identified out of date scratch cards in branches recorded this as a loss against the Postmaster.
        ii. Despite extensive searches across the business, we cannot definitively say whether Postmasters suffered a loss or not.
        iii. KPMG is working with HMU on the Post Office response to the judgements and this is one area that it will be examining to give a definitive answer.
        iv. We expect that the FOI request will be re-issued by the requester where, given the KPMG work, Post Office should be better placed to respond.

AWS Move to the Cloud:

17. Good progress is being made from a Data Protection perspective. Questionnaires continue to be received from upstream clients and are managed on a case-by-case basis. There are no significant concerns regarding the move to the Cloud and confidence remains high of

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Client acceptance of the move.

18. The DP team are currently working with the Project to map out the Privacy Impact Assessments that will need to be completed and remediated against prior to going live. At this stage we are not anticipating any significant risks that will hinder progress.

GDPR Contract Remediation

19. The Contract Remediation project was formally closed at the end of July as reported to the previous RCC. Work is ongoing on and the number of outstanding contracts has reduced from eight to seven since the last RCC
20. Of those seven, four are awaiting execution and will be completed by the end of November.
21. Negotiations on the three remaining contracts (Fujitsu, Santander and Kinto (formerly Inchcape)) are close to completion with no significant barriers to execution.
22. Monthly CRG meetings continue to monitor progress and support negotiations. This will continue until all outstanding contracts are finalised.

Financial Crime

Compliance with Money Laundering Regulations

23. Following the permanent removal of 3,257 and pausing of 2,679 HMRC branch registrations in May 2020, it was identified that 6 of the branches that were de-registered as part of this exercise subsequently completed Travel Money transactions (25 transactions totalling £6,784.30 between 1st June (HMRC annual registration date) and 28th October 2020). Post Office was in breach of the regulations in respect of these branches and there was a risk, given the previous £800K penalty for registration failings that HMRC may have sought to apply further penalties.
24. However, in recognition of the verbal and written self-notification to HMRC and the quick remedial action taken by Post Office, we have been advised that it will not apply any penalty nor take further action.
25. Nevertheless, we are continuing to work with the IT and Data teams to ensure that the system is robust going forward, including what assurance can be provided to reconcile the data between Post Office's Master Data Management system ("MDM") and Fujitsu's RMD system.
26. Suspicious Activity Reports (SARs) and investigations continue to rise, with 1,427 SARs and 157 investigations in August & September (up from 566 and 111 in August & September 2019). This is driven by branches raising concerns with large and multiple cash deposits, particularly relating to money transmission businesses. There is also evidence of changing criminal behaviour due to Covid and the economic uncertainty which is likely to further drive up suspicious activity in our Network and result in more SARs. We are working closely with Network teams to ensure customer-facing staff are made aware of the risks and their responsibilities.
27. We continue to work with banks through the National Economic Crime Centre Project Admiralty and the Banking Framework members to address the risks of cash laundering via Post Office. We continue to discuss particular activity with 2 banks in relation to significant cash deposits at Whitechapel and Philpot Street in East London where we continue to see £5-7m per week deposited. These banks are currently analysing these deposits, and we have been advised that some relationships are being exited by them, but we expect a full response from them in November. If the banks are unable to provide assurances that the cash deposited is in line with their KYC, we will ask the banks to make alternative arrangements for these deposits.
28. From 20th August to 26th October, 23 Banking Framework cases were investigated (up 35%

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on the 2019). A number were complex cash deposit cases involving multiple accounts and banks. To help with increased workloads, a fixed term contract PO started mid-October, funded to the end of 2020/21. We continue to monitor volumes and their drivers but suspect this will need to be a permanent resource in 2021/22.

29. From intelligence provided by us, recent law enforcement activity concerning cash deposits in South and East London resulted in an individual arrested and money seized at one branch in connection with money laundering offences, we are aware of ongoing investigations.
30. A meeting was held with our new HMRC regulatory supervisor on 30th September. HMRC have indicated that they will not be undertaking proactive supervision activity or branch visits whilst Covid issued continue.
31. A response was submitted to HMT in respect of the Economic Crime Levy Consultation. The paper indicated that their preferred option is to have a revenue based levy with some exemptions for small businesses where it is not cost effective to gather the levy. We have put forward a position that as all POL regulatory revenue is derived via payment of dividend and commission from FRES, who are also regulated and subject to the levy, this would effectively be a 'double-levy' and therefore POL revenue should be exempt. We are unlikely to see a response to the consultation, and the draft legislation until the new year.
32. The risk assessment process was presented at the Commercial lead team meeting and have since seen an improvement in stakeholder engagement.

Anti-Bribery and Corruption ("ABC") update

33. Annual ABC training has been completed in September – overall completion is at 97.2% as at 12th November 2020.

Whistleblowing Update

34. There has been an increase in new reports during August & September 2020 - 8 compared to 5 in the same period last year. The majority have been received from agent assistants and relate to allegations concerning Postmaster activity. There are no trends or issues, and all investigations are proceeding.
35. We are procuring some initial consultancy work with Protect (UK Whistleblowing Charity) to benchmark our whistleblowing policy and processes and help us to identify if there are any control gaps. We are also working with the Postmaster Complaints project to ensure that there is a centralised view of postmaster complaints or reported concerns. We have provided copies of our policy and procedures to the HMU Public Inquiry team.

Fit & Proper update

36. There have been a number of teething issues with the new agent F&P system and processes. A number of technical fixes have been delivered but some issues remain open and subject to further investigation:
    - Errors in Power BI reports produced to drive branch revocation and HMRC reporting
    - Data refresh issues
    - People data extraction from the Financial Assessment is more cumbersome and labour intensive than first thought due to missing data on the report
    - Legal Status discrepancies are being identified which were not corrected in previous declarations. They are being managed but are taking time and resource in F&P Ops, the Contracts and onboarding teams.
    - Development of F&P Release 2 to bring in scope MoneyGram only branches and 'paused' bureau branches is on track with a view to deploying into production before the

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November change freeze, but this will require changes to processes and bedding in of new reporting.

- Self-serve declarations for Sole Traders via Branch Hub is also being developed by Accenture with the intention to have in place for January 2021.

37. These issues are being managed and overseen by the F&P Ops team manager who has built up expertise since taking on operational responsibility earlier this year, but his role is at risk in the new structure and the work is being transferred to another area. The F&P project has been closed, therefore the project team has now been disbanded and no longer able to provide any oversight or support. We are liaising with HR to ensure that an appropriate owner is found and a remediation plan for the aforementioned issues is finalised. This will be brought back to the next RCC/ARC.
38. There are a significant number of changes to roles and responsibilities. Due to the consultations, information on the changes has not been available, and therefore keeping employee F&P tests up to date is challenging. We are working with HR to identify people leaving the business or moving into impacted roles.

External Threats

39. We have identified a growing trend of suspicious high volume Amazon voucher purchases, relating to potentially vulnerable customers who fall victim to fraudsters persuading them to purchase high value/large quantities and send to the fraudster. We have issued a number of communications to raise network awareness and are supporting the Product Owner to explore options with Amazon and to strengthen current controls in Horizon by limiting the number of vouchers that can be sold/the amount or provide additional screen prompts for staff, currently solutions are being worked on, including timescales for delivery.
40. Following investigation into a suspicious activity report, we identified that high risk suspicious cash deposits from a Money Service Business (a money transmitter) were being accepted, via our bill payment reseller client Capita. Money Transmission is assessed by the National Risk Assessment as high risk for money laundering and such companies require enhanced due diligence. Our investigation of the deposits and activity identified that there was a complex structure involving numerous businesses between the customer and the end recipient, with some activity overseas and a similar structure to known money laundering typologies[2]. We are actively working with the Product Owner and Capita to cease the relationship with the businesses involved, and a meeting with Capita is scheduled for w/c 16th November 2020 to resolve. As a result of this case, we will work with the Product team to undertake a review of the existing contractual and control requirements related to Bill Payment re-sellers, and this will also form part of the Payzone review.

Supply Chain Compliance

41. One of the 3 FTE has been off with suspected Long-Covid, which together with rising infection rates across the UK has impacted ability to undertake on-site assessments. A combination of remote checking, interviews, area manager interviews and site visits to low risk locations has been implemented.
42. The External Approved Contractor Scheme (ACS) assessment in October was completed remotely with only one observation identified. The score for ACS was assessed as 104, which is an increase of 10 from last year and maintains Post Office compliance within the

[2] In the AML/CFT context, the term "typology" refers to the various techniques used by criminals to launder money or finance terrorism

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top 5% businesses in the UK requiring this accreditation, indicating that despite the challenges over the last 7 months, compliance with ACS standards has improved.

43. An independent check of value stock picking accuracy at Swindon was supported. c.13% of one day's volume was checked and errors were identified in 1 in 109 items, despite the items already having been subject to a 100% operational check, i.e. the discrepancy had not been identified by the unit's own check. The outcome of the independent check has been escalated to Supply Chain and the Historic Matters Unit for them to remediate.

Financial Services

Multi Principal Review of 1st line controls (report expected January 2021).

44. Our three regulatory principals, Capital One, BoI and POMS, are undertaking a joint thematic review on the controls in place in the 1st line, including the work undertaken by the FS Compliance team. The scope of this work is far reaching and covers, 1st line controls over training, approvals, governance and compliance monitoring.
45. We are supportive of this review that will be a useful independent challenge and health check on our controls.
46. We will share any key findings with this Committee.

Compliance Monitoring

47. Mystery shopping had resumed on a small scale from August covering Over 50s cover and from the start of Q3 covering, savings and travel insurance.
48. Following the UK Government lockdown announcement on 31st October, with the agreement of our Principals who take compliance responsibility for our FS business, mystery shopping has been paused. It is expected in any case that sales of FS products will be reduced for the future period (for example TI sales will be very low/nil).
49. Following the approach of the 1st general lockdown we will use remote measures to review compliance performance. This includes quality of sales MI that reviews sales peaks, cancelation and complaints data. Our BAU governance with the regulatory Principals will continue so that any additional data from them (such as complaints made to the call centre) can also be reviewed.
50. For the mystery shopping we have undertaken this year the results from protection business have been generally good and within appetite. For Travel Insurance we will be using the small number of shops undertaken before lockdown to assess with POI whether any aspect of the revised sales process needs to be strengthened for future travel insurance sales when we can hopefully travel again.

FS Regulatory updates

51. A summary slide of the key future developments is included in the reading room at Appendix 3.
52. The government recently published a call for evidence on Access to Cash, which sets out the government's aims for protecting access to cash throughout the UK. It seeks views on:
    a. how the government can ensure the UK maintains an appropriate network of cash withdrawal and deposit-taking facilities over time through legislation, including the potential role of cashback;
    b. the factors affecting cash acceptance; and whether the government should give a single regulator overall statutory responsibility for maintaining access to cash.

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c. The Banking team will review the detail and decide how to best respond by the end of November.

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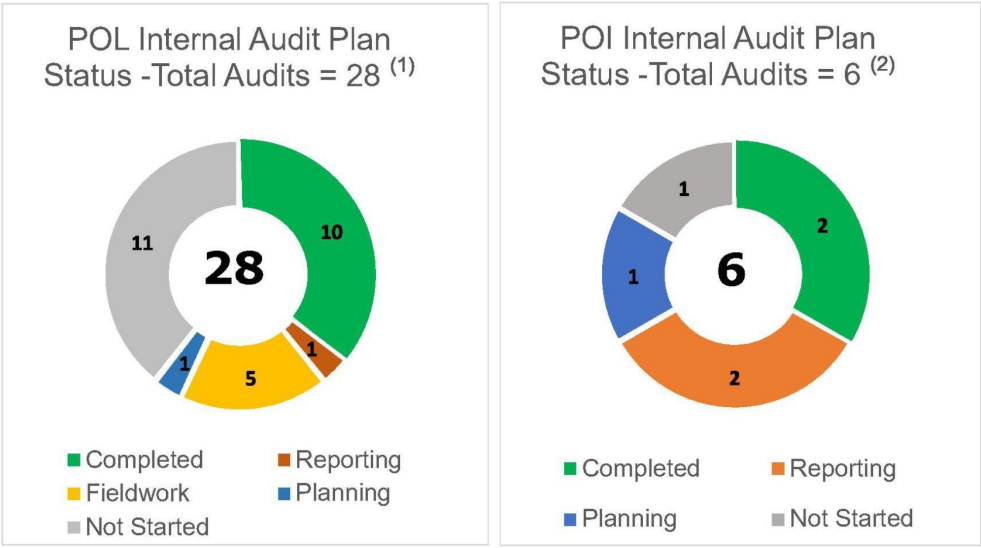
Internal Audit

Progress against Internal Audit plan

53. Delivery of the 2020/21 programme is making good progress, having completed five audits since the September ARC meeting (4 POL & 1 POI). The advisory review of the Historic Matters Business Unit (Post GLO Improvement Programme) is nearing completion – an interim report has been issued and is included in this paper.

54. Current delivery status is as follows:



(1)Target number of reviews based on revised plan for 2020/21 approved by ARC (18 Internal control reviews & 10 change assurance reviews). Details of the audit plan status are included in the reading room (Appendix 10).

(2)POI ARC approved baseline plan for 2020/21.

55. A re-prioritised Internal Audit programme was approved at the May ARC meeting in response to Covid-19. It was agreed that a more dynamic rolling audit plan will be adopted and reviewed at each ARC. Further revisions to the plan was approved at the September ARC meeting and is included in the reading room (Appendix 10).

56. The following audits are being planned for delivery in Q3:

	Review	Sponsor	Timing	Status
1	Historic Matters (Post GLO) Set-up and Governance	Declan Salter	Oct	Interim Report
2	Historic Matters (Post GLO) Operations Improvement Programme (Common Issues Judgement)	Declan Salter	Nov	Fieldwork
3	Mails & Parcels	Owen Woodley	Oct	Fieldwork
4	IT Controls Framework	Jeff Smyth	Sept	Fieldwork
5	Belfast Exit (Programme Assurance) Phase 2	Jeff Smyth	Oct	Fieldwork
6	PCI Compliance (Programme Assurance)	Jeff Smyth	Nov	Fieldwork
7	Postmaster Reporting (MI, Branch Trading Statements)	Amanda Jones	Dec	Not started

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Internal Audit reviews completed

57. The following POL audit reports were issued since the September ARC meeting:

1	Manual Revenue Adjustments		3	Identity and Access Management (JML) – Gap Analysis	
2	Effectiveness of Second Line during COVID-19		4	Branch Hub (Programme Assurance)	
5	Historic Matters (Post GLO) Set-up & Governance (Advisory) Interim Report				

58. Our findings and observations from these reports are summarised below, with the full reports available in the reading room (appendices 5-9).

59. **Controls over Manual Revenue Adjustments** (Ref.2020/21-14)



Sponsor:
Al Cameron

Audit actions:

P1	0
P2	2
P3	1
Total	3

Appendix 5

In 2019/20 manual revenue adjustments made up £298m (31%) of reported revenue. At the May ARC, PwC raised a discussion point around manual adjustments to revenue made outside of Horizon, to ensure clients are billed correctly. Subsequently the ARC have requested that Internal Audit review the controls over this process.

The purpose of this audit was to provide assurance that the design and operation of the controls around manual revenue adjustments are robust and effective in mitigating the risk of error and consequential impact on Postmasters' remuneration. Our audit also assessed controls over transaction corrections, which may impact Postmaster accounts (c.127k corrections made in 2019/20 with a low average value of £37 per transaction).

We conclude that the control framework covering manual adjustment processes is comprehensive and well-understood by control owners. Whilst the preventative controls around review and sign-off are working well, there is an opportunity to further strengthen the detective controls with better explanations of variances and follow-up of aged items.

There is no direct link to, and therefore no impact on, Postmaster remuneration for the majority of revenue transactions processed directly in CFS. For the minority of transactions where Postmaster remuneration or accounts may be impacted, we found controls to be effective.

Management Comment provided by Tom Lee (Group Financial Controller)

"I was pleased to see the report confirmed my expectations, that a robust controls environment exists over what is an important and complex area of the business. The nature of revenue recognition across the organisation, driven by high volume of low value transactions with numerous interplays across systems and stakeholders, will inevitably lead to variances arising. The processes and controls in place are designed so as to keep these variances to a minimum whilst seeking to resolve those that do arise in a timely manner. We will continue to enhance this area and focus our efforts in the short term on the actions outlined within this report."

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60. **Effectiveness of the Second Line during Covid-19** (Ref.2020/21-07)



Needs Improvement

Sponsor:
Nick Read

Audit actions[N1]:

P1	6
P2	15
P3	1
Total	22

[N1] Actions are included in the individual deep-dive audit reports and tracked through the normal audit process.

Second line functions in scope:
- CoSec
- Data Protection
- Financial Controls
- IT Governance
- IT Risk
- Central Risk
- Change
- Compliance [N2]
- Financial Crime [N2]
- Loss Prevention [N2]
- IT Security [N2]
- Health & Safety [N2]

[N2] Included in Phase 2 deep dive audits.

Appendix 6

The purpose of this audit was to consider the impact of COVID-19 on second line of defence functions across Post Office. This report covers twelve second line functions and consolidates findings from the interim report issued in July 2020 and three other deep-dive audit reports.

We conclude that during Post Office's response to the first wave of COVID-19, all second line functions **continued to operate** and are now better positioned to meet the challenges of the second wave. We also highlight the following **key successes**:

- Changes to processes and controls were made quickly but cautiously - often on a 'best-efforts' basis where the new arrangements were unprecedented.
- Management are monitoring the effectiveness of alternative controls adopted, particularly those brought about by branch visit suspensions.
- In response to the crisis, all functions have identified process improvements and intend to keep what went well.

We noted the following **areas for improvement** and ongoing challenges, which should be considered key learnings for the second wave of the pandemic and resulting regional and national lockdown restrictions:

- Vacancies and long-term absences mean at least three of the critical second-line teams cannot absorb additional demands without compromising effectiveness. Cost pressures mean some teams are operating at below pre-COVID resourcing levels.
- Restart of suspended commercial and technical development work, along with anticipated organisational change, could overwhelm second-line teams if not carefully managed.
- Lockdown fatigue - Good engagement with the business contributed to initial success, but some functions report that this is dropping off due to lockdown fatigue. This may worsen as we enter more regional and national lockdowns and adds to the pressures experienced by the second line.
- In some areas, clarity is needed of boundaries between first and second-line responsibilities, especially around process and control documentation ownership and maintenance.
- All second line functions faced increased risk, but the initial fall in transactions counteracted some of this. Risks may again increase during the second wave and may be exacerbated as Post Office enters the busiest time of the year.
- Controls are inconsistently managed. Some functions do not have

<u>Management Comment provided by Nick Read (Group CEO)</u>

"The organisational mobilisation and response to Covid-19 and the first lockdown, was particularly pleasing. Functions were able to respond to operational change and, in the main, absorb additional work and perform their own essential controls, at an aggregate level. The long term sustainability of this response however is not clear and the strain placed on certain areas of the business was concerning. In part due to vacancies but also due to the fatigue associated with new ways of working and new practices. As a business we will need to assess alternative sources of assurance and we have begun an initiative to do this. We will need to be particularly vigilant in the short term as lockdowns and tiered restrictions come into play in the run up to Christmas and in Quarter 4."

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61. **Joiners, Movers & Leavers (JML)** (Ref.2020/21-01)



Needs Improvement

Sponsor:
Jeff Smyth

Audit actions:

P1	1
P2	0
P3	0
Total	1

A single overarching P1 audit action was agreed to update the current roadmap and action plan to include the gaps identified during this audit.

Appendix 7

Internal Audit previously reviewed JML processes in 2017, identifying significant weaknesses in overall governance and the identification of JML triggers. Failures of JML controls have also been reported by the external auditors on numerous occasions.

A JML Programme has been initiated by the business to identify and address control gaps and weaknesses, with regular progress updates provided to the ARC. JML controls were also covered within Cyber Maturity Assessments in 2019 and 2020, which showed a marked increase in maturity between the two reviews, with maturity targets being met for two of the four domains covering JML related controls. However, it is generally recognised that additional work is required to strengthen and automate access controls.

The purpose of this audit was to validate the work undertaken by IT to support the business in identifying and remediating gaps in the effectiveness of JML processes and to assess the state of JML processes across the business, with the intention of ensuring only authorised users have access to POL systems.

We conclude that IT have been making steady progress in addressing the JML control weaknesses. Considerable progress has been made over the last two years to enhance controls, through the implementation of SmartID, tying the creation and removal of user access to SuccessFactors, and introducing additional checks over access to key back-office systems.

However, we observed a continued reliance on manual processes and insufficient coordination between teams responsible for JML, privileged access and vendor assurance. The roadmap and action tracker created by IT will support further improvements in JML processes and we have highlighted additional actions that should be included in the plan.

We consider the residual risk of unauthorised access to POL systems to be substantially mitigated by the controls currently in place, but based on the actions still required, we have rated this report 'Needs Improvement'.

Management Comment provided by Tony Jowett (CISO)

"This report is very timely and helpful in our quest to sort JML in Post Office. It re-emphasises that effective JML requires HR and IT to work closely together and the review of all in scope is very welcome. We agree with the action that we must create a roadmap/plan and would add an additional one about creating a picture of JML that could serve as a dashboard. Many thanks to IA for shining a light in this area."

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62. **Branch Hub (Programme Assurance)** (Ref.2020/21-12)



Needs Improvement

Sponsor:
Amanda Jones

Audit actions:

P1	0
P2	6
P3	0
Total	6

Appendix 8

The 'Branch Hub' programme was initiated in 2018 to deliver a new digital self-service channel, to replace or support traditional channels for the interactions between postmasters and back-office functions. The overall delivery of the minimum viable product (MVP) and the adoption by Postmasters proved challenging, as noted in previous audits.

In February 2020, the IC approved Branch Hub's move from the bespoke Fujitsu product to the ServiceNow platform. Due to COVID-19, the programme focused on delivering functionality to support Post Office's response to the pandemic, including 'Change Branch Hours', 'Agent Remuneration' and 'PPE Ordering'. This has driven adoption to surpass 9,400 users. The delivery of further features has been divided into three increments. As of August 2020, a total of £20.6m had been invested in the Programme.

The purpose of this audit was to re-assess the operating effectiveness of programme delivery while ensuring previous audit recommendations have been adopted.

Branch Hub has now demonstrated that it can deliver and that its underlying platform and delivery model are sound. Since its reset in February 2020, Branch Hub has been primarily driven in a short-term tactical way to prove it could deliver. This strategy was broadly successful as Branch Hub delivered its main objectives.

However, it did not fully succeed in overcoming the inherent lack of trust and further constrained resources which resulted in some previous audit weaknesses not being fully addressed. We once again note that the programme lacks strategic direction and a joined up approach on how future features should be linked. GLO considerations have not been fully considered and embedded. We also noted additional controls weaknesses associated with the new delivery model. These gaps impacted on the overall programme performance, contributing to the present challenges in fully unlocking the committed FY20/21 benefits.

Management Comment provided by Amanda Jones (Retail & Franchise Network Director)

"Thank you for highlighting the areas in the report and the opportunities for improvement; in particular recognising that the project has been driven in a short term tactical way and that there is opportunity to take a fresh look at the benefits model. The programme is under new ownership with myself as GE sponsor and Tim Perkins taking on sponsorship. We are both excited by the opportunity to build on what the BH team have developed so far and envisage that BH will play a pivotal role in enabling us to deliver our vision of providing Postmasters support whenever, however and wherever they need it, at the lowest cost to serve."

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63. **Historic Matters (Post GLO) – Set-up & Governance (Advisory)** (Ref.2020/21-15)

Not Rated (Interim Report) ***Sponsor:*** *Declan Salter* Management comments and audit actions will be in the final report. *Appendix 9*	In addition to launching the Historical Shortfall Scheme, as part of its operational improvement plan and to address issues which arose from group litigation concluded last year, Post Office has appointed a new Director, reporting to Tim Parker and Nick Read, to head up a separate business unit responsible to implement the claims schemes and the programme of measures that will oversee the delivery of the operational improvements to address the criticisms from the Common Issues Judgment (CIJ) and the Horizon Issues Judgment (HIJ). Internal Audit is performing an advisory review to gain assurance that the newly established Historical Matters Business Unit (HMBU) has been set up for success and established effective and appropriate governance. HMBU is newly formed and its governance and structure are not yet fully defined. However, we emphasise that HMBU is not operating without governance and control and has from the outset adopted 'Change' governance and controls. While not fully fit-for-purpose, it enabled a degree of structure and provided a solid foundation for the early management of the claim schemes and the CIJ operational improvement programme. Further work is required to clarify and formalise its scope and relation with the wider Post Office business, as well as, its strategy and operating model, to manage more effectively the extensive list of activities being planned. We also highlight that: • A comprehensive risk assessment should be performed, and controls and assurance mechanisms are still to be agreed; • Roles and responsibilities of key individuals be further reviewed and agreed at Board to ensure HMBU operates with an appropriate level of independence, while still adopting Post Office Group policies and controls, appropriately supported by the Group functions.

Post Office Insurance (POI) Audit Programme

64. The table below shows the status of the POI audit programme:

	Review	Timing	Status
1	Cyber Security (POL-POI Gap Analysis)	Aug	Complete (Sept ARC)
2	Incident and Breach Management	Aug	Reporting [N1]
3	Data Governance: Ethics, security and privacy Phase 1 – Third Party Data Security Phase 2 – Data Governance	 Sept Oct	 Complete Fieldwork
4	Special Investigation (Confidential)	Sept	Complete
5	Pricing: Principles, policies and process	Nov	Planning
6	Effectiveness of Risk Management – original plan	Q4	Not started
7	Channel review: Non-branch sales – original plan	Q4	Not started

[N1] This audit was delayed due to special investigations undertaken at management request and with POI ARC approval.

Status of Audit Actions

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65. Audit actions are generally being completed on time. However, we highlight that the changes to business priorities due to Covid-19 have caused delays in completion of some audit actions. During May we worked with action owners and GE sponsors to agree revised completion dates for 14 actions impacted by Covid-19. Of these 11 have since been closed and 3 remain open and on track with the revised completion dates.

66. The movement and ageing of audit actions are shown in the table below (status at 16 November 2020).

Audit Action Status (POL):	
Open actions at last ARC	47
Less: Actions closed in period	31
Add: New actions in period	13
Total open actions	**29**

Ageing:	
Open (not yet due)	28
Overdue (<60 days)	1
Overdue (>60 days)	0
Total open actions	**29**

67. Following is a summary of the one overdue action and latest status update:

Description of audit finding and Priority rating	**GE owner and due date**	**Action Owners and Status Update**
Data Privacy (Document Retention)		
Finding (P2): Mechanisms for facilitating the deletion of records that are outside of their retention period are not defined (P2) Action: The CIO will work with the business to identify how record retention schedules will be operationalised to support compliance with the DPA and limit the time that personal data is held.	Jeff Smyth Original date: 30/04/2020 Revised date: 31/10/2020	**Owner:** Rob Wilkins The technical solution for automated deletion of documents proved more complex than anticipated, and was deemed unfeasible and not cost effective. IT will now implement alternative solutions limited to automatic deletion of leavers' e-mails (unless legally required to keep). Revised completion date 31/03/21. Compliance with document retention policy more widely will be considered by the Digital Data Governance SteerCo and the data governance work led by Compliance (See separate update paper – item 2 under Items for Noting).

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Appendices[3]

Compliance

Appendix 1: Communications Incident 2020 OFCOM Notification
Appendix 2: Telecoms Regulatory Calendar
Appendix 3: FS Regulatory Calendar
Appendix 4: Compliance Dashboard summary
Appendix 4a: Compliance Dashboard

Internal Audit

Appendix 5: Internal Audit Report – Manual Revenue Adjustments
Appendix 6: Internal Audit Report – Effectiveness of Second Line during Covid-19
Appendix 7: Internal Audit Report – Joiners, Movers & Leavers
Appendix 8: Internal Audit Report – Branch Hub Programme Assurance
Appendix 9: Internal Audit Interim Report – Historical Matters Unit Set Up & Governance
Appendix 10: Internal Audit Plan for 2020/21

[3] Appendices are accessible in the Diligent 'Reading Room'

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

4

Title:	The Historical Operation of Suspense Accounts	**Meeting Date:**	24 November 2020
Author:	Mark Underwood, LCG Operations Director, Tom Lee, Financial Controller & Tim Perkins, Head of Security, Safety & Loss Prevention	**Sponsor:**	Ben Foat Group General Counsel & Alisdair Cameron, Group Chief Finance Officer

[redacted]

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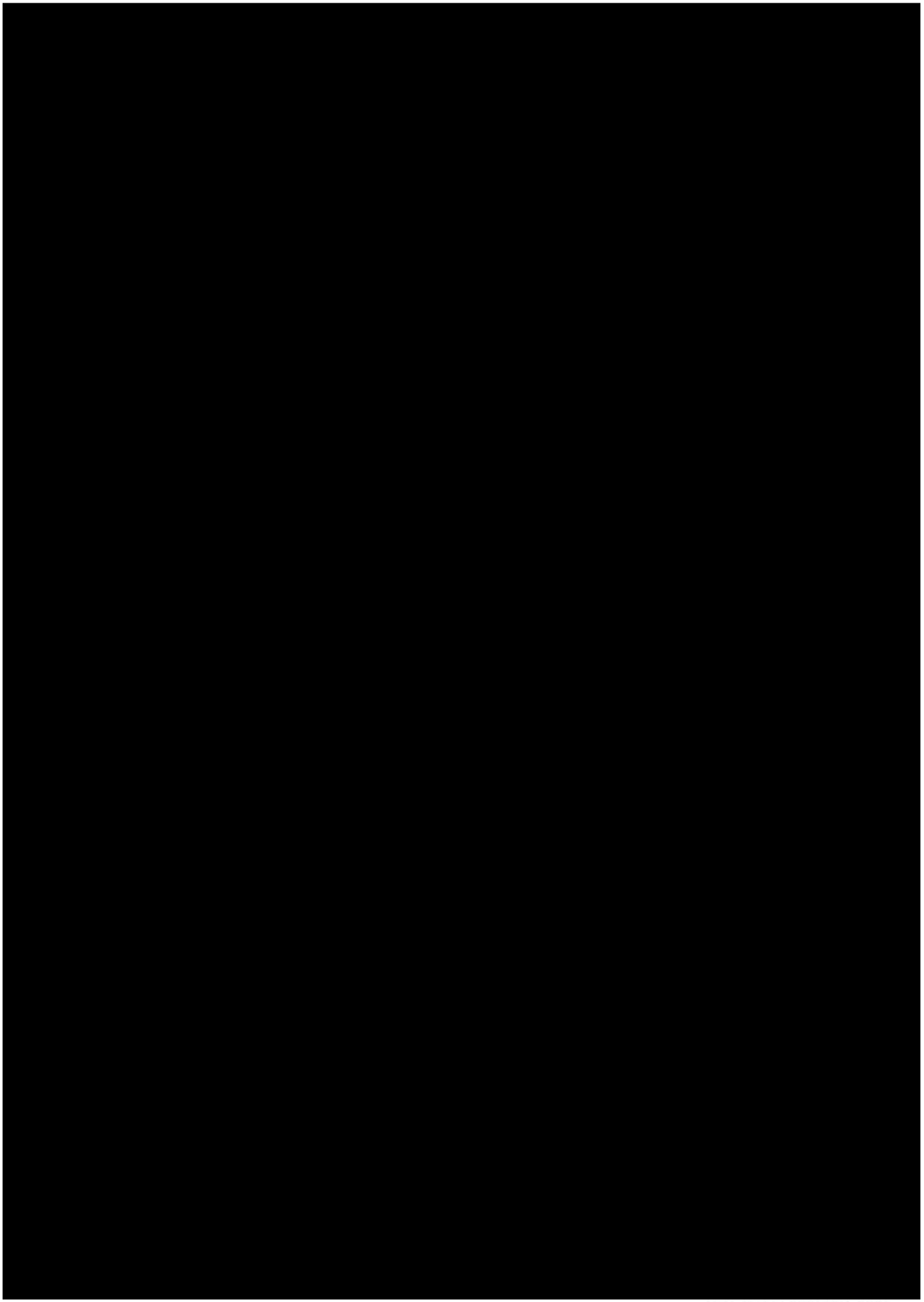

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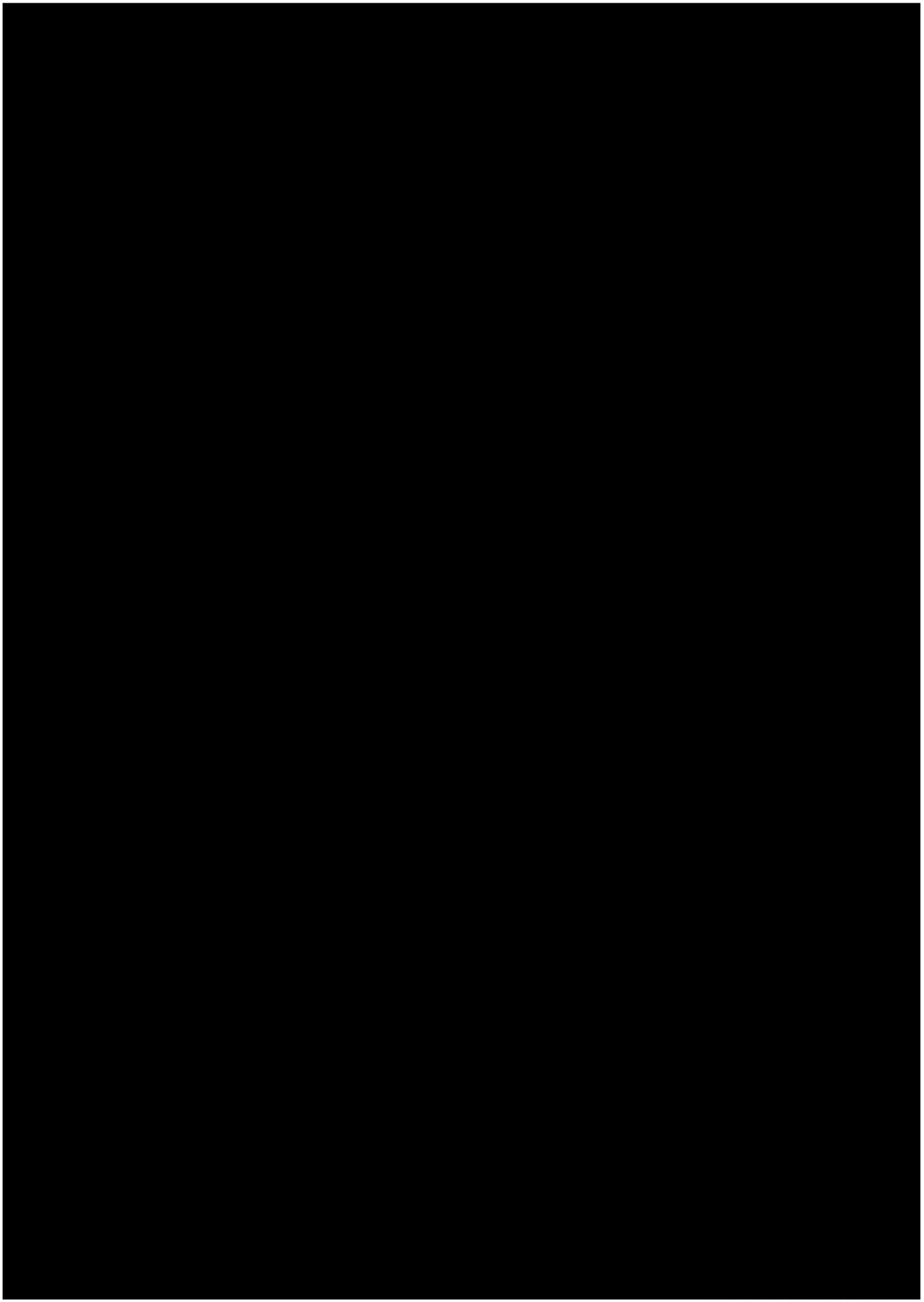

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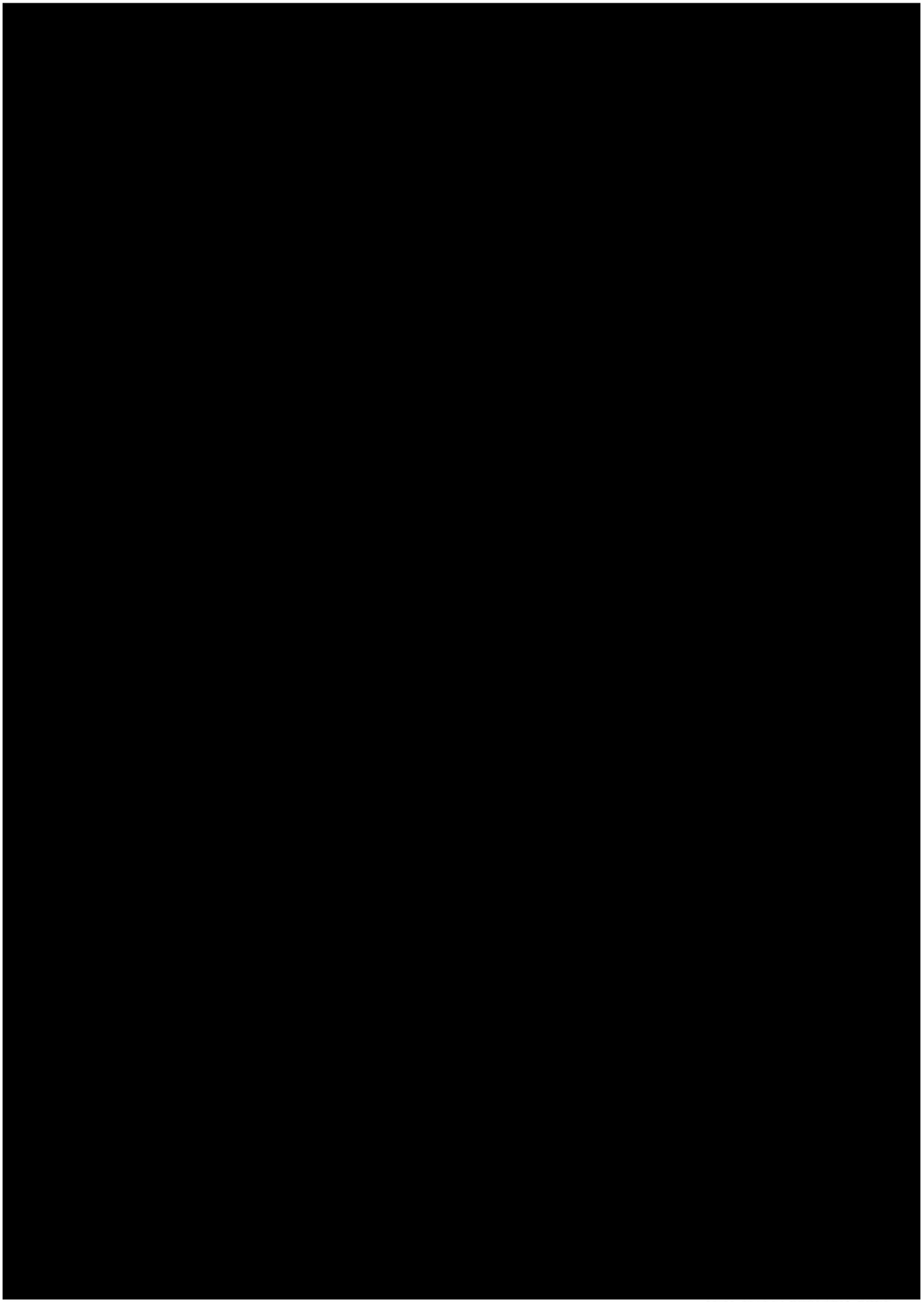

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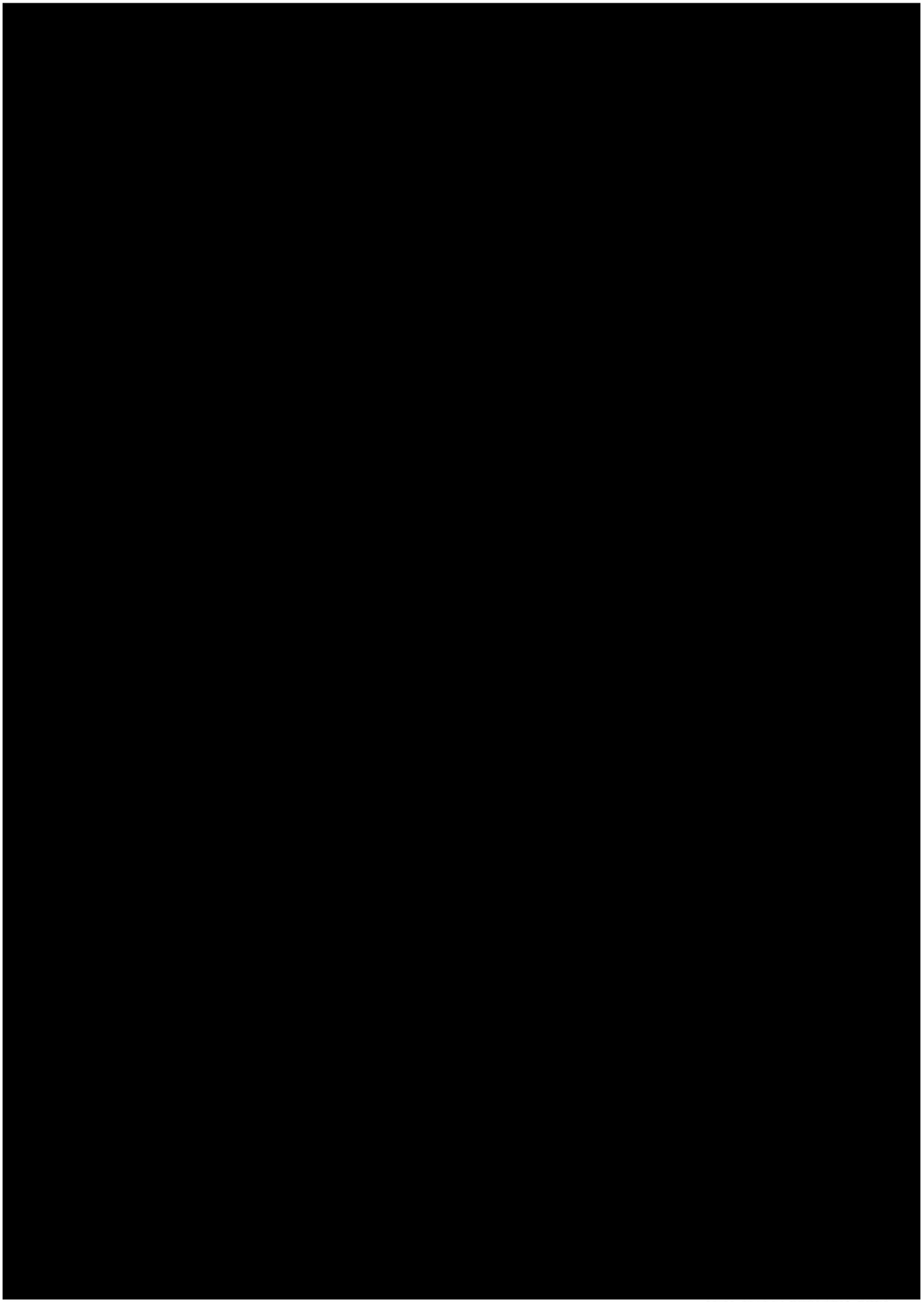

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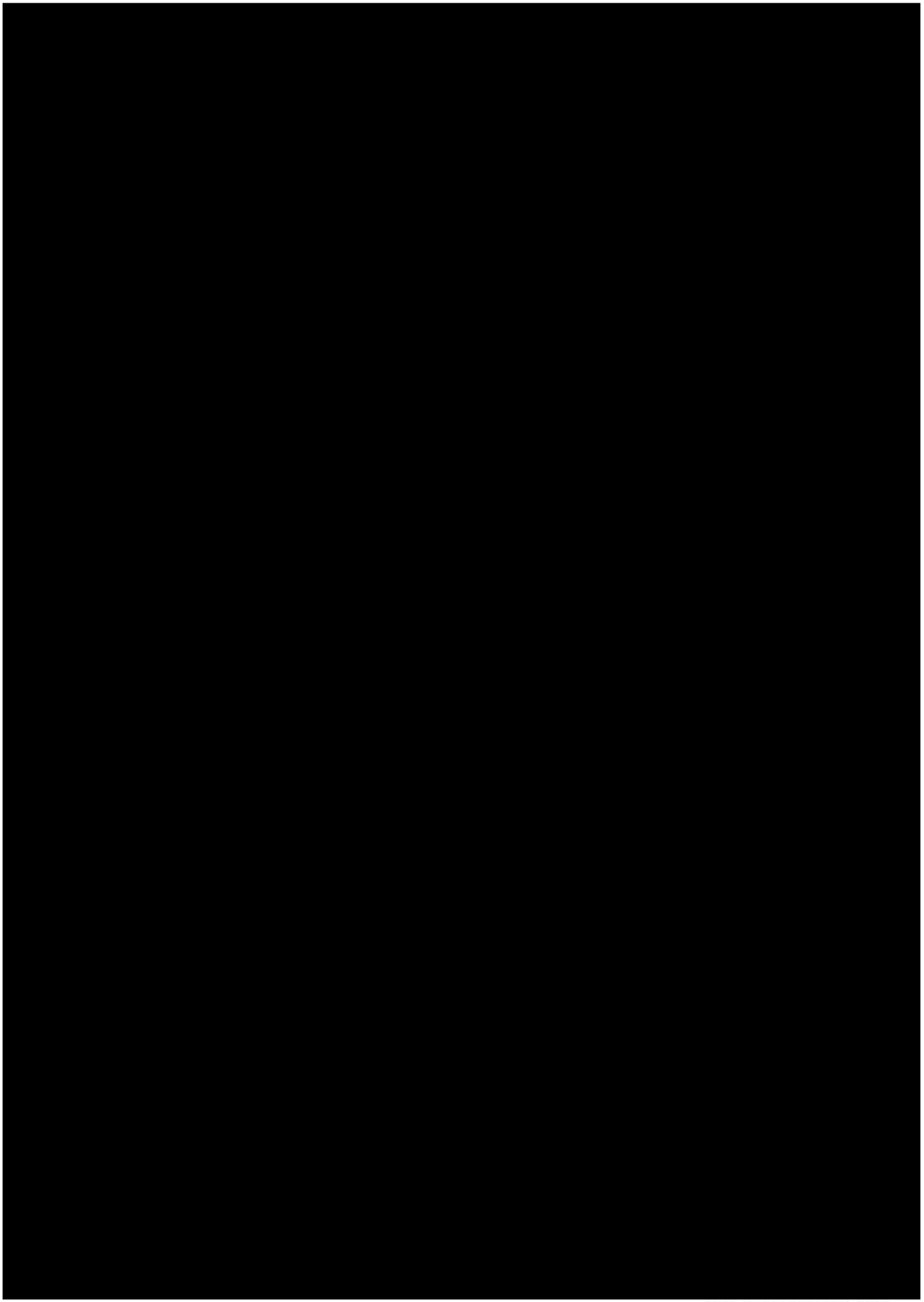

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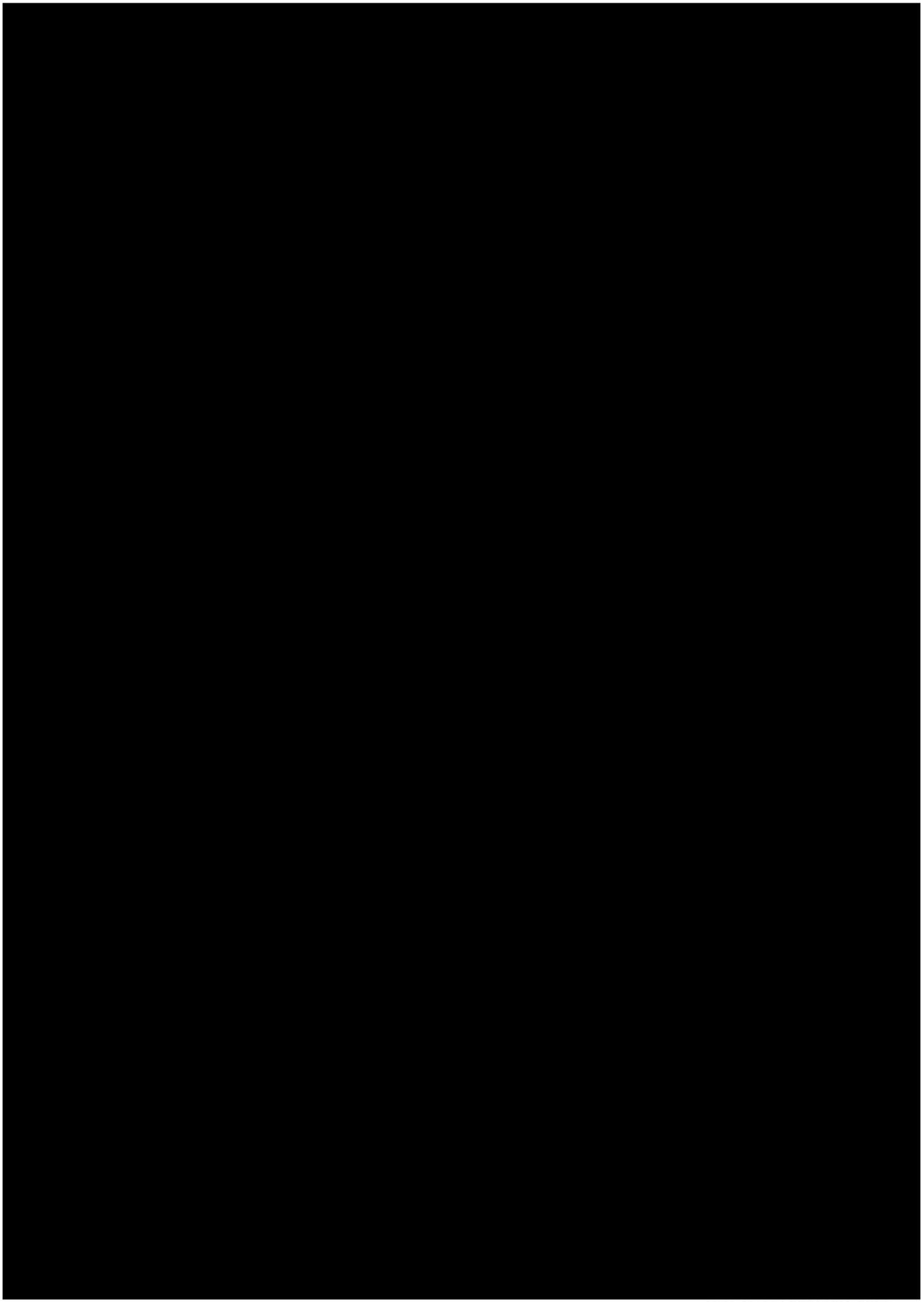

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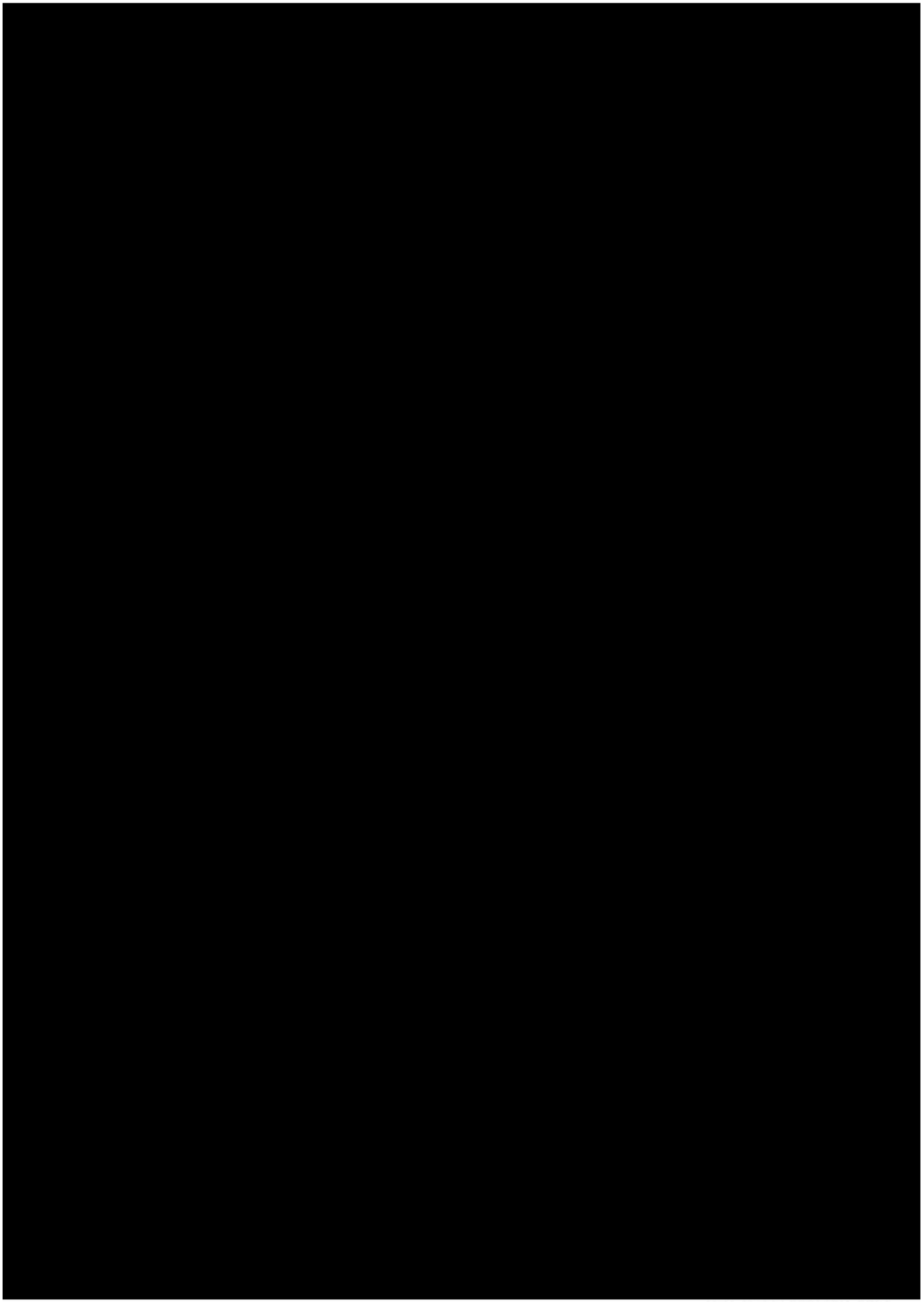

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Post Office Limited Audit Plan

Year ending 28 March 2021

Audit and Risk Committee Meeting
Private and confidential
24 November 2020

pwc

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The Audit and Risk Committee
Post Office Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

GRO

Andrew Paynter
Partner

M: GRO
E:

Dear Members of the Audit and Risk Committee,

I am pleased to present our audit plan (the "Plan") for Post Office Limited and its subsidiaries ("Post Office" or "the Group") for the year ending 28 March 2021 ("2020/2021").

Whilst we are still finalising the 2019/2020 audit and are yet to conclude our work on some significant areas including impairment, going concern and "Historical Matters" arising as a result of the Postmaster litigation, we recognise the importance of advanced planning and ensuring that the 2020/2021 audit is able to continue in line with the planned timetable. We therefore considered it appropriate to bring our audit plan to this Audit and Risk Committee meeting.

The purpose of this report is to formalise and confirm our proposed audit approach and to give the Audit and Risk Committee ("ARC") the opportunity to understand and comment on the proposed plan. Specifically, the plan summarises:

- Our approach, including our current assessment of the significant and elevated risks relevant to the audit and our proposed responses;
- An overview of the timetable; and
- Other required communications, including independence and responsibilities in relation to fraud.

Our Plan has evolved from last year to reflect the learnings from our second year as your auditor and for the following key changes:

- The impact of COVID-19 on the Group's operations and performance;
- The evolving position in relation to the Historical Shortfall Scheme and CCRC claims in respect of the Postmaster's litigation;
- The potential sale of the Telecoms business;
- Updates to our risk assessment in respect of the risk of fraud in revenue recognition;
- The introduction of two new Auditing Standards (ISA 540 (Revised) "Auditing accounting estimates and related disclosures" and ISA 570 "Going Concern"); and
- Continued engagement with management to drive efficiencies in the year-end process and in our audit.

Our audit approach will be kept under review over the months ahead and will evolve to reflect any changes which we deem necessary in these uncertain times. To the extent that we make changes to our risk assessment or approach we will update you at ARC future meetings.

We look forward to discussing our Plan with you at the Audit and Risk Committee meeting on 24 November 2020.

GRO

Yours sincerely,
Andrew Paynter

PricewaterhouseCoopers LLP, Central Square, 29 Wellington Street, Leeds, LS1 4DL

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2 Our audit approach

3 Timetable and reporting

4 The Post Office audit team

5 Appendices



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1 Executive summary

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1. Executive summary

Our evolving audit for the Post Office

This will be our third year as the auditors of Post Office Limited. Our objective is to continue delivering a high quality audit and to make sure that the audit is focused on the significant risk areas, taking into account the Post Office operations and business performance, as well as the external market in which the Group operates.

We have held a debrief meeting with management in relation to the 2019/2020 year- end and continue to work closely with them to make the audit process as efficient and high quality as possible.

The following pages set out our approach for the audit of the Post Office for 2020/2021. Our audit approach continues to evolve to reflect changes in your business, the impact of COVID-19, the GLO situation and the latest market and regulatory developments. We also seek to ensure our audit remains robust, relevant and insightful.

ISA 540 (Revised) and ISA 570 (Revised), are new auditing standards effective for the 2020/2021 financial year. These will impact our approach to the audit of accounting estimates and of going concern respectively. Otherwise auditing standards remain largely unchanged, but how we execute the audit continues to progress. We outline some of these changes and how they benefit the audit in section 2.3 and in Appendix 6.

We will work with management throughout the audit to ensure that our planning is updated to reflect any significant changes in the Group.

Acceptance

Our audit starts with a re-evaluation and assessment of your business and an assessment of overall audit risk. This also pinpoints areas of potentially heightened risk. Our overall conclusion is that audit risk is high, which is consistent with the prior year. The Historical Matters relating to Postmaster's litigation and the going concern assessment are considered pervasive significant risks, with both being the subject of ongoing discussions with BEIS at the time of writing this Audit plan. See section 2.3 for further details of our overall risk assessment.

Our testing approach

Our testing approach is tailored to the systems, transaction and control environment of the Post Office. We consider each financial statement line item separately and design a specific approach appropriate to the assessed risk. Our approach utilises a mix of IT and manual controls work, analytical procedures, data auditing techniques and substantive testing. See section 2.5 for further details of our testing approach, including the use of specialists and planned reliance on IT systems.

COVID-19

The impact of the global pandemic has been incorporated into our risk assessment. We have not identified any new significant risks associated with COVID-19 but the impact of COVID-19 requires us to perform additional/enhanced audit procedures, for example over the carrying value of assets. We are also mindful of potentially greater risk for fraud, be it due to the increased prevalence of remote working, the increased pressures on individuals or the overall challenges in business performance. Hence we are incorporating more unpredictable procedures into our work and we will ensure our audit continues to focus on the IT access controls area. We will also consider the ongoing impact of COVID-19 on impairments, provisions and going concern. Our inability to physically attend branch cash counts during lockdown periods may result in additional audit procedures needing to be performed. Finally, we are ready for the audit to be conducted largely on a remote / virtual basis, as was the case for the 2019/2020 year-end audit.

Risk assessment

We have determined the audit risks for the Post Office and included our preliminary assessment of the significant and elevated audit risks, as summarised in section 2.3, together with our proposed approach to address these risks. We welcome the ARC's views on our risk assessment.

In line with auditing standards, the risk of management override of controls and the risk of fraud in revenue recognition (across all revenue streams) are prescribed as significant risks, and we do not rebut these on the Post Office audit. We have identified the same significant audit risks as in the prior year as summarised on page 3, for which additional details are included within section 2.3. Elevated audit risks are also set out within section 2.3. We have identified an additional elevated risk, relating to the potential disposal of the Telecoms division. The prior year elevated risk in respect of the first time adoption of IFRS 16 is now considered a normal risk.

Team

Our team includes good continuity of key team members at all levels and a balance of relevant industry experience. The team is supplemented by specialists in areas such as pensions, valuations and other relevant areas as appropriate. An overview of our team structure is included in section 4.

Independence, fees and non audit fees

Independence is fundamental to our ability to serve as auditors and we have procedures in place to ensure we remain independent of the Post Office. We have explained the processes which ensure our independence within Appendix 2 and can confirm that we are independent. Non-audit services provided by PwC have now very largely ceased, except in areas which are closely related to our role as auditors. Appendix 1 includes a summary of non audit services provided to date.

Our fee proposal for the 2020/2021 year end audit is currently under discussion with management and we will update the ARC accordingly. We are seeking a fee increase to ensure we are paid a fair fee for the audit work we are required to perform, at the same time as working closely with management to ensure the audit is as efficient as possible.

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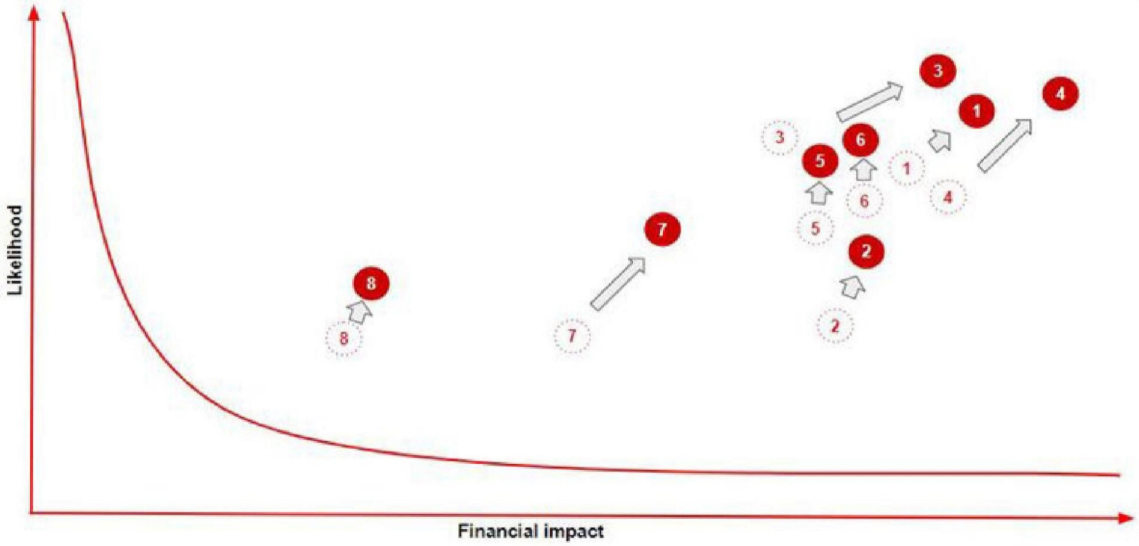
1. Post Office Limited audit plan - at a glance

Our audit will be high quality, business led and technology enabled.

Risk assessment

Our risk assessment determines where we focus the majority of our audit work. The impact of COVID-19 and the evolving matters surrounding the settlement of the Group Litigation Order ("GLO") have been key considerations in determining our risk assessment for 2020/2021. We have included our preliminary assessment of the significant and elevated audit risks below, as summarised in section 2.3, together with our proposed approach to address these risks.

Eight significant risks have been identified for 2020/2021. Our assessment of directional changes in risk likelihood and potential financial impact as compared to 2019/2020 are shown below:



Significant risks:

1. Risk of management override of control
2. Fraud in revenue recognition
3. Going concern
4. Postmaster litigation

Significant risks (continued):

5. Impairment of intangible assets subject to amortisation
6. Impairment of fixed assets
7. Impairment of goodwill - POMS
8. Accuracy of Telecoms revenue

Scope and materiality

Materiality: Our current assessment of overall materiality is £9.3 million (2019/2020: £9.8 million), based on 1% of forecast revenue. Performance materiality used for scoping set at £7.0 million (2019/2020: £7.4 million). Identified errors over £464,000 (2019/2020: £493,000) will be reported to you. See section 2.4 for further details regarding our determination of materiality. Final materiality will be updated using P12 numbers in April 2021.

Scoping: Materiality and our risk assessment drive our scoping decisions. Financial Statement Line Items ("FSLIs") relating to significant or elevated risks require higher levels of audit coverage.

Our assessment of in-scope entities for the audit of the POL consolidated group are detailed below.

Full scope components:

- Post Office Limited
- First Rate Exchange Services Limited

Limited scope components:

- Post Office Management Services Limited (Report on Goodwill unless impaired in 2019/2020)

Out of scope components:

- Payzone Bill Payments Limited

Strategy and approach

Whilst our overall objective is unchanged, our audit approach continues to evolve for 2020/2021. This year the key elements are:

Business led: Our approach is anchored in understanding business processes and controls across the group.

Technology enabled: We are continuously challenging how we use technology to plan and execute our audit, as well as to improve how we interact within our team and with Post Office.

3

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2

Our audit approach

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2. Our audit approach

Our objectives as your auditor

As auditors, our primary objective is to form an independent opinion on the financial statements, having performed our work in accordance with International Standards on Auditing (ISA) (UK).

We also want to provide an audit that delivers on your expectations, and critical to doing this is getting regular feedback from you and your teams.

On this page we set out what we understand you want from us as auditors and how we will deliver it.

1

Robust and constructive challenge

How we will achieve this…

Quality is at the heart of everything we do. Our tailored scope, outlined overleaf, provides a robust audit. We focus on the riskiest areas and provide you with assurance over key financial information.

We seek feedback on ways we can work together to make your audit more effective through a debrief session.

We will also deliver views on your business, drawing on our experience of other businesses. For example, we will share with you insights from our audit of your IT systems and controls.

2

Efficient project management and timely decisions

How we will achieve this…

Upfront explanation of our audit approach, including areas of audit focus. Early discussion and agreement of key technical matters.

Preparation, explanation and agreement of audit deliverables. To facilitate this we will utilise our web-based portal, Client Connect, to request, receive and track deliverables securely and efficiently.

An agreed timetable to suit your needs with clear accountability.

3

Practical and relevant technical understanding and advice

How we will achieve this…

Best practice shared with your team; most recently in response to recognition of provisions and contingent liability disclosures.

We will also continue to support management with accounting policies and methodologies, and share guidance in respect of forthcoming changes in financial reporting frameworks.

4

Timely and responsive audit with no surprises

How we will achieve this….

Regular communication with management throughout the year. This enables us to understand the issues affecting the Group and those that may impact on our audit.

Early discussion and consideration of potential accounting and disclosure issues, for example we have already considered a number of key technical accounting matters including the Postmaster's litigation. We will continue to ensure that other key judgements taken will be proactively discussed and agreed upon in advance of the year end.

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2. Our audit approach (continued)



Client acceptance and continuance
- POL risk profile and assessment
- Independence
- Engagement terms

Business understanding
- Approach to obtaining understanding
- Summary of our understanding

Risk assessment
- Identified significant and elevated risks

Scoping & materiality
- Scoping, materiality and communication of potential differences

Robust testing
- IT and systems
- Controls and substantive testing
- Related parties
- Use of experts and specialists
- Approach to journals

Meaningful conclusions
- Audit value
- Audit report

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2. Our audit approach (continued)

2.1 Client acceptance and independence

Acceptance risk

Our audit planning process starts with our client acceptance procedures which include an evaluation of the overall risk profile of the Post Office. This includes a high level risk assessment and considers a series of questions covering financial condition, industry risk, competitive position, as well as areas such as management effectiveness, integrity and governance.

As reported to the Audit and Risk Committee in the prior year, we consider there is a higher risk associated with the audit of the Post Office given the high profile and diverse nature of the Group's operations. Our overall conclusion is that audit risk is heightened, which is consistent with that of the prior year, and reflects significant risks related to the ongoing Historical Matters and the current dialogue with BEIS regarding financing facilities to support the Group's going concern assessment. Our audit risk is also impacted by the COVID-19 pandemic. Our risk assessment is summarised in Section 2.3.

Independence

We confirm that, in our opinion, we are independent of the Group, and that there are no matters which would impact our independence and objectivity.

We also confirm that appropriate safeguards are in place in respect of all non-audit work and that in our professional judgement, as at the date of this report, we are independent with respect to the Group and that our objectivity is not impaired.

With effect from 15 December 2020 a Revised Ethical Standard has introduced a new and separate class of audited entity known as Other Entities of Public Interest ('OEPIs'). Given the scale of the Post Office it meets the definition of an OEPI, and as such we have addressed the additional restrictions imposed by the "white list" of non-audit services as it relates to the TrAction software provided by PwC. See Appendix 1 for further discussion of non-audit services provided.

Engagement terms

We are engaged to audit the Post Office Limited company and its consolidated financial statements prepared under IFRS. We also audit the Group's subsidiaries' financial statements which are prepared under FRS 101.

2.2 Business understanding

Understanding the Group

We seek to develop a strong understanding of your business, including having a detailed working knowledge of your structure and operations. In developing our audit plan we have spent significant time with the finance team and other key stakeholders and management in the business, and have a number of other meetings planned. This, alongside our detailed walkthroughs of key business processes, has enabled us to strengthen our understanding of your business and control environment, confirm our views on relevant audit risks and develop appropriate responses to those audit risks.

We have retained a high degree of continuity throughout our team to retain business understanding obtained in our previous audits. See section 4 for the wider team structure. The Group offers a diverse range of products and services across retail, financial services & telecoms and insurance, and is therefore exposed to a variety of sector specific factors and market dynamics.

2020/2021 has been a demanding year for the Post Office as it navigates the challenges brought by the global pandemic and the continuing developments following the settlement of the Postmaster's litigation. Both the Historical Shortfall Scheme ("HSS") and appeals brought by the CCRC (Criminal Cases Review Commission) carry unexpected, additional complexities for the business to address. The Group is in dialogue with BEIS to negotiate financing for the litigation and also to renew its financing facilities, which are due to expire on 31 March 2021.

Post Office Management Services ('POMS') has been impacted severely by the COVID-19 pandemic, with sales of travel insurance falling as a direct result. Conduct risk and regulatory intervention continues to be a feature of the industry - including the potential impact on the business of the FCA's general insurance pricing review. Sales processes and the use of appointed representatives also continues to be an area of regulatory focus. Gary Shaw, who continues as our POI engagement leader, will present a separate Audit Plan to the Audit and Risk Committee of Post Office Insurance.

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2. Our audit approach (continued)

2.3 Risk assessment

Factors considered in our 2020/2021 audit risk assessment

The scope and extent of our testing is determined by our risk assessment. We consider the inherent risk of a misstatement across all financial statement line items (FSLI's), classes of transactions and disclosures. This assessment also considers the control risks of material misstatement at the assertion level for accounting estimates.

As required by Auditing Standards, we have carried out a risk assessment for 2020/2021 prior to considering the mitigating impact of controls that you have in place. Our risk assessment draws on our cumulative knowledge of the group (including key changes in the business from the prior year), our prior year audit experience, our understanding of key judgements in your industry, the macroeconomic environment and the results of your own risk assessment exercise.

A significant risk is identified where the likelihood of an error occurring is greatest and where such an error could be material. Likelihood of misstatement is determined by our assessment of the complexity of transactions, the degree of measurement uncertainty involved, whether transactions are in the normal course of business and significant economic, accounting or other developments facing the Post Office.

Our planned audit approach for all FSLI's is included in Appendix 4, along with our testing strategy for each significant risk.

The following pages set out the factors considered in our risk assessment. We consider both

- Macro-level factors and their capacity to impact operations, financial reporting and compliance; and
- Business specific risk drivers and their potential impact on financial reporting.

This includes, but is not limited to; the business update and other changes at the Post Office, COVID-19, Brexit, operational resilience including cyber security and accounting and regulatory developments. The pervasive and severe nature of COVID-19 and the Historical Matters has impacted our risk assessment more than any other factor in 2020/2021. COVID-19 has and will continue to have a significant impact on accounting judgements, including expected credit losses, the assessment of impairment of the group's investments in subsidiaries, fixed assets, goodwill in POMS and other fixed assets.

It has also impacted our risk assessment for the mandatory significant risks of fraud in revenue recognition and management override of controls. The impact of COVID-19 on how we plan to execute our audit, particularly working remotely, is considered later in this audit plan.

This will be the first year we need to apply ***ISA 540 (Revised) Auditing accounting estimates and related disclosures***. The revised ISA includes enhanced and detailed requirements for assessing the estimation uncertainty, complexity, subjectivity and other inherent risk factors for all estimates, not just those we have assessed as significant risk. There are also new requirements to consider inherent risks as the basis for scaling our audit response and to evaluate disclosures.

ISA 570 Going Concern has also been updated. The revised standard outlines a number of enhanced requirements for auditors to perform as part of the going concern assessment. This includes an increased emphasis on identifying events or conditions that, collectively or individually, may cast significant doubt on the entity's ability to continue as a going concern, further evaluation of management's methods and internal controls to assess going concern, as well as additional reporting and documentation requirements.

We have considered the requirements of both standards, which are set out in more detail in Appendix 6, as part of our audit plan.

Our risk assessment includes both significant risks and other normal risks involving judgement for the 2020/2021 audit. We will continue to monitor the uncertainty around COVID-19 and other factors impacting our risk assessment, as well as the impact of any strategic changes at Post Office, and will keep you updated of any consequential changes to our significant risks.

Request of the Audit and Risk Committee

It is important that the Committee understands our determination of significant risks as it drives the nature and extent of work that we perform, and may result in disclosure within our audit opinion.

We welcome feedback from the Audit and Risk Committee on our risk assessment and seek confirmation as to whether the ARC agrees with the significant risks identified.

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Potential risk of fraud

In accordance with Auditing Standards, we plan and perform our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records, including any material misstatements resulting from fraud, error or non-compliance with law or regulations.

Three conditions are generally present when fraud occurs:

- Management or other employees have an incentive, or are under pressure, providing a reason to commit fraud;
- Circumstances exist (e.g. the absence of controls, ineffective controls, or the ability of management to override controls) that provide an opportunity for a fraud to be perpetrated; and
- Those involved are able to rationalise a fraudulent act.

We consider that there is a significant risk of fraud in relation to management override of controls and revenue recognition across all revenue streams. The respective responsibilities of auditors, management and those charged with governance are outlined in Appendix 3.



Our understanding of specific fraud risks in relation to the Post Office:

The group's business is characterised by a high volume of low value transactions at a consumer level (i.e in branch). This gives rise to a lower risk of material fraud at the transactional level. However, when considering certain revenue streams that have a large fixed price element, e.g. with the contract with Royal Mail, there is a risk of fraud at the centralised financial reporting transactional level (i.e where management can create/manipulate invoices, rather than the consumer transactional level in branches). See page 11 for further details.

Management is also incentivised on the Group's performance and there is potential pressure to meet stakeholder expectations. We therefore also consider specific fraud risks that could be material to the Group's financial statements in the following areas:

- Manipulation of financial results through posting of inappropriate journals;
- Key assumptions used which have a significant impact (for example, in the impairment model); and
- Significant judgements applied in other areas of estimation.

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

For those risks that we have assessed as an audit risk, we have considered whether they give rise to an elevated or significant risk as described below. This assessment is performed for each individual financial statement line item. Further detail of our assessment of risk, and our proposed approach, is detailed in the following pages.



	Identified risk
1	Risk of management override of control*
2	Fraud in revenue recognition*
3	Going concern
4	Postmaster litigation
5	Impairment of fixed assets
6	Impairment of intangible assets subject to amortisation
7	Impairment of goodwill - POMS
8	Accuracy of telecoms revenue
9	Telecoms disposal
10	Capitalisation of intangible assets
11	VAT accounting
12	Assumptions in the pension schemes' liabilities
13	Classification and recognition of Trading Profit
14	IFRS 16 - first year full adoption

** These risks are required by auditing standards, applicable to all audits.*

Significant risk: These areas require specific focus because they require significant judgements or are not routine. Testing includes an evaluation of the controls in place as well as substantive testing.

Elevated risk: Although not considered significant, the nature of the balance/area requires specific consideration.

Changes to our risk assessment:

- *Accounting for the potential disposal of the Telecoms business has been identified as an elevated risk for 2020/21, reflecting the proposed sale and potential complexity re the associated accounting treatment.*
- *IFRS 16 - first year full adoption has been reduced to a normal risk, reflecting the second year application of IFRS 16 accounting.*
- *Whilst fraud in revenue recognition remains a significant risk, we have updated our assessment to reflect the impact of COVID-19 on trading and have identified completeness of revenue as a potential additional significant risk for the following streams; Fixed, Horizon to CFS and Third Party. See Appendix 4 for our detailed assessment of all revenue streams. At this time Existence/occurrence remains a significant risk and we will update our risk assessment closer to the year end date*

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Management override of controls (All assertions - pervasive risk)	This risk is required by auditing standards – it is therefore classified as a significant risk on every audit engagement. This risk is pervasive over the financial statements and could potentially affect all financial statement line items. • We will test a sample of **journal entries** using our data analytics tool 'Halo for Journals' that have been identified as potentially higher risk, for example, items that debit the Income Statement with a corresponding credit to an 'unusual' balance sheet account. • We will investigate and understand the reason for any significant, **unusual or one-off transactions**. • We will review **segregation of duties** across relevant financial reporting processes. • We will perform detailed testing over **year end reconciliations.** • We will review the accounting for any **significant estimates and areas of judgement** to assess and challenge their appropriateness. This will include consideration of any **centrally held provisions**, including those that are immaterial. • We will perform procedures outside of the typical testing plan to ensure an element of **unpredictability.**	• Significant	• Significant
Fraud in revenue recognition	Similar to the above, auditing standards also presume that we regard this as a significant risk on all audits where the risk cannot be rebutted. Given the volume of revenue transactions across a variety of different streams (including retail, financial services & telecoms, and insurance) this will be an area of focus. We have included a detailed assessment by type of revenue in Appendix 4 which is summarised as follows: 1. ***Fixed contractual (existence/occurrence, completeness)*** **-** This relates to contracts with customers such as Royal Mail, which includes a fixed contractual amount (as well as variable commission amounts which form part of 'Direct to CFS' below). The risk of fraud is considered to exist at a journal level rather than at a transactional level and will therefore be responded to through the testing of unexpected journals to revenue. 2. ***Horizon to CFS (existence/occurrence, completeness, cut off)*** **-** Revenue recognised directly from Horizon in CFS includes revenue such as payment services and the commission based element of Mails, whereby the transactional data from Horizon interfaces directly into CFS through the Agent Billing module. Revenue consists of a large volume of smaller transactions on Horizon, that are combined on larger value invoices therefore the risk of fraud is considered to exist at a journal level as well as at the invoice (but not individual Horizon transaction) level and tested as detailed in Appendix 4. 3. ***Reliance on third parties (existence/occurrence, completeness, cut off)*** **-** Post Office recognise some of their commission revenue based on the amounts communicated to them by the third parties whose products they are selling such as Bank of Ireland, Moneygram and FRES. The third party takes the sales data from the Post Office and calculates the commission owed. Consistent with the above, the risk of fraud is at a journal level. 4. ***Telecoms (existence/ occurrence)*** **-** Post Office telecoms revenue relates to Post Office branded broadband and home phone services provided to customers through the network access providers, TalkTalk and BT. Fujitsu are a third party who provide administrative services, including the billing which has some complexity due to the different plans available to customers. The risk of fraud is again at a journal level due to the high volume low value nature of telecoms revenue. The risk is considered to be heightened in 2020/2021 due to the impending sale which could incentivise management to increase revenue to inflate the value of the business.	• Significant	• Significant

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Going concern	The Group has a £950 million working capital facility with BEIS which is due to expire on 31 March 2021, and at the time of writing has not yet been renewed. Each year we are required to understand and evidence the facilities that are in place for a period of at least 12 months from the date of the financial statements being signed. In addition, the final Network Subsidy Payment per the current agreement, of £50 million, will be received from BEIS in the 2020/2021 financial year, with any amounts receivable going forward yet to be agreed. The magnitude of the potential cash outflow relating to the ongoing Postmaster litigation is also expected to be significant and will require additional funding from BEIS as Post Office will not have sufficient funds to make the settlements themselves based on current estimates. An agreement on this funding has not yet been agreed. Furthermore, COVID-19 has had a significant impact on the Group during the year, particularly Post Office Management Services Limited (POMS) due to the decrease in demand for travel insurance and FRESH due to a decrease in demand for foreign currency. • We will review management's detailed going concern paper, assessing the reasonableness of cash flow forecasts, security headroom and the other assumptions used. • We will assess the impact of the COVID-19 pandemic on trading and on the business going forward. • We will perform sensitivity analysis over the assumptions applied in the forecast. • We will review the agreements in place for any financing facilities available to the Group (including the BEIS facilities). • We will review forecast covenant compliance for any potential breaches. • We will consider opportunities available to management to mitigate any going concern risk. • We will consider the impact of cash outflows in relation to Postmaster's litigation. • We will review the letter of support obtained from BEIS and assess if the terms enable the Post Office to rely on it from a going concern perspective. • We will review disclosures made by management to ensure the disclosures in relation to the group's ability to continue as a going concern are sufficient.	• Significant	• Significant

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Postmaster litigation **(Rights and Obligations/ Valuation/ Accuracy/ Completeness/ Presentation and Disclosure)**	Although the General Litigation Order ('GLO') was settled in December 2019, the Postmaster litigation continues to present very significant challenges to Post Office. In order to focus on these a new business unit, the "Historical Matters Business Unit" ("HMBU"), has been created, led by Declan Salter. In particular settlements under the Historical Shortfall Scheme ("HSS") and the possibility of additional CCRC (Criminal Cases Review Commission) related claims, bring major financial exposures and uncertainties. The HSS currently includes over 2,400 claims and these are expected to lead to significant cash outflows. We understand that a total settlement could be as high as £300 million. Based on discussions with management we understand that a liability for the HSS claims is likely to be booked in the March 2020 accounts prior to their finalisation. The CCRC related process is in its early stages, with some 53 claims at initial stages either before the Court of Appeal or before local Crown Courts. Given c.827 postmasters were previously convicted there could be a large number who seek to have their criminal convictions overturned. We understand that at this stage there are no specific claims against the Post Office and that if previous criminal convictions are overturned the opportunity for postmasters to claim successfully against POL are relatively limited without a proven case of malicious prosecution. The potential for cash outflows increases significantly if malicious prosecution is established. We understand that the likelihood of malicious prosecution being proven is considered to be low due to the number of legal hurdles that any plaintiff postmaster would need to overcome - e.g. (1) that the original case was terminated in favour of the plaintiff, (2) that the defendant (POL) played an active role in the original case, (3) that POL did not have probable cause or reasonable grounds to support the original case, and (4) that POL initiated or continued the initial case with an improper purpose. Whilst each of these elements may present a challenge to potential plaintiffs, the sheer number of potential cases that may need to go before the courts would bring very substantial potential legal costs. The outcome of the CCRC related process is therefore very uncertain at this time, with POL having to consider a wide range of scenarios, including some sort of settlement process. It is therefore possible that there could be highly significant cash outflows in relation to the CCRC related claims in the future. From an accounting perspective, the point at which a liability is considered "probable" will be a key judgement for the audit process, as will estimation of any potential cash outflows. We will continue to get updates on the status of the HSS and CCRC and work with management to ensure that required disclosure / provisions is included in the financial statements. Specifically: • We will understand the status of the claims / appeals and the rationale as to whether a provision should be recognised. • Where a provision is recognised we will validate the assumptions used with management / legal advisers to ensure these are appropriate. • We will review the nature, timing and extent of any funding received / receivable from government in connection with the HSS claims / CCRC appeals. This will include consideration as to whether funding provided by BEIS is accounted for as an asset or a capital contribution. • We will hold discussions with the Group's legal advisors and corroborate management's assumptions and any related disclosures. • In view of the pervasive nature of this area we will consider the appropriateness of the accounts disclosures in respect of the Historical Matters, as well as considering whether an Emphasis of Matter may be required in our Audit Opinion.	• Significant	• Significant

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Impairment of fixed assets (Valuation)	The Group holds a significant balance in relation to property, plant and equipment with a net book value of £173 million (prior to the finalisation of the impairment assessment in 2019/2020) as at September 2020 (2019/2020: £195 million) which primarily relates to fixtures & fittings and right of use assets. Accounting standards require management to assess the possibility of an impairment charge trigger or any reason why it may be appropriate to reverse previously booked impairment charges. This would take into account current trading performance, and also consider other factors such as external economic conditions, and market interest rates. The challenging trading environment impacted further by COVID-19, coupled with the Group's historic trading performance, presents an impairment trigger for the Post Office's fixed assets. • We will assess management's allocation of cash generating units ('CGUs') for reasonableness and appropriateness. • Our work will focus on the audit of the cash flow models and the underlying judgements and assumptions applied. We will challenge the key assumptions underlying the impairment model, in particular, the composition of cash flows, growth rates and the discount rate.	• Significant	• Significant
Impairment of intangible assets subject to amortisation (Valuation, Completeness)	The Post Office holds a significant amount of intangible assets on the balance sheet which primarily relate to software costs with a net book value of £159 million as at September 2020 (2019/2020: £179 million). Post Office has invested significantly in its operational systems in recent years through a number of projects and whilst there has not been the same level of spend in 2020/2021, additions remain substantial at £19 million. Impairment reviews are required to demonstrate that the ongoing value for different elements of the project can be supported, and that new elements are not superseding previously capitalised assets. • We will understand and test management's impairment assessment and consider whether any other impairment indicators exist such as changes in design or changes in anticipated benefits. • We will review and challenge management's individual asset impairment assessment, corroborating management's rationale for no impairment. • We will review progress to date and understand if any costs incurred over the budget suggest a potential impairment provision is required.	• Significant	• Significant
Impairment of goodwill - POMS (Valuation)	At a Post Office Management Services Limited (POMS) level there is a IRRELEVANT million (2019/2020 IRRELEVANT illion), at the time of writing this report, that relates to the acquisition from the Post Office Limited of its IRRELEVANT IRRELEVANT This risk is relevant at both the Company and Group levels as it is recognised in both sets of financial statements. POMS trading and results have been impacted severely by COVID-19, with no sign of easing, meaning that we consider impairment of goodwill to be a significant risk due to high estimation uncertainty related to forecasting and reduced headroom due to current trading conditions. Given that the 2019/2020 year end audit has not yet concluded, the balance is subject to change once the 2019/2020 impairment assessment has been performed. We will continue to assess the risk profile in light of th2 2019/2020 outcome. • We will review management's justification for the carrying value, assessing the reasonableness of cash flow forecasts and other assumptions used. • We will challenge the key assumptions underlying the impairment model, seeking to reach agreement on key judgements such as discount rate and others in advance of the year-end, and will perform sensitivity analysis.	• Significant	• Significant

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Accuracy of telecoms revenue (Accuracy)	In addition to the fraud risk relating to revenue, due to the complexity of billing, we continue to consider there to be a significant risk in relation to accuracy of telecoms revenue. • We will test a sample of invoices to high assurance and corroborate these to signed contracts and pricing plans.	Significant	Significant
Disposal of Telecoms operations (Presentation and disclosure, accuracy)	We understand that prior to the 2020/2021 year end Post Office may have disposed of the Telecoms business (expected completion by the end of January). The Telecoms business generated revenue of £144 million in 2019/2020 and therefore we anticipate the disposal will represent a material transaction. The Telecoms business is currently included within the wider Post Office CGU therefore, while the revenue and costs directly attributable to the Telecoms business are easily identifiable, carve out accounting may be required to identify all relevant Telecoms costs (and associated balance sheet balances) for the purposes of the sale and accounting for the transaction. Further, as this is a one-off transaction for the business, we consider there to be a risk of material error. There is also a risk that the presentation and disclosure in relation to this disposal may not meet the requirements of IFRS 5. • We will audit the telecoms revenue and costs and ensure all required disclosures under IFRS 5 have been met. • We will obtain the Sales and Purchase Agreement ("SPA") and ensure the terms and conditions have been met and correctly accounted for. • We will corroborate the consideration received to the SPA and bank statements.	Elevated	N/A
Capitalisation of intangible assets (Accuracy/ Existence)	The Group continues to invest significantly in its operational systems, recognising software and associated costs as intangible assets. Intangible asset additions of £19 million were recognised as at September 2020. Accounting standards dictate specific criteria that costs need to meet to be capitalised as an intangible asset and this creates a risk of misstatement. • We will perform detailed testing of the additions in the year to ensure they meet the recognition criteria and have been capitalised appropriately, paying particular attention to the capitalisation of labour costs.	Elevated	Elevated
VAT accounting (Accuracy)	Due to the different divisions and revenue streams within the Post Office, there are a number of arrangements in relation to VAT. However as there is minimal judgement involved we have deemed this an elevated risk rather than significant. • We will obtain the VAT arrangements in place and review the latest correspondence with HMRC. • We will test a sample of transactions to ensure the appropriate rate has been applied. • Where required, we will engage with VAT specialists to review complex arrangements and assist in testing the compliance.	Elevated	Elevated

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Assumptions in the pension schemes' liabilities (Valuation/ Presentation and disclosure)	The Post Office Limited has two defined benefit schemes both of which are in a net asset position. The main scheme assets are capped which resulted in a £1 million (2018/19: £1 million) asset being recognised on the balance sheet in 2019/2020. There will be a number of judgements and estimates made by management (in conjunction with the actuaries) when valuing the scheme as at 28 March 2021. The key drivers of the liability of both schemes are the discount rates, inflation and mortality assumptions. In addition, there is a significant estimate applied to the RMSEPP scheme, whereby Post Office recognise 7% of the multi-employer scheme assets and liabilities (*please note that the support for recognition of 7% remains and open item in the 2019/2020 audit*). The Post Office is in the process of a partial buy out of the RMPP scheme which commenced in the current financial year. When preparing for the buy out, management identified errors in the historic final salary pension data provided by POL to the RMPP. Early findings indicate that there may have been overpayments to pensioners which may mean that the pension liabilities are overstated. Note that as the scheme is in a net surplus position (which is capped under IFRIC14 and therefore not recognised on balance sheet) this would not be expected to impact on the amounts recognised in the primary statements but would impact on disclosure. Willis Towers Watson have been engaged to determine the impact of the above errors including identification and quantification of the extent of the issue, preparing a plan to correct the issue and to determine whether any potential underpayment will be borne by the surplus. We will continue to assess this risk for the 2020/2021 audit as the project progresses and will work with management to consider any necessary disclosures in the 2019/2020 financial statements. • We will audit the key judgements and membership data used to value the schemes' liabilities. • We will review the financial statement disclosures for completeness and accuracy and to ensure they align with accounting standards. • We will review management's assessment of the right to recognise the net surplus under the requirements of IFRIC 14. • We will consult with our independent pensions specialists as required.	• Elevated	• Elevated

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2. Our audit approach (continued)

2.3 Risk assessment (continued)

Audit risks	Our assessment and planned response	Audit risk assessment 2020/2021	Audit risk assessment 2019/2020
Classification and recognition of Trading profit (Accuracy/ Presentation and disclosure)	The group has historically used "Trading Profit" as its key alternative profit measure and it is calculated by taking operating profit from continuing operations before depreciation, amortisation, operating exceptional items, closure of activities, investments and Network Subsidy Payment. Historically, the Post Office has used a columnar approach to inform the users of the accounts on how the investment funding from BEIS has been spent. We understand that investment funding is due to cease in 2020/21 and that it is uncertain whether it will be secured for 2021/22. As such a decision will need to be made regarding the continued presentation of a separate Investments column on the face of the Income Statement. Whether or not an Investments column is included, given the Post Office continues to spend on "investment" activities, and Trading Profit remains a key measure, management may feel it appropriate to continue to highlight items that are not considered to be part of POL's underlying operations on the face of the Income Statement, for example as exceptional items. The use of APMs and in particular exceptional Items continues to be a major focus for the FRC, particularly in the current environment. The Group is potentially open to challenge if any exceptional items are not considered significant in quantum or nature. We will perform the following procedures in relation to any exceptional items: • Obtain a detailed breakdown and discuss the nature of such items with management; • Obtain supporting documentation to validate a sample of items disclosed as exceptional; and • Assess the reasonableness of any exceptional items in light of the policy in place and other disclosures within the financial statements. If the investments column is retained, we expect the risk and approach will remain consistent with the prior year. Our focus on any costs included within the investments column will include the following additional procedures: • We will obtain an understanding of management's criteria and accounting policy in relation to recognising costs within the 'Investments' column of the Income Statement. • We will corroborate a sample of these costs to supporting documentation to ensure they meet the criteria and are not inappropriately classified within 'Investments'. • We will obtain an understanding of management's approval process and perform walkthroughs in relation to investment expenditure. • We will obtain an understanding of management's criteria and accounting policy in relation to recognising costs within the 'Investments' column of the Income Statement. • We will understand and review the nature of the majority of the different projects, through discussions with project managers, finance and review of board reports, to ascertain whether they meet the definition of the relevant programme at a high level. • We will trace all material projects included within the investments column to the quarterly funding reports presented to the Board. • We will corroborate a sample of costs (across a number of different projects, including smaller ones) to supporting documentation to ensure the existence of these costs, that they meet the criteria and that they are not inappropriately classified within 'Investments'. • We will utilise our "Halo for journals" data analytics software to identify any journals that have debited investments and credited operating expenses (i.e. increasing spend in the investments column and decreasing "normal" operating expenses). • We will corroborate a sample of payroll costs included within 'Investments' to ensure these employees have been working on the projects that sit within the programmes.	• Elevated	• Elevated

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2. Our audit approach (continued)

2.4 Scoping and materiality

Audit quality requires a properly scoped audit with the right focus on the higher risk areas. We have a well-developed approach which is designed to ensure we obtain the 'appropriate' level of audit evidence for each financial statement line item.

Building on all the essential pieces of information gathered such as materiality, risk, size, complexity and structure, we determine our scope. This covers what we do, the best types of audit evidence to obtain, the right areas of your operations to focus on and the best people needed to deliver this.

Scoping

Scoping covers where we go and what we do, the best types of audit evidence to obtain, the right areas of your operations to focus on and the best audit resources needed to deliver this. In planning our approach we determine the optimal scope and to ensure our audit is as effective and efficient as possible.

We will perform a full scope statutory audit of all the Group companies below. We have also detailed in the table below the entities that are financially significant components as defined by auditing standards and that require a full scope audit.

Legal entity	Full scope audit required for Group audit opinion?
Post Office Limited	✓
Post Office Management Services Limited	✗
First Rate Exchange Services Limited	✓
Payzone Bill Payments Limited	✗

For the purpose of the group audit opinion we will not be performing any audit procedures over Payzone due to the minimal financial impact on the consolidated accounts.

Post Office Management Services Limited is not considered a significant component of the Group, however we have concluded that the goodwill balance is material to the Group, therefore audit procedures over the goodwill balance will be performed for the Group audit in conjunction with the component team, led by Gary Shaw (POI engagement leader).

First Rate Exchange Services Limited is a joint venture and will again be audited by KPMG. This will include both their statutory audit opinion and the procedures required for the group audit opinion. Whilst the share of results may not be significant for 2020/2021, the disclosure requirements mean that we will instruct KPMG to perform a full scope audit for the period ending 28 March 2021. See appendix 7 for our expected reporting timetable.

Materiality

In line with the requirements of ISA 320 'Materiality in Planning and Performing an Audit' our audit procedures are planned to address the risk of, and identify, material misstatement within the consolidated financial statements. Our preliminary overall materiality level has been set at £9.3 million (2019/2020: £9.8 million) based on 1% of the Group's budgeted revenue for the 2020/2021 year. We have considered other benchmarks on which to base our materiality, for example weighted average profits and APMs, but due to the volatility of these measures, and the relative stability of revenue, revenue is considered to be an appropriate benchmark. The final materiality figures will be based on the actual results and any significant changes will be communicated to the Audit and Risk Committee.

In planning our audit procedures, we take into account the risk of the aggregation of errors, being a number of smaller errors which may, in aggregate, result in a material misstatement within the consolidated financial statements. As a consequence, performance materiality is set below overall materiality.

Performance materiality is used in the scoping of our work and determining our sampling selection. This is calculated as 75% (2019/2020: 75%) of overall materiality, being £7.0 million (2019/2020: £7.4 million). As part of our planning procedures we determine the haircut applied to overall materiality by considering a number of factors including, history of misstatements, risk assessment and aggregation risk and effectiveness of controls. In the prior year, we calculated overall materiality using the same revenue benchmark, and have determined that a 25% (2019/20: 25%) haircut is appropriate this year, as there were minimal adjustments identified in the 2019/2020 year end audit.

	2020/2021 £m	2019/2020 £m
Overall materiality	9.3	9.9
Performance materiality	7.0	7.4
Adjustment posting threshold	0.5	0.5

Communication of potential differences

Where potential adjustments are identified, their impact on the financial statements will be assessed (for example incorrect disclosures or a misstatement to a particular financial statement line item). All identified misstatements above the de minimis level will initially be communicated to management for discussion and resolution. In line with the requirements of ISA 260 'Communication with Those Charged with Governance' we will discuss all identified misstatements unless they are below the de minimis level. With the agreement of the Audit and Risk Committee, we would anticipate reporting on all individually identified misstatements above £464,000 (2019/2020: £492,800) - being 5% of overall materiality. We will also report on any omitted, incomplete or inaccurate disclosures in the financial statements and/or other information that are above a clearly trivial level.

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2. Our audit approach (continued)

2.5 Robust testing

The Post Office audit

We continue to deliver a risk based audit. The composition of our audit testing is fundamental to the effectiveness of audit evidence. Our approach optimises the balance between tests of detail, controls testing, analytics and data techniques. The mix of each of these is largely dependent on the quality and structure of your financial control environment, along with the assessed level of risk. As a result, we have a bespoke testing plan for all balances within your financial statements.

What we plan to do

Testing IT and systems: Our work over IT General Controls ("ITGCs") considers the underlying systems environment (applications, databases and operating systems) of key financial reporting applications.We tailor our approach to our ITGC audit based on the extent to which reliance can be placed on automated procedures and controls within system calculations, system generated reports, automated controls, security (including segregation of duties) and interfaces between systems. Where these procedures can be relied upon, the level of our substantive testing can be reduced and efficiencies in our audit approach can be achieved.

Consistent with 2019/2020, to support our revenue testing approach we are seeking to place audit reliance over the Horizon and Credence systems and their inherent and automated controls for 2020/2021. By testing these controls we increase our level of comfort over the systems output used in the audit, leading to a reduction in the substantive testing required. We have also planned to test interfaces between Horizon and the systems, Credence and CFS, which were identified during our process understanding as critical interfaces for the revenue cycle.

***Testing of controls*:** As well as looking to test and rely on system controls, we will also continue to seek to test and place reliance on a number of manual controls you have operating in the business, particularly in the cash and payroll areas.

***Substantive testing*:** We will always supplement any controls comfort with further tests of detail, ensuring our overall testing continues to provide robust assurance over the financial statements. Where we have assessed audit risks as elevated or significant we will perform higher levels of substantive work.

Within Appendix 4, we have detailed our audit approach per 'FSLI' (financial statement line item) showing the relative balance of controls and substantive testing.

***Data analytics*:** As part of journals testing, we will use our technology based tool, "Halo for Journals," which helps to identify higher risk transactions and process inefficiencies through the use of algorithms. This technology can interrogate journals to reveal relationships and patterns in account codes, individual users, months, times of day, types of journals and amounts. By being able to interrogate the data, this will help to focus testing on what we perceive to be higher risk areas, thus helping to assess the significant audit risk of management override of controls.

Data analytics (continued): As part of our planning procedures we are exploring options with our Data Analytics team to increase our use of data analytics techniques, specifically in our audit of the revenue cycle, in order to drive a more efficient audit while maintaining robustness in our approach. By obtaining the complete sales data set and performing the same summarisation, we hope to automate the recalculation of commission income, tracing of entries into the general ledger and matching of settlement to bank statements.

In addition, we have installed our 'PwC Extract' software which has allowed us to connect to your systems. This has enabled us to access and collect the data necessary to deliver services such as Halo for Journals with little/no manual effort. It also ensures that the data is extracted correctly for the first time, eliminating the risk of incorrect or incomplete data being extracted.

***Use of experts and specialists*:** Where your transactions or account balances are complex or subject to complicated accounting rules, we ensure we have the right balance of skills to audit these areas. We have access to a broad range of industry, accounting and subject matter experts and we use experts and specialists within PwC to assist in our audit work in specific areas where more specialist knowledge is needed, including:

- IT specialists to undertake an audit of the core IT systems where applicable;
- Data specialists working as part of the audit team to deliver effective data auditing testing;
- Pensions valuations specialists who assist in assessing reasonableness of actuarial assumptions;
- Pensions specialists to audit the plan assets of the pension schemes;
- Valuations specialists may be used to assess the reasonableness of the discount rates used in, IFRS 16 and impairment models. They will also validate the fair value of any derivatives held at year end; and
- Other specialists, such as VAT or legal specialists as and when required.

***Related parties*:** Auditing standards require us to plan and conduct our audit so that we obtain sufficient appropriate evidence about whether related party relationships and transactions have been appropriately identified, recognised and disclosed in the financial statements. To do this effectively, we have obtained a related party list from management as part of our planning procedures, which will be updated in April prior to the commencement of the audit.

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2. Our audit approach (continued)

2.5 Robust testing (continued)

The following table shows our approach to the 2020/2021 systems audit, specifically where we will seek to place reliance in 2020/2021 and how this differs from our prior year approach.

Where the systems below are flagged as 'In Scope,' we will take an IT General Controls ('ITGCs') approach, which means we will consider the underlying systems environment (applications, databases and operating systems) of key financial reporting applications. We will then tailor our approach to our ITGC audit based on the extent to which reliance can be placed on automated procedures and controls within system calculations, system generated reports, automated controls, security (including segregation of duties) and interfaces between systems. Where these procedures can be relied upon, the level of our substantive testing can be reduced and efficiencies in our audit approach can be achieved.

System Name	System Functionality	Key Connecting Systems	2019/2020 Approach	Proposed 2020/2021 Approach	2020/2021 Audit work required (if different to 2019/2020)
SAP CFS (ECC6.0)	General Ledger; Accounts Payable; Accounts Receivable; Asset Accounting; Purchase to Pay; Treasury; Agent Remuneration (SAP ICM); Settlement and Billing and Profitability Reporting.	Credence / Horizon / CWC	Out of Scope	Out of Scope	Consistent with the prior year, CFS is out of scope and instead we deem a substantive approach to be most efficient. As the large majority of transactional data (revenue, client receivables and payables, cash) is driven from Horizon and Credence, there are minimal reports from CFS used as part of the audit. We expect the reports we require from CFS will be limited to Accounts payable and Accounts receivable. Each report taken from CFS and used for audit evidence will need to be tested for accuracy and completeness.
Transtrack CashWeb Community (CWC)	Cash Management	CFS	Out of Scope	Out of Scope	Consistent with the prior year, CWC is out of scope and instead we deem a substantive approach to be most efficient. We will reconcile cash centre reports to the general ledger and perform substantive procedures over cash held at cash centres.
Horizon (HNGX/HNGA)	Revenue	Credence / CFS	In Scope	In Scope	Main branch revenue system - no additional audit procedures are expected to be performed.
SAP Success Factors	Employee Payroll; Employee Master Data; Talent and Recruitment	CFS	Out of Scope	Out of Scope	Consistent with the prior year, SAP Success Factors is out of scope and instead we deem a substantive approach to be most efficient. We will reconcile payroll reports to the general ledger and perform substantive testing procedures over payroll costs. In addition we will perform testing over starters and leavers.
Credence	Financial Reporting System	Horizon / CFS	In Scope	In Scope	We do not expect additional audit procedures to be performed, but if concluded that ITGC reliance cannot be obtained, then further substantive analysis would need to be performed to ensure that key financial IT dependencies are complete and correct.

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2. Our audit approach (continued)

2.5 Robust testing (continued)

System Name	System Functionality	Key Connecting Systems	2020/2021 Approach	Proposed 2019/2020 Approach	2020/2021 Audit Work Required (if different to 2019/2020)
Agency Billing module	Module which contains the details of Agents Revenue and Remuneration	Horizon / CFS	Out of scope	Out of Scope	Consistent with the prior year, Agency Billing module is out of scope and instead we deem a substantive approach to be most efficient. Our audit procedures will address the accuracy of the calculations performed by the Agency Billing module.

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2. Our audit approach (continued)

2.6 Meaningful conclusions

The essence of providing meaningful conclusions is bringing our knowledge of your operations, the results of our work and our experience of other clients and your industry together to bring relevant and reliable findings. This underpins both successful compliance and our ability to provide useful insight to you.

In designing the Post Office audit, our primary objective is to form an independent audit opinion on the Group financial statements. However, we also aim to provide insight which supports your business evolution.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we can provide you with observations, recommendations and insights.

We expect to report our final findings to the June Audit Committee, which will include the following:

- Significant audit and accounting matters arising from our work on areas of significant and elevated audit risks, as outlined in section 2.3;
- Key internal control observations and recommendations;
- Results of the IT controls audit (preliminary results communicated in January 2021);
- Final proposed audit opinion; and
- Any identified misstatements, above our reporting threshold (£464,000).

Good to know

We fundamentally believe in the value of the audit and its crucial role in providing confidence to shareholders. We also believe that value comes from a quality audit. Sharing our views and insight are a key aspect of what we do and how we work with you.

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3

Timetable & reporting

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3. Timetable and reporting

August - October

Key activities
- Acceptance and continuance
- Independence assessment
- Planning activities including meetings with management
- Risk assessment
- Scoping of the audit
- Attendance at cash counts

Key communications
- Debrief on the 2019/2020 audit

November - February

Key activities
- Update understanding of the control environment and IT systems
- Test IT systems and controls, where relevant
- Testing of the operating effectiveness of key business process controls
- Update our understanding of all significant balances
- Development of testing plan
- Early audit testing of key areas of focus and interim transactional testing
- Early discussion of key judgements
- Attendance at cash counts
- Finalise the 2019/2020 year end audit

Key communications
- Engagement letters
- Scope of work, timetables and deliverables
- Controls reporting and update on significant audit issues
- Audit Plan presented to Audit and Risk Committee



July

Key activities
- FInal review of the financial statements for the remaining subsidiaries.
- Attendance at cash counts

Key communications
- Statutory audit opinions for the subsidiaries
- Management representation letters for the subsidiaries

March - June

Key activities
- Year end audit testing for Post Office and the subsidiaries
- Attendance at cash counts
- Update on final position of key management models/assumptions/ estimates
- Review of related party disclosures
- Review of the Group financial statements
- Perform procedures in relation to the Bank of England assurance engagement
- Receive reporting from component audit teams
- Agreed upon procedures testing performed

Key communications
- Discussion of findings with management
- Year end findings report presented to the ARC
- Audit opinion and management representation letter
- Agreed upon procedures reports issued

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4

The Post Office audit team

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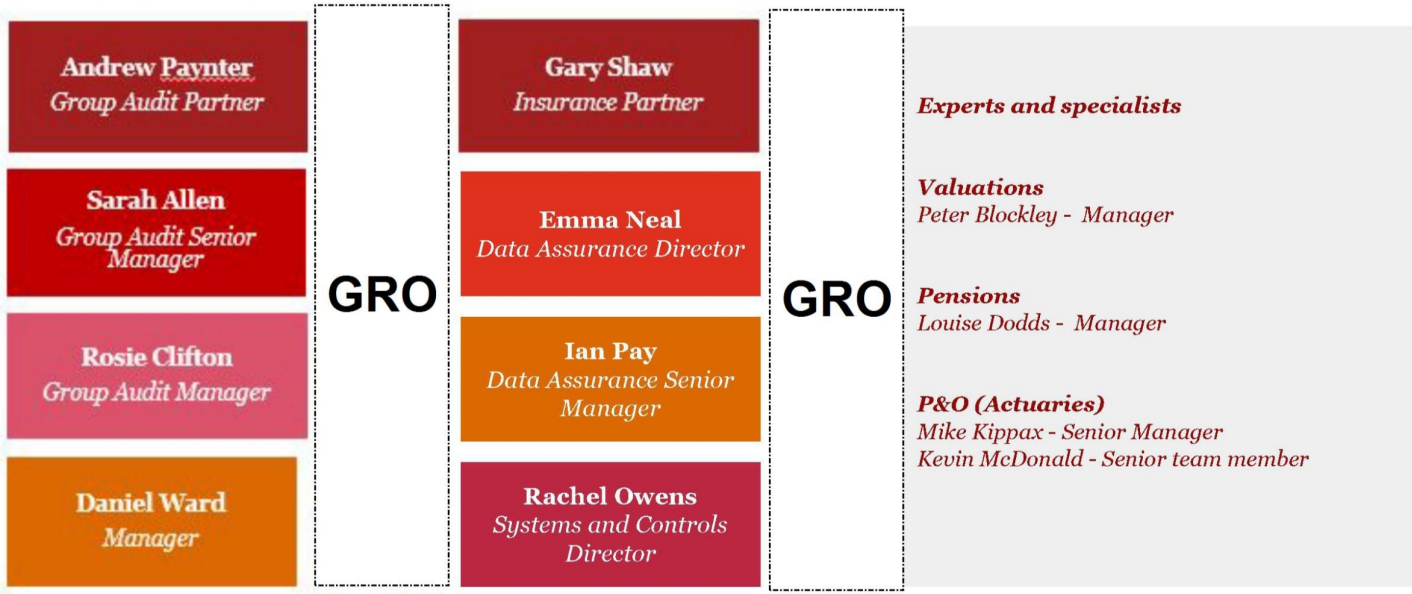
4. The Post Office audit team

Team structure

As in 2019/2020, our team is structured to bring the right combination of specialist skills and experience to the Post Office audit. Andrew Paynter continues as Group Audit Partner, supported by Gary Shaw, an experienced Financial Services Partner. Sarah Allen continues as the Group Audit Senior Manager, supported by Rosie Clifton and Dan Ward. Good continuity also exists within the field team. We have introduced new team members in the IT systems and Data areas to drive an increased focus on our approach in these important areas.

Quality Review Partner

To ensure we uphold the highest standards of audit quality, we appoint a Quality Review Partner, who works alongside Andrew in reviewing key documents, our reports to you and any significant judgements.



COVID-19 Impact

The impact of COVID-19 is likely to result in a remote/virtual audit, for at least part of the 2020/2021 engagement. We have worked closely with management to understand what worked well during our 2019/2020 remote audit, and where improvements can be made for the coming year. Our regular communications, alongside our suite of technology solutions such as video conferencing and Client Connect site, will enable us to perform an efficient and effective virtual audit.

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Appendix 1 - Non audit fees

Non-audit fees

We have set out below a summary of non-audit services invoiced to the Group during 2020/2021 year end (as at 26/10/2020), and the 2019/2020 comparative.

Service	£'000 2020/2021	£'000 2019/2020
Remuneration committee benchmarking advice	-	32
TrAction software service	19	14
Other Assurance services (Agreed Upon Procedures)	102	86
Total	**126**	**126**

All non-audit services are subject to PwC's internal independence approval processes, which includes an assessment of any potential threats to auditor independence from the service, together with consideration of the safeguards which mitigate those threats. Each of these require approval from Andrew Paynter before the service can commence and are included on our audit file as a permanent record. We also consider the impact of the services in aggregate on our auditor independence.

For any such non audit services provided, the engagement team have ensured that the required safeguards are in place, for example, separate teams performing the work, and we can confirm we are independent of the Group.

Under the revised Ethical Standard, additional restrictions on permissible services apply for Other Entities of Public Interest ('OEPIs'). Post Office meets the definition of an OEPI, as such we have considered the restrictions which apply from 15 December 2020. TrAction falls into the category of a non-permissible service from the application date, meaning that the service will need to cease, unless Post Office / PwC take advantage of the FRC's grandfathering provisions for services currently in progress. In that case, an engagement letter will need to be in place and work commenced prior to 15 December 2020. The length of time that services can be grandfathered is still unclear, but our expectation is that the service would be grandfathered for a relatively short period, and therefore needs to be transitioned to a new service provider, or an in-house alternative found, as soon as practically possible. Dialogue in this respect is ongoing at the time of writing.

We have also considered other non-audit services provided in light of the revised Ethical Standard. Other services relate to four separate Agreed Upon Procedures, performed for the following; BoE, Royal Mail, DVLA and BEIS. The list of permissible services includes "*additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement*". We consider that the agreed upon procedures (excluding BoE) fall under this permissible service and we will therefore require approval from those charged with governance to perform these engagements in 2020/2021. For the BoE engagement we consider that it falls into the following permissible service, "*Reports, required by or supplied to competent authorities / regulators supervising the audited entity, where the authority / regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider*." as the rules of the Note Circulation Scheme state that "*9.22. Each Member must commission, at its own expense, its external auditors to undertake an annual audit of certain aspects of the Rules*.".

We will provide a full update in the June Audit and Risk Committee detailing each service provided and the level of fees charged. We have also issued a report to this Audit and Risk Committee detailing our findings from the 2019/2020 Agreed Upon Procedures engagements.

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Appendix 2 - Independence and quality

Quality is built into every aspect of the way that we deliver the audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team who have extensive experience and relevant training.

As lead audit partner, Andrew Paynter has overall responsibility for the quality and execution of the Group audit and is accountable directly to the Audit and Risk Committee. In this role, he will:

- Set the tone and expectations of quality to all PwC teams and ensure clear accountability within our team structure;
- Confirm that our teams have complied with the necessary training and with our Group audit instructions; and
- Be notified of any breaches of independence.

We have in place rigorous procedures to safeguard our independence from Post Office and to ensure the quality of our audit. In the UK, these procedures are detailed in our 2020 Governance and transparency report which is published on the PwC website: www.pwc.co.uk/who-we-are/annual-report/governance-and-transparency.html

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. Every team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support your business and receives a tailored induction to ensure they have a thorough understanding of the significant risks and judgements applicable to the audit. We invest significant amounts of time and money for the training and development of our audit professionals.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all audit engagements by our member firms, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is reviewed and evaluated regularly. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are updated continuously for new professional developments and emerging issues, needs and concerns of the practice. Non-PwC component firms are subject to the same regulatory environment and we, as the group auditor, assess their competence in their role and are sufficiently involved in their audit work to meet our requirements under ISA 600.. We are involved at the planning stage to identify relevant risks and perform a review of the final working papers to ensure that they are in compliance with PwC methodology.
Quality review partner	Your audit has an assigned quality review partner ("QRP"), appointed to have the appropriate experience and expertise, who conducts a pre-issuance review of all significant issues. The QRP undertakes a quality review of our Audit and Risk Committee reports and audit file to assess and challenge our key planning judgements, execution of our response to significant risks and reporting to those charged with governance.
Hot reviewer	The QRP is supported by a hot reviewer, who performs an independent review of the financial statements in addition to the engagement manager, engagement leader and QRP..

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Appendix 2 - Independence and quality (continued)

Procedure	Description
Partner rotation	Lead engagement partners are required to rotate off higher risk clients at least every seven years, as required by our own rules and by regulatory bodies. Rotation ensures a fresh perspective without sacrificing PwC's knowledge. Andrew Paynter is in his third year as Group Audit Partner.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and restatements.
Technical updates	PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include: • A weekly publication covering the week's accounting and business developments. • A periodic publication providing in-depth analysis of significant accounting developments. • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. • Three of Post Office's Non-Executive Directors ("NEDs") have joined the PwC NED programme. The purpose of the PwC NED programme is to bring the firm's deep subject matter expertise, together with relevant external perspectives, in order to support NEDs to perform their roles for the good of business and broader society. We therefore continue to provide a programme of events that explore key Board issues. We will continue to share all relevant updates with you.
Independence standards	PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of work can begin for the Group, it must first be authorised by Andrew Paynter who evaluates the project against our own internal policies and safeguards. We will report to the Audit and Risk Committee any independence issues as they arise and present an annual summary at the Audit and Risk Committee meeting in June.
Ethics	Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive candid information and that we respond with the appropriate technical and risk management resources.

Confirmation of independence

We confirm that in our professional judgement, as at the date of this report, we comply with UK regulatory and professional requirements, including the Ethical Standard issued by the Auditing Practices Board and our objectivity is not compromised.

A letter will be issued to the Audit and Risk Committee in June 2021 to formally confirm our independence.

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Appendix 3 - Risk of fraud

International Standards on Auditing state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of those charged with governance / the Audit and Risk Committee

Your responsibility as part of your governance role is to evaluate management's identification of fraud risk, implementation of anti fraud measures and creation of appropriate "tone at the top" and to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

We have had various discussions with management regarding their views on fraud, however we value the Audit and Risk Committee's input and perspective:

- Whether you have knowledge of fraud, actual, suspected or alleged, including those involving management?
- Whether there have been any changes to the measures within Post Office to detect or prevent fraud?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, actual, suspected or alleged?

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Appendix 4 – Risk strategy and audit approach summary

In addition to the identified significant and elevated risks detailed in section 2.3, we will spend time auditing all material balances. These include material balance sheet areas such as network cash, key account reconciliations, recoverability of accounts receivable, other provisions and accruals.

We have presented our full risk strategy summary by individual financial statement line item for the Balance Sheet below. This summarises the inherent risk, where we expect to place controls reliance and the level of substantive testing we will need to perform. Our risk strategy summary for the Income Statement is included on the next page.

FSLI - Balance sheet	Inherent	Expected controls reliance	Planned substantive
Fraud risk	Significant	None	High
Going concern	Significant	None	High
Related party transactions*	Normal	None	Low
Postmaster litigation	Significant	None	High
Derivatives*	Normal	None	Low
Cash and cash equivalents*	Normal	Partial	Low
Property, plant and equipment*	Normal	None	Low
Impairment of fixed assets	Significant	None	High
Accounting for lease liabilities and right of use assets*	Normal	None	Medium
Accounts receivable*	Normal	None	Low
Prepaid expenses and other debtors*	Normal	None	Low
Investments in subsidiaries*	Normal	None	High
Goodwill*	Significant	None	Medium
Intangible assets subject to amortisation*	Elevated	None	Medium
Impairment of intangible assets subject to amortisation	Significant	None	High
Intercompany accounts*	Normal	None	Low
Accounts payable*	Normal	None	Low
Accruals, provisions and other liabilities*	Normal	None	Low
VAT accounting	Elevated	None	Medium
Income taxes*	Normal	None	Low
Notes payable and long-term debt*	Normal	None	Low
Pension, post retirement and other benefits	Elevated	None	Medium
Share capital and other equity accounts*	Normal	None	Low

** Risk of material misstatement*

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Appendix 4 – Risk strategy and audit approach summary (continued)

FSLI - Income Statement	Inherent	Expected controls reliance	Planned substantive
Fraud in revenue recognition	Significant	Partial	High
Revenue*	Normal	None	Low
Accuracy of Telecoms revenue	Significant	None	High
Cost of sales*	Normal	Nonel	Low
Depreciation expense*	Normal	None	Low
Operating expenses*	Normal	None	Low
Salaries/payroll expense*	Normal	Partial	Low
Amortization expense*	Normal	None	Low
Trading profit	Elevated	None	Medium
Interest expense*	Normal	None	Low
Financial statement preparation and disclosures*	Normal	None	Low
Consolidation*	Normal	None	Low
Telecoms disposal	Elevated	None	Medium

** Risk of material misstatement*

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Appendix 4 – Risk strategy and audit approach summary (continued)

Fraud in revenue recognition

Due to the number of different revenue streams identified, we have included further details in relation to the specific fraud risks and applicable assertions for each stream below.

Revenue type	Our assessment and planned response	Audit risk assessment 2019/2020
Fixed contractual	This relates to contracts with customers such as Royal Mail, and is a fixed contractual amount which requires no estimate or judgements to be made by management. The fraud risk related to this stream is therefore mitigated to an extent since the amounts are factual per the contract and invoices are raised on a regular basis. The risk therefore reside in the posting of fraudulent journals which could be used to either overstate or understate revenue. • We will use our journal data auditing techniques noted above to identify and test any journals posted to revenue that appear unusual because they do not follow the Group's normal posting characteristics, i.e. credits to revenue with a corresponding 'unusual' debit to the balance sheet.	• **Significant (Existence/ Occurrence, Completeness)**
Horizon to CFS	Revenue recognised directly in CFS includes revenue such as Payment Services or the variable commission earned from Royal Mail, whereby the transactional data from Horizon interfaces directly into CFS through the Agent Billing module. There is also an element of manual adjustments that are made by POL to account for specific elements of these Revenue streams, such as Horizon not being able to distinguish between types of postage and so an adjustment being needed to account for the different commission rates depending on what type of delivery was purchased. We have rebutted the fraud risk at the consumer transactional level within Horizon due to the "high volume low value" nature of the transactions. The fraud risk therefore exists at the point where management could introduce fictitious invoices or other journal postings into revenue accounts in the centralised financial reporting process. In addition, there is a risk that revenue may be recognised in the incorrect period to defer revenue into the following year. • We will use our journal data auditing techniques noted above to identify and test any journals posted to revenue that appear unusual because they do not follow the Group's normal posting characteristics, i.e. credits to revenue with a corresponding 'unusual' debit to the balance sheet and vice versa. • We will perform detailed testing of reconciliations, agreement of commission rates and other third party information to contracts, recalculation of revenue and accrued/deferred income positions, agreeing evidence of cash receipt in bank to high assurance and leverage our systems control testing over Horizon. • The work performed in relation to ITGCs for Horizon, and the interfaces from Horizon into Agent Billing will provide comfort that revenue has been recognised within the correct period. • We will also be recalculating a sample of manual adjustments and confirming they have been appropriately recognised.	• **Significant (Existence/ Occurrence, Completeness, Cut Off)**

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Appendix 4 – Risk strategy and audit approach summary (continued)

Fraud in revenue recognition (continued)

Revenue type	Our assessment and planned response	Audit risk assessment 2019/2020
Reliance on third parties	Post Office recognise some of their commission revenue based on the amounts communicated to them by the third parties whose products they are selling such as Bank of Ireland, Moneygram and FRES. The third party takes the sales data from the Post Office and calculates the commission owed. The fraud risk relating to this stream is consistent with the stream above whereby we have rebutted the fraud risk at the consumer transactional level within Horizon, due to the high volume low value nature of the transactions. The audit approach for this stream is also consistent with the above, with the exception of cut off testing. For this, we will trace a sample of invoices raised pre year end and post year end to supporting documentation from the third party, evidencing when the original transaction with the consumers occurred.	• **Significant (Existence/ Occurrence, Completeness, Cut Off)**
Telecoms	Post Office's telecoms revenue relates to Post Office branded broadband and home phone services provided to customers through the network access providers, TalkTalk and BT. Fujitsu is engaged as a third party organisation, which provides the Post Office with administrative services relating to its telecommunications business (initiating, recording and processing transactions as agent of the entity). As with the other revenue streams, we have rebutted the fraud risk at the transactional level. The risk therefore relates to fraudulent journals being posted to improve revenue. Unlike the other revenue streams, we consider the significant fraud risk to be overstatement of revenue, in response to the potential sale of the telecoms business. • We will use our aforementioned journal data auditing techniques to identify and test any journals posted to revenue that appear unusual because they do not follow the Group's normal posting characteristics, i.e. credits to revenue with a corresponding debit to receivables.	• **Significant (existence/ occurrence)**

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Appendix 5 – Key communications

Under ISA 260, we are required to make a number of specific communications to the Audit and Risk Committee. These communications, the expected timing and details of how they are addressed are summarised in the table below.

	Planning	Completion	As required
Copy of the engagement letter to those charged with governance	✓		
Independence and objectivity confirmation	✓	✓	
Details of non-audit work performed by PwC and the related fees	✓	✓	
Nature and scope of work together with timing of expected reports and results	✓		✓
Changes to the proposed audit plan (including risk assessment)		✓	✓
Expected modifications to the auditors' report		✓	
Uncorrected misstatements		✓	
Significant deficiencies in internal control identified during the audit		✓	
Views about the qualitative aspects of the entity's accounting practices and financial reporting		✓	✓
Matters specifically required by other ISAs to be communicated to those charged with governance		✓	
Final draft of the representation letter		✓	
Any other audit matters of governance interest	✓		✓
Level of agreed audit fees	✓		
Materiality level	✓	✓	

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Appendix 6 – Regulatory and accounting updates

Highlights

There are changes to International Standards of Auditing which will impact our audit approach:

- ISA 540 (Revised) Auditing accounting estimates and related disclosures. The revised ISA has enhanced requirements for assessing the estimation uncertainty, complexity, subjectivity and other inherent risk factors for all estimates, not just those we have assessed as significant risk. There are also new requirements to consider inherent risks as the basis for scaling our audit response and to evaluate disclosures
- The revised ISA (UK) 570 – going concern auditing standard outlines a number of enhanced requirements for auditors to perform as part of the going concern assessment. Including in relation to understand management's controls over its going concern assessment, including those relating to determining forecasts

Changes to ISA standards summarised below which is applicable to Post Office Limited for the 2020/2021 year end.

Subject	Principal changes	Our response
ISA (UK) 540 - Auditing Accounting Estimates and Related Disclosures	• More detailed requirements around obtaining an understanding of the entity and its environment • Enhanced requirements for assessing the estimation uncertainty, complexity, subjectivity and other inherent risk factors for all estimates	• As part of our risk assessment procedures we considered Post Office's external and internal environment • Our procedures will include making inquiries and requests for supporting documentation in respect of understanding how management has identified and selected methods and/or models, assumptions and data for the development of accounting estimates and relevant disclosures
	• New requirement to consider the spectrum of inherent risk as the basis for scaling the audit response • Evaluation of disclosures alongside accounting estimates for risk assessment and testing	• Our risk assessment procedures focus on inherent and control risk factors associated with each estimate. This includes evaluation of management's risk assessment and governance processes over accounting estimates and related disclosures. Our audit responses on each significant accounting estimate reflects the extent of inherent risk.
	• Increased emphasis on the auditor's understanding of controls relevant to estimates and consideration of whether to test operating effectiveness as part of the overall audit plan	• We will continue to understand and evaluate internal controls relating to estimates. This will include testing of controls over models, including data input into the model, and controls over source of information including IT system and third party vendors.
	• More detailed requirements for testing methods, significant assumptions and data • Expanded requirements regarding audit evidence when developing auditor's point estimate or range	• We will obtain evidence over methods, significant assumptions and data, in particular where management makes use of more complex modelling in its estimation. This will include involvement of experts to assess and challenge methodologies, assumptions and data inputs used. We will ensure that we will obtain appropriate evidence where we determine that developing point estimates or ranges is appropriate.
	• Requirement to consider whether disclosures adequately address estimation uncertainty	• We will also assess the adequacy of disclosures, in particular as regards those disclosures relating to estimation uncertainty

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Appendix 6 – Regulatory and accounting updates (continued)

Changes to ISA standards summarised below which is applicable to Post Office Limited for the 2020/2021 year end (continued).

Subject	Principal changes
ISA (UK) 570 - Going concern	In light of increased public scrutiny in regard to going concern, the revised standard outlines a number of enhanced requirements for auditors to perform as part of the going concern assessment. The key points include: **Risk assessment** • The onus on designing and performing risk assessment procedures is placed firmly on the auditor. This assessment is to identify events or conditions that, collectively or individually, may cast significant doubt on the entity's ability to continue as a going concern and whether or not a material uncertainty related to going concern exists • Explicit areas are outlined to be understood by the auditor as part of the assessment including understanding the entity and its environment, the applicable financial reporting framework and key internal controls, as well as evaluating the robustness of management's own risk assessment process and information systems • Underpinning the risk assessment is the concept of management bias and our assessment of the potential risk to going concern posed by management bias. **Evaluating management's assessment** • Further evaluation of management's methods to assess going concern, including whether or not they are appropriate based on the relevant financial reporting framework, changes in the method from prior periods and our understanding of the entity • Evaluating assumptions in the context of changes from prior periods, adequate support and consistency with each other and with related assumptions used in other areas of the entity's business activities. **Reporting** • If the auditor concludes that the going concern basis of accounting is appropriate, the auditor shall include a section in the auditor's report with the heading 'Conclusions relating to Going Concern' and include: – where appropriate, a statement that the auditor has not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from authorisation of the financial statements; and – a conclusion that management's use of the going concern basis is appropriate. • For public interest entities, and certain other entities, we are required to provide an explanation of how we evaluated management's assessment and, where relevant, key observations arising with respect to that evaluation. **Documentation** • We are now explicitly required to document: – Key elements of our understanding including internal control related to going concern; – Indicators of possible management bias relating to going concern and implications for the audit; and – Significant judgements made in relation to whether or not a material uncertainty exists, appropriateness of management's use of the basis of accounting and the appropriateness of management's disclosures.
Our response	When performing our work over the group's going concern assessment, we will ensure that the enhanced requirements are addressed.

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Appendix 6 – Regulatory and accounting updates (continued)

Corporate reporting developments

The Financial Reporting Council ('FRC') have labelled climate change as "one of the defining issues of our time" and stated that its monitoring "will include consideration of the adequacy of the auditors' work on principal risk disclosures, including climate risk and the financial statement implications of climate change."

Subject	Principal changes
Climate change	**Summary of developments** Climate change is an important issue and there is an unprecedented level of attention by Government, regulators and investors on effective reporting and auditing in this area. Management need to appropriately consider and respond to the impact of climate related risks and opportunities in the annual report and auditors need to challenge management on this topic. **Reporting** Areas of front half reporting which may require reporting on climate change, include: • Principal and emerging risks; and • Non-financial reporting.
Our response	In this reporting cycle we will be making inquiries of management as to how they have assessed the impact of climate-related risks and opportunities on the business and appropriately addressed those risks and opportunities in the financial statements and broader annual report. For example, we will: • Understand management's process for assessing climate related risks, • Consider management's assessment of the potential impact of climate change on the underlying assumptions and estimates, • Review reporting of climate related risks, • Challenge management where we think climate risk has not been sufficiently considered or disclosed, • Ensure consistency of the disclosures in the financial statements with those provided in the 'front half' of the annual report.

The core disclosures

Governance

Disclose governance structures around climate risks and opportunities.

Strategy

Disclose impacts on business, strategy and financial planning

Risk management

Disclose how climate risks are identified, assessed and managed

What's different?

1. This shifts reporting on climate change into mainstream financial reporting. Traditionally climate change is viewed through a reputational lens and covered in sustainability reports.
2. An emphasis on forward-looking disclosures through the use of scenario analysis. Companies are asked to assess the impacts to their business from potential future scenarios depending on their outlook.
3. Broadening understanding of climate beyond physical impacts (from weather) to transitional impacts (from policy and technology) as the world moves towards a low carbon economy.

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Appendix 7 – Component team reporting timetable

Consistent with 2019/2020, we have engaged with KPMG LLP, the auditors of Bank of Ireland and First Rate Exchange Services Holding Limited ("FRESH"), to report to us on Post Office's share of FRESH's profit for 2020/2021. To obtain sufficient audit evidence over Post Office's 50% profit share, we are instructing KPMG LLP to perform a full scope audit of FRESH for the year ending 28 March 2021.

We have included our expected reporting timetable for the audit of FRESH below.

Deliverable/event	Due date
Planning meeting with component teams	January 2021
Issue group instructions to component teams	February 2021
Component teams to issue acknowledgement of receipt, independence confirmation and early warning memorandum	February 2021
Component teams to issue inter-office/inter-firm opinion and memorandum of work performed	May 2021
Review of component team working papers	May 2021
Subsequent events procedures	June 2021

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We have prepared this report solely for the use of Post Office Limited. This report forms part of the continuing dialogue between the company and us and therefore it is not intended to include every matter, whether large or small, that has come to our attention, through our audit. For this reason, this report should not be made available to third parties, and if any third party were to obtain a copy without prior written consent, we would not accept any responsibility for any reliance that they might place on it.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Financial Reporting Controls Environment	**Meeting Date:**	24 November 2020
Author:	Christine Kirby, Financial Controls Manager & Tom Lee, Financial Controller	**Sponsor:**	Alisdair Cameron, Group Chief Finance Officer

Input Sought: Noting

The Audit, Risk and Compliance Committee ("ARC") is asked to note the update on the Financial Reporting Controls ("FRC") environment, including improvements made since the last report to the ARC in 2019 and details on future focus.

6

Previous Governance Oversight

- Prior year report was presented to ARC for noting on 23 September 2019.
- Presented to RCC for noting on 12 November 2020.

Executive Summary

Since the last report to the ARC, the Financial Reporting Control Framework ("FRCF") has continued to be improved through process reviews and controls testing. This has enabled the FRCF to become more streamlined and risk focused. Looking forward, the aim is for the FRCF to transfer to ServiceNow (or another provider) in order to be more agile, efficient and to create synergies between Central Risk and Financial Controls, as well as allowing PricewaterhouseCoopers LLP ("PwC") to mitigate their threat of self-review, as Post Office Limited ("POL") currently use a PwC off the shelf tool called TrAction which has been in place for 3 years.

The FRC environment has continued to be strengthened through enhancements in the biannual Balance Sheet testing, quarterly Finance Director ("FD") Balance Sheet reviews and Balance Sheet reconciliation review processes. A finance working group has been established, in order to drive improvements and efficiencies, specifically in relation to balance sheet related processes, controls and responsibilities.

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Questions addressed

1. What was the status of the FRC environment when last reported to ARC?
2. What is the current status of the FRCF?
3. What developments have been made to the wider FRC environment?
4. What do independent sources say about the FRC environment?
5. What is the future focus?

Report

Past and current status of the FRCF

6. The last report to ARC was in September 2019 at which point there were 500 controls split across 26 processes, which addressed 535 individual risks. See Appendix 2 for more details.

7. Throughout the year the Financial Controls team have performed end to end process reviews across 8 of the highest risk and/or oldest processes, scoping out those which were created/reviewed relatively recently as part of wider projects.

8. This has resulted in streamlining the controls framework. The FRCF now holds 438 controls, split across 26 processes, which address 306 risks.

9. The process reviews enabled risks to be streamlined through removal of bespoke risks and focus on Financial Statement Line Item level risks which are more widely applicable. This ensures that the FRCF is aligned clearly with its purpose of ensuring the Financial Statements are not misstated due to error or fraud.

10. The remaining processes are being reviewed on a rolling basis, prioritising the highest risk processes. Risk assessment is based on materiality, risk of fraud and level of manual intervention, along with any known issues which come to light.

11. Of the 438 controls, 346 controls were issued for self-assessment in September 2020. The remaining controls were either not operated due to frequency (i.e. annual, biannual, quarterly) or were control gaps (a risk has been identified and control has been designed but is not yet in operation). See Appendix 1 for more details.

12. Of the 346 controls issues for self-assessment; 96% were operating effectively (2019: 91%). The remaining 4% includes 1% of controls not self-assessed due to illness and 3% of controls self-assessed but not operating. Reasons for controls not operating include resource issues, delay in meeting deadlines and requests to change control ownership. All controls not operating are followed up and investigated.

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13. The results of the Control Self-Assessment ("CSA") are reported to the Chief Financial Officer ("CFO") on a monthly basis, whilst providing an update on the wider FRC environment.

14. In the prior year there were 28 control gaps, as at September 2020 there are 10 control gaps. These are all classed as medium or low risk due to having mitigating controls and/or due to being non–key controls. The remaining gaps are largely due to system limitations and are therefore expected to be long term gaps.

15. Controls testing is performed by the Financial Controls team on an annual basis to ensure each control is tested back to auditable evidence at least once a year. If a control does not meet the expected standard, it is retested again within the year. The controls testing results have improved year on year thanks to the feedback control owners gain through the testing process.

Wider FRC environment

16. Balance Sheet reconciliations for standard risks GLs are submitted to Central Finance on a quarterly basis and high risks GL reconciliations are submitted on a monthly basis. The reduction of standard risk GL reconciliations to quarterly frequency is in part thanks to improved reconciliation quality which has been a focus over the past 18 months.

17. Detailed Balance Sheet testing is performed by Central Finance on a biannual basis on P6 and P11/P12 balances. The GLs in scope for testing are selected based on risk rating. This testing involves agreeing the GL balances back to auditable evidence in order to assess if any adjustments are required.

18. FD Balance Sheet review files are prepared by Central Finance and shared with the respective business units for their review on a monthly basis. FD Balance Sheet review meetings are held on a quarterly basis to enable Central Finance and Commercial Finance teams to place greater scrutiny over the Balance Sheets for each area.

19. A finance working group has been established to drive improvements and efficiencies, specifically in relation to balance sheet related processes, controls and responsibilities. A focus list has been established and work is under way to enact change in a swift and positive manner with stakeholders from across finance fully engaged. Changes include enhancements to underlying chart of accounts, establishing clear roles and responsibilities and improving reporting processes.

20. During the year, the second annual Grant Thornton LLP ("GT") audit over third parties whose data POL rely on for revenue recognition took place. The scope of the audit was data analysis, IT general controls testing and business process controls testing across POL's largest service providers (e.g. Fujitsu Telecoms, BGL, DXC, JP Morgan). No significant auditing findings or recommendations were identified. All minor observations were fed back to the service providers and have been subsequently actioned.

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Assurance over the FRCF

21. Since the last internal audit of the FRCF (May 2019), there have been several internal audits which involved substantive testing of controls in the FRCF including; post BOT controls, accounts receivable controls, minimum controls standard (COVID-19 impact), manual postings to revenue. These audits have identified control recommendations for the relevant business units but no items have highlighted material issues within the FRCF.

22. The most recent internal audit, manual postings to revenue, tested controls which had already been tested by the Financial Controls team and found no difference in the results of the testing. This provides assurance over the quality of the Financial Controls team testing.

24. The external audit identified minimal management letter points, none of which concerned the FRCF or other key FRC related processes discussed in this report. The audit findings were principally related to differences of opinion on judgemental areas or the classification of balance sheet items, neither of which are indicators of issues within the FRC environment.

Governance Risk and Compliance tool

25. The FRCF is currently held on a tool called TrAction, administrated by PwC. Due to increased independence rules, PwC are unable to perform non-audit services for audit clients and therefore plan to cease POL's use of TrAction by April 2022 latest.

26. POL have been looking to move to a new Governance Risk and Compliance ("GRC") tool for some time due to the system limitations of TrAction but this had been placed on hold due to budget constraints.

27. The timing of POL's requirement to cease use of TrAction has fallen in line with the Central Risk team's plans to move to ServiceNow for top down risk assessment from January 2021. In order to work towards a POL wide governance framework being on one GRC tool, the FRCF will migrate to ServiceNow as phase 2 of the same project, with the aim of being live in the system by end of March 2021, budget dependent.

28. This move will reduce manual actions (i.e. through approval workflows and automated notifications), enable audit trail for changes and improve management reporting through availability of comparative data. The shared tool will also help create synergies between the FRCF and the top down risk assessment as the self-assessments for the FRCF will roll up into the risks maintained by the Central Risk team.

Next Steps & Timelines

29. As well as acquiring a new GRC tool, the Financial Controls team are performing a FRCF completeness review to ensure all financial reporting risks are mitigated. The review is a lengthy process and is due to be finalised in FY20/21. The team also continue to perform end to end process reviews to ensure that the FRCF remains up to date. The next processes under review are loss prevention, record to report and bank & cash management.

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30. Continual development of the BS Recs and associated FD BS Review process in order to get the right balance between independent central review and ownership by divisional finance teams. In order to assist with this, we are investigating the potential of acquiring a balance sheet reporting tool which would aide workflow, reporting and risk identification.

31. The third party revenue data audit performed by GT is ideally going to be brought in house for FY20/21. The internal resource will be an Internal Audit Senior Manager (3A) and a Financial Controls specialist (3B), both roles of which are currently out in the market. The roles will focus on performing data analysis, IT controls testing and business process controls testing.

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Appendix 1 – September 2020 Control Self-Assessment Reporting

Controls		Control Gaps				Control Owners		Sept 2020 CSA Results (submitted Oct 2020)					
Process	Total controls	Control gaps	H/M/L Impact of GAPS H	M	L	Owner Assigned	No owner assigned	Controls operated effectively	Self-assessment submitted but control not operated	Controls with long-term remediations	Not operated due to agreed frequency	No self assessment submitted	Controls not included due being annual
Accounts Receivable	8	0	0	0	0	8	0	8	0	0	0	0	0
Agent Remuneration	45	1	0	0	1	45	0	41	2	1	0	1	0
Agent Remuneration Calendar	4	0	0	0	0	4	0	3	0	0	0	0	1
Bank & Cash Management	42	1	0	0	1	42	0	32	0	1	8	0	1
Branch Interfaces and Master Data	5	0	0	0	0	5	0	0	0	0	0	0	5
Cash Centre - Finance and Master Data	11	1	0	1	0	11	0	10	0	1	0	0	0
Cash Centre - Supply Chain	22	1	0	1	0	22	0	17	0	1	4	0	0
Control Environment	18	0	0	0	0	18	0	13	1	0	2	0	2
Fixed Assets	20	0	0	0	0	20	0	12	3	0	4	0	1
HMRC Registration Process	6	0	0	0	0	6	0	5	0	0	1	0	0
Integrated Settlement & Billing - Billing	11	1	0	1	0	11	0	5	2	1	3	0	0
Integrated Settlement & Billing - Settlement	5	2	0	1	1	5	0	3	0	2	0	0	0
Loss Prevention	15	0	0	0	0	15	0	13	1	0	0	0	1
Manage open items	4	1	0	0	1	4	0	2	0	1	1	0	0
Master data management	21	0	0	0	0	21	0	17	2	0	1	0	1
Non Standard Operating Model (OSF)	4	0	0	0	0	4	0	3	0	0	1	0	0
Payroll	37	1	0	0	1	37	0	29	0	1	4	0	3
Procure To Pay	25	0	0	0	0	25	0	15	0	0	3	0	7
Profitability (COPA)	7	0	0	0	0	7	0	0	0	0	0	0	7
Project Accounting	10	1	0	1	0	10	0	9	0	1	0	0	0
Record To Report	35	0	0	0	0	35	0	28	1	0	5	0	1
Stock	11	0	0	0	0	11	0	6	0	0	2	2	1
Tax	18	0	0	0	0	18	0	10	0	0	1	0	7
Transaction corrections #1	42	0	0	0	0	42	0	41	0	0	0	0	1
Transaction corrections #2	3	0	0	0	0	3	0	3	0	0	0	0	0
Treasury	9	0	0	0	0	9	0	6	0	0	0	0	3
	438	**10**	**0**	**5**	**5**	**438**	**0**	**331**	**12**	**10**	**40**	**3**	**42**

Explanation of key columns:

- Control gaps – a risk has been identified and control has been designed but is not yet in operation. Mitigating controls are in place.
- Controls operated effectively – controls which have been self-assessed in the period as operating as per the control wording.
- Self-assessment submitted but control not operated – controls which did not operate effectively in the period. The system prompts the control owner to create a remediation plan if they select that their control is not operating and these are followed up by CF.
- Controls with long term remediations – controls which are not operating effectively and there is no short-term solution. These controls are classes as 'gaps' and mitigating controls are put in place.
- No self-assessment submitted – controls where the owner has not completed the control self-assessment in the given period. These are followed up by CF.
- Controls not included due to frequency – controls which are not operated on a monthly basis (i.e. annual, bi-annual and quarterly controls) and were not expected to be operated in the period being reported on.

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Appendix 2 - June 2019 Control Self-Assessment Reporting

Reported to ARC September 2019

Controls		Control Gaps				Control Owners		June 2019 CSA Results (submitted July 2019)				
Process	Total controls	Control gaps	H/M/L Impact of GAPS H	M	L	Owner Assigned	No owner assigned	Controls operated effectively	Self-assessment submitted but control not operated	Controls with long-term remediations	No self assessment submitted	Controls not included due to frequency
Agent Accounting	16	0	0	0	0	16	0	10	0	0	1	5
Agent Remuneration	55	2	0	1	1	55	0	44	2	2	2	5
Agent Remuneration Calendar	4	0	0	0	0	4	0	3	0	0	1	0
Bank & Cash Management	51	4	0	2	2	51	0	28	2	4	0	17
Bill To Cash	22	1	0	0	1	22	0	14	4	1	3	0
Cash Centre - Finance and Master Data	15	4	1	2	1	15	0	6	0	4	0	5
Cash Centre - Supply Chain	16	1	1	0	0	16	0	9	0	1	0	6
Control Environment	32	3	0	0	3	32	0	23	2	3	1	3
Fixed Assets	19	0	0	0	0	19	0	10	0	0	0	9
HMRC Registration Process	11	0	0	0	0	11	0	11	0	0	0	0
Integrated Settlement & Billing - Billing	3	0	0	0	0	3	0	0	0	0	0	3
Integrated Settlement & Billing - Settlement	11	1	0	0	1	11	0	0	0	1	0	10
Manage open items	8	0	0	0	0	8	0	2	0	0	0	6
Master data management	28	0	0	0	0	28	0	14	2	0	5	7
Non Standard Operating Model (OSF)	5	0	0	0	0	5	0	4	0	0	0	1
Payroll	29	2	0	1	1	29	0	25	0	2	0	2
Procure To Pay	28	0	0	0	0	28	0	28	0	0	0	0
Profitability (COPA)	7	0	0	0	0	7	0	0	0	0	0	7
Project Accounting	10	3	0	1	2	10	0	7	0	3	0	0
Record To Report	40	2	0	0	2	40	0	23	2	2	2	11
Settlement Process	8	0	0	0	0	8	0	5	1	0	0	2
Stock	13	5	0	5	0	13	0	4	0	5	2	2
Tax	17	0	0	0	0	17	0	13	0	0	1	3
Transaction corrections #1	25	0	0	0	0	25	0	25	0	0	0	0
Transaction corrections #2	19	0	0	0	0	19	0	19	0	0	0	0
Treasury	8	0	0	0	0	8	0	7	0	0	0	1
	500	**28**	**2**	**12**	**14**	**500**	**0**	**334**	**15**	**28**	**18**	**105**

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Financial Conduct Authority pricing rules changes	**Meeting Date:**	12 November 2020
Author:	Ed Dutton, Post Office Insurance Managing Director	**Sponsor:**	Owen Woodley, Chief Commercial Officer

Input Sought: Noting

The Committee is asked to note that:

- the Financial Conduct Authority (FCA) recently announced proposals to prohibit 'Price Walking' (competitive new business prices followed by renewal prices increasing during contract) in Motor and Home Insurance, along with changes to Product Governance and reporting of value metrics; and
- the insurance team have begun to mobilise a programme, overseen by a Post Office Insurance (POI) Board committee, to respond effectively.

Previous Governance Oversight

- POI Board discussions

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Report

Background

1. The FCA have produced their Final Report on General Insurance Pricing Practices 18/1.3
2. They have been reviewing pricing differentials within household and motor insurance for some time. Predominantly, their review work has focused on differentials between new and existing customers.
3. Over time, customers who stick with their insurer can see their premiums increase significantly compared to customers who shop around. This practice is known as price walking.
4. Their work within this area is aligned to a wider Competition and Markets Authority (CMA) review which focuses on pricing in several market areas including general insurance and broadband.
5. The FCA had already concluded that there is significant detriment within the market, highlighting that overall, six million customers were being overcharged for their motor and household insurance, with this overcharging totalling some £1.2bn.
6. There is some evidence that the impact of price walking is felt disproportionally by vulnerable customers and older customers.

The Proposed Remedies

7. The core solution proposed by the FCA is that new and renewing customers should pay the same price. This will not prevent the provision by firms of differing prices to customer where the firm operates via different brands and channels.
8. This will require significant changes to pricing models across the industry.
9. There will be anti-avoidance measures in place to prevent firms from avoiding the intent of the rules. These will be developed over the coming months.

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10. Additionally, Firms will also need more formal processes for assessing products and the FCA will be implementing piloted proposals on reporting value measures.
11. Note that these additional rules apply across GI and not to just household and motor business.
12. Extensive MI reporting on compliance with the new pricing regime will also be required.
13. The FCA notes it will police markets vigorously and will be looking to implement attestation and other requirements as part of this policing process.
14. Under SMCR, it will require firms to be clear on pricing accountability and to focus on fair value, noting that the Boards of regulated firms should have a clear line of sight on pricing practices.

Timing

15. The FCA is now consulting on these proposals.
16. The deadline for consultations on the paper is **25 January 2021**.
17. The FCA then proposes to produce final rules and guidance in the **second quarter of the 2021 calendar year**, with an expected launch date within 4-6 months of that (although the market is unconvinced that is realistic).

Potential Impact

18. Whilst the basic principles of the change are straightforward, there are a large number of technical uncertainties around interpretation. Indeed, whilst the FCA have attended various forums to explain their thoughts to Industry Bodies, it is apparent that conflicting explanations or guidance on specific technical points have been given.
19. Ultimately, whilst the overall market value may reduce slightly, the basic impact will be that value shifts from renewing policies, where margins will reduce, to new business policies, where margins will be significantly higher than now.
20. As a result, the impact appears likely to differ very significantly depending on the size and scale of existing business.
21. This could be:
    - companies that have very significant back books of business where, if they want to sell new business, their renewal prices will have to fall. Or,
    - where large businesses are very complex – the are market comments regarding how many different sets of prices very large consolidated firms like Aviva have in the market – becoming compliant (in terms of governance, reporting AND pricing) could be very complicated, difficult and expensive.
22. POI has recorded a risk that we respond poorly or too slowly – i.e. our pricing model response is mis-judged and our commercial outcomes compared to the current outlook are degraded, or that we are not ready to fulfil the regulatory requirements in terms of our pricing, our governance or the new reporting.
23. However, having (until recently) shrunk our Motor and Home books over recent years, there is the potential for this to be a material opportunity for POI, assuming we can continue to write significant New Business volumes (at higher prices and positive margins) relative to our current (small) mature book size.

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Activity underway within POI to achieve compliance

24. Given the technical uncertainties, we are working directly with the ABI and BIBA to gain greater clarity from the FCA, and to influence their responses to the FCA consultation paper.
25. We are also already heavily engaged with our main partners (Ageas for Home Insurance and BGL for Motor Insurance), as we have significant dependencies on each other to operate compliantly in the future and to maximise the opportunity/mitigate any risk.
26. POI board has been very focussed on this change in market practice and is overseeing our response via a Board oversight committee, led by a NED.
27. We are in the process of mobilising a focussed change programme to ensure success.
28. The initial activity underway is to generate a more detailed impact assessment of the rules on a set of workstreams, currently including technical pricing, MI and reporting, underwriting partners, finance, governance.
29. This initial discovery phase will inform a more detailed programme scope, deliverables and plan, and resource requirements.
30. Significant change investment and human resources will be required, and specialist resource may be required for some elements.
31. We are reviewing some initial output of this phase for a couple of workstreams on Friday 13th November with the POI Board Oversight Committee, as well as continuing to inform progress on mobilisation of the programme.
32. The programme will follow POL change procedures, as well as be overseen by the POI board, and we will enter the change governance process imminently.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Historical Matters – Governance Review	**Meeting Date:**	24 November 2020
Author:	Graham Hemingway and Chris Manamley	**Sponsor:**	Declan Salter

Input Sought: Discussion & Noting

The Committee is asked to note and discuss the approached to Governance on Historical Matters (HM)

Previous Governance Oversight

Risk & Compliance Committee (RCC) – 12 November 2020

Executive Summary

Historical Matters (HM) was set up during September as a ring-fenced Business Unit in order to centralise all the work emerging from the three judgments under a new Director reporting to the Group CEO and Chair; to allow Post Office Executive to concentrate upon current and future business; and to ensure all current procedures are reflective of a new culture that will prevent such Historical events every occurring again.

A revised governance structure has been based upon core elements of the existing Strategic Portfolio Office (SPO) framework with changes to the approval processes. Key elements, as discussed with CFO and team are:

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Budgeting and forecasting costs

- These are aligned to the current POL budgeting and forecasting procedures

Financial reporting and accruals

- No Changes made to process used previously
- Reporting improvements made by Finance team

Procurement

- POL procurement processes are used wherever appropriate and Procurement team have supported on legal cost negotiations

Financial communications with UKGI/BEIS–

- HM is to feed information via POL Finance to ensure data consistency and single point of contact

Controls, both financial and over data accuracy

- No changes have been made to control procedures.

Internal audit

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- Internal audit have been engaged to carry out reviews of Programme setup/management and the key workstreams delivering into BAU

Risk Management

- Managed via SNOW as per SPO, reviewed regularly by Programme team, reported at SteerCo

Compliance

- Governance – via SteerCo/Decision Forums/Board reporting
- New controls implemented will link to the Controls Framework being implemented by Compliance Director

RCC and ARC

Two-way link, RCC/ARC highlighting areas which HM addresses addressing and HM Portfolio risks to be flagged to RCC/ARC

Questions addressed

1. What are HM Governance arrangements?

Report

This report covers governance arrangements implemented to support HM under the following themes:

Budgeting and forecasting costs

1. Forecast updated in Anaplan monthly
2. Forecast update communicated to Board
3. HM to be included as part of POL budgeting process

Financial reporting and accruals

4. No changes have been made to processes in use within POL generally
5. Individual projects now set up in SNOW and Anaplan
6. Standard variance reports developed
7. Actual costs and forecasts reviewed by Finance Director
8. Project costs and forecasts reported by project to the Historical Matters Committee
9. HSF and P&P legal costs now analysed at invoice line level and relevant reports produced

Procurement

10. HM follows POL process as its procedures are led by Public Sector buying.
11. HM Finance Director authorises new recruits etc., but not contracts with suppliers
12. Procurement team are involved when new estimates reviewed/rate discount discussions etc. and this collaborative approach saved an estimated £1.5m in August rate negotiations

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13. Legal firms, where practical, or where not directed by Board, follow procurement approach (e.g. Scottish legal firms being sought via panel with a view to using Crown Commercial Services rates where possible) and panel firms used where possible
14. Project Managers undergo training in Procurement processes

Financial communications with UKGI/BEIS

15. HM to feed information to POL Finance to ensure data consistency

Controls, both financial and over data accuracy

16. No changes have been made to control procedures
17. Finance resource has been boosted through the recruitment of a Finance Director and a Programme Accountant

Internal audit

18. Internal audit have been engaged to carry out reviews of:
    a. Programme setup/management etc. – this is to report during Q4 2020
    b. Common Issues judgment – embedding of Operational changes implemented – reporting timeline TBC
    c. Horizon Issues judgment – review of gaps etc., following initial gap analysis – reporting timeline TBC

Risk Management

19. Managed via SNOW as per SPO, reviewed regularly by Programme team, reported at SteerCo
20. Portfolio level risks to be reported at RCC/ARC as appropriate

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Compliance

21. Governance – via SteerCo/Decision Forums/Board as per diagram below:
    a. Delivery: represents each of the current projects which are enabled to deliver:
        i. Historical Issues / Activities: delivering outcomes to postmasters in respect of past prosecutions and shortfalls
        ii. Current Issues / Activities: ongoing activities such as Legal Advice, Judicial Review, Communications
        iii. Improvements: projects delivering change to operational processes & policy to benefit current postmaster
    b. Managing: represents the functions of the management layer:
        i. Governance / process: the core programme controls in place to monitor and ensure successful outcomes
        ii. Programme Working Group: full programme team and supporting SME working group
        iii. HMU Governance Committee: to review and approve new scope, plans and business cases
        iv. HMU Committee: overarching governance forum accountable for ensuring success of the portfolio delivery
    c. Exec: represents the functions of the management layer:
        i. Board and Senior Stakeholder engagement

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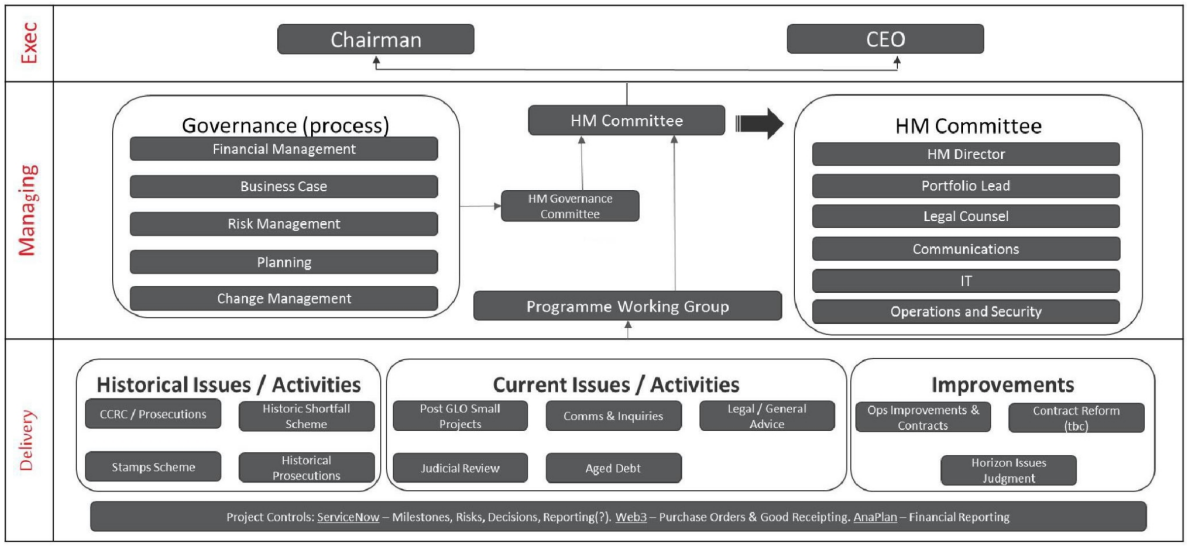

22. HM is aligned with SPO for the majority of areas, but has separate governance to minimise impact on POL areas – see below table for comparison of SPO and HM approaches (areas in red indicate where HM varies from SPO approach)

CEF / SPO Framework & Controls	SPO	Historical Matters
1 Project Controls		
1.1 Milestone Planning	ServiceNow	ServiceNow
1.2 RAID Management		
1.3 Status Reporting		
1.4 Financial Reporting	ServiceNow / Anaplan	ServiceNow / Anaplan
2 Project Governance		
2.1 Prove Plan: Project set up / budget approval	PRB / IC / Board	Historical Matters Governance Committee
2.2 Business Case: Business case / budget approval		
2.3 Change Management: Milestone / Scope / Budget approval		Programme Change Group / Historical Matters Governance Committee
3 Assurance		
3.1 IT	IT Concurrence / Impact Assessment / HL Design	IT Concurrence at Prove. IT Concurrence at Business Case if applicable including Impact Assessment and HL Design
3.2 Business	Business Readiness Assurance	Business Readiness Assurance, if applicable
3.3 Finance	Finance Director / Technical Finance	HMU Finance Director, Technical Finance
3.4 Portfolio	Head of Portfolio	Portfolio Lead
HM / SPO alignment		HM Finance Director reporting costs, forecast & budget requirements for Programme Spend to SPO via Anaplan
HM / BAU alignment		Historical Matters Governance Committee membership to include POL Head of Corporate Risk aligning HMU with RCC / ARC
HM Change (Scope, Cost, Time)		Historical Matters Exec to brief the Board monthly via standard Board updates. For Change process, see next slide.

23. Work being implemented will also link to the Controls Framework being implemented by Compliance Director, ensuring appropriate controls are delivered – esp. relating to work implemented as part of Common Issues Judgment/Horizon Issues Judgment.

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RCC and ARC

24. As risks are highlighted at RCC/ARC which need HM support to mitigate/treat, they are to be highlighted via Legal & Operations areas (e.g. Data stores, Lottery tickets etc.)
25. In addition, POL Head of Risk is a member of HM Governance Forum to ensure consistency & share knowledge of new initiatives etc. and obtain initial sight of risk areas.

Next Steps & Timelines

The key next steps on these matters include:

26. **RCC/ARC reporting:** Formal links to be established and reporting approach to be agreed
27. **Portfolio Risk Management:** Escalation/tolerances to be agreed for Risks to be highlighted at RCC/ARC
28. **Audit report:** Initial recommendations to be presented during Q4 2020

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Payzone Bill Payments Limited Risk Update Report	**Meeting Date:**	24th November 2020
Author:	Michelle Embrey, Quality & Risk Manager & Neil Davey, Operations Director	**Sponsor:**	Andrew Goddard, Payzone Bill Payments Managing Director

Input Sought: Noting

The Committee is asked to note the update on the previous Payzone Risk report last presented to the Risk & Compliance Committee (RCC) and Audit, Risk & Compliance Committee (ARC) in January 2020.

Previous Governance Oversight

This is an action from the previous ARC meeting.

Executive Summary

In the January 2020 risk report, Payzone presented 5 significant risks. 4 of these risks had a risk score of 12 and above, with the remaining risk of Brexit being an unpredictable event, qualifying as a 'Black Swan' through its potential to become significant.

Since January, we mitigated the 3 most significant risks of Terminal Communication Issues, GDPR Requirements and Policies & Operating Standards, and also improved and matured the management of the risk framework across the operation of the business.

As a consequence of the Covid-19 pandemic, 4 new significant risks have been determined; the commercial impact on Payzone's clients, poor trading conditions, the dependency on 3rd Parties, and the impact on retailer credit performance. We have been able to limit these new risks to a score of 12 respectively, via a series of management controls and reporting.

The remaining risk from January is the ability for Payzone to deliver forecast revenues vs its original plan. Given the impacts of the recent pandemic this risk has increased from a score of 15 to 20 to become our number 1 risk.

This paper details what steps Payzone has taken to improve managing risk and the movements in our significant risks.

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Questions addressed

1. What is the status of Payzone's risk framework and what are the current key risks?
2. What is the approach to risk appetite and key risk indicators?

Report

1. Throughout 2020, Payzone has invested time and resources on its people, teams, and processes to improve the way it manages risk and improves the risk culture:
    a. **Risk Review Meetings**: A risk pack is generated monthly and submitted to Payzone's senior management team for review and discussed during the monthly risk review meetings. The risk owners are challenged on the appropriate mitigating actions that are being taken to ensure the suitability to achieve the target risk scores.
    b. **Risk Structure**: A risk structure has been implemented which has identified the main risk within Payzone (ability for Payzone to deliver the 5-year plan) and promoted to an intermediate risk within the Post Office's Archer risk management system. A diagram has been included in Appendix 1 to illustrate the structure.
    c. **Risk Awareness:** Risk awareness and the role of the risk team has been presented to the wider Payzone business via a business update. There has been separate participation in the weekly team meetings in Retail, Operation and Commercial so individuals can assess and take responsibilities in identifying and mitigating risks in their jobs and teams.
    d. **Rapid Response Team:** Payzone set up a rapid response team through the initial stage of the Covid 19 pandemic and we also participated as part of the Post Office Rapid response team. We helped mitigate a risk in the Post Office Current Account contact centre and their service levels by setting up a separate virtual contact centre using Post Office employees self-isolating.
    e. **Process Improvements:** In 2020, Payzone have matured in continually improving processes to offset risk, with examples in sections 3 and 4 of this paper. Payzone have also set up their own Change Approval Board and Project Review Board. The Change Board has a various number of pre-checks and conversations with key stakeholders to identify risks prior to a change being presented to the Board for approval. Any risks to the delivery of business change and projects are covered in subsequent Change Approval and Project Review Boards.
    f. **Post Office Risk Reporting**: On a monthly basis, an update of the significant risks are reported to Payzone's Risk business partner within the Post Office risk team. This is then consolidated amongst other group risks on the Archer risk management system. This helps us identify if we need any support or resource in managing risk and leveraging if other areas of the business are having similar risks and sharing mitigation practices.
    g. **Alignment on Group Policies:** The Post Office Limited draft policies are now being reviewed by the Payzone Quality and Risk manager, for feedback prior to final submission. This allows Payzone to operate within the policy of the group and understand if any variations to that policy will be required. This has been completed as part of a wider project to adopt or align the policies within Payzone to the Post Office group policies.

The progress made against the key risks is summarised in Figure 1 with the details outlined in sections 2 & 3 below.

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Figure 1

Significant Risk	Risk Score	
	Jan-20	Nov-20
Ability for Payzone to deliver forcast revenues	15	20
Poor Trading conditions in current Pandemic	-	12
The impact of the pandemic on clients	-	12
The dependancy on third parties	-	12
The long term impact of the pandemic of finances	-	12
Brexit	5	5
Terminal Communication Issue	20	6
POL Policies and Operating Standards	16	6
GDPR Requirements	16	4

Key Risks

2. January 2020 Mitigated Risks
    a. **Terminal Communication Issue:** In January 2020, the terminal communication issue was the highest risk with a risk score of 20. The mitigations included several IT software releases to improve the communication issue during spring 2020. This has been reflected in a reduction of inbound calls to the Helpdesk regarding terminal communication from 20% down to 4%. Further development has been completed which will enable the ability to complete pre-payment gas transactions on a single device. As a result, the risk score has been reduced to from 20 to 6.
    b. **GDPR Requirements:** Work has been ongoing in conjunction with the Post Office Data Protection team to improve the governance surrounding data protection within Payzone. A data protection process has been implemented which includes data breach reporting and subject access requests. A weekly progress meeting between Post Office data protection and Payzone's Quality and Risk Manager has been set up to provide support and ensure progress of activities. Training material is being created to roll out to all Payzone employees by Q4 2020/21. The actions implemented have reduced the risk score from 16 to a to a target score of a 4.
    c. **POL Policies and Operating Standards:** A project has been set up to align Payzone with the Post Office's key group policies. This proposal was presented to the Sept 2020 PZBP board with the objective to review 2 policies per month until FY Q4. It is the intention that the Post Office key group policies will be adopted where possible. If there are material differences, then variations will be created. The risk score has reduced from 16 to 6.
    d. **Forecast Revenues and Brexit:** These risks remain and are discussed in detail in section 4 of this report.

3. Current Significant Risks
    a. **Intermediate Risk – the ability for Payzone to deliver the 5 yr plan risk score 20 (5:4)**
    This risk has been promoted to become the intermediate risk at group level. The 5-year plan on revenue and cost lines has been re-forecasted as a response to the changing priorities due to the demands on the business from the Covid-19 pandemic. At this stage, we continue to monitor the changes in customer buying behaviour (cash to digital) and the requirements / desire of clients to enter into exclusive contracts as well as plans to migrate to digital payments. To date, we are not seeing evidence of this and in fact, the engagement with clients is more

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positive and we have advanced dialogue with clients (e.g. e-On, Allpay) and retailers (e.g. Tesco & Coop) to migrate transaction volume to the Post Office and Payzone networks.

b. Poor trading conditions in the current pandemic (risk score 12)

The lockdown in Q1 had a initial downward impact on the bill payment trading conditions with us performing 20% lower against the original budget for the quarter, due to the elderly and high risk shielding at home and our clients working with customers to help them pay their bills through non cash methods or offering free credit and payment holidays. We have seen positive recovery during Q2 with both Energy and Resellers returning to perform -10% against budget and parcels have performed +20% YoY, but transport continues to struggle due to the fear of using public transport and working from home. However, our digital transport solution places in a good position as post-Covid conversion from cash to smart card will be prevalent. We have aided our recovery by signing new Energy clients in Bright and Jersey and driven new volume from eOn, EDF and via our platform partners, Siemens and Itron who prefer to deal with us over competitors. We will drive additional future revenue from a planned exclusive relationship with eOn on smart and from new deals with Allpay and Capita.

c. The impact of the Covid-19 pandemic on clients (risk score 12)

We are starting to see some of the smaller Energy companies struggle and fail due to bad debt and a lack of contingency in their balance sheets. Their customers however are being absorbed by the big 6 suppliers and we have seen 100,000 new customers added to BG's customer base (Robin Hood Energy) which will drive volume to our branch and store network in Q4. The transport industry is in disarray and largely propped up by the government since late spring, which will continue until people can travel freely. Parcel companies are thriving due to an uplift in online shopping and this will continue for the long term, benefitting Payzone via relations with HubBox (start up operator). We are aligned with PUDO strategy work to determine the potential to leverage the Payzone network to support the POL PUDO aspirations.

d. The long-term impact of the pandemic on finances (risk score 12)

The current situation is highly changeable with the unknown impact due to the sporadic shifts in local lockdowns around the country. The actions completed within the credit management function has resulted in a reduction in retailer debt to below the levels seen pre-pandemic. The pre-pandemic levels of failed direct debit were at a level of 1.5% (£182k) per week and a collection rate of 95.5% (£174k). This has reduced to a level of only 0.5% for failed direct debits and a collection rate of 100%. These exceptional levels have been achieved by a combination of activities including improvements to the collection process to collaborate with retailers that fail direct debits, improvements in the quality of new retailers which has been aided with the implementation of a defined credit policy, publicising card payments as well as cash payments. The aged debt levels have also decreased which has been facilitated by a change to how the inbound calls are processed. These calls are now routed to the Helpdesk which has resulted in the credit team's ability to dedicate more time to resolve the older debts.

e. The dependency on third parties (risk score 12)

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Throughout this pandemic there is a risk to business-critical activities that have a high dependency on third parties which have a possibility for high exposure, for example, PLS which provide Payzone's engineering resource. The key suppliers were contacted and requested to complete a questionnaire to understand their business continuity plan arrangements in place to enable service levels to resume during the pandemic situation. Regular calls are in place with key suppliers to monitor the service during this changeable situation. Additional governance surrounding the control of suppliers is currently being implemented with the development of a procurement policy. The implementation of this policy will ensure the controls in place for external providers are robust and minimises the risk in this area

f. Brexit (Black Swan risk score 5)

The risk to the operation is low based on an appraisal of suppliers and technology processes and the only risk relates to the broader macro-economic impact to the UK economy. This is being continually monitored during the weekly group Covid-19/Brexit rapid response team calls.

Risk Appetite

4. The approach Payzone is adopting to develop the risk appetite is to have the Quality and Risk Manager be a part of the Post Office team reviewing and updating the Post Office Risk Appetite. This will ensure that Payzone aligns where possible to the Post Office Risk Appetite statement. Once the Post Office Risk Appetite has been approved by ARC the risk appetite statements will be reviewed and agreed by Payzone Board during the April meeting.

Conclusion

5. Significant work has been conducted which has achieved a reduction in the overall risk scoring of the pre-pandemic risks. Whilst the COVID 19 pandemic has changed the key risks in the business, the overall risk profile has not changed significantly. Continuous monitoring of how COVID 19 has impacted Bill Payments is in place to ascertain changes to customer behaviour, volume impact, competitor behaviour, and the impact on the operating model.
6. Whilst there has been good progress in the risk framework and maturing the risk culture within Payzone there is still work to be completed to introduce the risk appetite statement. This will be conducted in line with the POL group risk appetite statement. The technology and legal and compliance risk appetite statements are due for approval at the November ARC.

Next Steps & Timelines

7. Risk appetite be generated and brought to the Payzone Board in Q4 '21.

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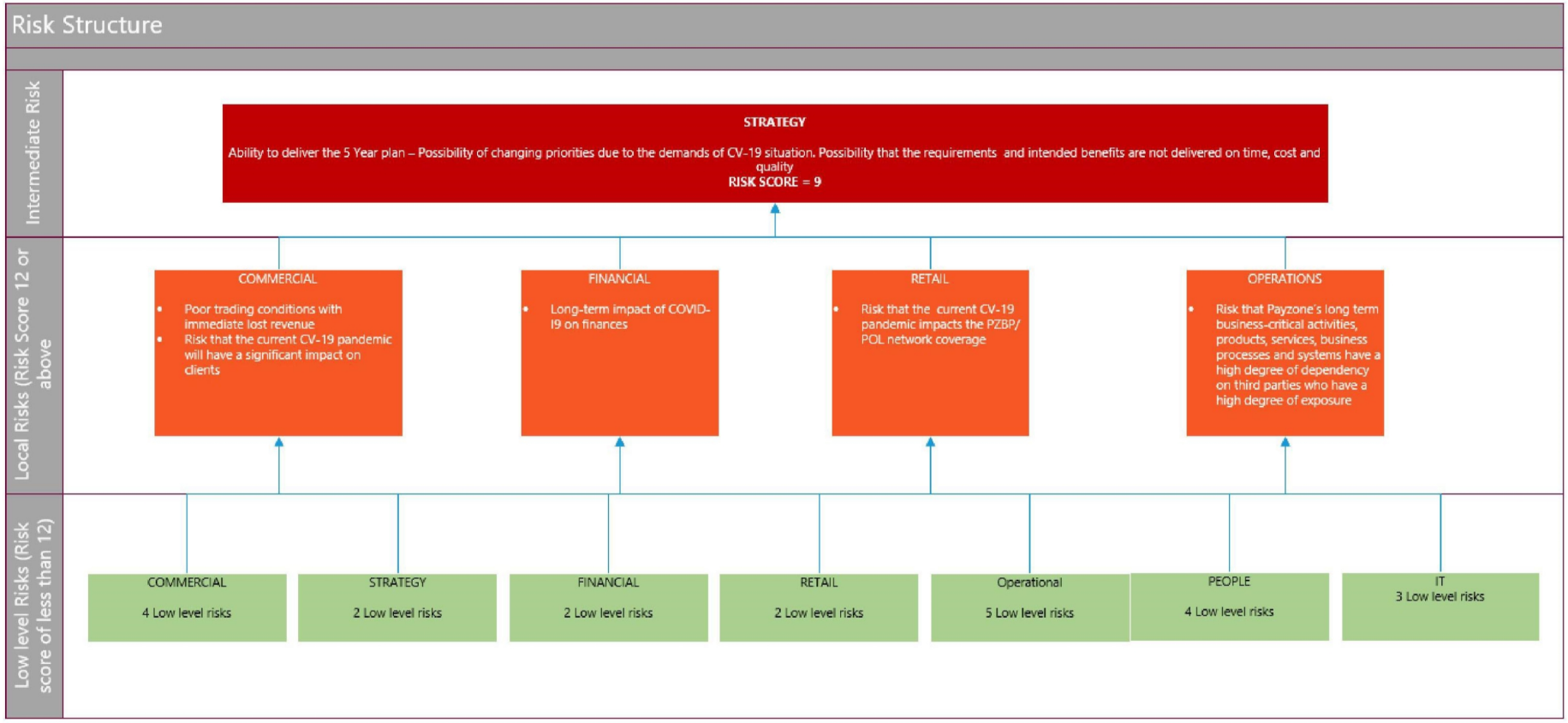
Appendix 1: Risk Structure



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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Multiple partner financial stability update	**Meeting Date:**	24 November 2020
Author:	Karl Oliver, Head of Commercial Partnerships	**Sponsor:**	Amanda Jones, Group Retail & Franchise Network Director

Input Sought: Noting

The Committee is asked to note the partner financial stability update.

Previous Governance Oversight

ARC papers Sept'19 and Mar'20.

Executive Summary

1. In the ARC meeting Sept'19, we shared a paper outlining how we track the financial stability of our largest partners and followed-up with a contingency plan in ARC March'20 which set out how we would maintain PO services in the event of the closure of a large number of PO's as a result of Partner financial collapse. This paper provides an update on the financial tracking of the partners incorporating the known marketplace impact of covid.

2. Of our 6 major partners, 4 are classed as 'Green' (low risk) using our financial stability measures. We do have concerns around McColls and WHS and both are currently classed as 'Amber' (medium risk).

3. Appendix 2 shows key financial highlights for McColls and WHS. For McColls it highlights slight improvements for cash and debt, with share price decline remaining a concern. For WHSmiths it highlights the FY preliminary loss of £69m but with good access to cash/credit. Neither status has been adjusted and both will continue to be tracked closely as AMBER.

4. Both businesses have been under considerable cost pressures for some time and the impact of Covid has only served to exacerbate this. Our intention has been to work closely with both McColls and WHS to agree pragmatic ways to help them move to a more sustainable estate/model and therefore maintain PO services for customers.

5. As was highlighted in the report to ARC in September last year, we have limited access to Analyst/Broker insights to understand the underlying financial health of some of our largest partners. At the time we explored subscription to Thomson Reuters platform that provided additional financial KPIs but this was discounted as it added 'data' rather than insight.

6. Our recommendation is that we re-look at options working with the Financial Controller team including retaining access to an analyst and utilisation of an 'insight/knowledge marketplace' (e.g. Gerson Lehman Group, GLG model).

7. Since we last reviewed the financial tracking and operational plans with RCC/ARC the partner planning has informed the 'early days' covid response and worked well to accelerate

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our set-up. We have taken the improved reporting and prioritisation from the covid planning to strengthen the partner plan.

Questions addressed

8. How do we track the financial stability of our strategic partners?
9. What is the current financial status for each of our strategic partners?
10. What is Post Office Limited (POL) doing to support/mitigate risk with the AMBER Partners?

Report

How do we track the financial stability of our strategic partners?

11. Following engagement with Risk, BEIS and finance the 'financial resilience tracker' was established in P1, 2019 to formally review finances and significant account activity for our 6 largest partners. The financial measures where appropriate mirror those tracked by BEIS and are reviewed by period looking for any indication of distress.

    External distress signals would include profit warnings; cash constrained – low liquidity headroom; prospective covenant breaches; Poor financial ratios particularly gearing, operating margin, ROI/ROA; credit status downgrade; share price underperformance; failed refinancing and/or new management team.

12. We currently track share price and trend, Experian ratings, key ratios (net debt vs EBITDA, total debt vs equity and interest payment cover) and formal announcements from the partner to create a RAG rating for each partner. Tracking of industry media & social feeds and insight gained from relationships is included under internal measures, with any significant events fed back through Retail Director updates. The P6, 2020 financial tracker is included in Appendix 1.

13. Following discussion at RCC 15/11, further exploration around access to specialist 'financial health' analysis will now be completed in conjunction with Tom Lee (PO financial Controller) and Edward Dyer (Working Capital & Cash Management Lead). Ed recently joined PO from Deloitte where he worked in restructuring services so is accustomed to reviewing struggling businesses.

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What is the current financial status for each of our strategic partners?

14.High level partner tracker (full tracker in appendix 1)

	McColl's					
# post offices within estate	557	IRRELEVANT				
POL income (£ YTD)	£14.6m					
POL Income variance YoY at YTD (%)	99%					
Share price % change in last 12 months	-45%					
Comments	Positive trading (exceedi conv. channel through Covid) but with drop in share price and continue rationalisation of estate impacting topline. Disposals will continue through sale and closur programme					
Overall Level of concern	Medium	Low	Medium	Low	Low	Low

15 IRRELEVANT (status: GREEN)

- Company annual accounts published IRRELEVANT caused no triggers and show strong top-line performance and reducing debt (IRRELEVANT
- Strong trading has through covid impacted period (IRRELEVANT in 12w to ending IRRELEVANT)
- Combined IRRELEVANT) Post Office estate size has remained stable over last 12 m
- PO trading recovered quicker in IRRELEVANT (-5% YoY for last 3 months) with IRRELEVANT hit by temp closures for 10 x transfers and local store customer shift (Status: GREEN)

16. IRRELEVANT (status: Green)

- Their last accounts covered the period unti IRRELEVANT and caused no financial triggers
- IRRELEVANT sales performance forecast IRRELEVANT YoY for 2020 IRRELEVANT
- IRRELEVANT have continued to review their estate, selling small and acquire larger stores with a net IRRELEVANT in the last 12m and have expressed an interest in IRRELEVANT additional PO sites stores for 2021.
- IRRELEVANT PO performance recovered from an initial drop of IRRELEVANT YoY to trade at IRRELEVANT YoY for the last 3 months.

17. The IRRELEVANT (status: GREEN)

- Interim results covering period to early July'20 were published in Sept with no financial triggers caused
- IRRELEVANT have benefitted from the impact of the covid lockdown with IRRELEVANT peaking at IRRELEVANT the highest it has been for IRRELEVANT (Kantar)
- IRRELEVANT have committed an investment of IRRELEVANT in opening IRRELEVANT giving IRRELEVANT significant extensions, and giving IRRELEVANT creating 1,000 jobs before the end of the year (IGD).
- IRRELEVANT PO estate has remained stable over the last 12 months at IRRELEVANT stores and have expressed an interest in c.10 additional POs for 2021
- IRRELEVANT PO performance was IRRELEVANT YoY in April and for P6 was IRRELEVANT YoY, further recovery is expected as they extend trading positions through improved PPE set-up.

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18. McColls (status: AMBER)
- McColls published their interim results in July'20, with overall flat trading figures the share price following an initially positive response has dropped 38% in the last 3 months and although debt has reduced by c.£8m it remains high
- LFL trading was +8.3% (McColls interim results) with trading during covid period +c.20% and c.+4% vs Convenience sector through Mar-May (Neilson)
- McColls have continued their estate review with a net PO reduction of 5 sites and a further 84 (15 closures and 69 to be sold) will be disposed of as part of this programme
- McColls PO performance recovered quickly benefitting from local shopping, initial drop in April was -20% YoY and average PO trading for the last 3 months of +3.5% YoY

19. IRRELEVANT (status: AMBER)
- IRRELEVANT issued their trading results on IRRELEVANT for Financial Year ending 31st August. Results were better than expected, with losses at IRRELEVANT versus a forecast of IRRELEVANT The message to the market is that they are financially strong and well placed for a recovery post Covid.
- Their s IRRELEVANT ollowing the announcement of the Pfizer covid vaccine and this value has been retained following the preliminary results announcement.
- IRRELEVANT estimate a 'cash burn' during November lock down of c.£20m, with the company having more than £400m of liquidity available, including cash reserves and undrawn revolving credit facility of £200m.
- IRRELEVANT confirmed in their preliminary statement that they would IRRELEVANT IRRELEVANT in the year ahead. There are Post Offices operating within the list o IRRELEVANT sites and we have a further IRRELEVANT Post Offices under resignation where they have not been able to reach an agreement with their landlord.
- IRRELEVANT Post Office income performance has recovered from IRRELEVANT YoY in April to IRRELEVANT YoY for the last 3 months but lockdown 2 is likely to negatively impact as IRRELEVANT sites are IRRELEVANT sites

What is POL doing to support/mitigate risk with the AMBER Partners?

20. McColls
- We have maintained our controls and contingency plan for a McColls failure (as covered in Mar'20) but are working closely with them on the rationalisation of their estate as they continue the transition from 'Newsagents' to 'convenience operators'
- They have shared the detailed store disposal plan and how this impacts the operation of POs in their estate. Their estate review will reduce their PO sites by 134 sites, from 607 to 473 (with c.50 completed so far). This 134 site reduction will be achieved through the closure of 52 sites (37 closed) and sale of 82 sites (13 sold). They are reducing their overall retail estate by c.350 sites over the same period.
- The remaining 15 sites for closure all have closure dates in this financial year. McColls have served full notice on all sites and have extended past official closure dates to assist when we have temporary operators in place (4 stores re-opened with temporary Postmaster).
- We have proactively advertised all the 'for sale' sites through our 'Run a Post Office' website to help McColls find buyers, with 13 now sold; 50 are 'under offer' and the final 19 remain advertised.
- We continue to support McColl's Post Office with operational advice, resource mapping and training of additional support staff for covid impacted stores.

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2 IRRELEVANT

- PO are supporting IRRELEVANT with resource modelling so that they can adjust their labour cost to meet the 'new' demand levels. To date, we have identified c IRRELEVANT ours (IRRELEVANT of total) per week of excess colleague workload that due to drop in demand is no longer required.
- To further assist with cost control we have agreed a reduction in contractual opening hours for IRRELEVANT (effective from January 2021), whereby the hours will not drop below 'Post Office Core' hours but IRRELEVANT has the flexibility where demand exists, to increase these hours.
- IRRELEVANT demonstrated maintained PO services across their estate throughout the covid impacted period, even where the retail store was closed, which has been recognised by the customers, with the primary customer service indicator increasing 19% vs previous year, increasing from 65% to 84%. We will continue to track and work jointly to ensure service standards are maintained through cost reduction activity.
- In the medium term, IRRELEVANT PO remuneration remains IRRELEVANT down and the post-lockdown retail forecasts show limited recovery with the shift in customer patterns and behaviour away from larger city centres and shopping centre locations expected to continue.
- IRRELEVANT and POL are jointly reviewing variable trading formats in order to provide optimum service levels and introduce flexibility, addressing IRRELEVANT concerns around PO operating profit/costs, realigning of their staff costs and maintaining high customer service levels.
- Our field teams have extended the McColls approach, covered in the Mar'20 ARC paper, of building individual branch plans for the IRRELEVANT estate.

Options under review:

- Reduction of counters enabling downsizing of the PO area to allow increased retail
- Introduction of a Combi counter to allow integration of retail & po operation
- New format propositions being considered by POL for simpler more efficient service
- SSK Automation – colleague capability build to drive migration to SSKs

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Appendix 1

1. Copy of P6 Financial resilience tracker (page 1 of 2)

Period 06 2020	
Company	McColl's Retail Group PLC
Registered Number	00298945
Commercial Partner	McColls
Listed	YES
Exchange	LSE
Market Cap (£)	26.56M
Current Share Price (0.00p)	26.00
Share price high (L12M) (0.00p)	56.00
Share price low (L12M) (0.00p)	14.95
Share price % change (L12M)	-45%
Share price % change (L3M)	-38%
Experian Delphi Score (out of 100)	100
Experian Odds of Failure	176:1
Net Debt/EBITDA	2.5
Net Debt/Equity	3.2
Interest cover (Earnings/int.exp)	3.2
Financial Year End	27/11
Recent Announcements	Interim results July 23, 2019
Upcoming announcements	Preliminary results expected February 2020
Notes	Share price dropped 38% after post covid bounce
Finance (RAG)	
Number of Company operated POs within estate	557
Number of Symbol operated POs within estate	0
Total of whole estate	c.1400
Acquisitions Company operated (L12M)	0
Disposals Company operated (L12M)	53
Disposals of PO with retail retained CO (L12M)	0
POL Income (notional) (£) YTD	£14.6m
POL Income variance YoY & YTD (%)	99%
Reported PO P&L (if applicable)	-
POL Notes:	Positive trading (exceeding conv. channel through covid) but with drop in share price and continued rationalisation of estate impacting topline. Disposals will continue through sale and closure programme: AMBER

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Copy of P6 Financial resilience tracker (page 2 of 2)

Period 06 2020	
Company	
Registered Number	
Commercial Partner	
Listed	
Exchange	
Market Cap (£)	
Current Share Price (0.00p)	
Share price high (L12M) (0.00p)	
Share price low (L12M) (0.00p)	
Share price % change (L12M)	
Share price % change (L3M)	
Experian Delphi Score (out of 100)	
Experian Odds of Failure	
Stock on loan %	
Net Debt/EBITDA	
Net Debt/Equity	
Interest cover (Earnings/int.exp)	
Financial Year End	
Recent Announcements	
Upcoming announcements	
Notes	
Finance (RAG)	
Number of Company operated POs within estate	
Number of Symbol operated POs within estate	
Total of whole estate	
Acquisitions Company operated (L12M)	
Disposals Company operated (L12M)	
Disposals of PO with retail retained CO (L12M)	
POL Income (notional) (£) YTD	
POL Income variance YoY & YTD (%)	
Reported PO P&L (if applicable)	
POL Notes:	

IRRELEVANT

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Appendix 2

Key financials for McColls and WHSmith

McColls

£m	1H20[1]	FY2019	1H19[1]	2018	1H19-1H20 % Change
Revenue	605	1219	611	1242	(1.0)% ↓
Gross Margin	25%	26%	25%	26%	0.0%
Adjusted EBITDA	13	32	13	35	0.6% ↑
EBITDA Margin	2%	3%	2%	3%	0.0%
Profit before Tax	(1)	(99)	0	8	-
Cash flow from Ops	36	20	13	62	177.6% ↑
Free Cash Flow	88	(9)	88	104	0.3%
Cash	71	37	37	29	91.8% ↑
Debt	355[2]	131	127	127	180.5%
Net debt	284[2]	94	90	99	N/A[2]
Leverage (Net debt/ Adj. EBITDA)	21.7x[2]	2.9x	6.9x	2.8x	N/A[2]

- Total revenue decreased by 1.0% to £605m in IH20, primarily reflecting store closures during this period and the temporary withdrawal of scratch cards
  - This was however offset by stronger demand observed in the groceries market driven by the Covid-19 outbreak, particularly for food and alcohol
- There have been a number of factors leading to downward pressures on margin
  - Customers' purchasing behaviours have slightly shifted away from impulse, top-up purchases to planned lower-margin take home products, as well as multi-buys and value items
  - There have also been a number of strategic price investments in some key product areas
  - From an operational perspective, there have been additional costs to put in place health and safety measures for employees and customers
- As a result of adopting the new accounting standard for the six months ended 24 May 2020, the Group's Adjusted EBITDA was £28.0m and Net Debt was £284.3m as at the period end
  - On a consistent, pre IFRS 16 basis however, Adjusted EBITDA for the period was over £13.1m (2019: £13.0m) and Net Debt reduced to £82.0m (2019: £89.7m)

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WHS

Key Financial Highlights - UK

£m	1H20[1]	FY2019	1H19[1]	2018	1H19-1H20 % Change
Total UK Revenue	586	1145	591	1130	(0.8%)
High Street	315	580	331	590	(4.8%) ↓
Travel UK	271	565	260	540	4.2% ↓
Profit before Tax	N/A	157	N/A	152	N/A ↑

Key Financial Highlights - Group

£m	1H20[1]	FY2019	1H19[1]	2018	1H19-1H20 % Change
Revenue	747	1397	695	1262	7.5% ↑
Gross Margin	N/A	60%	N/A	60%	N/A
Adjusted EBITDA	104	200	91	185	14.3% ↑
EBITDA Margin	14%	14%	13%	15%	6.3% ↑
Profit before Tax	N/A	157	N/A	152	N/A
Cash flow from Ops	N/A	149	N/A	143	N/A
Free Cash Flow	1	109	27	96	(96.3%) ↓
Cash	45	49	48	45	(6.3%) ↓
Debt	N/A	229	N/A	47	N/A
Net debt	977	180	221	2	342.1% ↑
Leverage (Net debt/ Adj. EBITDA)	9.4x[2]	0.9x	2.4x	0.0x	N/A[2]

- WHSmith UK's like-for-like revenue decreased by ~1% in IH20 from £591m in IH19[1]
  - The ~580 high street stores saw sales and footfall plummeting, which has prompted the business to review its operational structure and consider cutting up to 1,500 jobs as of August 2020
  - Travel division reported a revenue decline of 73% YoY in July and 84% YoY in June, as the majority of UK airport and rail station stores closed during the first national lockdown
  - The firm announced a pre-tax loss of £69m for the year ending August 2020 and 25 store closures (impacting 6 Post Offices).
- Group's net debt increased significantly from £221m in IH19 to £977m in IH20[2]
  - On the other hand, the group recently raised £166m from investors to improve the balance sheet, which followed a new lending facility of £120m secured shortly beforehand

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Transformation Office Change Update 2020	**Meeting Date:**	24 November 2020
Author:	Saira Burwood, Head of SPO & Joanne Welch, Change Risk & Assurance Manager	**Sponsor:**	Dan Zinner, Group Chief Strategy and Transformation Officer

Input Sought: Noting

The Committee is asked to note an update on improvements implemented to better manage Change and ensure the effective delivery of Change, and to approve further adoption and continued improvement.

Previous Governance Oversight

- ARC update on 13th September 2019
- Risk & Compliance Committee (RCC) update on 7th November 2019
- Internal Audit report dated 4th May 2020

Executive Summary

At the September 2019 ARC meeting, an update was provided on the current short-term focus of the Chief Transformation Officer (CTO) and the centralisation of the Change function. The CTO's plan was focused on immediate improvement in the oversight and delivery of Change ('doing things right') not on the Strategy ('doing the right things'). It concentrated on three areas: People, Process and Perception.

Since then a significant amount of work has taken place and the POL Change organisation has evolved into a centralised, collaborative and effective function with clear accountabilities and management. Capable and competent resources are on appropriately configured teams, the quality of support across Change has increased, oversight has been enhanced through better tooling, new rhythms and reports to provide transparency, and governance processes and controls have been further improved and embedded to drive consistency.

To further support delivery of the CTO plan, a new "Change Control Framework" (CCF) was developed. The CCF was deployed formally to the Change Community and wider Business in February 2020 and has subsequently been captured for onward management within Archer GRC tool. In July 2020, Internal Audit noted that that there was already a noticeable improvement in the consistency and effectiveness of controls operation at programme level. More information on the CCF can be found in the Reading Room.

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A continuous improvement programme is in place and opportunities are identified and delivered around our current processes, principles, artefacts, tooling and adoption. Our ongoing learnings from post-implementation reviews, health checks, 1st/2nd line assurance and self-identified gaps and weaknesses through our CCF also continue to drive improvements across Change.

While a lot of progress has been made, there's still more to do. Focus over the last year has been on the Change Community, and further work is now required to bring management along on the overall Change vision and journey. This includes broadening stakeholder understanding of, and conviction for, how 'Change works' at the Post Office to make the process more efficient, and assisting the GE to role model appropriate behaviours of change management, including

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decisiveness and consequence management while advocating consistency, transparency and following governance rules.

Questions addressed

1. What changes have been implemented across Transformation since the last ARC update?
2. How effective is the CCF in mitigating & managing Change Risks?
3. What lessons have been learnt and what areas will be focused on next?

Report

What changes have been implemented across Transformation since the last ARC update?

1. In September 2019, the CTO set out to embed Change processes and ways of working through consistency, clarification and communication. Initial efforts focused on the Change community and increasing understanding on how to consistently manage and resource a project for delivery, before further engaging the overall business on Change. Three key areas were focussed on (People, Process and Perception) and the following section outlines what has been implemented so far in each of these areas.

2. Regarding the key deliverables relating to **People**, 3 sub-themes were identified:
   a. *Structure Change teams that are fit for purpose and leverage current resources to ensure people are working within their scope and ability*
      i. Project Delivery Team manager in place since November 2019 to directly line manage, develop and track (against performance metrics and project data quality metrics) all Project/Programme Manager (PM), Business Analyst (BA) and Project Management Office (PMO) resources, and ensure appropriate alignment of resources to projects based on their scope and ability, and the project needs.
      ii. Central cross-charging through our ServiceNow tool of BAU resources who work on projects is now in place (e.g. SME, Product Owner, Solution Architect, lawyers) which ensures better forward and historical visibility of all project costs and appropriate accounting. In September, 60 BAU resources were cross-charged.
   b. *Increase the number of capable and affordable Change resources, not necessarily total resources*
      i. We have rebalanced the Change Delivery Skills Group resource split from 47% employees (FTE and FTC) on 31st August 2019 to 53% employees on 31st August 2020 to lower overall costs, with the remainder filled by contractors.
      ii. 100% of Skills Group pool resources undergo an induction, within 1 month of joining Change, on the Change Excellence Framework and the 8 PM minimum standards on which they must comply. We have completed 53 inductions in the last 12 months. A BA framework has also been developed and will be embedded in Q3. Both frameworks include compliance metrics.
   c. *Clearly communicate the value of the centralised Change support team structure and roles and constantly ensure this is fit for purpose and cost*

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i. The centralised SPO function had 14 FTEs in August 2019 and following the recent restructure in August 2020 now has 9.5 FTEs with an overall cost saving of 30%. The number of Change projects within has reduced by c.25% since last year, but due to more proactive management of our Change spend, we have seen a total increase in volume of work (see Appendix 1). However, efficiencies were made due to better IT tooling, focus on improved data quality and more standardisation across processes.

ii. Further FTE reductions were made with a 'Portfolio of Change' restructure from 8 portfolios in August 2019, down to 5 portfolios, removing 6 FTEs with an annualised saving of over 40%.

3. Key deliverables relating to **Process:**

a. Operationalise Change routines and rhythms, ensuring consistency and speed across the business

i. ServiceNow has been embedded and adopted and is used as our 'single source of truth' for all project data. It is widely used to produce a variety of dashboards and reports on all aspects of Change delivery including the monthly UKGI Change update report, Portfolio performance metrics, project costs & benefits, Change data quality, resource allocation etc. to drive key decisions by senior management and support PMs in successful project delivery. We have 355 risks and 305 milestones against 98 listed projects today versus 555 risks (included duplications and poor data) and 55 milestones against 132 listed projects in October 2019. (See Appendix 2 – Example of weekly project metrics dashboard)

b. Embed the Governance process and tools, with improved efficiency, effectiveness and agility

i. The capture and sharing of project lessons learnt plays a key role in ensuring we learn from our mistakes. The Change community and key stakeholders receive a regular overview of key themes being seen in Post-Implementation Reviews and Project Health Checks (See Appendix 3 – Key PIR Themes Report) and appropriate remediation plans and controls improvements are agreed to further strengthen our overall governance processes and CCF.

ii. The Business Readiness Assurance (BRA) process has been enhanced to ensure earlier stakeholder engagement. New projects attend the Gating forum at project outset to ensure their impacted stakeholders are aware of issues and mitigated potential risk. 100% (20) Projects received approval first time in Q2 2020 versus 25% in Q2 2019 where only 3/12 projects were approved first time.

iii. Following CCF assessemnt, more robust processes and controls have been implemented including reducing spend tolerance (from 10% to 2%) which prevents any project from raising a Purchase Order or committing spend more than 2% above their approved budget.

iv. Monitoring leading indicators at IC (identified in the benefis workbook as part of the benefits management process) to provide early insight if benefits are still on track to be realised.

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4. Key deliverables relating to **Perception:**
   a. *Foster understanding, conviction and alignment within the Change community on how the PO "does Change," which includes training and constant "on the job" practice in new ways of working*
      i. More frequent communications are in place to build knowledge and engagement e.g. a weekly newsletter, the All Hands Change monthly meeting, Communities of Practice.
   b. *Bring management along on the overall change vision and journey*
      i. The GE/Investment committee have requested more transparency and a desire to see that we are delivering change consistently and learning from our mistakes, but there is still more work to do to support the GE in role modelling appropriate behaviours of change management including decisiveness and consequence management.

5. This is all underpinned by the CCF which identifies all Change risks, control procedures and remediation. The CCF has promoted a cultural shift, increasing awareness that there are risks to be managed and the importance of adherence to our controls and processes. It has driven accountability across Change with risk and control owners identified, and supported enhanced oversight and assurance of change. Work is now underway to fully operationalise the CCF with periodic assessment on the risks and controls.

How effective is the CCF in mitigating & managing Change Risks?

6. The CCF was developed with support from Internal audit in Q3 2019, deployed to the change community in Q4 2019 and loaded into the Archer tool in Q2 2020. The CCF currently holds 53 controls including all the checks, challenges and reports to enable projects to deliver on time, on budget, to quality enabling benefits to be realised. Controls are at governance, portfolio and project levels throughout the project lifecycle until benefits are transferred to business areas to track to fruition. (See Appendix 4 for a summary of the CCF)

7. Control procedures have been strengthened by defining the activities undertaken, detailing the type of control, its design, ownership and its frequency of operation. The relationship between each control procedures and the risk it helps to mitigate/manage has been linked within Archer and a standard operating procedure defining how SPO Risks and Controls should be identified, assessed, tested, remediated and reported has been issued.

8. The controls were tested in January and September 2020 with overall control effectiveness levels increasing by 51%. (see Appendix 5, fig.1-4) The testing cycle for each control has been set based on its criticality and frequency of operation. Remediation plans were created where controls were not fully effective. The next scheduled tests are December 2020. All testing has been assured by the Change Risk & Assurance Manager to ensure controls effectiveness levels assigned are valid and control owners have appropriate supporting

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evidence. A thematic assessment of 1st line Portfolio Assurance has been completed with a formal report produced. This report is included in the reading room.

9. Periodically Change risks residual scores will be re-evaluated by risk owners based on environmental factors and control improvements as remediation plans complete. Any additional remediations will be captured at this time.

What lessons have been learnt and what will focus be on next?

10. This year 15 PIRs, 6 Project Deep dives and 1 Thematic review has been completed resulting in 50 improvement recommendations. One common theme identified across these reviews has been inaccurate benefits, either due to over estimation, erosion due to changes in schedule or an inaccurate initial cost forecast. These recommendations have resulted in updates to governance forum TORs, benefit & cost forecasting roles and responsibilities and supporting RACI being developed, and additional business training planned for Q3/4.

11. Business change management practices and suppliers' learnings have also been highlighted and are shared regularly with the wider change community via the PM Communities of Practice. A detailed mapping of recommendations against SPO control area can be seen in Appendix 5 – SPO Controls Assessment fig. 5-8.

12. The lessons learnt repository within ServiceNow has been embedded, with all projects recording lessons throughout their lifecycle. There are currently 157 lessons logged. This repository is searchable and is being used by project managers to identify lessons at project initiation to help them succeed in areas where others have fallen foul.

13. In H2 we plan to focus on the wider business to improve their understanding on how 'Change works' at the Post office and communicate our overall Change vision. This includes senior management and the leadership teams (including the GE) and is particularly important and timely following organisational changes. These sessions will refresh and re-educate Business Sponsors of Change on our processes, controls and the importance of their role within Change in particular, their accountabilities for benefit realisation throughout a project.

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Next Steps & Timelines

We can return to the ARC in May 2021 to provide an update on the areas of focus identified above if desired.

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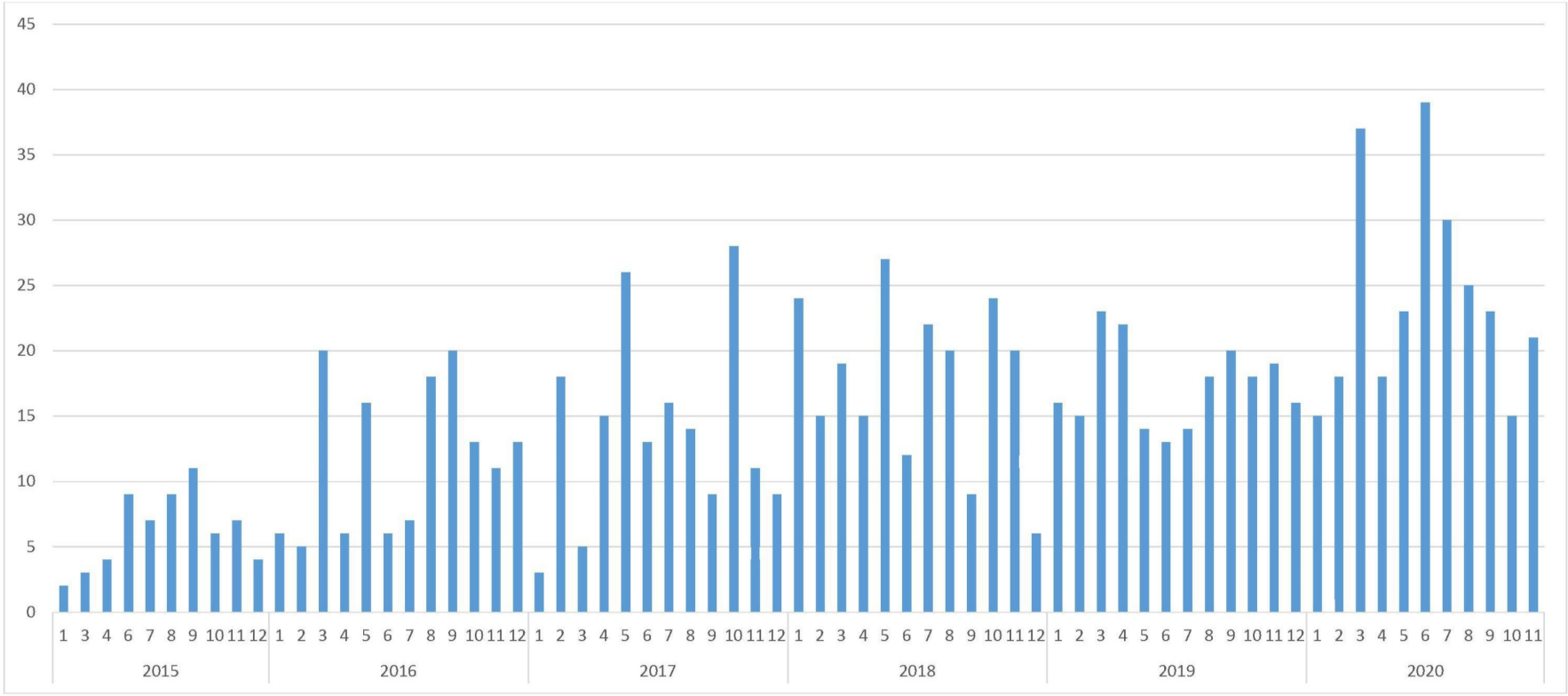
Appendix 1 – Volume of Cases seen at the Portfolio Review Board

This graph shows the total volume of cases seen each month at the Portfolio Review Board. There has been an increase in the number of cases seen at the PRB in 2020 versus previous years (despite lower overall total number of projects compared to 2018 and 2019) due to more proactive management of our Change spend.



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Appendix 2 – Weekly Project Metric Dashboard

WE 16-10-2020 P7 W3 (Summary - PGS Only) — Printed on: 19/10/2020

Notes:	*All cells are filled with whole numbers	*Includes all Active projects (including NDA) only.	*All numbers are whole numbers representing number of projects in each category
Reporting Period:	P7W3	Date Produced:	19Oct20

All Projects

Portfolio Name	This Week Total	This Week By Metal/Size (P/D Only) P	G	S	Dev Gov	Fund	This Week Stage P	D	Week On Week Total	Clo	New	Week On Week By Metal/Size (P/D Only) P	G	S	Dev Gov	Fund	Week On Week Stage P	D	Month On Month Total	Clo	New	Month On Month By Metal/Size (P/D Only) P	G	S	Dev Gov	Fund	Month On Month Stage P	D
Banking, Payments & Other	26	1	3	11	9	2	5	21	0	0	0	0	0	0	0	0	0	0	-3	4	1	0	0	0	-3	0	0	-3
Historical Matters BU	14	3	0	11	0	0	12	2	11	0	11	0	0	11	0	0	11	0	11	0	11	0	0	11	0	0	11	0
IT Platform Enablement	25	4	3	9	8	1	11	14	0	0	0	0	0	0	0	0	-1	1	-2	2	0	0	0	-2	0	0	-1	-1
Mails, Travel, FS & Other	25	4	1	17	0	3	11	14	0	0	0	0	0	0	0	0	0	0	-1	2	1	0	0	-1	0	0	1	-2
Organisational Effectiveness	12	1	4	7	0	0	4	8	0	0	0	0	0	0	0	0	0	0	0	1	1	0	-1	1	0	0	-1	1
Postmaster & Network	10	3	4	1	2	0	2	8	0	0	0	0	0	0	0	0	0	0	-1	1	0	0	0	-1	0	0	-1	0
Shared Services	8	1	1	3	2	1	3	5	0	0	0	0	0	0	0	0	0	0	2	0	2	0	0	0	2	0	1	1
Supply Chain	6	1	0	5	0	0	3	3	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	-1	1
Total	126	18	16	64	21	7	51	75	11	0	11	0	0	11	0	0	10	1	6	11	17	0	-1	8	-1	0	9	-3

Risks

Portfolio Name	This Week Total	This Week Status R	A	G	This Week By status E	O	Week on Week Total	Clo	New	Week on Week Status R	A	G	Week on Week By status E	O	Month on Month Total	Clo	New	Month on Month Status R	A	G	Month on Month By status E	O
Banking, Payments & Other	52	6	33	13	2	50	3	2	5	0	3	0	-1	4	1	9	10	-1	4	-2	-3	4
Historical Matters BU	43	13	26	4	43	0	3	0	3	1	2	0	3	0	3	3	6	4	-2	1	4	-1
IT Platform Enablement	109	25	67	17	88	21	0	2	2	-1	0	1	0	0	14	13	27	2	6	6	10	4
Mails, Travel, FS & Other	67	4	41	22	8	59	2	3	5	-5	2	5	-2	4	13	12	25	-2	7	8	-1	14
Organisational Effectiveness	39	4	27	8	9	30	0	0	0	0	1	-1	0	0	-1	1	0	-3	1	1	-1	0
Postmaster & Network	28	2	15	11	12	16	-3	3	0	0	-3	0	0	-3	-8	14	6	-3	-5	0	-2	-6
Shared Services	8	3	4	1	2	6	-2	2	0	0	-2	0	0	-2	-1	1	0	1	-2	0	0	-1
Supply Chain	20	1	12	7	14	6	5	0	5	0	0	5	4	1	3	6	9	-1	2	2	2	1
Total	366	58	225	83	178	188	8	12	20	-5	3	10	4	4	24	59	83	-3	11	16	9	15

Issues

Portfolio Name	This Week Total	This Week By Rating (Open Items Only) S	4	3	2	1	This Week By status E	A	Week On Week Total	Clo	New	Week On Week By Rating (Open Items Only) S	4	3	2	1	Week On Week By status E	A	Month On Month Total	Clo	New	Month On Month By Rating (Open Items Only) S	4	3	2	1	Month On Month By status E	A
Banking, Payments & Other	16	0	1	10	4	1	0	16	3	2	5	0	-1	2	2	0	0	3	1	8	9	0	-2	0	3	0	0	1
Historical Matters BU	1	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	1	0	0	0	1
IT Platform Enablement	7	0	1	6	0	0	0	7	-1	1	0	0	0	0	-1	0	0	0	-1	2	0	2	0	0	2	0	0	2
Mails, Travel, FS & Other	4	0	1	2	1	0	0	4	0	0	0	0	0	0	-1	1	0	0	0	1	1	0	-1	0	1	0	0	0
Organisational Effectiveness	9	0	2	3	4	0	0	9	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	-1	0	0	0
Postmaster & Network	7	0	1	3	3	0	0	7	1	0	1	0	0	0	1	0	0	1	2	3	5	0	0	2	0	0	0	2
Shared Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supply Chain	1	0	0	0	1	0	0	1	1	0	1	0	0	0	1	0	0	1	-1	2	1	0	0	-2	1	0	0	-1
Total	45	0	6	25	13	1	0	45	4	3	7	0	-1	0	5	0	0	4	5	15	20	0	-3	4	4	0	0	5

Open Milestones

Portfolio Name	This Week Overdue Total	Overdue LO	Overdue L1	This Week Next 30d Total	Next 30d LO	Next 30d L1	This Week Next 90d Total	Next 90d LO	Next 90d L1	Week On Week Overdue Total	Overdue LO	Overdue L1	Week On Week Next 30d Total	Next 30d LO	Next 30d L1	Week On Week Next 90d Total	Next 90d LO	Next 90d L1	Month On Month Overdue Total	Overdue LO	Overdue L1	Month On Month Next 30d Total	Next 30d LO	Next 30d L1	Month On Month Next 90d Total	Next 90d LO	Next 90d L1
Banking, Payments & Other	8	0	8	8	1	7	18	2	16	0	-2	2	-3	-2	-1	4	0	4	-15	-4	-11	-1	-2	1	0	-2	2
Historical Matters BU	4	1	3	12	4	8	8	4	4	3	1	2	-2	0	-2	0	-1	1	4	1	3	-4	-2	-2	-3	0	-3
IT Platform Enablement	4	3	1	20	5	15	19	6	13	0	-1	1	3	0	3	1	1	0	-5	-1	-4	2	2	0	0	1	-1
Mails, Travel, FS & Other	3	0	3	14	5	9	8	0	8	-2	-2	0	5	5	0	2	-2	4	-2	0	-2	7	2	5	-5	-2	-3
Organisational Effectiveness	28	8	20	4	3	1	5	3	2	16	4	12	-4	0	-4	-3	0	-3	28	8	20	4	3	1	-4	1	-5
Postmaster & Network	4	0	4	13	0	13	10	0	10	1	0	1	1	0	1	0	0	0	1	0	1	6	-2	8	-8	0	-8
Shared Services	0	0	0	5	3	2	3	2	1	-1	0	-1	4	3	1	1	0	1	0	0	0	3	3	0	0	0	0
Supply Chain	0	0	0	0	0	0	4	0	4	0	0	0	0	0	0	0	0	0	-1	-1	0	0	0	0	4	0	4
Total	51	12	39	76	21	55	75	17	58	17	0	17	4	6	-2	5	-2	7	10	3	7	17	4	13	-16	-2	-14

Weekly report

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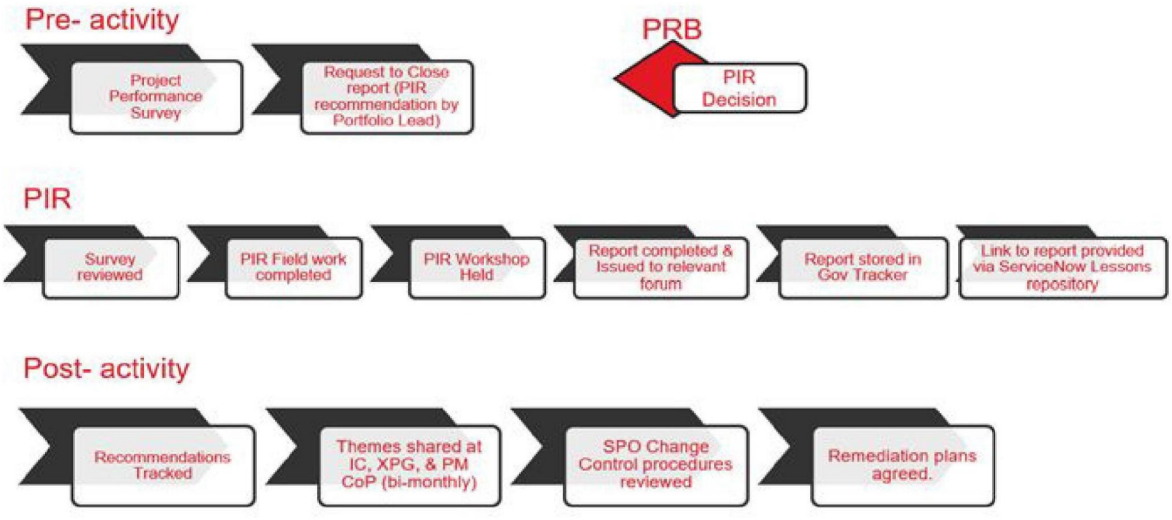
Appendix 3 – Key PIR Themes Report (Sept 2020)

Area	Common Findings	Remediation's planned.
Benefits	Benefits can be eroded if Opex costs for supporting processes are not evaluated fully (fraud protection processes) (**E-Pay**), Inaccurate benefit classification and forecasts can lead to decisions being made on incorrect evidence (**Cheque Imaging**). Benefits reduction due to incorrect forecasting and lack of detailed thinking on future cost (**BOT**)or Benefits were not tracked or realised as business cases morph over time (**HIH**)	1. Roles & Responsibilities of Financial forecasting have been reviewed with all key roles, made clearer and are in the process of being deployed. 2. Project closures or formal updates must be provided prior to a new business case being approved to ensure benefits are still valid. 3. Portfolio Leads to request 2nd Line Project health review to help inform senior management if a project should continue.
Supplier Capabilities	Where supplier capabilities are not confirmed with appropriate due diligence, delays and non-delivery can occur (**BOT- Transtrack).** The suppliers initial team lacked experience in Agile delivery leading to a delay in the project achieving required velocity rates. (**HIH- Fujitsu**). Working with a supplier who is also a Business Partner where capabilities are questionable can cause added complexities (**Cheque Imaging- Barclays**).	1. Technical assessments for IT suppliers are to be performed including references. 2. Contractual structure to be more rigorous where appropriate.
Business Change Management	Business Change Management and Business Sponsorship/Ownership is fundamental in large Transformation projects without there will be significant delays and costs will spiral (**BOT**) and business efficiencies will not be achieved. Team engagement needs to be early to take them on the change journey to ensure they have confidence and feel supported at go-live (**E-Pay, Cheque Imaging**). Training, support materials and training systems will be received by end users better where both knowledge and data held reflects real life (**BOT**).	1. Challenges at PRB & IC has been strengthened. 2. Roles and responsibilities of Sponsors and Business Stakeholders to be reinforced. 3. Business Change Management methodology to strengthen CEX and ensure consistent approach is to be developed.
Knowledge Management	Corporate management of legacy knowledge of process and systems was poor, making understanding of the "As Is" virtually impossible, this resulted in rework where both systems and processes needed adjusting at late notice (**BOT**).	1. Project closure activities ensure the capturing and handover of key Corporate Knowledge to ensure on-going management
Product strategy & Strategic direction	Products were being implemented without a clear product strategy which lacked product marketing so customers unaware of new lines (**E-PAY**). A Technical solution was being implemented where a clear business strategy with supporting cost model and roadmap had not been developed which led to frequent changes in direction/scope. (**HIH**).	1. Better processes and ownership in regards to strategy definition & implementation. New organisation structure and roles have been announced.
Resourcing	For large Transformational programmes resourcing must be considered carefully to ensure Business SMEs are available and backfilled where appropriate and specialist roles are brought in house in a timely manner (**BOT**). Initially the resource model was very expensive and agile delivery experience lacking leading to delays and increased costs. (**HIH**).	1. Structure of projects and resourcing requirements are now rigorously challenged by Portfolio Leads and Shills groups line management.

Post Implementation Review Process



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Appendix 4 – The 4 Elements of the SPO Change Control Framework



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Appendix 5 – SPO Controls Assessment (Sept 2020)

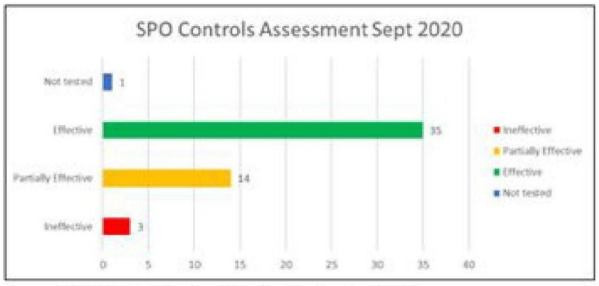

Figure 1. SPO Controls by Test Results (September 2020)

Total Number of SPO Controls is currently 53. Since January 20 new controls have been defined. 27 controls have now tested as effective. 1 test is outstanding while the method to test is confirmed.
Overall effectiveness levels have increased by 51%.

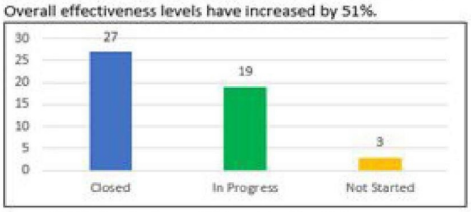

Figure 2. SPO Control remediation plans by status.

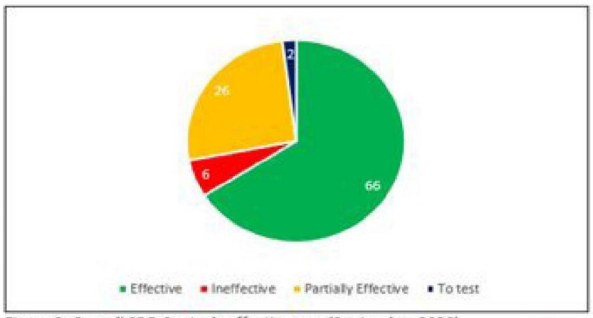

Figure 3. Overall SPO Controls effectiveness (September 2020)

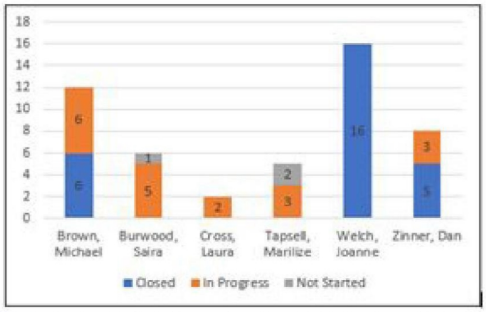

Figure 4. SPO Controls remediation Plan by Person (grouped by status)

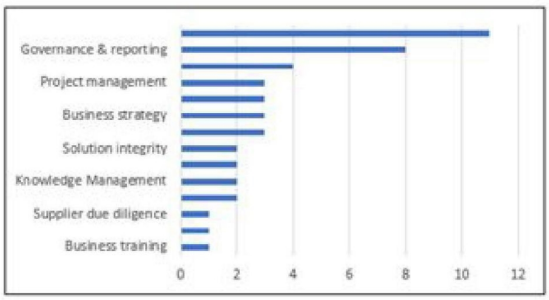

Figure 5. PIR Recommendations by Theme



Figure 6. PIR Recommendations by Impact area

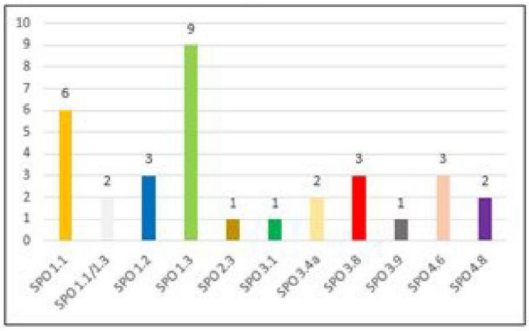

Figure 7. Recommendation Mapped to SPO Control Area

Control Title	Key	SPO Control	Count
Forum TORs		SPO 1.1	6
Roles & Responsibilities		SPO 1.1	2
CEF		SPO 1.2	3
Roles & Responsibilities		SPO 1.3	9
Forecasting R&R		SPO 2.3	1
Finance approval BC		SPO 3.1	1
PRB management		SPO 3.4a	2
Change Requests		SPO 3.8	3
Tranche Funding		SPO 3.9	1
Request to close		SPO 4.6	3
PIR		SPO 4.8	2

Figure 8. Data table to support Recommendation s Mapping

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	PCI DSS Compliance	**Meeting Date:**	12th November 2020
Author:	Joseph Moussalli, PCI DSS Programme Manager	**Sponsor:**	Jeff Smyth, Group Chief Information Officer

Input Sought: Noting

The Committee is asked to note:

- What progress has been made during the last reporting period?
- What are the key risks?

Previous Governance Oversight

RCC has requested a rolling update on PCI-DSS programme progress.

Executive Summary

The programme consists of 2 core delivery streams:

1. The Point-to-Point Encryption (P2PE) workstream, which encrypts retail and banking transactions from the Pin Entry Device (PED) to a PCI compliant zone in Ingenico before onward processing to Global Payments (retail transactions) or VocaLink (banking transactions).
2. The Target Operating Model (TOM) workstream which addresses use of PCI data by POL in processes outside of the transactions occurring at the PED.

Over the course of the last period, 2 key milestones have been completed culminating in the demonstration of a banking transaction going end to end between the PED and VocaLink. Additionally, we have completed accreditation of our payments solution and are scheduled to start a payments pilot through Global Payments on five counters in November

Overall the programme remains on track to begin a pilot with both payments and banking transactions in March. However, due supplier capacity constraints (in part due to COVID), it was agreed at the PCI programme steering committee that the Travel Money Card solution will be delivered as a subsequent release. Unless these constraints can be addressed, and more capacity becomes available, the timeline for a complete audit will move back to August '21.

The Target Operating Model workstream is progressing well and has progressed the secure solution needed for the Financial Crime team and a solution for processing BIN ranges greater than 6 digits.

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Key updates in the last period:

- PIN pad deployment has been completed. All branches have PIN pads ready for P2PE activation.
- Retail Payments:
  - Ingenico completed the Global Payments accreditation on 19th October 2020.
- Banking transactions:
  - Fujitsu, Ingenico and Vocalink completed the 3rd banking key milestone - a demonstration of a withdrawal from a POS located in the Fujitsu environment.
- Target Operating Model (TOM)
  - Financial Crime Team: Detokenisation application build has been commissioned with Accenture. This will be hosted on AWS by the Cloud Services team.
  - Release I (New): BIN>6 processing workaround has started.
  - Travel Money Card: Tokenisation solution agreed with FRES. Ingenico will need to activate tokenisation in the platform to support this requirement.
- Pivot to Cloud. Working closely with the Pivot to Cloud team to manage dependencies due to overlapping timescales.

- Finances: We envisage that there will be additional costs mainly due to the following factors:
  - Fujitsu overspend due to underestimating the complexity of the work.
  - New release approach – Travel Money card to follow as a standalone release that extends the duration of the programme by 2-3 months.
  - Covid-19 costs.
  - E-Portal / tokenisation.
  - Additional resourcing costs.

  The additional costs are currently estimated to be approximately £1.5m. The programme will firm up the costs and present these to the governance forums PRB, IC and Board once these are more well understood.

Questions addressed

1. What has been the progress since the programme last presented in May 2020?
2. What are the key risks and issues on the programme?

Report

1. What has been the progress since the programme last presented in September 2020?

IT workstream

- PIN pad upgrade project was completed on schedule at the end of September. All PIN pads in branch are now ready for P2PE activation. The OBC contract is also in place for new branch openings and closings.
- The Fujitsu / Ingenico software development is tracking to our overall IT workstream plan.
- Payments Release: two interim milestones have been completed.
  - Payments release accreditation - Ingenico completed Global Payments accreditation on 19th October.
  - The Payments release has successfully completed UAT.
  - The Fujitsu Retail Payments pilot is on track to commence on 16th November 2020.

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- Banking Release
  - Ingenico has delivered the 3rd key development milestone. This milestone provides a demo that a banking withdrawal can be made from a POS located in the Fujitsu environment using P2PE through to AXIS and Vocalink.
- POca – JPMorgan has completed the development of its migration to the banking framework.
- Good progress has been made with the Service contract with no major issues outstanding. This activity is now expected to complete governance and sign off in November 2020.
- A standing executive meeting now occurs every 6 weeks with Executives from both POL (Nick Read & Jeff Smyth) and Ingenico (Dan Martensson, VP Global Enterprise Sales & Regional Marketing, and Paula Felstead, Global CTO). Ingenico continues to provide commitment to achieve full accreditation with Vocalink by the end of January 2020.

Target Operating Model (TOM) Workstream Update

The focus of the Target Operating Model workstream is to review the Products and Processes that use Card Holder Data and to remediate and remove them from the scope of the PCI DSS audit where possible. If removal is not possible then PCI DSS controls will be put in place. A plan has been prepared to remediate the products and processes.

- An additional TOM release has been planned this period – Release I: BIN >6 digits workaround. Post Office products use BIN ranges greater than the six digits but the Ingenico product does not process more than six digits for PCI compliant systems. The Post Office team has worked with the business to adjust products and processes. However, a substantial workaround solution still needs to be put in place. This workaround is now being commissioned with Fujitsu, ATOS and Vocalink.
- High Level Solution Design HLD v2.6 has been approved by EAG. It includes the solution for Travel Money Card using Ingenico tokenisation. This solution has been agreed with FRES.
- Release A: Obfuscation of PCI data on screens and receipts. The solution has been developed and deployed into production.
- Release B: Telephone payments. The build has been deployed into production ahead of schedule.
- Release F (Quatrix): 14-day retention policy implemented on Quatrix. First Quatrix scan completed (14/08). Results indicate that there are no unauthorised processes using PCI DSS cardholder data. Mimecast (risk raised last month): A way forward has been agreed on how to implement alerting rules and a request has been made to Computacenter to implement DLP rules.
- Release G: PCI DSS compliant solution agreed with EAG for providing full PAN for the Financial Crime and Banking enquiries team. Accenture has been selected to implement the Ingenico detokenisation application that will be hosted in AWS.
- Release I (New): BIN>6 processing workaround. Work orders being agreed with suppliers.
- Success Factors: Support and Support Plus training modules were released onto Success Factors for Information Security and Data Protection to incorporate PCI DSS training requirements.
- Change Giving: Change giving has been confirmed as out of scope as Change Giving cards are not included within card schemes.

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2. What are the key risks & issues on the programme?

The following are identified as key risks:

Risk: There is a risk that any changes needed to the Fujitsu/Ingenico software will impact the plan. Fujitsu and Ingenico have given a commitment to meeting the current timescales on the basis of no further changes.
Mitigation: Post Office has managed to descope some of the changes identified by working with the business. At steerco it was agreed to implement two of the essential changes – BIN>6 processing workaround and Ingenico tokenisation. TMC could not be accommodated and so this will be delivered as a separate release. The steerco decision aims to keep the implementation of the P2PE solution for banking on track but there will be a delay to the PCI DSS compliance completion.

Risk: There is a risk that Santander cannot migrate services to route through Vocalink within the timescales.
Mitigation: Post Office team is working closely with Santander to produce proposals including costs and timescales. Santander has allocated resources to scope the work but this is running at a slow pace. The Post Office Director of Banking Services has been made aware of the issue.

Risk: There is a risk that Coronavirus may impact the delivery timescales for any supplier across the entire PCI programme.
Mitigation: Post Office is working with all engaged suppliers to better understand their contingency plans to ensure that delivery momentum is maintained. This includes the examination of options to minimise delivery impact by understanding key delivery person risks, supply chain risks and other indirect or latent dependency factors.

Issue: Due to the complexity of the solution further funds will be needed. Fujitsu is forecasting an overspend of 10% - £504k; further funds will also be needed to accommodate the change in delivery approach.
Mitigation: Post Office has challenged the forecast overspend with Fujitsu and will continue to track and manage this issue. Further funding will be needed.

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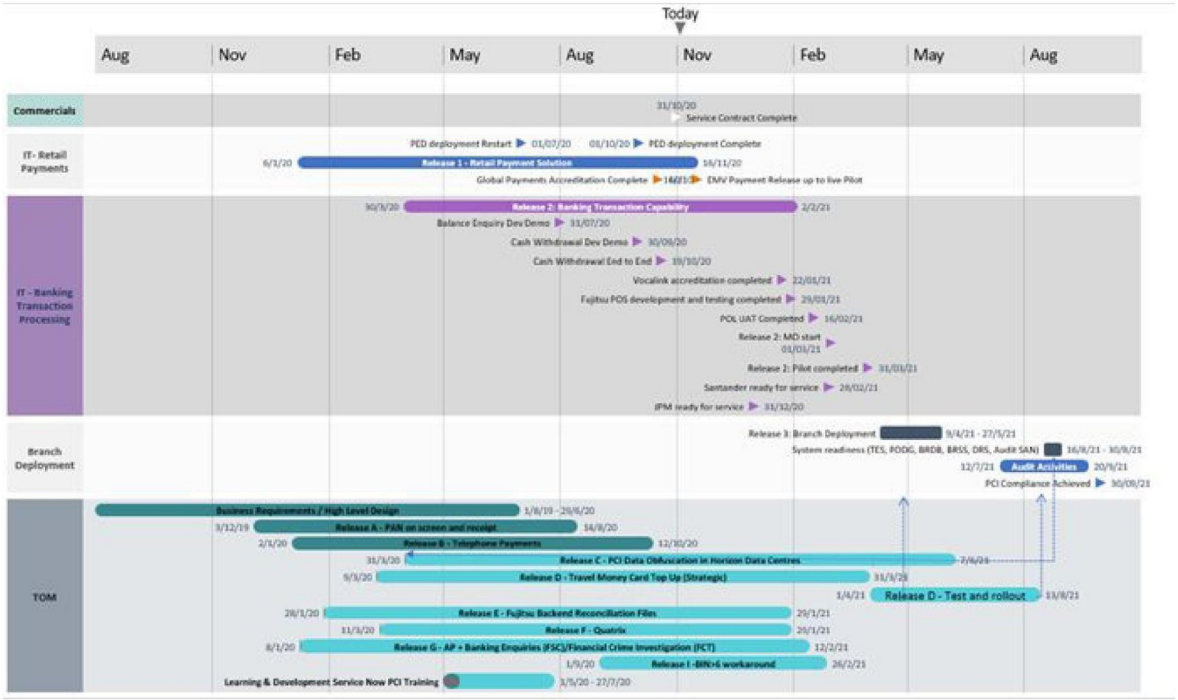
Appendix 1

Programme plan



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Appendix 2

TOM Workstream Dashboard

	Name	Complexity	Suppliers & Commercials													End-to-End Delivery						
			ELK	RI	CC	VL	ATOS	Vero	Gross a	AIVE X	RMG	Qlik	M quot	ACC	ACC	Sent	Discovery	Design	Build	Test	Service Readiness	Deploy	Complete
Release A: CB Truncation of PAN on screen and re	PS1: One4All Gift Cards	M		X				X									04/11/2019	28/08/2020	13/09/2020	16/09/2020	01/07/2020	31/07/2020	14/08/2020
	PS1: Travel Money/Multi Currency Card	M		X				X									04/11/2019	28/08/2020	13/09/2020	16/09/2020	01/07/2020	31/07/2020	14/08/2020
	PS1: Pre-Paid Debit Cards	M		X				X									04/11/2019	28/08/2020	13/09/2020	16/09/2020	01/07/2020	31/07/2020	14/08/2020
	PS1: Bank of Ireland (c) is decommissioned	M		X				X									04/11/2019	28/08/2020	13/09/2020	16/09/2020	01/07/2020	31/07/2020	14/08/2020
	PS1: Payment of Santander Credit Card Bill (developed)	M		n				n									04/11/2019	N/A	N/A	N/A	N/A	N/A	N/A
	PS1: Budget Card (De-scoped)	M															04/11/2019	N/A	N/A	N/A	N/A	N/A	N/A
Release B: Telephony	PS1: Telephone Payments and Refunds	M						X	X								28/01/2020	28/08/2020	28/08/2020	11/09/2020	21/09/2020	25/09/2020	12/10/2020
	PS2: Storage of Telephone Recordings	M						n									28/01/2020	28/08/2020	N/A	N/A	N/A	N/A	N/A
Release C: Data Obfuscation in Horizon DCs	Audit: SPM Legacy Data Obfuscation	M		X													01/04/2020	27/08/2020	28/09/2020	01/03/2021	01/05/2021	07/05/2021	14/05/2021
	BRDB Data Obfuscation	M		X													01/04/2020	27/08/2020	05/09/2020	01/03/2021	01/05/2021	07/05/2021	14/05/2021
	TRS Data Obfuscation	M		X													01/04/2020	27/08/2020	28/09/2020	01/03/2021	01/05/2021	07/05/2021	14/05/2021
	POCG Data Scan and PO Data Obfuscation	M												X			01/04/2020	27/08/2020	27/11/2020	N/A	N/A	N/A	N/A
	POCG Data Scan: Mac Us	M												n			01/04/2020	27/08/2020	05/09/2021	N/A	N/A	N/A	N/A
Release D: Travel Money Card	Post oal Money Card Solution	M		X			X				X						01/04/2020	09/07/2020	18/11/2020	11/01/2020	11/01/2020	18/01/2020	11/02/2020
	Strategic Money Card Solution	M	X	X			X		X		X						09/04/2020	28/08/2020	TBC	TBC	TBC	TBC	TBC
Release E: Fujitsu Back End Reconciliation Files	PS1: Amex, Vocalink and GP Rec File Obfuscation	L		X			X		X	X							11/04/2020	28/08/2020	16/11/2020	01/12/2020	10/12/2020	18/01/2020	11/02/2021
	PS1: DRS to Accept Obfuscated Rec Files	M		X			X										11/04/2020	27/08/2020	30/11/2020	01/12/2020	10/12/2020	18/01/2020	11/02/2021
Release F: Quality, Mimecast, Email	PS1: Quest retrospective of PO data	M										X					11/04/2020	28/08/2020	05/07/2020	04/07/2020	13/07/2020	31/07/2020	31/07/2020
	PS2: Transmission of PO data (Mimecast & CIDS)	M											X				11/04/2020	28/08/2020	18/11/2020	04/12/2020	11/12/2020	18/01/2020	10/02/2021
Release G: AP Enquiries, Banking Enq + PCI	PS1: ePortal: Full PAN search	M	X	X													28/04/2020	28/08/2020	* 28/01/2021	04/04/2021	11/04/2021	18/04/2021	27/04/2021
	PS2: Ingenico transmission of Full PAN to and from Banks and clients	M	X	X													28/04/2020	28/08/2020	* 28/01/2021	04/04/2021	11/04/2021	18/04/2021	27/04/2021
	Clean Room CDE Environment	M															28/01/2020	28/08/2020	30/11/2020	11/01/2021	11/01/2021	11/01/2021	10/02/2021
Other	Prepaid Debit Card Top Up via banking deposit	M		X			X	X									02/04/2020	25/08/2020	05/11/2020	14/11/2020	30/11/2020	09/12/2020	10/02/2021
	PII: Data Storage (Data scan)	L		X	X											X	01/04/2020	27/08/2020	28/01/2021	N/A	N/A	N/A	N/A
	Accenture POL SAP Archives	L															01/04/2020	N/A	N/A	N/A	N/A	N/A	N/A
	Fujitsu POL SAP Archives	L		n													01/04/2020	N/A	N/A	N/A	N/A	N/A	N/A
	Credence: Fujitsu metadata table BRDB_APS_Prod_Santos e	L		X													01/04/2020	28/08/2020	17/07/2020	31/07/2020	07/08/2020	21/08/2020	04/09/2020
	Credence: Obfuscation of existing PO data	L		X												X	01/04/2020	28/08/2020	28/08/2020	11/10/2020	19/10/2020	02/11/2020	16/11/2020
	POL Forms, documents and branch receipts	M															01/04/2020	27/08/2020	30/10/2020	09/11/2020	19/11/2020	30/11/2020	07/12/2020
	AP-ADC New or Changed Scripts	L		X				X									01/04/2020	27/08/2020	N/A	N/A	N/A	N/A	N/A
	AP-ADC Redundant Scripts	L		X				X									01/04/2020	28/08/2020	28/08/2020	N/A	10/10/2020	19/10/2020	02/11/2020
	6 digit SPM Reference Changes	L						X									01/07/2020	28/08/2020	05/10/2020	19/11/2020	05/01/2021	12/01/2021	26/01/2021
	Mail Test Environments	L															01/04/2020	N/A	N/A	N/A	N/A	N/A	N/A
	SPO CEF Recommendations	L															01/04/2020	01/07/2020	01/07/2020	N/A	01/07/2020	01/07/2020	01/08/2020
	Learning & Development Training Materials	L															01/04/2020	28/08/2020	17/07/2020	N/A	N/A	31/07/2020	31/07/2020

**Dependency on IT build, test and implementation dates

Complexity Key		
	# Changes	# of 3rd Parties
Low	0-1	0-1
Medium	2-4	2-3
High	>5	>3

Suppliers & Commercials Key	
RAG Status	Commercials Status
Red	Commercials are delayed
Amber	Risk of Delay to Commercials
Green	Commercials are on track
Blue	Commercials have been agreed/signed
Grey	Commercials have not started

End-to-End Delivery Key	
RAG Status	Delivery Status
Red	Delivery is outside of tolerance
Amber	Delivery is at risk of moving out of tolerance
Green	Delivery is on track
Blue	Delivery has been completed
Grey	Delivery has not been started

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Appendix 3 Finance Summary

The latest forecast below was presented to the latest PCI programme steering committee.

The financial forecast will be updated once the revised delivery plan has been firmed up and resourcing requirements have been confirmed. The table below now includes the Fujitsu overspend and additional costs for the known essential changes. We are still awaiting quotes for the remaining changes.

Once the costs are clarified, the programme will present the CR to governance at the earliest opportunity. The plan is to present the request for additional funding to the Board for review at its 26th January 2021 meeting.

PCI Programme Capex & Exceptional Spend (2018-2022)	Spend (to end Mar '20)	Actuals (Apr-Sep '20)	F/Cast (Oct'20-Mar'21)	F/Cast 2021/22	LIFE
Internal Labour	IRRELEVANT				
External Labour					
3rd Party Costs					
Exceptional Costs					
Actual / Forecast					
3rd Party Costs Comprise					
Fujitsu	£1,955,216	£3,421,200	£2,335,043	£1,440,769	£9,152,228
Computacenter UK Ltd	£1,342,114	£415,886	£49,562	£33,794	£1,841,356
Atos	£202,011	£354,803	£490,174	£104,038	£1,151,026
Vocalink	IRRELEVANT				
Other / TBC					
Actual / Forecast					

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Cyber Update	**Meeting Date:**	24 November 2020
Author:	Tony Jowett, Chief Information Security Officer	**Sponsor:**	Jeff Smyth, Group CIO

Input Sought: Noting

The Committee is asked to note the status and plans regarding the reduction of risk associated with Cyber Security.

Previous Governance Oversight

Rolling item at each Committee.

Executive Summary

- We continue with our programme of work to develop higher levels of cyber maturity. Progress continues on track. This month we are focusing on the work to secure our AWS cloud-based migration of the Belfast Data Centre.
- We ran another fake-phishing attack with results that were very similar to those run in previous exercises. Strengthening of user education and HR measures are now necessary to make further gains to ensure that the message gets through, people do the training and repeat offenders are disciplined.
- Our current cyber operations dashboard shows that phishing and data exfiltration from our network continue to be our main issues. More joint and across the board effort is needed to establish a cyber-aware culture.

Questions addressed

1. What is the latest update on the cyber programme with a focus on - what are we doing to ensure our move to cloud is secure?
2. What are the results of the recent fake phishing attack and recommendations?
3. What are the highlights from the current Cyber Operations dashboard

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Report: Programme Update and focus on how are we ensuring our move to cloud is secure for Belfast Exit?

4. The Status of the actions from the recent cyber maturity audit is as per the table below all are complete or on track within target dates

Finding	Status	Target Date
Target maturity levels for cyber security should reflect POL's risk profile	**Completed** – target maturity levels to stay as is unless risk appetite changes significantly	30/9/20
POL's list of crown jewels should be agreed with the business	**In Progress** – agreed list with CIO – to be agreed with GE/business	30/11/20
Security architecture is not fully documented	**In Progress**	31/12/20
There is no documented long-term cyber strategy	**In Progress**	31/12/20
There is no end-to-end programme defined for Cyber	**In Progress** – being developed in line with 20/21 planning cycle	31/3/21
The cyber action tracker requires updating	**Completed**	30/9/20
JML processes are not fully integrated	**Covered under JML paper** – requirement is to introduce automation of workflow where feasible	31/3/21
There is no documented strategy for Cloud security	**In progress**	31/12/20

5. The roadmap for the cyber activity is show in Appendix 2.

Securing Cloud for Belfast Exit

6. As part of the Belfast migration a key requirement is, how do we secure the cloud and demonstrate we are at least as secure today if not more so in AWS than Belfast.

7. Firstly, we need to understand AWS public cloud offering. AWS operates a shared responsibility model between its customers and AWS; the below diagram illustrates where the responsibility sits for each organisation
    a. Post Office is responsible for all the services we consume and build on top of the shared software and hardware provided by AWS. **"We're responsible for security in the cloud"**
    b. AWS is responsible for protecting the infrastructure that runs all of the services offered in the AWS Cloud. This infrastructure is composed of the hardware, software, networking, and facilities that run AWS Cloud services. **"AWS is responsible for security of the cloud"**

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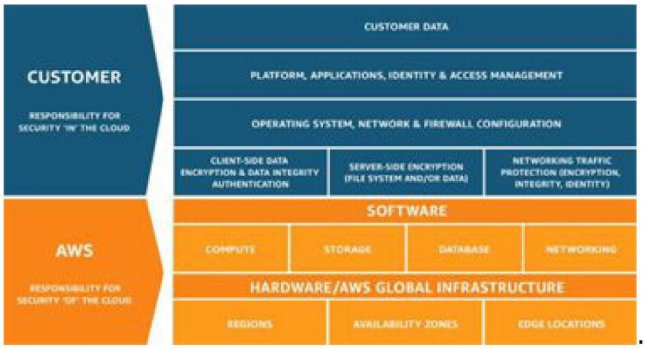

8. AWS responsibility layer removes the management and security responsibility of a physical data centre, therefore allowing the Post Office to focus time and recourses on protecting our digital environment without the burden of a physical location. AWS is certified to;
    a. ISO 27001 internationally-recognised standard for security management best practices and comprehensive security control
    b. Service Organisation Controls (SOC) 2 Report - evaluates AWS controls meet the criteria for security, availability, and confidentiality

How has the Post Office worked to delivery security?

9. Securing the cloud is a key responsibility of the CISO, the cyber security team has been integrated throughout the entire migration, managing the security delivery process;
    a. Ensuring the delivery of infrastructure & applications follows Post Office repeatable secure by design processes.
    b. Collaborate with AWS professional service consultants and trusted 3rd parties
    c. Implemented AWS Cloud Adoption Framework (CAF) which is AWS methodology for deploying securely into the cloud, focusing on the following security areas
        i. Identity & Access Management
        ii. Logging & Monitoring
        iii. Infrastructure Security
        iv. Data Protection
        v. Incident response
    d. Aligned Post Office Security Control Framework, based on NCSC (National Cyber Security Centre) 14 Cloud principles for alignment to the wider business.
    e. Conducted independent 3rd party IT Health Checks & Penetration tests on services delivered into the cloud.

Cloud Security Maturity Assessment

10. We instructed a 3rd party to perform an independent cloud security maturity assessment Six months into our cloud journey to:
    a. Identify areas of strength in our approach to cloud security
    b. Identify current gaps in maturity and the resultant recommendations
    c. Define tactical and strategic objectives to improve maturity

11. We achieved an average score of 3.0 on the Capability Maturity Model Integration scale (CMMI) with a rating of Defined. Illustrating we have built a solid foundation with standardised repeatably processes, which will allow us to continue to mature.

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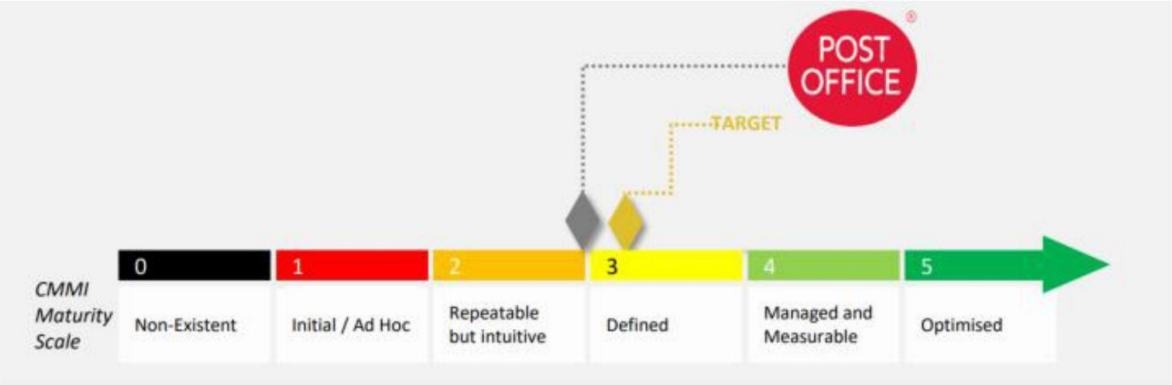
12. Our set Maturity Target is 3.2 and is baselined against financial institutions and regulatory bodies, highlighting where these organisations are in their cloud journey.



Overall information security maturity rating for POL, alongside the overall scores of industry benchmarks.

Keys areas of focus for maturity

- Logging, Monitoring and reporting
- Privilege access management
- Security incident response
- Disaster recovery

Approach to ongoing security assurance

13. To obtain ongoing compliance to Post Office security controls – the security advisory framework has been established for each application migrating to AWS which includes;
    a. Design Review
    b. Security Control Assessment
    c. Risk Assessment
    d. Security testing, IT Health Check & Penetration testing, utilising internal tools or independent trusted 3rd parties
14. The above process will be tracked, and metrics provided once the migration starts to deliver further services.

Report: What are the results of the recent fake phishing attack and recommendations?

15. Phishing attacks are most used as successful forms of cyber entry point into an organisation. Using social engineering and phishing methods, cyber criminals rely on people to gain access to an organisation. This is orchestrated by delivering malware through emails as attachments or links which download malicious content on to a users' machine or the network when clicked. To mitigate, Post Office replicates real-life phishing simulation campaigns to understand the risk exposure and to educate colleagues.

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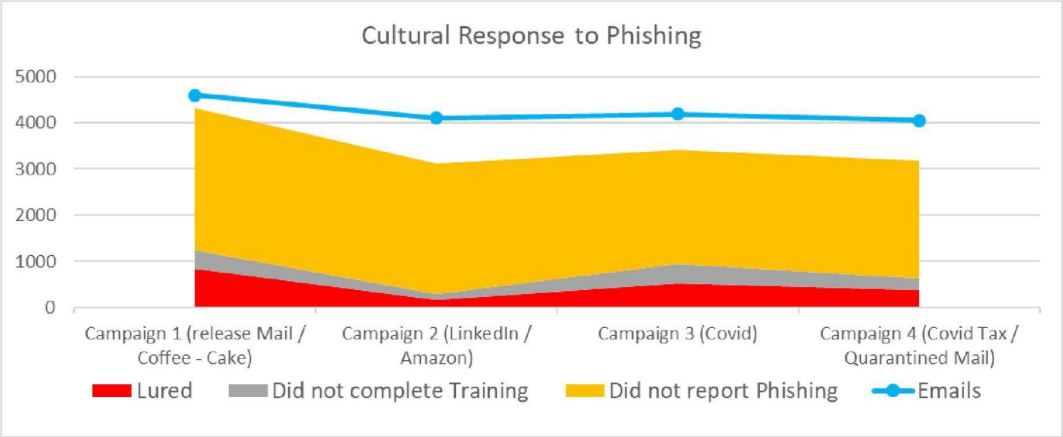
16. Our stats for a fake phishing campaign in October 2020 are shown below:

Emails sent	**4,047**
Total colleagues reporting as a scam	1,154
Total colleagues "lured"	*391
Post Office security measures initiated (average)	73 seconds
Total colleagues lured before mitigation	6
Skipped Training	178

17. For our defences to work correctly then we need users to report phishing emails rapidly so that others do not then receive the emails – the AI engines can only do so much and need user help to be accurate.

18. The two critical measures therefore are time taken for our security measures to recognise this specific attack as dangerous (73 seconds) and the number of colleagues who clicked or opened the attachment BEFORE these measures kicked is 6. This means that we could be dealing with 6 infected machines. Where payload from the attack included ransomware, then any one of those infections could result in a serious hit on our ability to operate as an organisation. The ransomware could have the ability for lateral movement and to replicate itself across Post Office.

19. Trends from all recent fake attacks shown in the diagram below:



20. Compared with recent fake attacks we have seen slight improvement towards reporting of phishing emails, but on average across all he fake campaigns about 45% will read phishing emails but not report it. Approximately 34% will report a phishing email. Approximately 17% of lured users who read and clicked the email, only 6% will commit to completing recommended training. This signifies a need to close the gap between people reading the email and those who report emails. Crucially for those who click on phishing emails, the gap between lured and training should be close to 0.

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21. Whilst there has been some improvement in the response to the attacks, they have not been material – meaning we have more work to do on the people aspects around phishing.

22. To drive the right behaviours, we are doing the following:

    a. Making phishing training mandatory
    b. Linking the completion of phishing training to SuccessFactors so that line management is alerted when their reports have not completed it
    c. Identification of repeat offenders for clicking and/or avoiding training – resulting in disciplinary action
    d. Escalation of the messages around the importance of anti-phishing measures, its link to our purpose and our survival as an organisation through CEO Ten at Ten and Leadership Group
    e. Awareness training revamp for all on Phishing

23. Cyber will continue similar test attacks over the coming weeks and months – and we'll continue to report back the findings. We'll be starting a more regular pattern of communication over the coming weeks, to bring to life and highlight some of the tactics used by attackers, some of the more sophisticated patterns of attack and to provide advice for use both at home and at work.

Report: What are the highlights from the Current cyber dashboard?

24. Appendix 1 shows the current cyber operational metrics dashboard.

25. Key points to note are:
    a. Phishing attacks continue to risk albeit the rate of increase has slowed. We therefore need to continue with our work on fake attacks and user education.
    b. There are significant volumes of users that trigger DLP personal mail policy – again showing that we need to continue with user education.
    c. Change Assurance and Compliance trends demonstrate a reduction in net new actions, albeit activity within key programmes i.e. Belfast exit and PCI have increased. We expect a further up-tick in actions from the nascent SPM programme in the next few weeks.

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Appendix 1

Threat Landscape (Cyber Perspective)

IRRELEVANT

Vulnerabilities (Accenture and CC)

IRRELEVANT

IRRELEVANT

Fujitsu - Horizon

- Qtr3 scan due to be processed this October, Results due in Nomember Report.

Fujitsu - HPBB

- Replacement of vulnerability management tool Tenable started W/C 10th August 2020, Completion End Oct2020 ready for November Reporting

Phishing Protection (AI and SOC)

IRRELEVANT

Security Posture

IRRELEVANT

IRRELEVANT

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POL Security Operations Centre Ticket Mgmt

IRRELEVANT

Cyber Major Incidents of note;

IRRELEVANT

Mail Filtering

IRRELEVANT

Insider Threat

IRRELEVANT

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Post Office Limited - Audit Risk & Compliance Committee-24/11/20

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Covid-19 Tracked Major changes	Change Assurance
IRRELEVANT	

PCI DLP Trends	InfoSec Assurance Actions	ISMF Actions
IRRELEVANT	IRRELEVANT	IRRELEVANT

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Post Office Limited - Audit Risk & Compliance Committee-24/11/20

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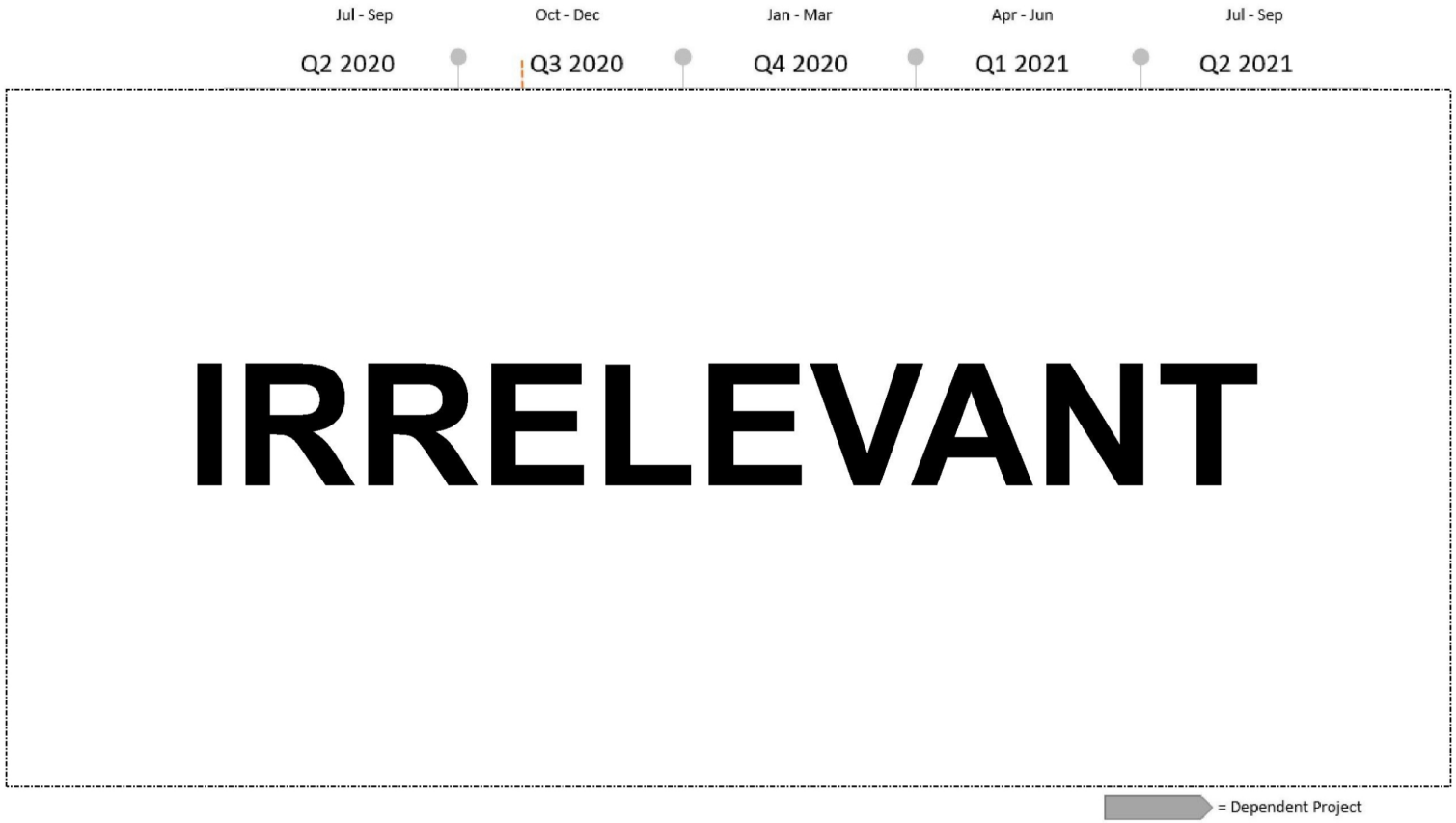
Appendix 2 –2020/1 Cyber Programme



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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Joiners, Movers, Leavers Update	**Meeting Date:**	24 November 2020
Author:	Tony Jowett, Chief Information Security Officer	**Sponsor:**	Jeff Smyth, Group CIO

Input Sought: Noting

The Committee is asked to note the status and plans regarding the reduction of risk associated with Joiners, Movers and Leavers (JML) – in particular those associated with Movers during the current hybrid operating model.

Previous Governance Oversight

Actions to report on this occurred at the previous Risk and Compliance Committee (RCC) meetings.

Executive Summary

In our continued focus on Joiners, Movers, and Leavers we have performed a deep dive on the Movers process, following on from the previous report's focus on Leavers. Our analysis covers a period for which COVID-19 continues to be actively changing our operating model and introducing new challenges. Short term and longer-term actions are included for movers and an update is provided on the actions raised in the previous paper.

In addition, we have worked closely with Internal Audit who have reviewed JML across the business and IT platforms. In line with this review we are drawing up a roadmap and plan for improving JML within Post Office to give further clarity on dates, achievement, and operationalisation of good JML practices.

Overall we are making good progress on understanding the issues and identifying actions to improve JML across IT and HR - IA concur with this view. Our focus on Leavers and Movers during the recent organisational changes has ensured we keep across those who could be a risk to our data with to date no incidents. We will continue with our increased vigilance in these areas especially as the Historical Matters and Organisational Development changes continue to take place.

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Questions addressed

1. What are the complexities that we need to address associated with the Movers process?
2. How well have managed those complexities during the period July-September 2020?
3. What progress have we made on the actions identified in the last paper?
4. What are the key points and actions arising from the IA audit of JML?
5. What are our next steps?

Report

1. In this report we are focusing in on the Movers process for staff and contractors as this presents the next greatest risk to the business to Leavers and is a process that is likely to be tested during the current and future Organisation Development activities.

What are the complexities that we need to address associated with the Movers process?

2. Effective moving of role in POL is reliant on that the old- and new-line managers informing People Team and IT what is happening and what corresponding data access is required. Guidance is available for line managers with a detailed checklist on the Post Office Intranet and People Team business partners reinforce this process.

3. For any Mover the ideal behaviour is that the access rights associated with the old role are dropped and then rights are created in line with the needs of the new role.

4. The Movers process needs to cope with the different types of mover covering at least:

    a. Formal role move resulting from a vacancy being made available, interviews and job award
    b. Formal secondment for up to a year from a substantive role
    c. Informal secondment to cover a temporary absence or gap

5. There is a heavy reliance on line management in Post office to run the movers process. Informal and Formal Secondments do not get tracked routinely on Success Factors – - they only appear if line management remember to do it. Likewise, any associated changes to IT data access – they only get changed if line management remember to do it.

6. Good movers practice would also be backed up by a periodic data recertification activity that would pick up an movers data access that was incorrect.

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How well have managed those complexities during the period July-September 2020?

7. People Team do not routinely produce a report regarding movers in the same way they do for leavers. The lack of such a report also means there is no routine oversight or auditing of this process. Success is therefore heavily dependent on line managers doing the right thing at the right time.

8. The People Shared Service Centre (PSSC) were able to produce a custom report showing those whose role title had changed and from this a subset of people who were movers was identified manually. By this analysis there were 34 people who had moved role during this period - on average one every other day.

9. For each of those 34 people a check was performed with IT service desk to see if any data change requests had been made by line management – as per guidance on POL intranet. The IT service desk confirmed that no such requests had been received for these individuals from anyone.

10. In the end user computing environment data recertification checks are not performed or coordinated centrally – they are reliant on individual data owners doing their own checks as and when they deem it necessary.

11. The recommended improvement actions are:
    a. PSSC to produce a monthly mover's report (like the leavers report) to go to each GE area for confirmation by line management and to go to IT Service Desk (Target Jan 2021)
    b. IT Service to develop the ability to automatically drop a mover's access and create new access in line with the new role (Target Jan 2021)
    c. Develop a fit for purpose data recertification mechanism to catch any inappropriate data access (Jan 2021)
    d. People Team to continue with efforts to move PSSC to Service Now enabling case management across People Team and IT (previously identified action - dates as per roadmap/action plan and in progress with approvals)

What progress have we made on the actions identified in the last paper?

12. In the last paper we identified a series of actions around JML. Of these 11 were due by end October.

13. Of the 11 due for completion
    a. 6 have been completed
    b. 4 are in progress with estimated completion dates in November. These are
        i. Recruitment of JML/Controls analysts x 2 – we are searching for suitable candidates
        ii. Production of GE leavers report - with PSSC to produce draft report
        iii. Privileged access additional approvals by CIO/CISO (feasibility being investigated with PAM team),
        iv. Spot auditing of 3rd parties where we currently have attestation only (resource offered role and starting in December)
    c. 1 pending PRB approval (PSSC move to SNOW)

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What are the key points and actions arising from the recent audit of JML?

14. An audit of JML by Internal Audit (IA) has just been completed with a report to be presented at this meeting.

15. The purpose of this audit was to validate the work undertaken by IT to identify and remediate any gaps in the coverage of JML processes and to assess whether these will address the requirements for all user types across all platforms.

16. A summary of the high-level findings of this report and an initial response to them is below:

Key Finding	Response
POL have undertaken considerable work to address concerns around JML over the last two years. This includes the integration of SuccessFactors and AD via MIM and increased review and monitoring of access to back office applications by the Data Services Team. Many controls continue to require manual intervention and IT should help identify methods to enhance automation across the JML estate. The planned integration of JML processes on ServiceNow will help to address this issue.	This finding is accepted and was previously identified as an action. People Team are currently developing the business case to move the People Shared Service Centre to Service Now.
Controls in place over access to Horizon and AD provide mitigation against the risk of unauthorised users accessing POL systems, however further work is required to ensure that starters and leavers are identified in a timely manner, to limit any sharing of IDs (Horizon), and to support monitoring and recertification of user accounts, especially those with privileged access, across all platforms.	Noted and specific actions are included in the JML plan
IT have taken responsibility for identifying and tracking actions required to further enhance JML processes and we have identified actions which should be included in the roadmap and tracker within this report. Responsibility for the operation of JML remains the responsibility of all POL staff and there is a key reliance on Line Managers to perform their duties in respect of JML effectively	Noted – further activity is needed to be clear on the parts of JML which are owned by People Team, IT and other areas of the business. The Line Managers role in this could be strengthened by further oversight of the end to end process – actions to be included in the JML plan.
The audit has a single finding namely - Create a roadmap and action plan and update to reflect points identified in this review.	Noted and first draft in development. The actions from the audit and other actions are being consolidated into a single plan.

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Next Steps

17. Whilst the IA audit findings are being presented and discussed by RCC and Audit, Risk & Compliance Committee (ARC) in parallel we are developing:
    a. A combined JML road map and dashboard to make it easier to track and communicate progress (January 2021)
    b. A combined detailed action plan
    c. A dashboard covering the whole of the JML universe status within Post Office
    d. An augmented team to accelerate the delivery of improvements covering business analysis, SME input and coordination across PO group (subject to PRB funding approval)

18. We are commencing planning with PWC on the PWC IT audit as part of our financial audit activity which has JML actions.

19. In the next paper

    a. We will review joiners activities for end user computing.
    b. In line with the new purpose of being there in person for the people that need us we will also assess the Horizon JML regime. We will specifically focus on ensuring that account sharing is limited and resiliency of the access management platform to ensure that our new purpose is fully supported.

20. We will continue to make progress on the actions previously identified from the previous paper that are due in November and complete those that are in progress from October.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Briefing on August Belfast data centre Disaster Recovery	**Meeting Date:**	12 November 2020
Author:	Gary Walker, IT Director	**Sponsor:**	Jeff Smyth, Group CIO

Input Sought: Noting

The Committee is asked to note the follow on plan regarding the Belfast datacentre disaster recovery test.

Executive Summary

1. The Fujitsu Belfast datacentre currently hosts Horizon and other business critical applications used to deliver branch counter services. Disaster recovery failover testing of the estate is due annually. The previous test was performed in October 2019 and for 2020 the test date was agreed as August 29th 2020.

2. In 2019 the original test was to fail over on Saturday evening, deliver services from the disaster recovery secondary site on Sunday, then fail back Sunday evening. This test failed and a plan was put in place to remediate and re-test. This re-test was completed in October 2019 but with a reduced test scope carried out over only one night which was successful.

3. For 2020, it was agreed that in addition to the original failover and failback plan from 2019, we would run services for a full day of trading in the secondary (disaster recovery) site before failback to the primary Data Centre.

4. During the 2020 test, failover to the secondary datacentre was completed within 4 hours but this was 2 hours behind schedule due to a delay in failover of core networking components. Fujitsu (post-test) subsequently completed investigation into the root cause and mitigating actions have now been implemented.

5. Testing during failover resulted in 48 of the 51 tests completing successfully. There were three Services which did not pass testing: (i) Debit Card transactions via the TNS service, (ii) Telecoms and (iii) National Express transactions. Due to the 2 hour delay in failover, there was limited time to troubleshoot the failed tests. As Debit Card transactions were deemed a critical service for trading a decision was made for trading on Sunday on the secondary environment to be abandoned and failback to production. This was to ensure that all services would be available for start of day on Sunday.

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6. The risk position is considered to be unchanged following this test as subsequent to the test Fujitsu have investigated and implemented mitigated all failed components. Furthermore, the disaster recovery test did successfully confirm that movement of primary to secondary data centre was possible, 48 out of 52 product journeys were successfully tested whilst on the secondary data centre and core batch processing was successfully proved.

7. Four options are available as part of our next step actions and one of these has been recommended: To complete only failed component testing and investigate an appropriate time to repeat the data center test in Q1 2021 (option c). If an appropriate timeframe cannot be found, then as a fall back position (option d), we will repeat the data center test as part of the Belfast Exit programme. This direction will be taken to GE for confirmation and agreement.

Questions addressed

- What is the result of the 2020 failover test?
- Has the test altered the risk position?
- What are the next steps?

Report – What is the result of the 2020 failover test?

8. Due to Covid the test was deferred from the early part of the year which required a reasonable amount of re-planning. The planning for the test commenced 10 weeks before the test date, working with key business stakeholders and partners. Model Office were fully engaged to ensure full regression testing across the platform. No major obstacles were encountered in the planning however it was challenging to get full Business User engagement for testing across all the services in scope.

9. A POL change freeze was implemented to take effect just prior to the event, but some confusion ensued as this was out of alignment with Fujitsu's change freeze. Better alignment on this matter is needed in future and it has been noted as a lesson learnt.

10. Pre-failover baselining was completed successfully on Thursday and Friday (27th and 28th). All Go/No Go stage checkpoints were attended by IT Senior Stakeholders, Business Representatives, POL Test Teams and partners. No blockers to a Go decision was voiced on any occasion and Failover commenced as planned 19:00, Saturday 29th. A Gantt chart showing progress versus plan is shown in the Appendix 1.

11. The comms plan was executed well with good communications and effort throughout from all parties and partners. However, three Clients (Santander, Camelot and GlobalPay) reported issues during the planned outage. It was subsequently confirmed that they had been properly informed of the test timelines and impact, but they had not passed on this notification internally. Positive confirmation from all partners has been added as a lesson learnt for future tests.

12. Call bridges worked well with timely attendance noted and helpful input provided by all as needed. Hourly reports were produced via Horice as an aid to monitoring stability and

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availability during the execution of the test which provided an active view of the entire transactional state across all branches and counters.

13. The plan expected the Core Services (banking) to be available at approximately 23:30. Despite being approximately 30 mins ahead of schedule early in the plan Fujitsu informed us at 22:38 that we were no longer ahead of schedule due to key network components taking longer to failover (network stabilisation issue).

14. At 23:30 Fujitsu informed us that that they were now running 1 hour 10 mins behind due to further restarting of underlying infrastructure to rectify the network stabilisation issue. A follow up review was scheduled for midnight.

15. At 00:00, Fujitsu indicated the ETA for Core Services was now 01:30. The progress was monitored closely, and core services were made available at 01:00.

16. After some initial slowness, testing commenced with notable results which included Banking services being tested successfully at 01:30 am.

17. Testing of all other services commenced testing at approximately 01:45 where it was reported that (i) debit card (TNS) transactions were not working. Two further test failures occurred for (ii) Telecoms and (iii) National Express were reported.

18. The delay in the failover of data centres (due to the network stabilisation issue) resulted in very limited time to diagnose and correct any issues by the 'point of no return' deadline of 2:30 am, at which point the decision had to be made to fail back or remain in the secondary disaster recovery site for Sunday trading. As no fix for the Debit card issue was imminent, at 2:15 the decision was made to fail back to the primary datacentre to ensure full service availability for Sunday trading.

19. The failover back to the Primary Data Centre was very successful being completed ahead of plan by 1.5 hours, with no issues (see Appendix 1). The majority of batches completed successfully with no processing issues found. Two files sent via the PODG (Post Office Data Gateway) system were delayed by approximately one day due to the nature of how they are created (they require input from other 3rd parties). It was agreed that deeper analysis of impact to PODG should be done in future to allow better communication to processing parties in future tests. This has been noted as a lesson learnt.

20. Horice was utilised on Sunday to double check that all transaction types were completing successfully with volumes within normal Sunday trading levels.

21. Fujitsu agreed to perform full root cause analysis, evaluate and to advise in due course with the expectation that remediation will be made as needed. At the time of writing this report, the root cause of all failed elements have been rectified.

22. Post Test Weekend Observations and Comments have been documented in Appendix 2.

Report – Has the test altered the risk position?

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23. Overall it is considered that the Fujitsu risk profile has not changed materially as a result of this test. 48 out of 51 Services did (functionally) failover and all services failed back and

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were successfully tested. Core batch processes were also successfully executed on the secondary site which proved that batch processing was possible. During the failover, test transactions done in Model Office were successfully replicated to the secondary site and evidence could be seen of these being stored successfully on the Horizon database. Though the test cannot be considered 100% successful, the failed components would not prevent POL from being able to meet key service delivery obligations in response to a disaster.

24. The Current Risk Score is 6 (Medium) and remains so due to the following 2 factors:
    - Full Days trading Volume in secondary datacentre not tested
    - Data replication of full day's trading from secondary back to primary datacentre not tested, however, evidence of data replication was seen as a result of model office testing (this proves the mechanism but not the ability to cope with a full days transactional load)

Report – Next Steps

25. There are four options available to us with regards to further risk mitigation (if required). Our recommendation and current plan is to proceed with **option c** with **option d as a fall back**:

a) Assurance of Failed components

Do not conduct a full failover again but seek to verify the 3 components that failed in isolation. This will provide confidence that the components that failed have been corrected. This gives nil cost impact as these activities can be tested in BAU. There will be only minor interruption to BAU during testing. Note that 2 of the 3 components were successfully tested in October after having the root cause of failure fixed.

b) Failover to secondary disaster recovery site, re-test failed components only

Conduct the failover again, but only retest the remediated components and then fail back. We would not plan to run for the day in the secondary disaster recovery site. This provides only marginally more risk assurance than option (a). Estimated cost of £40,000 with expected outage to business of 8 hours over a Saturday night. Given proximity to peak period, this would need to be done in 2021 but with close liaison with the Belfast Exit programme as the underlying estate is fundamentally changing as this programme continues to execute.

c) Repeat the full disaster recovery test, with initial scope to remain in IRE19 for full day Sunday trading

Repeat the test with the full scope, including running on the secondary disaster recovery site for a day. This would provide full assurance that disaster recovery is but would be disruptive to the business, would carry the highest cost and require resources to be diverted from change and business as usual activities to plan and execute. Estimated cost of £80,000 including additional supplier support and Project Management resource to run the event. Changes into the Fujitsu data centre would be effectively paused from January to allow for planning and execution which could have negative impacts onto programmes such as Belfast Exit and PCI. Expected

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outage to the business would be 4 hours Sat night, 5 hours Sunday night and potentially more. Given proximity to peak period, this would need to be done in Q1 2021 but with close liaison with the Belfast Exit and PCI programmes as the underlying estate is fundamentally changing as this programme continues to execute. The next appropriate long weekend would be over Easter, although investigations will continue to see if the test could be executed safely over a standard weekend.

d) Complete only failed component testing and defer wider testing to Belfast Exit

Verify the 3 components that failed in isolation after remedial activity is undertaken (option a), then move the scope of the wider disaster recovery test into the Belfast Exit programme of work to occur once the virtual datacentres are ready. Once ready, run an equivalent disaster recovery exercise. There would be no cost impact as this activity is already covered under the Belfast Exit programme. However, the exercise will look materially different to the existing physical test as the majority of services will be resilient by design and therefore will only need limited testing

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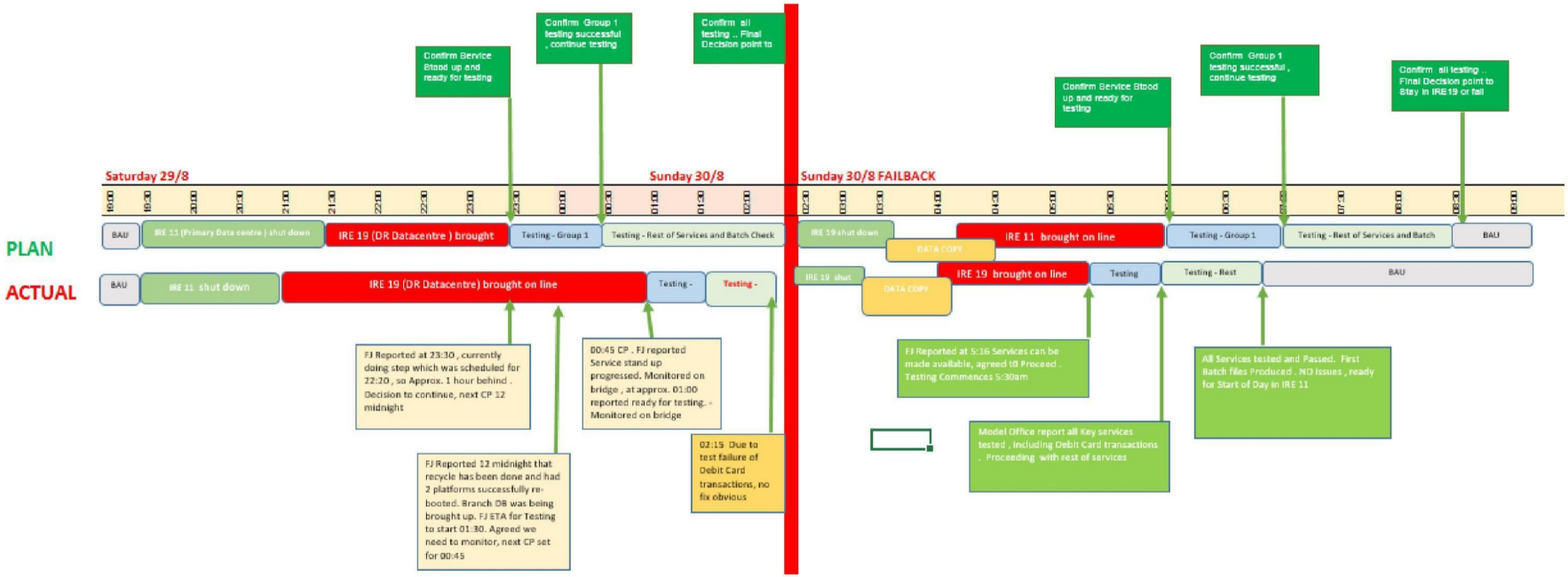
Appendix 1

Plan 'V' Actual for Key Activities during the event . Moved to Failover plan at 02:15 Sunday Morning



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Appendix 2

Issue / Observation	Next Actions	Estimated Resolution Date
We need assurance of the debit Card (TNS) service in the secondary disaster recovery site	Fujitsu to present plan for testing this is isolation	October 2020 [COMPLETE]
Services for recovery are grouped into a two-tier priority order. It was mentioned that priority review for each service should be made to assure recovery smart recovery order (such as for Debit Card usage moving to tier one)	Review Contractual Obligations on failover, and re-align	November 2020
Slow service/network performance was noted immediately after failover. It was suggested this might be due to the load that many branches registering would generate.	In subsequent Counter Outage (done Monthly) test to see if same behaviour exists in primary Data centre	October 2020 [COMPLETE]
Fujitsu mentioned that their Application Support team would like to work directly with Model Office to get a deeper understanding on what is tested and test scripts etc. with a view to offering to better manage and predict service performance throughout a test which may aid more immediate diagnosis on issues and earlier trouble shooting	Revised Model Office Script to be shared with Fujitsu to enable them to create matching diagnosis scripts	November 2020
PO require greater visibility of what is being tested before handing over to PO, i.e. what connections had been checked and Verified before handing over for testing. This could result in faster mitigation, for example with the TNS issue experienced this test.	Fujitsu to compile list of checks that are performed prior of handover to Post Office	October 2020 [COMPLETE]
Test plan need to be reviewed to ensure all service are included, e.g. BG, pay point as they were not included in this test.	Model Office plan used needs to be reviewed to include any other required services	October 2020 [COMPLETE]
A next test requirement was suggested to isolate access to Model Office counters only before opening systems to all Branches	Fujitsu to build into test plans, ready for any subsequent disaster recovery test	Nov 2020
Evaluation of Belfast Exit implications for further testing should be made. As Belfast Exit continues and scope changes, failover scripts will need ongoing constant refinement	Belfast exit Program with Fujitsu and Post Office IT to review Belfast Exit Programme to understand feasibility of conducting further disaster recovery tests during exit programme	Nov 2020

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Future state disaster recovery testing options from Belfast exit need to be understood and considered so as due testing is made at appropriate points during that transition	Belfast Exit Programme to report on how disaster recovery assurance can be maintained during the exit programme.	Nov 2020
Their was some confusion on the change freeze that was put in place due to different communications from Fujitsu and Post Office. Alignment and clear guidelines on change freeze requirements required going forward	Future Change Freeze Requirements to be aligned with partners and shared appropriately	October 2020 [COMPLETE]
Some third party operational teams raised issues during the outage period due to the change . Third parties had been informed , but it was found this had not filtered down to the operational teams. Positive confirmation from all partners that this is done will be required.	In future planning , positive confirmation that the outage periods have been communicated with all operational teams will be required	Nov 2020
There were some unknown delays to a couple of PODG file deliveries. It was found there was a lack of detailed knowledge required to assess full impacts of these files when planning was done	A deep dive into PODG routes and impacts to outages is required and hence be communicated for future tests	Nov 2020

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Tab 14.2 Data Governance

POST OFFICE LIMITED

AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Data Management in Post Office	**Meeting Date:**	24th November 2020
Author:	Jonathan Hill, Compliance Director Mark Underwood, LCG Operations Director, Laurence O'Neill, Snr Legal Counsel HR & IR Rodric Williams, Head of Legal Dispute Resolution & Brand	**Sponsor:**	Ben Foat, General Counsel

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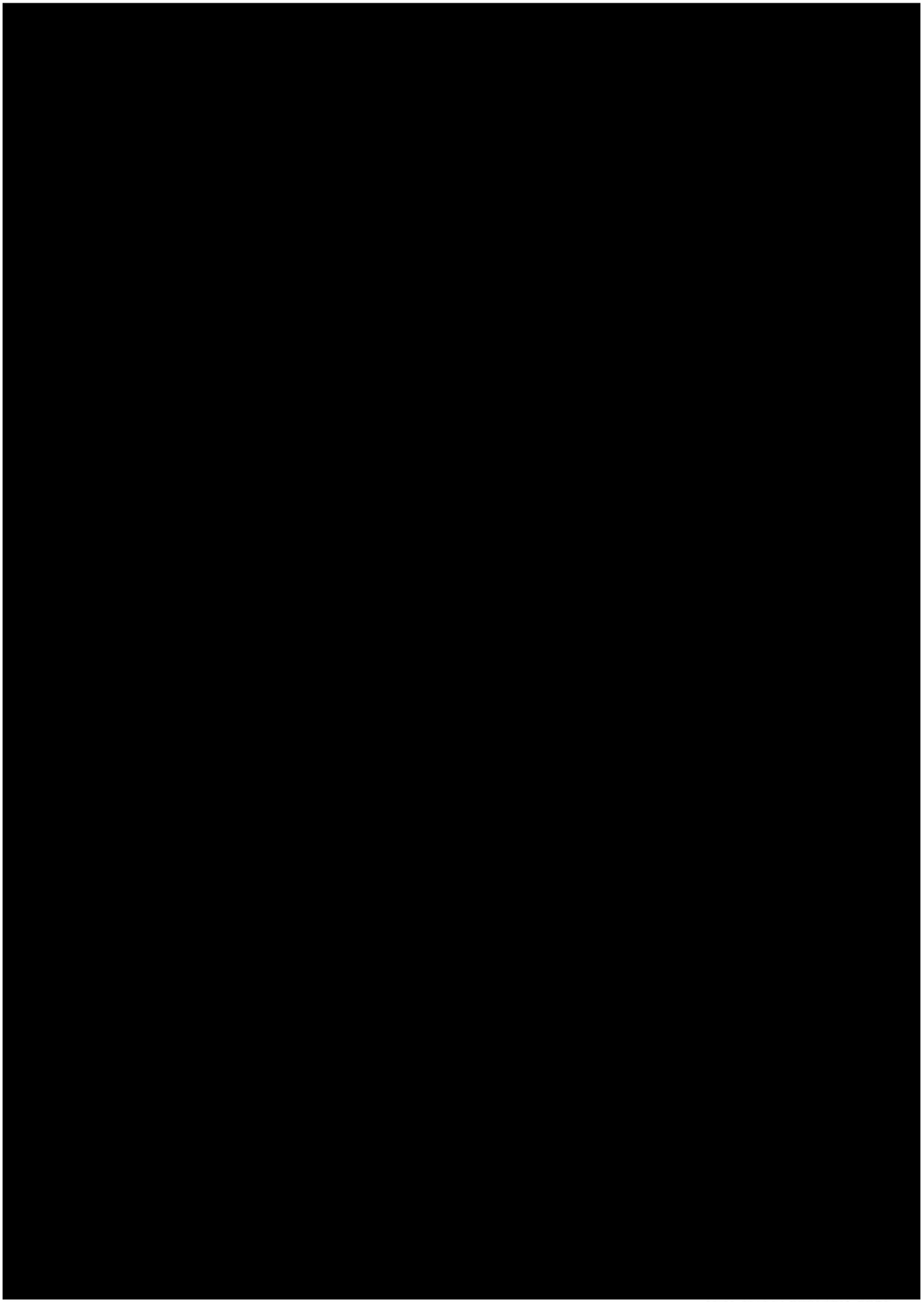

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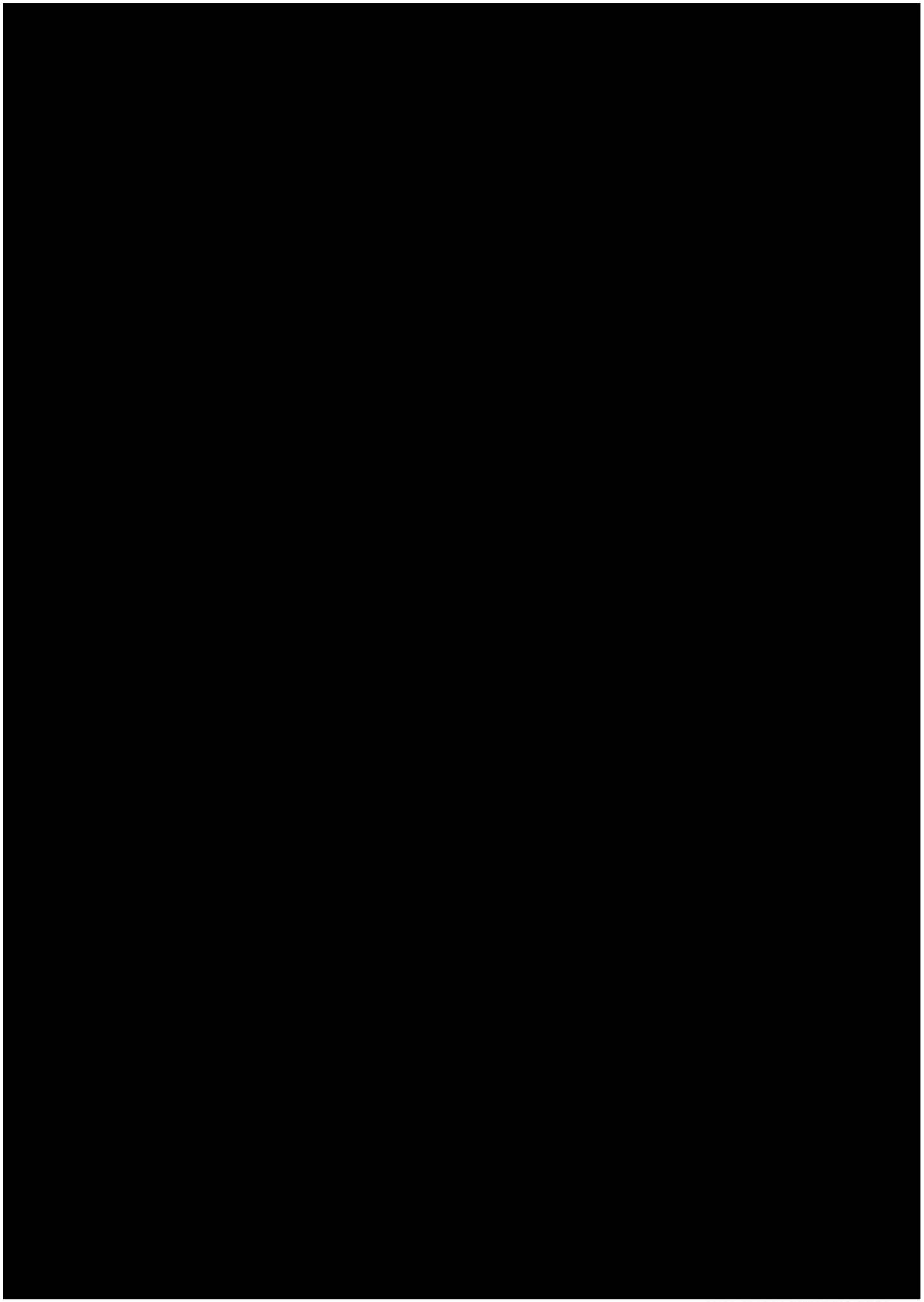

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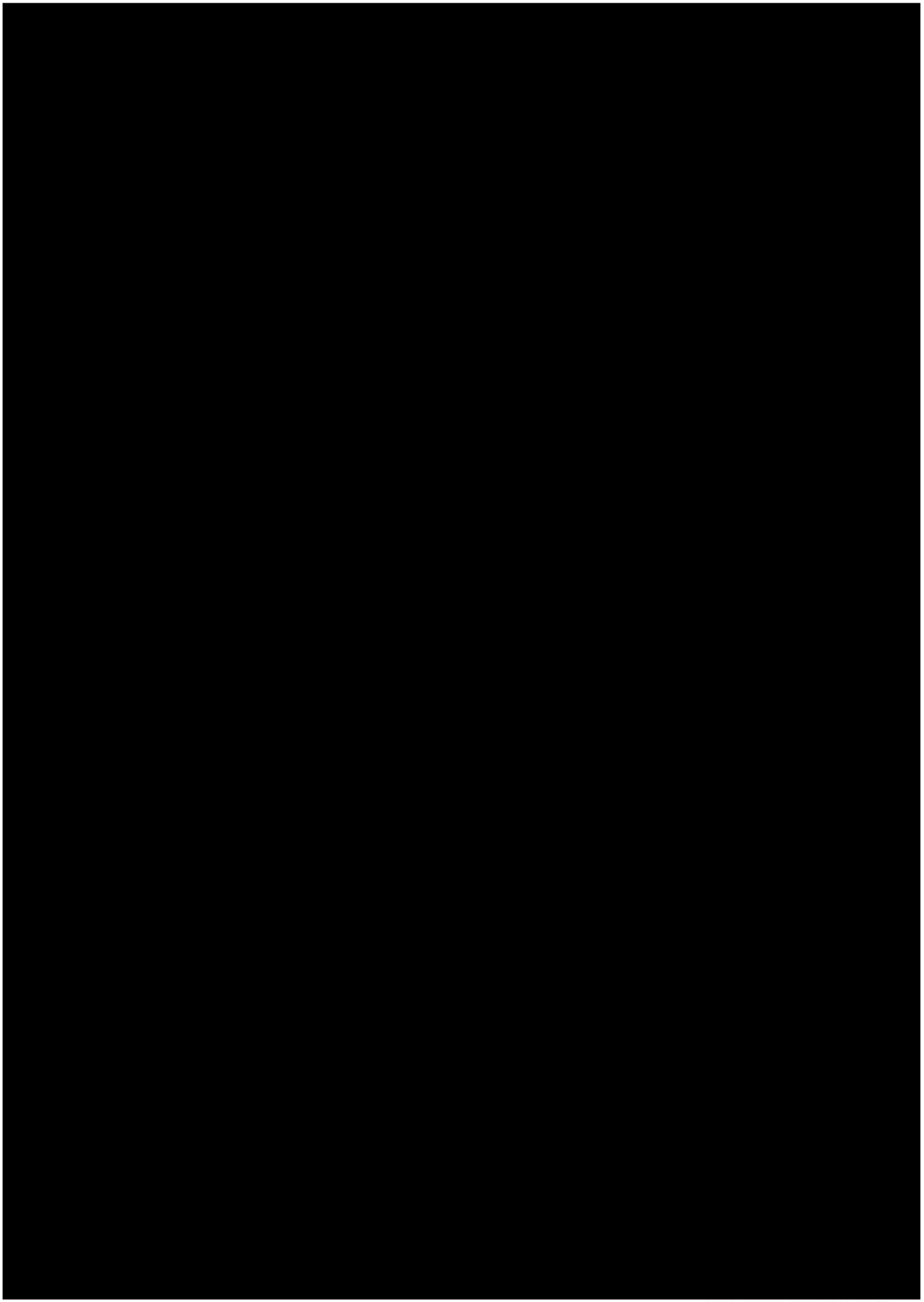

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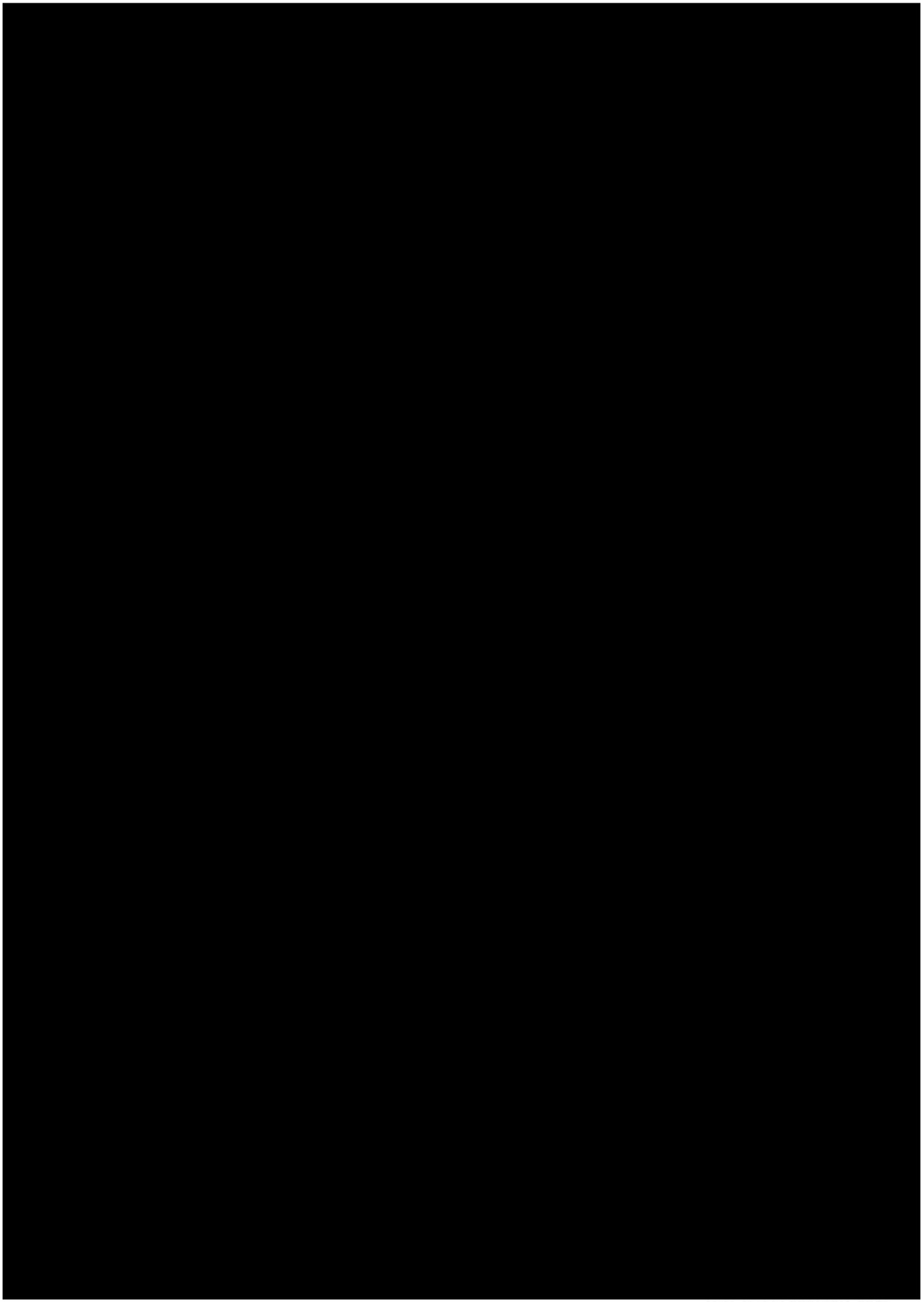

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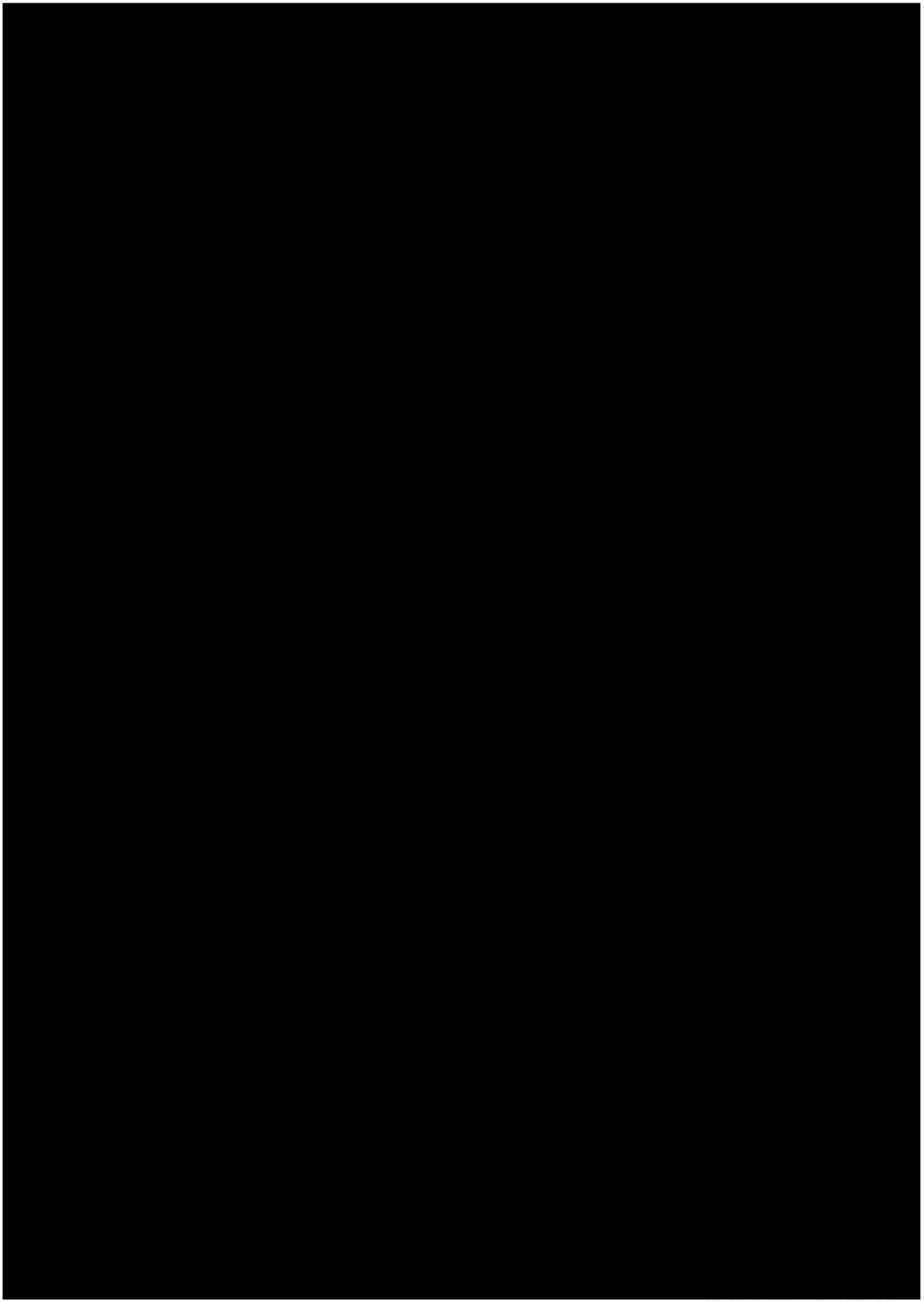

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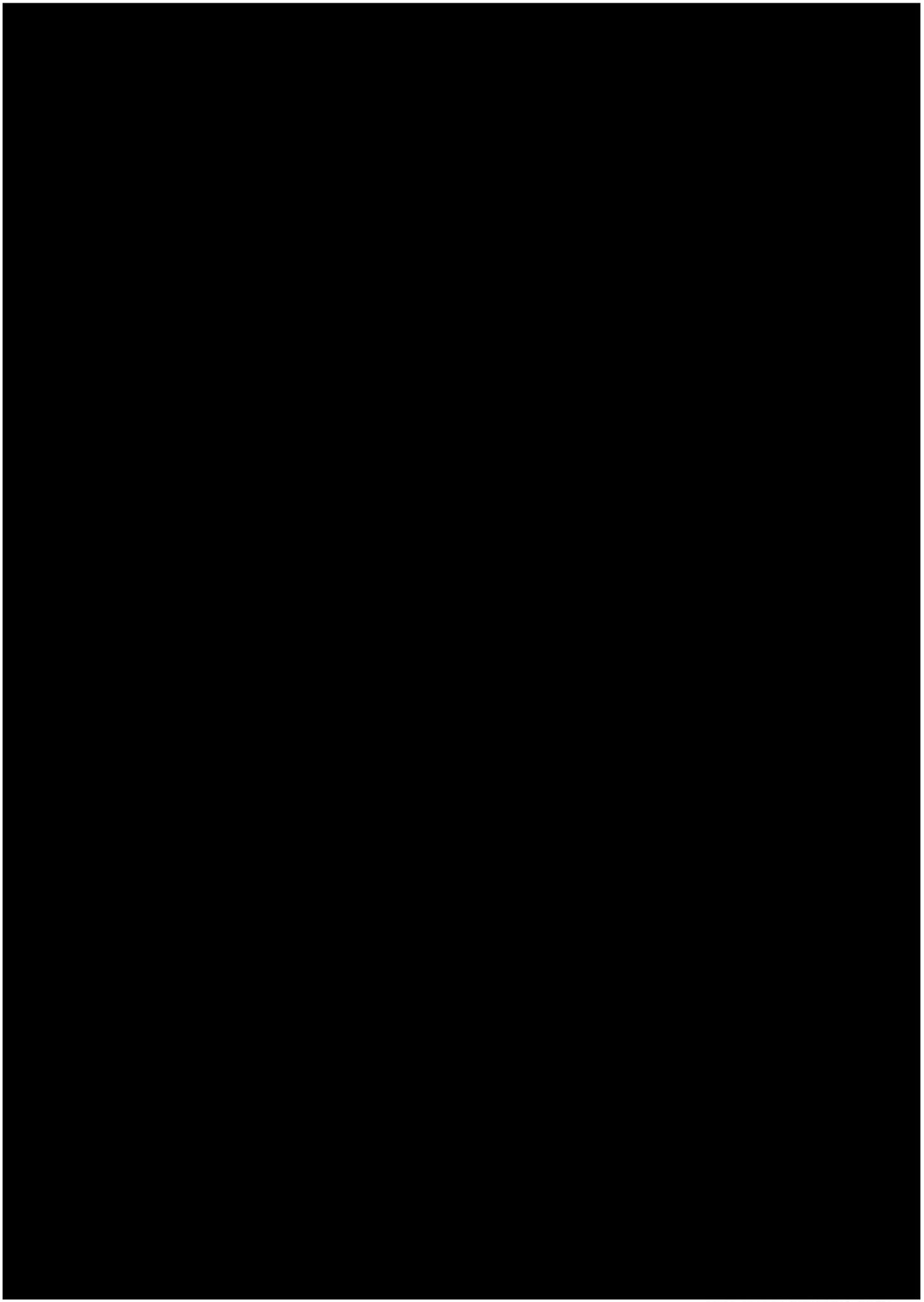

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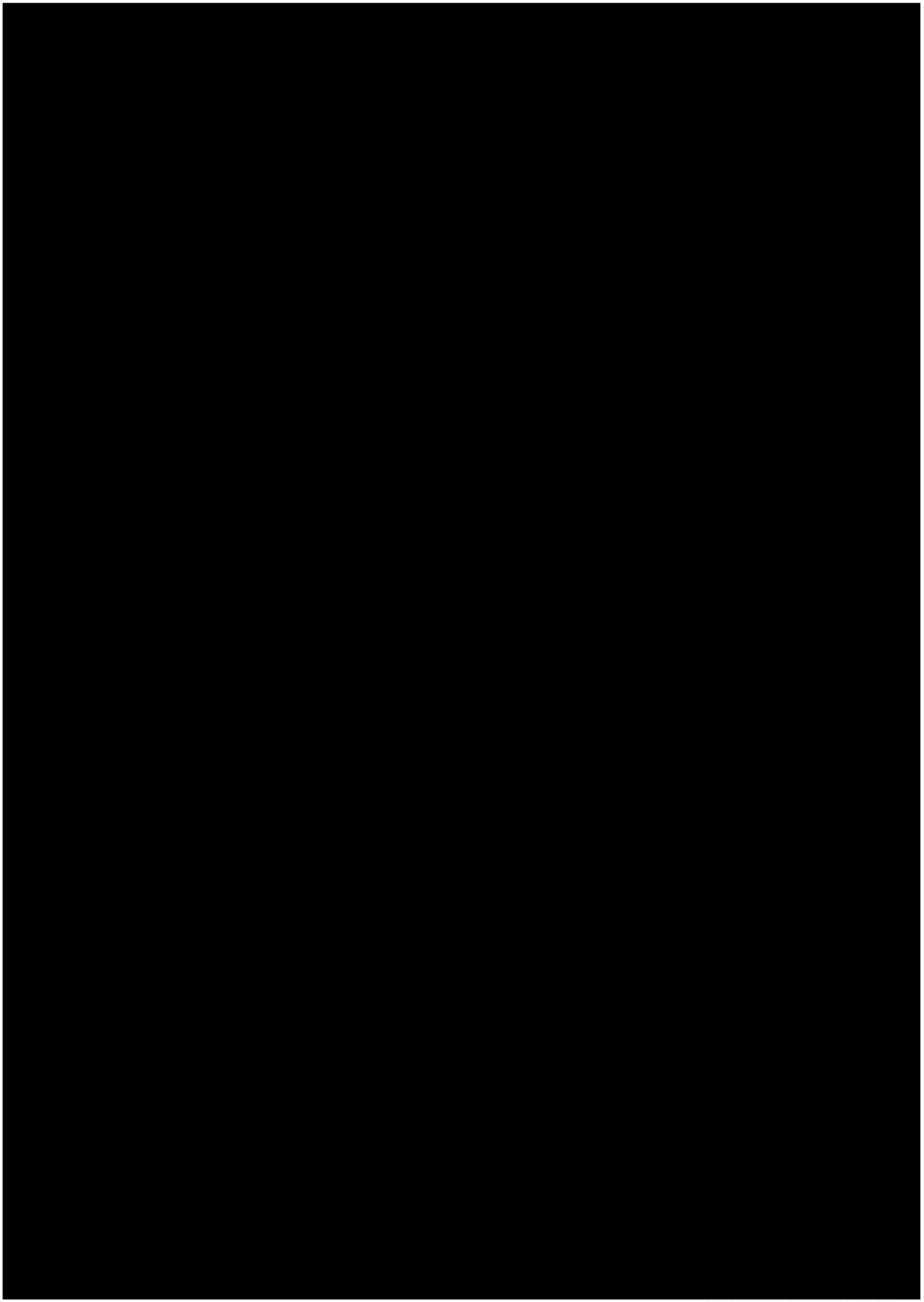

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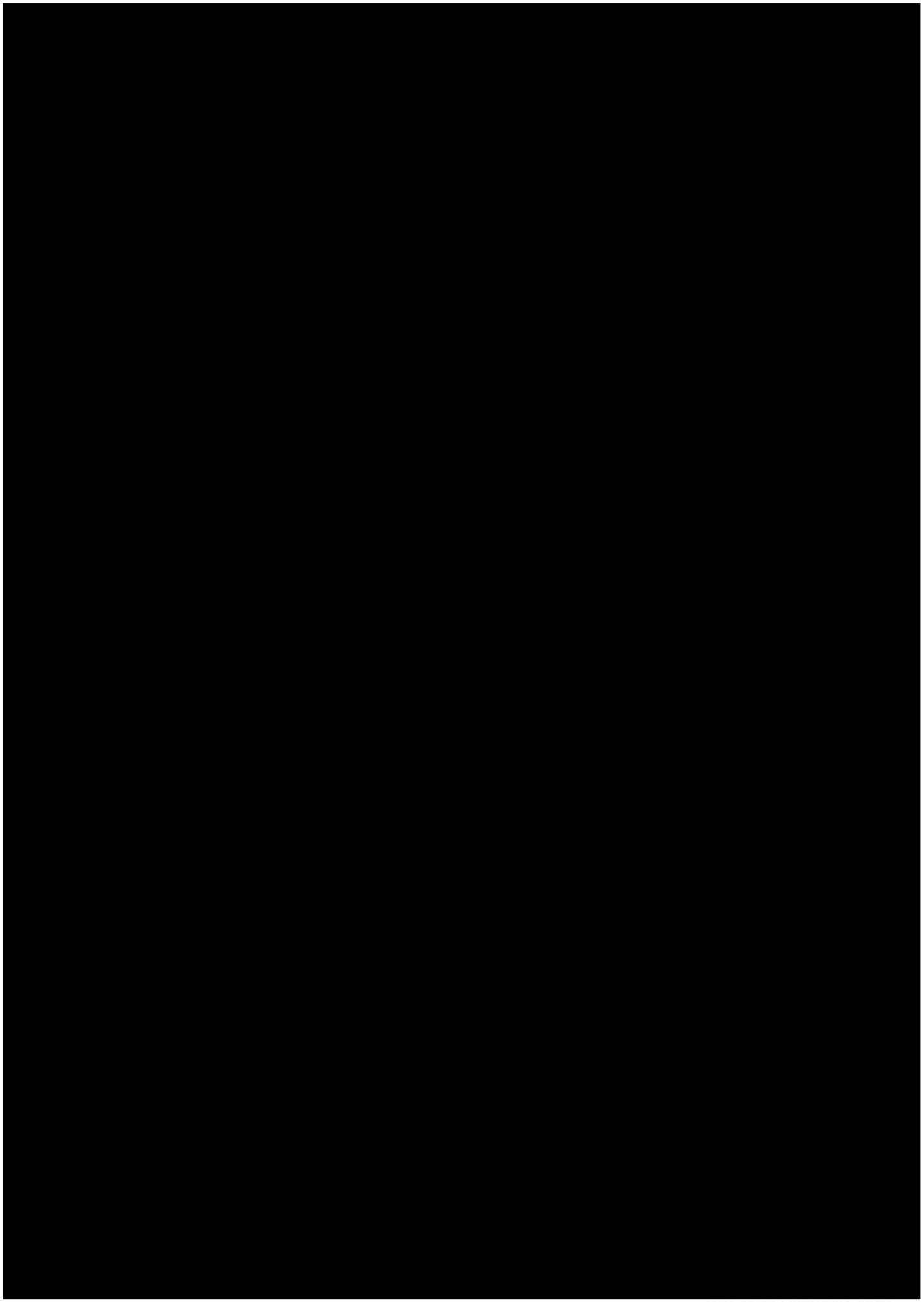

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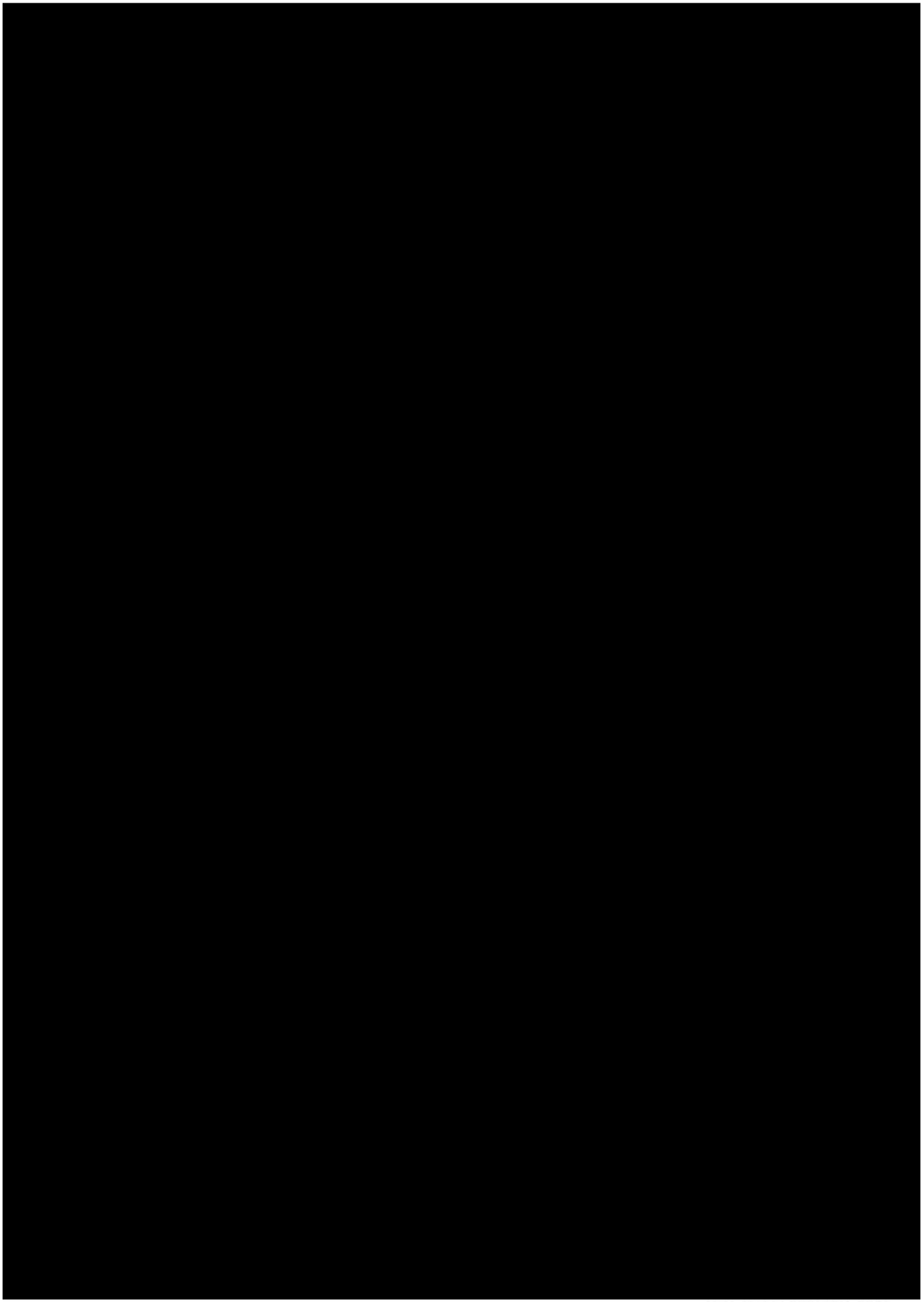

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POST OFFICE LIMITED
AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

Title:	Data Retention Policy & Digital Data Governance	**Meeting Date:**	12th November 2020
Author:	Rob Wilkins, Cloud & Data Services Director	**Sponsor:**	Jeff Smyth, Group Chief Information Officer

Input Sought: Noting

The Committee is asked to note the progress made on the Internal Audit action to review of Data Privacy and subsequent review of the digital data governance framework.

Previous Governance Oversight

The Audit, Risk & Compliance Committee (ARC) has requested IT to work with the business to identify how record retention schedules could be operationalised to support the Data Protection Act (DPA) and minimise the time that personal data is held.

Executive Summary

A review carried out by internal audit concluded that mechanisms for facilitating the deletion of records that are outside of their retention period are not defined. As a direct result of this, a workstream was established to initiate this work. It quickly became obvious that given the breadth and variety of systems in scope and the size of the organisation the solution/s would be more complex than originally thought.

In order to begin to address the issue however, the following actions have been initiated and are underway:

1. A digital data governance steer co has been established co-chaired by Rob Wilkins (Cloud & Data Services Director) & Ruk Shah (MI & Analytics Director). The purpose of this steer co is to lead the establishment of a Post Office Limited (POL) wide Digital Data Governance Framework. This will include the processes and procedures around the management of digital data, of which data retention policies are a subset.

   Under the direction of the Steer Co, and building on the previous work, the RACI for the framework has been drafted, along with the organisation structure and recruitment of a data governance lead to manage the workstream has been initiated.

2. IT has defined a test and learn pilot on some of the core systems where data retention presents the biggest risk including email, SharePoint, and guidance on storage of personal documentation.

14.2

It should be noted that a more comprehensive Data Governance initiative has been started by POL compliance team. This will cover a broader scope than the governance of digital data and will encompass all data including physical documents and POL data stored outside of POL systems. It is expected that the work to support Digital Data Governance will form an integral part of this work

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The Report : What progress has been made on the action following an internal Audit review of Data Privacy?

1. A Digital Data Governance Steer Co was established with its first session taking place on the 5th October. Work to date has focussed on establishing the Terms of Reference for the Steer Co and reviewing previous artefacts created from previous Data Governance exercises. This has led to the redrafting of a data governance framework proposed to cover the following:

    - Stakeholder Roles – primarily the roles of Information Champion, Data steward and Data manager. Data Protection, Legal & Information Security will also be invited on to the Digital Data Governance Steer Co. Each has its own responsibility within the governance framework.
    - Organisation Design – the organisation of 3 key groups of people, the Data Council; the Data Centre of Excellence (DCoE); and the Data Governance Steer Co.
    - Governance Process – identifies the overall process that reflects each stakeholders role and responsibility within the data management process
    - RACI Matrix – A mapping of individuals within POL to specific accountabilities and responsibilities as part of the process.

2. In accordance to the RACI, candidates have been proposed from with the business to assume the role of data owners for all the data domains. This will be presented for endorsement at the Group Executive (GE) before formalising the role with each candidate.

3. A digital data governance lead will be recruited to drive the governance process full time to ensure that the framework is successfully adopted.

4. The work completed under this workstream will form part of a wider scope of work being led by the compliance team which covers data governance holistically including the governance of physical documents and POL data stored in external systems.

5. The data governance framework will cover all the processes and procedures for the management of all digital data including data retention and deletion. However, while the data governance workstream mobilises and the RACI agreed with all stakeholders, work has started in response to the Internal Audit finding. A data retention test and learn initiative has been proposed with the intention of covering the following:

    a) Automated deletion of email boxes for leavers. When leavers accounts are disabled and removed from Identity management systems, their data will be automatically deleted. As part of the Joiners, Movers, Leavers (JML) process, line managers will be given the option to prevent this from occurring if required. Legal hold requirements will also be factored into the automated rule-set.

    b) A common SharePoint area for IT accessible for all IT staff for important reference technical documents that will be retained in perpetuity – "no delete" policy as a baseline. There may be some confidential documents under privileged access maintained in parallel, however these will be minimised to promote maximised knowledge access.

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c) An instruction to IT staffers, embedded in personal objectives, to housekeep their own personal documents area in OneDrive/SharePoint every 6 months. Anything that is deemed worthwhile for historic or shared usage will be promoted into the shared reference area under b).

d) If a staffer leaves then their personal OneDrive/SharePoint will be deleted unless, similar to a) there is a line manager intervention to keep specific data.

6. This is the initial proposal which will be formalised and communicated to the IT team during the next period. It is proposed that the pilot will commence before the end of the calendar year. The pilot will run for an initial 3-month period after which time lessons learned will be incorporated into a proposal for re-use across other areas of the business.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Law & Trends Report	**Meeting Date:**	24 November 2020
Author:	Sarah Gray, Legal Director	**Sponsor:**	Ben Foat, Group General Counsel

Input Sought: Noting

The Committee is asked to note the new or proposed material changes to laws and regulations since the September Audit, Risk & Compliance Committee (ARC).

Previous Governance Oversight

Discussed at RCC on 12 November 2020.

Executive Summary

There are 4 matters for the Committee to note (details of which are set out in the Appendix):

1. **Restriction of Public Sector Exit Payments Regulations 2020**
The legislation implementing the £95k cap on exit payments comes into force on 4 November 2020. The cap will apply to any non-exempt termination payments that represent a cost the employer including, redundancy payments, employer pension contributions, and payment in lieu of notice.

2. **Revenue and Customs Brief No.12 - VAT Treatment on Compensation Payments**
HMRC published its Revenue and Customers Brief 12 (2020) that introduced their new position on VAT treatment of contractual compensation payments. The result of this approach by HMRC will mean that most compensation, early termination and cancellation payments will be considered as payments for supply and will be liable for VAT.

3. **HM Treasury Consultation on new Economic Crime Levy – Update**
The Economic Crime levy aims to raise approximately £100 million per year from entities regulated for Anti- Money Laundering ('AML') purposes and support reforms to the sustainable resourcing of economic crime.

4. **VAT treatment of Bill Payment products**
Following a legal challenge from Paypoint, HMRC have changed their view on VAT treatment of Bill Payment products. This change will increase the VAT recovery rate for Post Office and Payzone.

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Questions addressed

1. What new or proposed material changes to laws and regulations should the Committee be aware of?
2. What are the implications to the Post Office business?

Report

See Appendix.

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Appendix 1

Law & Trends Report: New material updates

Issue	Why it matters?	Latest Developments	Impact on Post Office	Action	RAG
1. Restriction of Public Sector Exit Payments Regulations 2020 ('Regulations')	A cap of £95,000 on exit payments in the public sector has been considered by the Government since 2015. In April 2019, the Government launched a consultation and subsequently published draft regulations. On the 15 October, these Regulations were introduced formally and will apply from the 4 November. They provide that Post Office "must not" pay exit payments (such as that are due upon redundancy) at amounts in excess of £95,000. As such they purport to override employees' existing expectations (some of which are contractual) to redundancy payments.	The Regulations mean that any employees in public sector bodies leaving their business on or after the 4 November will be subject to the £95,000 cap. The Government have not yet published the accompanying guidance to the Regulations, but this is expected imminently. Payments deemed to be exit payments under the Regulations include redundancy payments (with the exception of statutory redundancy payment entitlements), severance payments and contractual payments for lieu of notice. There has been a lot of contest regarding the Regulations, especially from public sector trade unions. The British Medical Association ('BMA') is arguing that the Regulations are unlawful and has asked the courts for permission to apply for a judicial review.	[redacted]	[redacted]	[redacted]
2. Revenue and Customs Brief No.12 - VAT Treatment on Compensation Payments	On 2 September, HMRC published its Revenue and Customers Brief 12 (2020) that introduced their new position on VAT treatment of contractual compensation payments. The updated position means that VAT is applicable for:	Until recently, HMRC typically took the view that as compensation or damages payments made under a contract were not consideration for a supply of goods and services, they were therefore outside the scope of VAT. Following two recent EU judgements, HMRC has now reversed this position,			

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Post Office Limited - Audit Risk & Compliance Committee-24/11/20

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Issue	Why it matters?	Latest Developments	Impact on Post Office	Action	RAG
	(i) Liquidated damages – payments made under contractual obligation to compensate the other party on early termination; and (ii) Payments for breach of contract – contracts which terminate on specific events and provide for a compensatory termination fee. The reasoning provided is that circumstances for terminating are as a result of events envisioned when entering into the contract and are therefore consideration for the supply of goods and services when they occur.	so that many compensation payments or early termination fees will fall within the VAT regime. This change in position was unexpected and industry insiders were given no warning. There has been a strong reaction from possibly affected parties particularly on the retrospective point. Many businesses have asked for clarification and further guidance as the cost implication could be huge for companies. There is some speculation amongst VAT specialists as to whether HMRC will reconsider its position.	[redacted]	Review the Disputes Register	

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Issue	Why it matters?	Latest Developments	Impact on Post Office	Action	RAG
			[redacted]		
3. HM Treasury Consultation on new Economic Crime Levy – Update	At the 2020 Budget, the Government announced its intention to introduce an economic crime levy. The levy aims to raise approximately £100 million per year from entities regulated for Anti-Money Laundering ('AML') purposes and support reforms to the sustainable resourcing of economic crime. The proposals included, but not limited to, a levy based on a percentage increase of current AML fees paid, the size of a business, the number of employees or the number of suspicious activity reports ('SARS') raised.	Post Office responded to the consultation in October. The expectation is that the official response won't be until 2021, however the draft legislation will likely be published at the same time as the response.	[redacted] hundreds of thousands.		

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Issue	Why it matters?	Latest Developments	Impact on Post Office	Action	RAG
4. VAT Treatment of Bill Payment Products	HMRC have ruled that the income earned from processing bill payments for clients is now subject to VAT and no longer VAT exempt as it had been treated previously. This rule change has come about following a legal challenge made to HMRC by Paypoint.	Post Office and Payzone ('POL Group') are treated as one VAT Group for HMRC purposes and therefore a joint approach to this change is necessary. HMRC are allowing the POL Group to select a date to enact this change, the sooner the change is enacted the sooner the benefits can be claimed.	[redacted]		

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	PwC Agreed Upon Procedures	**Meeting Date:**	24 November 2020
Author:	Brian Kelly, Tax, Treasury and Working Capital Director & Tom Lee, Financial Controller	**Sponsor:**	Alisdair Cameron, Group Chief Finance Officer

Input Sought: Noting

The Committee is asked to note:

i. the scope, purpose and status of the Agreed Upon Procedure ("AUP") engagements performed by PricewaterhouseCoopers LLP ("PwC")
ii. the findings and recommendations made by PwC
iii. the actions performed by Post Office Limited ("POL") in response to PwC's findings

Previous Governance Oversight

- Presented to Risk & Compliance Committee for noting on 12 November 2020.

Executive Summary

Several contractual arrangements which POL have with third parties require POL's external auditors to perform AUP engagements to review specific processes, controls and policies in place at POL with regards to each stakeholders interest. These partners are as follows:

- Department for Business, Energy and Industrial Strategy ("BEIS")
- Bank of England ("BoE")
- Royal Mail ("RM")
- Driver and Vehicle Licensing Agency ("DVLA")

The BEIS and RM reports are being finalised and should be complete by the end of November 2020. No material issues have been identified, however a number of items are included within the reports for completeness, see PwC "Non-audit engagements" report for further details.

The DVLA report has been completed and shared with the stakeholders who confirmed that they are comfortable with the findings noted, which had already been identified and addressed by POL management.

The BOE report has been completed and shared with the stakeholders. Whilst PwC identified a number of findings, BoE have confirmed they are comfortable that these are immaterial. Many of the findings were due to lack of access to physical evidence as a result of COVID-19 and therefore although appearing as findings, should be noted as a timing issue outside of managements control. For the remaining actions, most of which related to documentation to evidence that controls were operating as opposed to the design of the controls, the Treasury team have put in place an action plan to deal with the recommendations. Most of the actions have already been completed, with the remainder due to be closed off by the end of November 2020.

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Questions addressed

1. What is the scope and status of the AUP engagements performed by PwC?

2. What were the findings and recommendations raised by PwC?

3. What actions have been performed by POL in response to the PwC findings?

Report

Overview of AUP engagements performed by PwC

4. BEIS AUP – review the accuracy of the financial covenant calculations which are reported throughout the year to BEIS and compare the reported position, for a sample of months across the financial year, to the management information from which they were obtained.

5. BoE AUP – provide a report on Post Office Limited's processes surrounding the Notes Circulation Scheme (NCS) and on the suitability of design and the operating effectiveness of its controls for the financial year under review.

6. RM AUP – comparison of revenue figures reported weekly to RM back to underlying financial records and cash receipts, for the financial year under review.

7. DVLA AUP – comparison of the annual statement provided to DVLA, showing the volume of DVLA transactions performed in branches, back to underlying financial records.

BEIS AUP

8. PwC performed agreed the financial covenant calculations, produced and reported on a monthly basis, back to the data sources from which the information was obtained. The calculations were reperformed and understanding of compliance procedures surrounding the calculation was obtained. The procedures were designed to ensure that POL has met the requirements around calculations and reporting under the BEIS loan agreement for the financial year under review.

9. The PwC report is yet to be finalised but based on discussions between POL and PwC no significant issues have been identified. The only item to note, which will be included in the PwC report, is that the reports provided to BEIS are based on numbers at a specific point in time and are not retrospectively amended. This has no impact on period 1 to 11 as the report is produced at month end close, with any late adjustments being minor. However, at yearend the final numbers may not be agreed until months after the report is issued which could lead to inconsistencies e.g. for FY19/20 the Annual Report and Accounts ("ARA") is yet to be finalised and therefore the numbers reported to BEIS in April 2020 may vary to what will ultimately appear in the ARA. A reconciliation will be included in the PwC report to reconcile the reported position to the latest draft ARA.

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10. This is not deemed to be an issue as the adjustments made would not, in the instances identified, cause a breach in the covenants. If a breach was to occur then BEIS would be notified as part of the routine ongoing management interactions.

11. The BEIS AUP report is expected to be signed in November 2020.

BoE AUP

12. The report is produced to provide an understanding and examination of the policies and procedures designed and implemented by Post Office to provide user entities with Note Circulation Scheme services (NCS). It looks at the Suitability of Design and Operating Effectiveness of its Controls for the period from 1 April 2019 to 31 March 2020.

13. Continued membership of the NCS Scheme is dependent on meeting the Bank's reporting requirements as well as its security standards.

14. The Bank of England Rules on the Note Circulation Scheme defines how Note Recirculation Facility (NRF) declarations should be calculated.

15. PwC reported 31 individual findings in their audit of the NCS scheme (see Appendix 1), 13 of which were because of evidence not being available due to COVID-19 restricting access to sites and therefore preventing physical inspection.

16. BoE have reviewed the reported findings and confirmed with POL at the October 2020 Quarterly Compliance call that they have no concerns about the findings due to their immateriality.

17. No material control failures were highlighted, however, management recognise the need to take action to ensure Post Office is fully compliant with the rules of the scheme and maintain a good relationship with the Bank of England. The findings have been summarised at a high level in paragraphs 18 and 19. The detailed list of individual findings can be found in appendix 1.

18. Staff Knowledge, Training and Access:
    - Limited evidence of staff training in the team;
    - A user access list for Team Drive, SharePoint and the NIPS system could not be obtained for the full year;
    - No evidence was provided to demonstrate that a review of the NIPS system user access list was performed in the year;
    - The spreadsheets used to calculate the daily NFR position should all be password protected.

19. Other findings:
    - Signed audit packs and CCTV footage from cash centres which validate key controls have been performed could not be accessed due to restrictions in place for COVID-19.
    - Multiple instances when the Cash Centre Managers did not confirm the daily forecast as per the agreed control

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20. Whilst the findings are not material, management recognise the need to address the findings and have agreed the actions in Appendix 2 with the Treasury team. Most of the actions have been completed, with the remaining due to be completed in November 2020. Note the findings will appear in the FY20/21 PwC report, despite being cleared, as they will have been applicable for part of the financial year under review.

RM AUP

21. PwC performed a review of POL's gross actual revenue for the year ending 29 March 2020. This involved casting the 'breakdown schedule', agreeing the schedules to the POL General Ledger and agreed the total gross revenue to the bank statement.

22. One exception was identified where the gross revenue per the GL and per the bank statement was greater than the 'breakdown schedule' by c. £10m. This was an overpayment to Royal Mail which was subsequently returned the following week – management were aware, rectified this at the time and no further instances have occurred as a result of controls in place.

23. As part of POL's requirements to provide all relevant information to PwC which could impact RM revenue, POL also notified PwC of an issue regarding the application of new stamp tariffs which occurred in Feb 2019, resulting in under settlement of c. £500k to RM which was resolved post year end. This was noted in PwC's report but RM were fully aware and subsequent settlement has been performed.

24. POL has also informed PwC about the stamps review (Project Frank) performed in the year by KPMG LLP. PwC have reviewed the KPMG report and will make reference to it within their AUP report, as will POL within the management representation letter. Once the final wording of the representation letter is confirmed, the PwC AUP report will be finalised for signing, expected to be November 2020.

DVLA AUP

25. PwC performed walkthroughs of the end to end DVLA transaction process, reconciliation of SAP data to Horizon data, sampling transactions to ensure they flowed through from Horizon to the bank statement, analytical review of sales and remittances and reperformance of key calculations driving the Annual (volumes) Statement provided to DVLA.

26. PwC identified some minor findings in relation to daily reconciliation variances, which were subsequently resolved, and sizable movements in sales balances in branches, which were suitably explained. Additionally, an IT finding was included as a general point around user access controls, which was noted in the main yearend ARA audit and included in this report for completeness as it was in relation to branch system access controls.

27. Any reconciling differences noted were trivial (less than £5k) and 'unusual movements' noted in the analytical reviews have been backed up by management responses.

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28. The report has been shared with DVLA and no issues have been raised by management.

Conclusion

29. Whilst PwC identified findings through their AUPs, POL management are comfortable that these are immaterial and the overall outcomes of the AUPs demonstrate a strong control environment across the business processes.

30. Any remaining findings and recommendations will be addressed where required ahead of the FY20/21 AUP reviews.

Next Steps & Timelines

31. BOE - The remaining actions in relation to the BoE NCS AUP will be closed by 27 November 2020.

32. RM – final review and clearances are underway and the report is expected to be signed in November 2020.

33. BEIS – final review and clearances are underway and the report is expected to be signed in November 2020.

34. DVLA – None.

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Appendix 1 – BoE AUP PwC findings

Control Title	Audit Findings
CO1.1 Applicable process and guidance documentation is maintained and made available to the relevant teams - through the networked 'Team Drive' or held locally at cash centres - involved within the NCS process	Whilst we were able to inspect the SharePoint site, we were unable to inspect or observe evidence of the Team Drive used to share data with the relevant teams for the period 1/4/19 - 23/10/19. As such, it was not possible to test the design and operating effectiveness of the Team Drive element of this control.
CO1.2a - Treasury staff are provided with specific on the job training relevant to their role - supported by the process and guidance documentation. CO 1.2b - Cash Centre staff are trained on an annual basis and evidence of the training is maintained through formal training records for each staff member.	We identified that limited or no evidence of training was retained for staff members, and so it was not possible to test the operating effectiveness of this control.
CO1.3 - Team Drive: 01/04/2019 - 23/10/2019 - access to the area of the Team Drive, which holds the NCS forecast spreadsheet, is restricted to only appropriate members of Treasury. SharePoint: 24/10/2019 - 31/03/2020 - Access to the area of the SharePoint, which holds the NCS forecast spreadsheet, is restricted to only appropriate members of Treasury.	Team Drive: 01/04/2019 - 23/10/2019 Exception noted. An access list could not be obtained for Team Drive users within the year. SharePoint: 24/10/2019 - 31/03/2020 Exception noted. An access list could not be obtained
CO1.4 -Team Drive: 01/04/2019 - 23/10/2019 A formal process is in place to ensure that anyone who requires access to Team Drive, and in particular the area where the NCS spreadsheet is held, is reviewed and approved by the Treasury Manager. SharePoint Drive: 24/10/2019 - 31/03/2020 A formal process is in place to ensure that anyone who requires access to SharePoint, and in particular the area where the NCS spreadsheet is held, is reviewed and approved by the Treasury Manager.	An access list could not be obtained for either the Team Drive or SharePoint users within the year, therefore testing over the operation of the control could not be performed.
CO1.5a - Forms requesting new access to the NIPS system from the Bank of England are signed by two authorised signatories prior to being submitted to the Bank of England.	An access list could not be obtained for March 2020. Therefore, we were unable to confirm the population of new users to the NIPS system during the year and pick a sample to test the operating effectiveness of this control.
CO1.6 - The Treasury team maintain a list of individuals who have access to NIPs which is reviewed on a periodic (six monthly) basis to ensure that access to NIPs remains appropriate.	No evidence was provided to demonstrate that a review of the NIPs user access list was performed in the year.
CO1.7 - A formal process is in place to ensure that anyone who requires access to CWC is reviewed and approved by the appropriate Manager.	An access list could not be obtained for the period 01/04/19 - 03/11/19. Therefore, testing could not be performed for user access requests to CWC in this period. For the period 04/11/19 - 31/03/2020, where an access list could be provided, we were able to test without exceptions.
CO1.8 - A formal process is in place to ensure that any leavers from POL have their access to CWC removed in a timely manner.	An access list could not be obtained for the period 01/04/19 - 03/11/19. Therefore, testing could not be performed for user access requests to CWC in this period. For the period 04/11/19 - 31/03/2020, where an access list could be provided, we were able to test without exceptions.
CO1.9 - For the period 4/06/2019 - 31/03/2020 Formulae within the NCS forecast spreadsheet are password protected from inappropriate change within the excel document.	The NCS spreadsheet was only password protected after 4/06/2019. Hence this control was not in operation prior to 4th June 2019. We further noted that one of the tabs within the NCS forecast spreadsheet was not password protected.
CO1.10 - Access to the password to make changes to formulae within the NCS spreadsheet is restricted.	Evidence could not be provided to validate who had access to the NCS spreadsheet password.
CO1.11 - A masterfile log is maintained to detail any changes that have taken place to the NCS spreadsheet or its formulae. Any changes to the spreadsheet or its formulae would require appropriate review and authorisation by the Treasury Manager.	We noted the existence of a masterfile log to track changes on the NCS spreadsheet. However, the contents within the masterfile log are not locked and there are no tracked changes enabled to verify the validity of approvals recorded within the log. Therefore, it was not possible to test the operating effectiveness of this control.
CO2.1 - Team Drive 01/04/2019 - 23/10/2019 Procedural documentation is in place, and available via Team Drive directories, that details the process(es) to be followed in preparing the NRF declaration. SharePoint: 24/10/2019 - 31/03/2020 Procedural documentation is in place, and available via SharePoint directories, that details the process(es) to be followed in preparing the NRF declaration.	Whilst we were able to inspect the SharePoint site, we were unable to inspect or observe evidence of the Team Drive used to share data with the relevant teams for the period 1/4/19 - 23/10/19. As such, it was not possible to test the design and operating effectiveness of the Team Drive element of this control.
CO2.4 - Treasury Manager(s) perform a daily review of the information contained within the NRF / CCO calculation to ensure that the details entered are complete, accurate and valid based upon the associated evidence. Should any discrepancies be identified by the Treasury Manager, an email is sent and saved requesting the amendment.	Exception noted. The treasury team signoff audit review packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 17 out of the 20 samples selected. The remaining 3 out of 20 samples were electronic sign-offs following the new COVID-19 procedures, which we were able to test without exceptions.

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CO2.5 - The Treasury team sends out the NCS Forecast spreadsheet, including the NRF/CCO calculation, on a daily basis. Each cash centre manager is included in the e-mail distribution list and they should review the information and challenge if there is found to be a discrepancy.	The control which required Cash Centre Managers to respond to the forecast email with their confirmation of acceptance was implemented on 11/06/2019. Therefore, we were unable to test this control during the period 01/04/19 - 10/06/19. For the period 11/06/19 - 31/03/20, we noted that there were 22 instances when the Cash Centre Managers did not respond with their confirmation of acceptance. For the period 11/06/19 - 31/03/20, we were unable to obtain evidence of the forecast being sent and any subsequent sign-offs for 1 sample.
CO2.6 - Finsbury Dials Treasury Analyst will review on a daily basis the forecast submission values at a detailed level, tracing these back to values and other supporting information provided by the cash centres etc. The Finsbury Dials Treasury Manager is responsible for ensuring that the information is complete in the spreadsheet prior to submission to the Treasury Manager for review.	The treasury team signoff of the daily NRF audit packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 10 out of the 20 samples selected. 9 out of the 20 samples were physical copies that had been scanned for review, which we were able to test without exceptions. 1 out of 20 samples was an electronic sign-off following the new COVID-19 procedures, which we were able to test without exceptions.
CO2.7 - The Treasury Manager will independently review and verify the forecast figures that are provided at 10:30am and 13:15pm by each cash centre to ensure the figures are reasonable and conform to the Bank of England's rules for NCS and NRF. Specifically they check that: • The total NRF figure does not exceed the maximum gilts available; • The balance of NRF cash is consistent with previous experience, or there is a known explanation; and • The amounts are reasonable in view of other known information coming from the business, such as cash required in order to meet winter fuel payments, and specific events such as bank holidays.	The treasury team signoff audit review packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 17 out of the 20 samples selected. The remaining 3 out of 20 samples were electronic sign-offs following the new COVID-19 procedures, which we were able to test without exceptions.
CO3.1 - The NCS forecast spreadsheet has in built checks that provide comparisons between forecast and actuals. The Treasury team will investigate differences of +/- 5% and record these differences in the Forensic Investigated Sheets. The outcome of the comparison and associated actions are recorded in the spreadsheet, with details of the clerk and the manager involved in the review.	Exception noted. The treasury team NRF audit packs which validate that this control was performed are currently stored in Post Office HQ. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 10 out of the 20 samples selected. 9 out of the 20 samples were physical copies that had been scanned for review, which we were able to test without exceptions. 1 out of 20 samples was an electronic sign-off following the new COVID-19 procedures, which we were able to test without exceptions.
CO4.2 - On a monthly basis, a review is done by the Treasury Manager to validate the figures entered by the Treasury Analysts and establish where the cap has been breached. The yearly cap forecast is then updated to reflect the anticipated outflows and, where a breach has occurred, make adjustments to ensure the annual cap is not exceeded.	Exception noted. Due to COVID-19 and office access restrictions we could not obtain physical evidence to validate the operation of this control. Therefore no detailed testing has been performed for this control.
CO5.3 - Bond movements are entered into NIPs by cash-centre cashiers. These are then reviewed and agreed by the Cash Centre Management and Treasury team. Where differences/errors are found, they are investigated and rectified on the NIPS.	Exception noted. The treasury team signoff of the daily NRF audit packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 10 out of the 20 samples selected. 9 out of the 20 samples were physical copies that had been scanned for review, which we were able to test without exceptions. 1 out of 20 samples was an electronic sign-off following the new COVID-19 procedures, which we were able to test without exceptions.
CO5.4 - The Finsbury Dials Treasury team will verify the NIPs Bond movement entries against the Bond movements agreed with cash centres for NCS reporting purpose (i.e. daily NCS forecast spreadsheet).	The treasury team signoff of the daily NRF audit packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for 10 out of the 20 samples selected. 9 out of the 20 samples were physical copies that had been scanned for review, which we were able to test without exceptions. 1 out of 20 samples was an electronic sign-off following the new COVID-19 procedures, which we were able to test without exceptions.
CO7.1 Bond access is limited to the hours of 04:00 to 22:30. The vault door is automatically time locked between the hours of 22:30 and 04:00. Requests to access it outside the opening hours would require an engineer.	Due to COVID-19 related office restrictions, we could not obtain the CCTV footage to validate the operation of this control.
CO7.2 Two separate sets of keys are required to open the vault grille which are stored separately in the Traka system safety lock that is only accessible to 4 individuals via their own biometric and ID details. Each individual has access to only one set of keys. When vault access is not required, the vault is locked and both sets of keys are stored in the Traka system safety lock.	Due to COVID-19 related office restrictions, we could not obtain the CCTV footage to validate the operation of this control.
7.4 Control introduced for extended hours from the 19/12/2019 The treasury team consolidates the Bond movement files submitted from the cash centres and checks the entries against the final NIPS transaction reports and NIPS RTGS2 screen. The consolidated Bond movement file is then submitted to the Bank before 15:00.	Exception noted. The treasury team signoff audit review packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020. Due to COVID-19 access restrictions, the treasury team was not able to provide evidence of review for the period of 19/12/2019 to 16/03/2020 For the period of 17/03/2020 to 31/03/2020, there was limited evidence to demonstrate the treasury team review of the bond movement files and the

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	NIPS transaction entries prior to being submitted to the Bank of England. We were therefore unable to validate the operating effectiveness of this control during this period.
CO7.5 - The Treasury team sends out the NCS Forecast spreadsheet, including the NRF/CCO calculation, on a daily basis. Each cash centre manager is included in the e-mail distribution list and they should review the information and challenge if there is found to be a discrepancy. Note that this control is a mirror of control 2.5.	Exceptio ns noted. The control which required Cash Centre Managers to respond to the forecast email with their confirmation of acceptance was implemented on 11 June 2019. Therefore, we were unable to test this control during the period 01/04/19 - 10/06/19. • For the period 11/06/19 - 31/03/20, we noted that there were 22 instances when the Cash Centre Managers did not respond with their confirmation of acceptance. • For the period 11/06/19 - 31/03/20, we were unable to obtain evidence of the forecast being sent and any subsequent sign-offs for 1 sample.
CO7.6 - Finsbury Dials Treasury Analyst will review on a daily basis the forecast submission values at a detailed level, tracing these back to values and other supporting information provided by the cash centres etc. The Finsbury Dials Treasury Manager is responsible for ensuring that the information is complete in the spreadsheet prior to submission to the Treasury Manager for review.	Exception noted. The treasury team signoff of the daily NRF audit packs which validate that this control has been performed were stored in the Post Office HQ for all reviews performed prior to the 17/03/2020.
CO7.7 - The Treasury Manager will independently review and verify the forecast figures that are provided at 10:30am and 13:15pm by each cash centre to ensure the figures are reasonable and conform to the Bank of England's rules for NCS and NRF. Specifically they check that: • The total NRF figure does not exceed the maximum gilts available; • The balance of NRF cash is consistent with previous experience, or there is a known explanation; and • The amounts are reasonable in view of other known information coming from the business, such as cash required in order to meet winter fuel payments, and specific events such as bank holidays.	Exception noted. The treasury team signoff audit review packs which validate that this control has been performed are stored in the Post Office HQ for all reviews performed prior to the 17/03/2020.

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Appendix 2 - BoE AUP POL action log

Actions:	Owner:	Resolution Date:
New Treasurer appointed to focus on improving controls and process improvements	Brian Kelly	Completed
Implement a new training log that is reviewed and signed off half yearly by all members	Pete Mitchell	27.11.20
Request additional training from the Bank of England	Pete Mitchell	Completed
Maintain an up to date list of current users for the NIPS system	Mark Wood	Ongoing
Add a new control in Traction to complete a monthly review of access rights	Pete Mitchell	13.11.20
Ensure password controls are in place for all spreadsheets used in the preparation of the daily NRF calculation	Andrew Ashall	Completed
All treasury documentation to be moved electronic format where possible	Andrew Ashall/Mark Wood	Completed
Management will remind both Cash Centre and Treasury staff of ensuring email replies are received	Andrew Ashall	Completed
Review usage of Tracka safe lock system reports to provide evidence of dual access controls over the vaults	Andrew Ashall	13.11.20

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Appendix 3 – PWC Report - Post Office Limited Non-Audit engagements Year ended 29 March 2020

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Post Office Limited
Non-Audit engagements
Year ended 29 March 2020

Audit and Risk Committee Report
Private and confidential
24 November 2020



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Summary of non-audit engagement findings

Overview

Consistent with the prior year a specialist assurance team, led by Gary Shaw, has performed a reasonable assurance piece of work over the operating controls related to the Bank of England Note Circulation Scheme. As a result of the COVID-19 pandemic, this work was delayed, but has now been completed with our report being issued in August. Further details on our findings can be seen on the following page.

We also performed the following "agreed upon procedures" reporting ("AUPs") to satisfy various contractual requirements of the Post Office Limited ("POL"):

1. Confirmation of the Turnover relating to Royal Mail
2. Procedures over the DVLA Statement of Account
3. Loan covenant reporting in respect of the BEIS credit facilities (2019 and 2020)

Royal Mail

This engagement is to confirm that the revenue reports issued to Royal Mail on a weekly basis agree to the general ledger and bank statements. We noted exceptions in week 38 whereby the general ledger did not agree to the amounts reported which resulted in an overpayment to Royal Mail. There was therefore also an exception in the following week to correct for the overpayment.

Two further matters have been communicated to us by management during the course of the engagement and have been included in our report and in the management representation letter:

1. Subsequent to the reporting date management identified an error in how stamps were being recorded in the Horizon system which resulted in an under-settlement with Royal Mail from week 48. We understand from discussion with management that the error affected c. 350 branches and resulted in an overall under settlement of c. £500k with the Royal Mail. Management has subsequently performed a detailed exercise to determine the exact error and required correction.
2. KPMG have also recently performed a review of the stamp stock process which identified where stamp stock related branch discrepancies could result in a loss to Royal Mail. KMPG were however unable to quantify the total impact as corrections for stamp stock unders/ overs are not distinguishable in the total sales balance due to the way they are processed on Horizon.

We expect to finalise and issue our report this month upon receipt of the management representation letter.

BEIS

This engagement is to perform limited scope procedures on the schedule of financial covenant calculations, including agreement to underlying accounting records and recalculation of the workings. At the time of writing we have not identified any exceptions from the procedures performed for 2019 or 2020, however we note that there are material adjustments posted between the year end management accounts that are used to prepare the financial covenant calculations and the audited statutory financial statements. We have included a reconciliation between the numbers used in the financial covenant calculations and the financial statements (latest draft for 2019/2020) as an Appendix to our report. We have not sought to verify these adjustments as this would fall outside of the scope of our agreed upon procedures. Management has confirmed that the adjustments do not have an adverse impact on the covenant.

We expect to finalise and issue our report this month upon receipt of the management representation letter.

DVLA

This engagement is to corroborate a sample of DVLA revenue from the general ledger (CFS) to bank payments to DVLA. We have finalised our procedures and issued the final report in relation to the DVLA agreed upon procedures engagement. We noted some minor exceptions, being variances between CFS and the Audit Master Sheet. These had already been appropriately corrected by management.

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Bank of England - Note Circulation Scheme

Scope of work

As part of Post Office Limited ("POL")'s participation in the Bank Of England (the "BoE")'s Note Circulation Scheme ("NCS"), POL is required to obtain assurance over the controls it operates in respect of seven control objective areas (as defined by BoE), which cover:

1. Training of NCS staff, and restriction of access to NCS systems to only those trained individuals;
2. The methodology used to submit twice-daily Note Recirculation Facility (NRF) forecasts to the BoE;
3. The methodology used to communicate over- or under-forecasts of the NRF to the BoE;
4. The methodology used to compile and submit the twice-daily Cash Centre Outflow ("CCO") submissions to the BoE and to monitor these outflows against the cap set by the BoE;
5. Bond declarations; the approach to reporting Bond stock levels to the BoE;
6. POL's procedure to comply with the BoE's Non-Investment Products Code of Conduct; and
7. (New for 2020) Security and access to the Bond, as well as controls for extended NCS hours of operation.

We were engaged to provide a Reasonable Assurance Opinion (under the International Standard for Assurance Engagements 3000) over POL's description of its NCS control environment, as well as the suitability of the design and operation of the controls to address BoE's control objectives, for the period 1 April 2019 to 31 March 2020.

Summary of conclusions

A significant proportion of the audit trail for NCS controls, in particular the key controls around NRF, CCO and Bond declarations, are paper based. As a result, COVID-19 access restrictions to POL sites during fieldwork meant that we were unable to obtain access to the necessary audit evidence in order to provide the basis for an assurance opinion. Anticipating this in advance, we and POL agreed with BoE that our approach for 2019/20 would be to continue with the full scope, testing what was possible to test, and flagging those controls which were not possible to test due to COVID-19 access restrictions.

As such, this year, our assurance report did not express an opinion on Post Office Limited's description, suitability of design and operation of internal controls in respect of the BoE NCS for the period from 1 April 2019 to 31 March 2020.

Summary of key findings

Notwithstanding the key controls that we were unable to test as a result of the COVID-19 access restrictions, we identified a number of weaknesses in the design and / or operation of a number of controls that we were able to test.

Our findings across the 49 controls in scope can broadly be categorised as being:

I. 14 controls where deficiencies were identified in the year ended 31 March 2019, and either:
   A. were remediated midway through the period, meaning that, whilst now resolved, the deficiency still remained for part of the period under review (5 controls); or
   B. were remediated during the period, but only partially, and so some weaknesses still remained (9 controls).
II. 3 Controls where deficiencies were identified for the first time in the year ended 31 March 2020;
III. 14 Controls which could not be tested due to the COVID-19 access restrictions; or
IV. 18 Controls where our testing identified no exceptions.

The 5 controls which were remediated midway through the period (I-A) related to the migration from a TeamDrive to a Sharepoint site for NCS documentation, where use of Sharepoint remediated the issues identified, but these legacy (largely access-related) issues remained for the first part of the year until the switch to Sharepoint took place.

Of the 12 non-Covid findings which were still open at the year end (I-B and II),

- 8 related to being unable to obtain a breakdown of user access for the NIPs and CWC systems for at least part of the year, meaning that testing of starters and leavers could not be performed, and there being no audit trail maintained regarding the user access reviews performed for those systems;
- 3 related to weaknesses in the password restrictions and protections in the NCS spreadsheet (though we recognise that significant progress had been made in this area since 2018/19);
- 3 findings corresponded to a number of instances whereby no audit trail had been maintained of the cash centres' agreement with various elements of the NCS forecasts, and
- One finding was in relation to there being no formal audit trail of the NCS training provided to staff involved in the NCS process.

In all cases, management of the NCS process have confirmed to us that they agree with these findings and intend to take action to remediate them.

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We have prepared this report solely for the use of Post Office Limited. This report forms part of the continuing dialogue between the Group and us and therefore it is not intended to include every matter, whether large or small, that has come to our attention. For this reason, this report should not be made available to third parties, and if any third party were to obtain a copy without prior written consent, we would not accept any responsibility for any reliance that they might place on it.

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POST OFFICE LIMITED
AUDIT, RISK & COMPLIANCE COMMITTEE REPORT

Title:	Procurement Governance & Compliance Report	**Meeting Date:**	24 November 2020
Author:	Barbara Brannon, Procurement Director	**Sponsor:**	Alisdair Cameron, Group Chief Finance Officer

Input Sought: Noting

The Committee is asked to note the contracts in the Procurement pipeline which are high value and at risk of being awarded or extended non-compliantly.

The Committee is also asked to note the alteration in governance approved by ARC and to note the preferred governance processes in respect of subthreshold risk exception requests.

Previous Governance Oversight

- July 2020 - Quarterly Risk Report
- September 2020 – Board Report

Executive Summary

As a business in receipt of public funds Post Office Limited (POL) is bound by the Public Contract Regulations (2015). PCR 2015 oblige POL to behave in a fair, objective & transparent way when contracting with 3rd party suppliers. Additionally, set procedures must be followed for spend above £25k and £189k.

The purpose of this report is to set out both breaches to Post Office governance and key controls around contracts and compliance to PCR regulation in the award of contracts.

The aim of collating this information is to drive improvement in awareness and compliance behaviour across the organisation. The second and primary aim is to work with GE and Business Units to commence commercial reviews in a more timely way ensuring POL obtains value, commercial and contractual flexibility fitting the requirements and business strategy of the organisation.

In March 2020, Post Office Board requested prior approval of all Exceptions. This was revised in September 2020 to above threshold Exceptions >£189k only in a revision to existing governance. From November 2020 sub threshold exceptions will be requested and approved via GE, and reported retrospectively to RCC and to ARC.

A Procurement Risk Exception Note is required to accompany all Exception Requests and a Legal Risk note for requests >£189k.

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Questions addressed

1. *How many and what types of procurement risk exceptions have occurred in the past quarter?*
   Since the last Board report at the end of September there have been no Procurement Risk Exceptions submitted to Board for approval.

   We currently have a lapsed contract with our auditors, PWC which is an internal governance breach. A compliant extension option exists to extend but they are currently working at risk preparing an audit plan for 2020/21 while commercial terms are negotiated.

2. *What are we doing about it?*
   Active reviews continue with Business Units with the highest values relating to non-compliance.

   Our overall non-compliance value has reduced from £27.7m in July to £8.8m in November.

   A number of material risks including the retendering of our Payments Processing services [Global Payments] have been retendered, awarded and closed. The Customer Database and Marketing Services [RAPP] process is in closing negotiations and will be resolved before Christmas with a significant Opex saving.

   A visual breakdown on all Open incidents at 5/11/20 is available in Appendix 1.

3. *What is in the current Procurement pipeline which is high value and at risk of being awarded or extended non-compliantly?*

   a) £10m. **EUC**

   A project has been initiated to re-procure End User Computer services for both Branch and Colleague Services. The project has been delayed and re-baselined due to Covid resource constraints. The revised plan targets April 2021 to award a new provider for Colleague Services with Branch services the subject of a separate tender process. This process will complete by end of May 2020 assuming no further slippage. In both cases, the termination assistance period will have commenced prior to award. The project is currently gathering requirements to go to market however, the exit assistance period was the subject of an earlier Legal Risk Note which has been updated and is attached in Appendix 2. There has been no change in the risk profile of the procurement.

   b) £1.5M. **Cheque Clearing**.

   A risk exception was submitted to Board in June 2020 to extend our cheque clearing services with Barclays. An undertaking was made to retender the service within the period of the 12 month extension. Due to resource constraints over the summer period, the project started in earnest in September with a Project manager assigned in October. A review of the market has indicated that an OJEU process will be required

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for an As Is solution. There is just adequate time left to do this, however, the gross IRRELEVANT IRRELEVANT IRRELEVANT and there is a live RFI process underway. However, our IRRELEVANT IRRELEVANT

It is therefore proposed that irrespective of the outcome of the RFI, that we proceed to a full OJEU and a progress update will be provided to Board early in 2021.

c) **TBC - Common Digital Platform (CDP) Disaggregation.**

Rather than procure a like for like service for application support and development IT are using this opportunity to align CDP with the future IT strategy and disaggregating the service. Hosting is already in the cloud and will compliantly transfer to the Back Office contract before transferring to the POL CoE for Cloud in due course. Options for application support and development [tendering certain pieces, moving non-customer facing components compliantly into the existing Back Office Accenture contract, and insourcing some elements] are under review with IT and Legal.

At present the application support and development services are unlikely to have been completely retendered or moved to other existing PCR compliant contracts by December as proposed to GE and Board and there are concerns in respect of resourcing and funding.

The view, however, is that this will have been completely achieved before revised contract end date in June 2021. The vast majority (by value) is expected to have been completed by the end of January 2021 as set out in the original Board paper.

d) **£120-150k - Smith & Williamson review.**

Board have requested a review of the existing structural agreements, to form an independent view of the way in which the Group's funding agreements, financing arrangements, headroom limits, cross-defaults, commercial contract implications and net liability exceptions (the "Facilities") have been forecast. Following this process, estimated at circa 2 weeks, a further phase may be required dependent on the findings of the review. A phase 2 estimate of cost is therefore not available.

4. *What are the key changes in the revised governance agreed with ARC in September?*

Following review of the annual Procurement compliance report in March 2020, the Audit and Risk Committee [ARC] have requested a revised approval process for all Procurement Risk Exceptions.

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A revised process was been discussed with ARC in September and the following key changes made:

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1. Subthreshold exceptions will be retrospectively reported to RCC and ARC every two months. This will become a standing item at ARC rather than an annual report. ARC will review this position within 6 months. A commercial, pragmatic approach to such risk was endorsed by the Board in September.
2. Above threshold risk exceptions [>£189k] will continue to require prior approval from Board
3. Above threshold Pipeline risks, sourcing options and recommendations*, progress reports on for material procurements, and bi-annual strategic pipeline report will continue to come to Board.
   *It is particularly noted that Board wish to understand the available commercial options, procurement routes and associated risks [both commercial and of legal challenge]; and proposed evaluation criteria with sufficient time to discuss and influence if desired.

Prior to March 2020, sub threshold exceptions were approved by the relevant GE member and SLP; and the Procurement Director. These exceptions were logged, with mitigation plans to bring into compliance where exceptions were made for an ongoing requirement rather than a one-off event. Sub threshold risk exception requests will be submitted for GE review and approval going forward.

Conclusion

Risk Exceptions are subject to extensive internal governance, legal and risk review, in line with POL governance guidance on value and risk.

Individually, all large value non-compliant contracts have been reviewed by appropriate Post Office governance forums with agreement on next steps and actions towards remediation allocated where appropriate and/or available.

Executive support towards moving POL towards a more compliant footing is very strong, but equally as important there is extensive support towards the cultural change required to ensure that Procurement activities and outcomes will support longer term business strategies and we reduce commercial risk making our 3rd party arrangements fit for purpose.

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Report

5. What are the potential consequences of non-compliant awards?
   a) Pre-contractual remedies overview: During a Procurement, an aggrieved party can seek an interim injunction suspending the tender or the implementation until the court decides on an outcome.
   b) Post-contractual remedies: The court can order an 'ineffectiveness order' rendering the contract void &/or can award damages.

6. Why are these incidents of non-compliance occurring, and what can be done about it?

   Non-compliant awards may be made for a number of reasons at the Post Office.

   a) Low value, time constrained or highly sensitive/specialist engagements are not uncommon.
   b) Large commercial arrangements cannot often be easily competed or unravelled without operational impact, and re-procurement may be subject to a pending evolution of a supporting Business Strategy and/or completion of large, and complex technical programmes of work to maintain or enhance services prior to a possible exit.
   c) The contractual arrangements may pre-date PCR 2015 regulations or the contract novated during separation from RMG, automatically becoming non-compliant at the renewal point. Non-compliant awards are frequently made on a tactical basis to extend contractual services while public tender processes are executed.
   d) Delays to public sector panels of suppliers becoming available. The Post Office makes extensive use of this low-cost route to market and new/refreshed panels are subject to frequent delays from Crown Commercial Services. Single interim extensions [of periods under 12 months] while tender processes are run are considered to be low risk legally.
   e) Changes in scope or value over the term of a contract may render the extension or renewal of services non-compliant. Material changes to the scope of a contract may render the whole contract non-compliant.
   f) Disregard for, or lack of understanding of the regulations.

7. Why are we receiving this report?
   A decision to collate this information into a single location was taken in the Autumn of 2016. The aim is to track and improve our overall compliance and commercial results as an organisation, while also ensuring perceptions are accurate. However, it should be noted that it will facilitate timely responses to Freedom of Information requests which adds risk to the Post Office commercial landscape.

8. Are any of these breaches arguable on regulatory grounds or are they all breaches?

   A full explanation of the individual compliance breaches for direct awards over £189k [previously £164k & £181k] threshold is attached in Appendix 1. Each entry details the nature of, and the value of the breach. The threshold is altered every two years based on the FX rate between GBP and the Euro.

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The Procurement Compliance Register does not at present give an indicative risk level attached to the award. This information is provided to the accountable executives under internal governance processes in the form of a PCR risk note before a contract above threshold is entered into, and if necessary, under Legal Privilege. In addition, all signatories to a contract have sight of the Risk note as part of the Contract Authorisation Form [CAF].

All entries are compliance breaches. A period of challenge applies to each PCR breach once an aggrieved party becomes aware or ought to have become aware. This risk finally expires at 6 years from the date of breach. The defensibility of a legal challenge is outlined within a Risk Note.

9. How many of the breaches were approved in advance and how many retrospectively?
All contracts entered into during this period were compliant with internal governance processes on contract and commercial review.

10. Why were the approvals given?
The rationale for approval is relevant to the individual service and is detailed within Appendix 1.

11. What were the unapproved, material breaches?
There were no unapproved, material breaches during this period.

12. Describe what you are doing about the breaches. Where we are in breach, do we have a plan to come back into compliance and over what time period will that plan take effect?
    a) A forward view of material contracts falling under each Business Unit is currently prepared by the relevant Procurement Manager for discussions with their key stakeholders. The maturity of this look ahead view does vary currently and is consistently a high priority activity within the team.
    b) Sourcing options papers are prepared for review by contract managers and key stakeholders [risk, legal, security] with routes to market agreed. In many cases these are dependent on evolving business and operating model strategies and the Procurement team are actively involved helping to advise and review options as thinking evolves.
    c) Where a non-compliant award is proposed due to time pressure, Procurement are actively working on long term mitigation with awards made on an interim basis to meet urgent operational needs.
    d) Each RCC member receives a regular report on compliance within their business unit[s].
    e) A Risk & Governance process requires a Risk Exception report to be created for non-compliant direct awards with GE sign off.
    f) Awards over £189k must have prior Board approval before being entered into.
    g) All Professional Services engagements must be approved in writing in advance by the CFO/COO. A compliant panel of preferred consulting partners has been appointed and proposed engagements outside of this panel are subject to additional review and challenge.
    h) Procurement provides training as part of the revised Induction process for new staff. Training packs are being updated for existing staff and a new training module made

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available on Successfactors. Ad hoc training sessions for interested Business Units are also run.

i) A new Intranet site has been launched for Procurement to improve visibility of process, regulation, and the panels of approved compliant suppliers available to POL business units.

j) A revised POL Procurement Policy and supporting processes is in progress giving more granular guidance.

k) Using Crown Commercial Services frameworks, panels of Preferred Suppliers are being refreshed and updated across a wide range of spend categories to reduce time to market, improve compliance and greatly improve commercial outcomes and legal risk.

l) A planned change to operational systems will, once live, give Procurement earlier visibility of potential compliance issues eg: contractual value thresholds.

Risk Assessment, Mitigations & Legal Implications

13. As a business in receipt of public funds POL is bound by the Public Contract Regulations (2015). PCR 2015 oblige POL to behave in a fair, objective & transparent way when contracting with 3rd party suppliers. Additionally, set procedures must be followed for spend above £25k and £189k.

14. Failure to abide by the legislation or "slicing and dicing" contracts exposes POL to risk, both as far the commercial outcomes of the contracts as well as the reputational damage, legal remedies, censure & fines that can follow the discovery of a breach. Our compliance to PCR can be requested under a Freedom of Information request at any time.

15. The PCR Compliance Register allows for the tracking of breaches to PCR regulations at the Post Office and internal governance processes. One aim of collating this information is to drive improvement in awareness and compliance behaviour across the organisation. The second and primary aim is to work with GE and Business Units to commence commercial reviews in a more timely way ensuring POL obtains value, commercial and contractual flexibility fitting the requirements and business strategy of the organisation.

16. Contract and financial governance policy and processes at Post Office are set by the Legal, Risk and Governance team with clear guidelines for staff availably on the Company Secretariat team intranet site. This sets out steps to be taken to obtain financial and contractual approvals prior to making a binding commitment to an external party. Non-compliance to internal governance processes are also captured within this report.

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Appendix 1 - All Open Material Incidents

Date	Procurement Category	Function	GE Member	Supplier Name	Value	Mitigation	Breach Type 1 - PCR Threshold	Reason for Breach
10/01/2018	IT Software	Retail & Franchise	Amanda Jones (interim)	IRRELEVANT		In flight	PCR OJEU level	IRRELEVANT
15/06/2019	Marketing	Marketing & Brand	Emma Springham			In flight	PCR OJEU level	
23/12/2019	PR	Corporate Affairs & Comms	Richard Taylor			Pending	PCR OJEU level	
27/03/2020	IT Software	IT	Jeff Smyth (interim)			In flight	PCR OJEU level	
29/03/2020	IT Software	IT	Jeff Smyth (interim)			In flight	Medium threshold	
29/03/2020	Media	Marketing & Brand	Emma Springham			In flight	PCR OJEU level	
29/03/2020	Marketing	Marketing & Brand	Emma Springham			None	PCR OJEU level	
21/05/2020	Supply Chain	Operations & Supply Chain	Alisdair Cameron			In flight	Medium threshold	
21/05/2020	Supply Chain	Operations & Supply Chain	Alisdair Cameron			In flight	PCR OJEU level	
01/06/2020	Professional Services	Corporate Affairs & Comms	Ben Foat			None	Medium threshold	
25/06/2020	IT SaaS	Marketing & Brand	Emma Springham			Pending	Medium threshold	

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Date	Procurement Category	Function	GE Member	IRRELEVANT	Mitigation	Breach Type 1 - PCR Threshold	Reason for Breach
25/06/2020	Banking Services	Retail & Franchise	Owen Woodley		0 Pending	PCR OJEU level	IRRELEVANT
25/06/2020	Banking Services	Retail & Franchise	Owen Woodley		0 Pending	PCR OJEU level	
10/07/2020	Public Affairs	Corporate Affairs & Comms	Richard Taylor		8 None	Medium threshold	
10/07/2020	Marketing	Marketing & Brand	Emma Springham		0 Pending	Medium threshold	
10/07/2020	Professional Services	Finance	Alisdair Cameron		3 Pending	Medium threshold	
02/11/2020	Auditors	Finance	Alisdair Cameron		0 Pending		
01/09/2020	Professional Services	Commercial	Owen Woodley		0 None	Medium threshold	
					1 excluding Audit Value		

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Appendix 2 – Procurement Risk Exception Note(s)

PREN20 - EUC Procurement Risk Exception Form Pipeline v1.1 UPDATE 04 Nov. 2020

PREN20 - Legal Risk Note November Update TAP period.

PREN26 – PWC Pipeline Risk Audit Note

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Procurement Risk Pipeline Form

1.Business area or Project Details					
Date Raised	**Original submission 02 July 2020 updated 05 November 2020**	**Business Area/Project**	**IT/ End User Compute**	**GE Member**	**Jeff Smyth**
Raised By	**Rob Whitehead**	**GE-1 Exception Owner**	Gary Walker	**Value of Award**	**£6.1m (£0.6m BAU service costs during TAP plus £5.5m transition costs)**
				Total Value	**£66m full life costs April 2015 – April 2021**

2.Risk Details					
Risk Title	End User Compute – Termination Assistance/Exit Services Risk				
Risk Type (New/ Contract Extension)	**Extension** **Termination Assistance Period**	**Exception Category**	Regulation Breach	**Exception ID**	*To be provided by Procurement*
Detail of contract at risk of exception request and its purpose.	This note is to explain the residual risk in relation to using a contractual mechanism called the Termination Assistance Period within the Post Office Limited (POL) End User Computing (EUC) with Computacenter (CC). The contract covers provision and support for all of POL's Colleague, (e.g. Laptops, printers, central login mechanism, etc.), Branch end user compute environments (e.g. Counter hardware that executes Horizon, receipt printers, PEDs, etc.) as well as Shared Services (e.g. components used by both Colleague and Branch such as Microsoft Active Directory). This contract has been in place since 30 April 2015 and POL has already utilised all available compliant options for extension. Our contract will end on the 29 April 2021 and this end date is known by other providers of similar services (DXC, Accenture and, SCC). Based on the remaining time on the CC contract, the time to prepare for and then run a competition(s), followed by the time to transition services, it is not possible for POL to exit and transition all services before the 29 April 2021 contact end date, regardless of which strategy is utilised. POL will therefore need to utilise a contract mechanism called the Termination Assistance Period (TAP). The TAPs primary use is to allow Computacenter to continue to deliver live services whilst a new incumbent (or POL) transitions services away. POL must give CC at least 4 months notice, by 29 December 2020, to commence services under the TAP which can then run for a maximum of 24 months, with an option to extend the Termination Services for a further 6 months.				

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Procurement Risk Pipeline Form

	The TAP must be used for exit activities only and cannot be used to simply extend or transform the existing service. The TAP was put in place during the preferred bidder stage of the procurement for the current contract and had not been part of negotiations with the wider market. Legal advice was provided in relation to that risk at the point of approval of the EUC Agreement. This advice identified the risk as low as transition services over the TAP timescales are not unusual for an ICT contract of this type and because it was envisaged that, at the time of the use of the TAP, procurement(s) would be underway for replacement services and so interested bidders would be motivated not to challenge. This means that by April 2021, POL must be demonstrably and overtly in the process of exiting the existing contract. The procurement plan for replacing the current CC End User Compute contract is to split the existing contract into 3 parts, each procured separately. Current planning to support EUC IT strategy is three procurements, see key milestones below:

DELIVER Phase Tasks (continued)	Date	Status
Colleague Print Contract Award (Direct Award)	17/03/2021	
Colleague EUC Contract Award	16/4/2021	
Colleague Print Transition Complete	29/04/2021	
Commence TAP support with CC	30/04/2021	
Branch EUC Contract Award	20/05/2021	
Colleague EUC Transition complete	26/11/2021	
Branch EUC Transition complete	31/03/2022	
TAP Support with CC ends	31/03/2022	
Programme Closure /CLOSE Gate	19/05/2022	

How long may asking the business to tolerate /accept this risk? (duration)		***Start date***	30 April 2021	***End Date(s)***	20 May 2020
What commercial options have been considered? **Why is the chosen option now at risk of non-delivery?**	At its meeting on 01 July 2020 GE endorsed a recommendation **to compete the procurement exercise for new contract(s), (3yr + 2yr), before April 2021 with transition completed by Sept 2021.** This strategy provided the greatest opportunity for optimising savings (due to deal size) and via a structured procurement. This requires an investment of £6.11M and is the existing strategic direction (as of December 2019), albeit with greater utilisation of the TAP than originally envisaged due to Covid19 delays. This would allow us to proceed to market in a standard, structured fashion with a view of transitioning services to a new supplier. This potentially offers only lower (but predictable) in year OPEX savings which are currently estimated at approximately <£750K. There is however a greater possibility of obtaining on-going OPEX savings post 2022/23 (assuming 21/22 is lost due to transition charges) as a result of the tendering activity. This could be in the region of £1.5M pa post transition and transformation.				

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EUC Reprocurement Summary (Update since June Board)

The EUC programme has had several issues with resources and delayed decision making, in particular:

- Delays have occurred in decision making for the EUC strategy and target operating model for Branch and Colleague EUC Services which has had a knock-on effect for the associated procurement strategy / routes to market.
- Delays occurred with regards to programme approvals and the DELIVER gate artefacts, in particular, the required business case to progress from the PROVE phase. This is in part due to challenges with multiple changes to programme resources, in particular the PM role.
- As a result, in July/August the Prove phase was re-baselined and a PROVE CR approved at IC on 24th August which included additional PROVE funding approval of £421k to January 2021.

Progress against revised PROVE Plan:

- The programme is now progressing on-track to the re-baselined plan and budget with the DELIVER Business Case signed off and submitting to PRB 21/10, tracking to approval at 24th November POL Board.
- The programme is now resourced and progress towards the Pre-Market Engagement event is being made with a Pre-Market Engagement Prospectus and Engagement Day (virtual Teams meetings), however there are delays in approval for this activity.
- Creation of the Print Specification and Direct Award assessment criteria, as well as preparation of the Colleague EUC Further Competition pack is underway.
- The business case has re-baselined and re-evaluated resources needed to complete preparations for issuing Further Competition Invitation to Tenders (ITTs) resulting in a reduction of FY20/21 forecast of £127k forecast for the current Financial Year.

Key Plan Milestones	Due Date
Pre-Market Engagement Complete	20/11/2020
Finalise Print Spec and Direct Award Assessment	20/11/2020
Finalise Colleague EUC Further Competition Pack	10/12/2021
Issue Colleague EUC Further Competition to market	14/12/2021
Notice requesting Termination Assistance	29/12/2020
Colleague Print Contract Award (Direct Award)	29/01/2021
Finalise Branch EUC Further Competition Pack	10/02/2021
Issue Branch EUC Further Competition to market	11/02/2021
Print Contract Start	01/04/2021
Colleague EUC Contract Award	16/04/2021
Colleague Print Transition Complete	29/04/2021
Colleague EUC Contract Start	30/04/2021
Commence TAP support with CC	30/04/2021
Branch EUC Contract Award	20/05/2021
Branch EUC Contract Start	21/05/2021
Colleague EUC Transition complete	26/11/2021
Branch EUC Transition complete	31/03/2022
TAP Support with CC ends	31/03/2022

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What is the recommendation from Procurement? [Include alternative approaches and detail risk mitigation options if available]	Procurement fully supports the use of TAP to conclude the procurement activities which have already commenced within the market. As per the Legal Risk Note from Ashfords LLP dated 3rd November 2020, there is a residual risk based around how the TAP was included in the contract during the preferred bidder stage. This risk remains. There are several factors mitigating the residual risk of challenge: • Suppliers who might be aware that TAP was not part of the original contract will be included in competitions for the replacement services so less motivated to challenge. • Any challenge would be limited to damages rather than ineffectiveness and lawyers are likely to advise against such a claim for a short 'breach' whilst the procurements and completed. • The OJEU Contract award notice set out the termination assistance will be provided after the termination date • The total contract value to date is £66m and the further spend will not be close to the maximum value of £300m in the OJEU • Even if the TAP could not be used to provide the Services post termination, it is likely that the provision of the Services would fall under the ability to modify a contract under Regulation 72(1)(b) of the Public Contract Regulation 2015 in any event as a means to extending the services. Any risk of challenge is further mitigated by POL requesting Termination Services, including the provision of BAU services during the TAP. To obtain the Termination Services POL must request them by way of a Termination Assistance Letter. The Termination Assistance Letter must to be sent to Computacenter by 29 December, not less than four months before the end date of the contract.				
PCR Risk Mitigation	**Yes, as per Legal Risk Note**			**To commence re-procurement as soon as possible.**	
PCR Risk Level *[shade as appropriate]*			**Low**	**Legal Risk Note supplied**	**Yes**

3. What controls are in place, actions completed or work in progress to mitigate the risk?		
Control or Action detail to prevent a Risk Exception and/or to ensure it is constrained to the minimum period of risk possible. Include PCR Risk mitigations.	**Target Date**	**Action or Control Owner [business / procurement]**
Governance: Owing to capacity issues, the Programme is behind on governance in terms of SteerCo approved decisions, which represents a risk to the scope being presented in the Business Case. The SteerCo needs to be urgently re-established and working decisions need to be formalised/approved.	October 2020	SteerCo to be re-established to provide governance and direction for the project
TAP: The revised timeline results in the planned Branch Contract Award on 20th May 2021 and transition commencing in late June, after the expiry of the current CC contract. This will require a short period where TAP will be used to continue current service delivery to Branch prior to award and transition. This period is considered to present a low risk of challenge owing to the Branch procurement being substantially complete and Colleague /Colleague Print being transitioned at that time. However, it does represent a risk to POL of challenge	December 2020	Complete the requirements and procurement documentation. This will ensure that the procurements

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Procurement Risk Pipeline Form

		run to the revised project plan.
TAP Changes: Owing to the timing of the procurements, supplier bids will not have been received with details of transition plans/activities when POL needs to have issued the Notice requesting Termination Assistance (29th December 2020). This is likely to result in changes needing to be made to TAP when supplier responses are received in Spring 2021. Under the 2019 Letter of Extension, the Services and Termination Services provided according to Termination Assistance Notice may be amended using the Change Control Procedure during the TAP, including to extend or reduce any time periods for the provision of any such Service or Termination Service. POL's right to terminate the TAP early for convenience after expiry of the Agreement would not apply as the clause does not survive expiry of the EUC Agreement	December 2020	The project has modelled various transition strategies and the Termination Assistance Letter will be based on the most likely scenario

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Risk Note

Author: Suzie Miles (Commercial) and Lucy Woods (Procurement) - Ashfords LLP Date: 03 November 2020

Summary

Post Office Limited ("**POL**") must give Computacenter a Termination Assistance Notice by 29 December 2020 at the latest to trigger a Termination Assistance Period. The TAP shall end no later than 29 April 2023. During the TAP CC shall, at the request of POL: (i) continue to provide the Services with phased transition to a Replacement Contractor; and/or (ii) provide Termination Services. While technically there is no clause entitling POL to extend the TAP, the EUC Agreement does provide that POL can extend the provision of the Termination Services and services that are the same or similar to the Services for up to 6 months beyond the TAP using the Change Control Procedure, which is akin to extending the TAP beyond 24 months. Furthermore, POL can also reduce the period of the TAP using the Change Control Procedure.

POL is only required to issue a Termination Assistance Notice to request Termination Services during a TAP. Notwithstanding this there are provisions stating that POL can request the Supplier to provide the Services during the TAP as well as the Termination Services or on its own without any Termination Services. It is therefore unclear how POL would trigger the TAP if it only wanted the Services to be continued and not any Termination Services. Our advice would be that POL still issue a Termination Assistance notice and detail any high level Termination Services that it may require at any stage during the TAP, including access to information.

Background

POL and Computacenter (UK) Limited ("**CC**") entered into the End User Computing Services Agreement on 29th April 2014 ("**EUC Agreement**"). On 29 November 2019 POL and CC signed a letter of extension to extend the EUC Agreement for a further 12-month period commencing on 30 April 2020, which means the EUC Agreement will expire on 29 April 2021 ("**2019 Letter of Extension**"). POL does not have another option to extend the EUC Agreement after this extension.

POL is considering re-procuring the services under the EUC Agreement. POL does not wish to terminate the EUC Agreement early but wants to explore the possibility of triggering a Termination Assistance Period ("**TAP**").

This note provides a summary of the (i) procurement risks and (ii) commercial risks related to triggering the TAP under the EUC Agreement.

Unless specified otherwise, defined terms under this risk note have the same meaning as under the EUC Agreement.

Commercial risk note

Term and expiry

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Under clause 66.1, the EUC Agreement commences on the date of signature (the Effective Date, being 29th April 2014) (note that we have not seen a dated version of the EUC Agreement but this is as detailed in the letter of extension) and expires at the end of the Term (being the Initial Term and the Extension Period). POL does not need to take any action to effect the expiry of the EUC Agreement.

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The Initial Term is 4 years from the Service Commencement Date (being 30 April 2015, as per Schedule 1) and POL has 2 options to extend the Initial Term for Extension Periods of up to 12 months each (clause 66.3).

The 2019 Letter of Extension specifies that the Term is extended to 29 April 2021.

Charges

During the TAP, POL shall continue to pay for the Services. The 2019 Letter of Extension calculated the reduction to the Charges for the Services in FY19/20 and FY20/21. POL shall additionally pay for any Termination Services, Knowledge Transfer or reasonable assistance based on the Rate Card and as agreed in advance with POL. The Charges for the Services and Termination Services shall be re-calculated for the TAP.

All outgoings and expenses, rents, royalties and other periodic payments in respect of Assets and Sub-contracts transferred to POL or the Replacement Contractor shall be apportioned between POL, CC and the Replacement Contractor, as applicable (paragraph 5.4, Schedule 8.5).

Termination Assistance Period

Duration

The TAP shall end no later than 29 April 2023 (not longer than 24 months after the expiry of the Term (Schedule 1, Schedule 8.5 and 2019 Letter of Extension)), but POL has the right to extend the Termination Services for another 6 months beyond the TAP.

The Services

During the TAP, CC is required to continue to provide the Services to the required Service Levels and no degradation in the standards of the Services (clause 69.1; paragraph 6.1 Schedule 8.5).

Termination Services

CC shall additionally, if requested by POL, provide the Termination Services. To request the Termination Services, POL must give CC a Termination Assistance Notice by no later than 29 December 2020 (4 months prior to expiry (paragraph 2.3(c)(ii)(D), 2019 Letter of Extension)). Note that under Schedule 8.5, paragraph 6.9, the notice period for a Termination Assistance Notice is 3 months but this has been amended by the 2019 Letter of Extension. POL is not required to give notice for CC to continue to provide the Services during the TAP.

The Termination Assistance Notice shall specify: (i) the date from which Termination Services are required, which may be up to 12 months prior to expiry of the Agreement; (ii) the nature of the Termination Services required; and (iii) the period which it is anticipated that Termination Services will be required, which shall continue no longer than 24 months after the expiry date. However please note that POL has an option to extend the Termination Services for up to 6 months beyond that 24-month TAP period by giving CC no later than 20 Working Days prior to the date on which the provision of Termination Services is due to expire (Schedule 8.5, para 6.10). Paragraph 6.14 of Schedule 8.5 details the scope of Termination Services which are mainly to assist and support the transition.

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POL may terminate the requirement for Termination Services by serving no less than 20 Working Days written notice upon CC. This shall not have the effect of reducing the maximum possible duration of the TAP being 24 months after expiry of the Term.

Changes to the Services and Termination Services:
Under the 2019 Letter of Extension, the Services and Termination Services provided according to Termination Assistance Notice may be amended using the Change Control Procedure during the TAP, including to extend or reduce any time periods for the provision of any such Service or Termination Service. POL's right to terminate the TAP early for convenience after expiry of the Agreement would not apply as the clause does not survive expiry of the EUC Agreement.

Exit Plan

CC is required to provide an initial Exit Plan within 3 months from the Effective Date then provide the final Exit Plan no less than 6 months prior to the expiry of the EUC Agreement.

CC must review the Exit Plan annually and prepare a revised Exit Plan to reflect the changes in the Services and submit it to POL. The parties must then agree the content together. There is no provision for POL to initiate a request for changes to an Exit Plan but practically speaking, POL may raise such request during the review process of an Exit Plan.

If the parties cannot agree the final Exit Plan within 14 days from CC's delivery of the final Exit Plan to POL then the matter will be escalated in accordance with Schedule 8.1 (Governance) to be resolved by both parties within 5 Working Days from the escalation before going through the Dispute Resolution Procedure (paragraph 6.8, Schedule 8.5). Until such dispute is resolved, the last approved version of the Exit Plan will apply.

Transition

The transition of the Services may be phased (paragraph 6.6, Schedule 8.5). If the transition is not completed during the TAP, POL may request in writing that CC continue to provide Termination Services and additional services, including that are same or similar to the Services, on a time and material basis using the Rate Card (subject to indexation) following the TAP and until the transition has been effected (paragraph 2.3(c)(iv), 2019 Letter of Extension). The notice period for such request is not specified.

Procurement risk note

Residual Procurement Risk
There is a residual procurement risk attached to the use of the TAP from the point at which it was introduced into the EUC Agreement at the Preferred Bidder stage of the procurement for the EUC Agreement because it did not form part of the dialogue with bidders. Legal advice was provided in relation to that risk at the point of approval of the EUC Agreement. This advice identified the risk as low as transition services over the TAP timescales are not unusual for a ICT contract of this type and because it was envisaged that, at the time of the use of the TAP, procurement(s) would be underway for replacement services and so interested bidders would be motivated not to challenge.

At this stage, this residual procurement risk still applies and the use of the TAP has the potential to highlight this procurement risk as we believe that the market

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is aware that the contract is due to terminate at the end of April 2021 and therefore will become aware that additional transition services have been agreed.

The use of the Services during the TAP
The Services and the Termination Services are identified separately in Schedule 8.5 of the EUC Agreement. Paragraph 6.1 makes it clear that CC has to provide the Services during the TAP and that POL can choose what Termination Services it requires.

Given that the procurements for the replacement services will be underway by the time the TAP begins, POL may consider the provision of the Services during this time is enabling the transition. There could be an argument made that this is not the case unless the Termination Services are also being provided quite quickly into the TAP, but this is not necessarily supported by the wording of Schedule 8.5. For this reason the more quickly the re-procurements are carried out the lower this risk.

Mitigating factors
Despite the risks attached to the use of the TAP outlined above, we consider that there are several factors mitigating these risks of successful challenge so that they remain low.

Firstly, we understand that the bidders from the original procurement who are most likely to become aware that the TAP has been agreed post Preferred Bidder stage given their knowledge of contract during the process are potential bidders for the re-procurements and so they are less likely to be motivated to challenge at this stage.

Secondly, any challenge would be limited to a damages claim because both a declaration of ineffectiveness and a penalty will be time barred. Bringing a damages claim when the timescale of the alleged 'breach' is limited to a few months while a procurement process is completed is likely to be advised against by legal advisors to a potential challenger.

The value of the Services during the TAP is estimated to be £5 million, which added to the £66 million spend under the EUC to date, is well within the value of up to £300 million set out in the OJEU notice. The OJEU notice also sets out that transition services will be provided after the termination date.

Even if the TAP could not be used to provide the Services post termination, it is likely that the provision of the Services would fall under the ability to modify a contract under Regulation 72(1)(b) in any event. While we understand that CC would be unlikely to agree to such an extension on the same terms and therefore this way forward is not an option, it does assist with an assessment that the risk of successful challenge in a Court is low.

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Procurement Risk Exception Form

1.Business area or Project Details					
Date Raised	**2/11/20**	**Business Area/Project**	**Finance**	**GE Member**	**Al Cameron**
Raised By	**Tom Lee**	**GE-1 Exception Owner**		**Value of Award**	**£1.5m**
				Total Value	**£2.7m**

2.Exception Details									
Exception Title	PwC External Audit contract not extended into 3rd year								
Exception Type (New/ Contract Extension)	**Extension**	**Exception Category**	Agreement on third year fees not reached so contract not extended. Others(please specify)		**Exception ID**	*To be provided by Procurement*			
Detail of contract being entered into / extended.	PwC act as POL's external auditor. The initial term expired on 1 October 2020.It can be compliantly extended for up to a further 2 years but hasn't as of yet as POL and PwC have not reached agreement on 3rd year fees.								
How long are you asking the business to tolerate /accept this risk? (duration)	*3 months*	***Start date***	*1/10/20*		***End Date(s)***	*24 Dec 2020*			
Why does this contract need to be entered into / extended now? **What is the reason for the urgency?**	PwC act as POL's external auditor. The initial term expired on 1st October 2020. However thus far POL and PwC have not been able to agree the fees for the third year and so no extension has yet been signed.								
Impact if Exception Declined	Extension to contract remains unsigned. Post office will be in a weaker position for negotiating fees for the next 2 years, which may total c. £1.5m +								
PCR Risk Mitigation	**Y**				**Regulation X Exemption N**				
PCR Risk Level *[shade as appropriate]*	**LOW**	**MEDIUM**	**HIGH**		**Legal Risk Note supplied**	**Y**			

3. What controls are in place, actions completed or work in progress to mitigate the risk?		
Control or Action detail	**Target Date**	**Action or Control Owner [business / procurement]**
Negotiations on fees are usual for this type of contract. PwC are putting their request for an increase in writing. There is a process to be followed in order to address their request. This can result in dispute resolution if the 2 parties are unable to reach agreement on their own. However, it is hoped that a negotiated agreement will be reached as has happened in the past.	4/12/20	Finance
If no mitigation activities are feasible, insert an end date 6 months after contract award or 6 years if the award is not to be notified to the market.		

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