



Risk & Compliance Committee Report

June 2009

Distribution

Committee Members	Other attendees at the meeting (lead on reporting)
Luke March (Chair) Alan Cook Gary Hockey-Morley Paula Vennells	John Scott (Head of Security) Peter Tansley (Internal Audit & Risk Management) Keith Woollard (Head of Compliance) Lynn Hobbs (General Manager Network) Andrew Spice (Head of Financial Services) Kiron Farooki (RMG Legal)

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1. Losses Report Period 2



Pillar Losses	£m	Channel Losses	£m	Other Losses*	£m	Total Losses	£m
Full Year Actuals 08/09	5.6	Full Year Actuals 08/09	4.0	Full Year Actuals 08/09	18.5	Full Year Actuals 08/09	28.1
YTD Actual	0.5	YTD Actual	0.6	YTD Actual	2.3	YTD Actual	3.4
YTD Budget	0.8	YTD Budget	0.7	YTD Budget	0.4	YTD Budget	1.9
Full Year Budget	5.4	Full Year Budget	4.3	Full Year Budget	3.2	Full Year Budget	13.0
Full Year Forecast	5.4	Full Year Forecast	4.3	Full Year Forecast	9.8	Full Year Forecast	19.6

* Previously net losses

Pillar Losses (Financial Services, Mails, Telephony, Government Services)

Year to date favourable variance of **£292k** due to timing and budget calendarisation of Mails and Financial services products. Telephony losses of £495k for bad debts/write offs.

Channel Losses (Crown, WH Smith, Account Managed, Centrally Supported)

Channel losses favourable variance of due to a **£136k** due to controls in place to reduce losses.

Other Losses (Robberies and Burglaries, Former Subpostmaster Accounts, Foreign Exchange, Provisions and any Other Losses not Connected to Pillar or Channel)

Year to date adverse variance of £1.9m, from **actual losses of £2.3m** due to losses of **£516k** from robberies and burglaries, provisions of **£1391k** and Foreign Exchange (Bureau hedge) of **£443k**. See breakdown below for the year to date provisions and the full year impact taken to forecast (resulting in £6m increase in full year forecast).

RMG Stock - **£379k** - Amount settled with RMG (approx 200k per month). Full year effect of £2.4m taken to forecast

Post Office savings stamps - **£527k** as advised by E&Y until old style savings stamps is withdrawn, full year forecast £2.0m

Former Sub Postmaster debt - **£300k**, Full year effect at run rate taken to forecast £1.6m

Maintained Errors - **£100k**

Other provisions - **£85k**

2. Security Team Risk Summary (See Appendix A for detail)



Commentary

- Casework losses year to date amounts to **£470k** in 31 matters raised year to date.
- Network robbery and burglary losses year to date amounts to **£366.9k** in 78 incidents
- Supply Chain robbery losses year to date amounts to **£157.5K** in 18 incidents

Crime Risk Indicators These are summarised as below. A red downward arrow indicates a worsening trend and a green upward arrow an improving one.

Post Office Network Robbery & Burglary Losses	↓	Cheques/Open Items	↑
Supply Chain Robbery Losses	↑	Chargebacks	↑
Asset Recovery	↑	Rejected Postage Labels	↓
Crown Offices Losses	↓	Savings Stamps	↑
Lottery	↓	ONCH	↑

3. Current Regulatory Risks & Issues



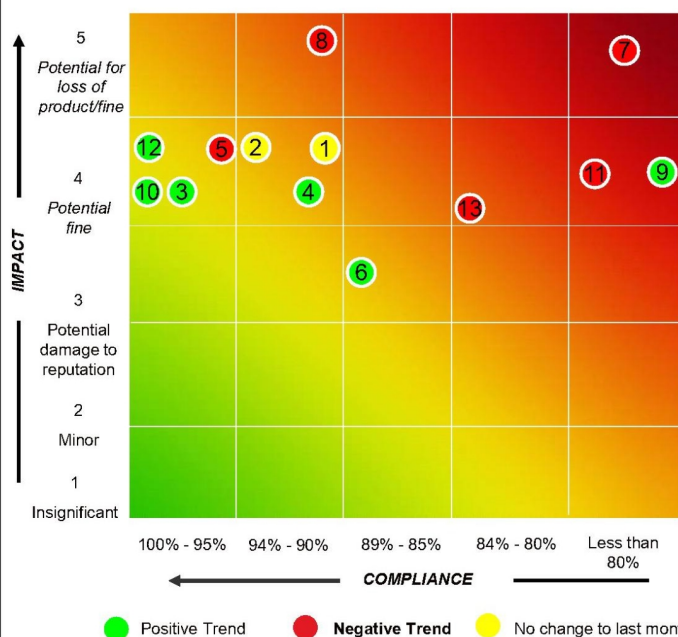
Irrelevant

3 continued. Current Regulatory Risks &
Issues



Irrelevant

4. Network Compliance Scorecard Indicators 09/10 – Period 2



Audit Indicators

1. Validity of promotional material in branch (90%)
2. Staff awareness of how to deal with suspicious transactions (94%)
3. Staff awareness of differences between introducing, arranging and advising (98%)
4. Mails Integrity Compliance (91%)
5. Staff awareness of Data Protection principles (95%)
6. Adherence to Horizon password and user controls (89%)

Mystery Shopper Indicators

7. Travel – Staff providing regulatory statements and information (64%)
8. Travel – Staff quoting correct price (91%)
9. Savings – Staff informing the customer that the Post Office provides investment products by other providers (54%)
10. Savings – Staff refraining from giving advice (100%)
11. Credit Card – Following a question of 'Is the interest rate good?', Staff mention that it is generally competitive or customer told to make the comparisons themselves (77%)
12. Credit Card – Staff refraining from giving advice (100%)

Compliance Bureau Transaction Monitoring

13. Identification requirements met (84%)

4 continued. Network Compliance Scorecard Indicators 09/10



Commentary

- The latest results show a drop in overall performance from last month (87% to 85%). This is mainly due to reduced levels of compliant Bureau transactions over £5k, from 90% in April to 84% in May (which is more in line with the level of compliance recorded in 2008/9). However, the Compliance Mystery Shopping savings scenario showed some encouraging signs of improvement, with an increase in score from 69% in April to 77% in May.
- The top three areas of non conformance in the Network, as measured in the scorecard and illustrated on the previous slide are:-

Regulated Area	Remedial Action
Staff mentioned that Post Office provides products from other providers (such as NS&I) as well as its own range of branded products – 54% (INDICATOR NO. 9)	Message reinforced in savings WTLL in March 2009 and other communications with branches and reviewed as part of the remedial action plan, in response to NS&I audit.
Staff selling travel insurance to a mystery shopper provided the regulatory warning statements – 64% (INDICATOR NO. 7)	600 Crown Office BMs and Product Champions attended training provided by Aon in May and further initiatives are being considered. TI product managers will review in July whether there are changes to the customer journey that would improve conformance.
When asked by a mystery shopper if the interest rate for the Post Office Credit Card was good, the response actively provided a view that the rate is generally competitive or included a suggestion that the customer makes comparisons for themselves – 77% (INDICATOR NO. 11)	A WTLL session on Credit Card was delivered in January 2009. Given the wider implication of the result of this scenario, a further WTLL session is being planned in June (with a view to covering the broader regulatory issue, beyond that identified for credit cards).

- There has been limited improvement, following the recent implementation of remedial actions. Given that these have tended to focus on training and communication initiatives, there is a need to explore (with Network Management), more innovative approaches. Plans are in place to explore this further at a Compliance Workshop with the Account Managed segment on 8 July and through discussions with the Crown Office Management Team later this month.

5. Internal Audit and Risk Management (see Appendix C for detail)



Top Business Level Risks

Risk profiling workshops have been held for the five directorates for which they were scheduled. The outputs are being consolidated with a view to providing input to an ET level refresh of POL's risk profile.

Completed reviews

Since the May 2009 report to the Risk and Compliance Committee, there have been no reports produced for POL.

POL Open Actions

There is currently one overdue action from the WH Smith Financial Benefits review. The expected completion date is now mid June.

There are 23 other remaining actions from seven IARM reviews. 21 of these are on schedule.

Of those for which timely completion is at risk, one, relating to Retail Cash Inventory Management, may slip beyond the end of June target date. In the other case, proposed Equal Opportunities legislation may lead to a reconsideration of the validity of the action.



Appendix A

A1. Supply Chain robbery losses



Irrelevant

A2. Post Office Network robbery & burglary losses



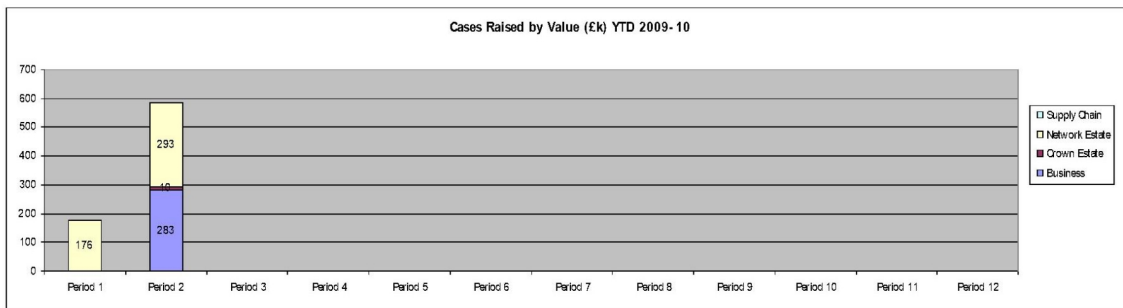
Irrelevant

A3. Supply Chain and Network – Firearms & Injury



Irrelevant

A4. Casework - losses by type



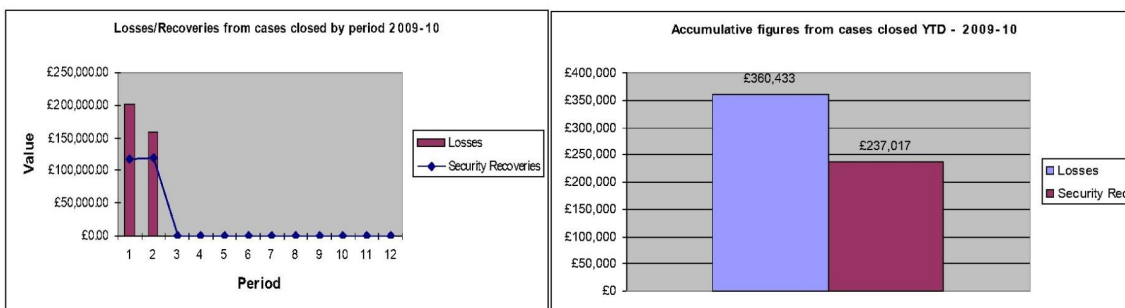
Commentary

- Casework losses year to date amounts to £470k in 31 cases with an average loss of £15.1k (Compared to £722k in 43 cases, with an average loss of £16.8k in 2008/09 – P2).
- Audit deficiencies year to date amount to £435k, (93% of all casework raised) compared to £313k – 43% for 2008/2009 – P2.
- An average audit loss of £20.7k per case in 21 cases raised year to date, compared to £28.5k per case for 2008/2009 – P2.
- Within the 'Business' heading are matters raised for enquiry that contain 'Multiples' where the fraud loss liability sits with the multiple retailer (e.g. W H Smith's) or matters not linked to any of the other three headings.

Cases Raised above 50k in period 2 - 2009/10

Case Ref No	Date Raised	Main Case Type	Enquiry Type	Office / Location	Branch code	Initial Loss reported	Current Loss
POLTD/0910/0014	07-May-09	Audit	Cash Loss	WILLESDEN	181005	£81,779.52	£74,880.75
POLTD/0809/0231	29-May-09	Audit	Cash Loss	BIDDICK HALL	412329	£69,000.00	£69,000.00

A5. Asset Recovery Against Fraud



Commentary

- From all cases closed, year to date £237k has been recovered against identified losses of £360k.
- The current year to date figure for recoveries is 66%.

Mitigating actions, update and status

- The Security Team currently has 56 cases on hand, with a total loss £4.8m being investigated under the Proceeds of Crime Act 2002.
- Through the provisions of the Proceeds of Crime Act 2002 legislation, the security team continue to robustly restrain identified assets. This has resulted in significant funds being recovered when cases are progressed to Confiscation that may otherwise have been dissipated.
- Case Reference 0708/0269 was concluded following a Proceeds of Crime 2002 Confiscation hearing at Kingston Crown Court on the 27th May 2009. A Confiscation Order of £43.6k was set, this being the available amount from assets identified, of which £25.1k cash had been restrained in various bank accounts. Post Office® Ltd was awarded the full amount in Compensation. A total 'benefit from crime' figure was set at £99.4k. The initial investigation loss was £73k.

A6. Crown Office Loss Initiative



Irrelevant

A7. Cheques/Open Items



Irrelevant

A8. Chargeback Data



Irrelevant

A9. Commercial Security – Risks and Issues



- **Project Globe**

An initial meeting with the Bank of Ireland has been organised to establish the requirements for POL's new current account

- **Horizon on-line**

Security have provided concurrence for the Horizon on-line migration process

- **Travel Money Card**

Security are working with the product team and FRES to change the Experian scoring to allow improved sales of TMC without reducing the security of the product

- **Budget Card**

Security are working with the product team in the design of the new PO budget card that will replace savings stamps

- **Overseas Property Money Transfer (HiFX)**

Security have provided support to the product team in the launch of the Overseas Money transfer approving the contract for the service

A10. Rejected Postage Labels



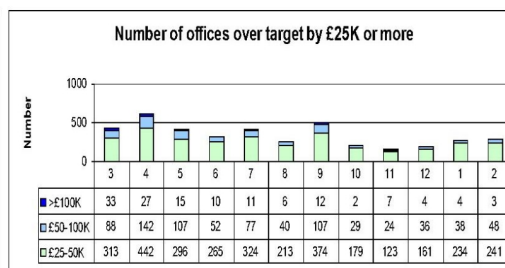
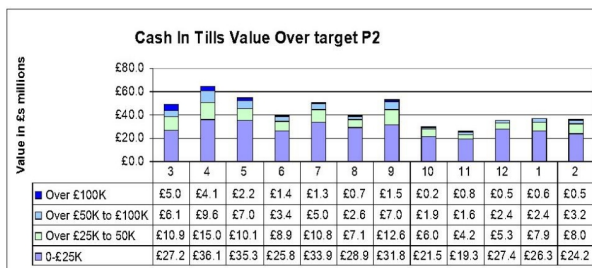
Irrelevant

A11. Savings Stamps



Irrelevant

A12. Cash In Tills Over Night Cash Holdings (ONCH)



Commentary

- At Period 2 there were 4616 offices over target, down from 4877 in Period 1.
- The number of offices £25K or more over target was 292.
- Overall value at over target offices is £36.0m, down from £37.3m in Period 1.
- Overall Retail Cash In Tills holdings were under target by £42.5m.

Mitigating actions, update and status

- ONCH 300 – this programme of assessing branches payments v cash on hand has almost concluded. The number of branches reduced due to various factors and focus was directed towards high risk branches. £327k has been returned from 12 visits to branches and £983k has been returned following 14 scripted telephone calls to branches, a total of £1.3m returned. There are 5 audits outstanding, to be undertaken in the next couple of weeks.
- A new ONCH programme is planned to commence in July, to include new analysis of branches across the network and further review of lower risk branches not dealt with as part of the ONCH 300 programme.
- The new ONCH programme is subject to discussions around possible activities during the migration of all branches to Horizon Online. Opportunities are being explored which may result in a wider piece of ONCH activities within the business, supported by the Security Team.

A13. Automated Teller Machine (ATM) Crime



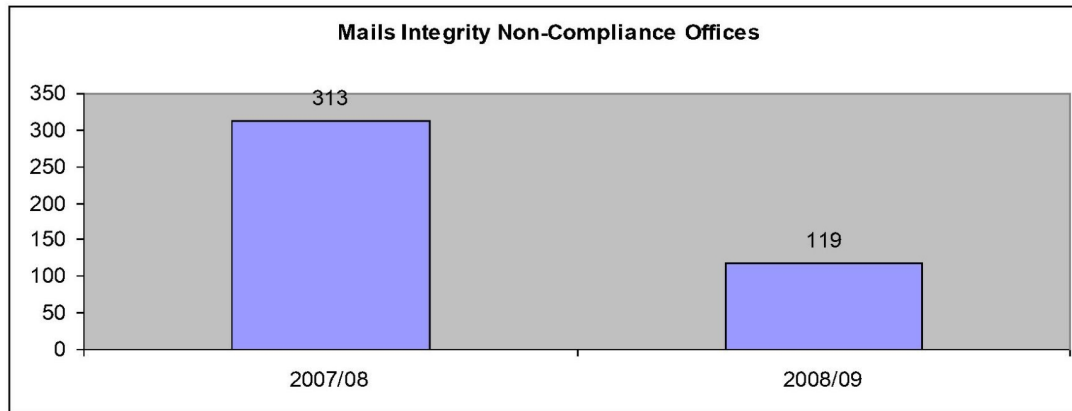
Irrelevant

A14. Lottery Scratchcards



Irrelevant

A15. Mails Integrity



Mitigating Actions, Update and progress

- The site surveys at non-compliant offices has now been completed.
- The Implementation project to install the solutions has began
- Offices are being contacted to inform them of the physical solution identified and the arrangements for installation

A16. Grapevine



Irrelevant

A17. Crown Office False Alarms



Irrelevant



Appendix B

B1. Network Audit Activity



2009-2010 Audit Activity				
		Annual Plan	YTD Plan	YTD Actual
Event	All Agency Transfers	600	100	150
	All Agency Unplanned Closures	400	68	28
	Robbery & Burglary Incidents	150	21	22
Risk	Cash & Stock Checks all Network	2050	355	414
	Compliance Testing Agency Branches	1800	310	449
	Crown Compliance Testing	200	0	0
Other	Random Test	250	32	73
	Follow Up	200	32	34
	Cash Centre & CVIT & Swindon	10	3	1
Total		5660	921	1171

Commentary

- The level of audit activity performed to date exceeds the current year to date plan
- Reduced event driven activity has allowed more risk based activity to be performed
- 65% of all audits undertaken up to period 2 have been targeted through risk based selection (including those initiated by P&BA, Cash Inventory, Security and Network Support as well as risk model outputs)
- From the available figures 6% of financial audits (selected on a risk basis), in period 2, resulted in the suspension of the Subpostmaster
- Net accounting discrepancies from financial audits year to date totals £859k
- 6% of branches audited, year to date, are responsible for generating 79% of accounting discrepancies
- 21 audits year to date have revealed net discrepancies totalling £676k
- An audit was completed at Cygnet House Cash Centre on 12th May 2009 and this identified a "some improvement required" grading

B2. Assurance Activity - Headlines



Topcomm QoS Reporting

The Q1:2009 accuracy audit has now been completed with passes being reported, pending completion of the comparability stage, in all 5 quality of service measures. This is the first time a pass has been reported for Service Provisioning since the beginning of the managed service provided by BT. The decision has now been made by Ofcom to revoke the Topcomm scheme and, therefore, the reporting of the Q1/Q2 results will be the final ones in the current format. We await confirmation from Ofcom on what, if anything, will replace the Topcomm scheme but, in the interim, discussions have been instigated between Compliance, Operations & Marketing to decide how we move forward, pending the result of the Ofcom consultation.

Crown Office Declaration of Compliance

The report on the results of last year's Annual Declaration of Compliance (ADC) has been issued and has included a recommendation for a revised future approach, moving to a quarterly declaration on key themes and using Horizon for a self audit testing. Consideration is also being given to extending a revised approach to parts of the agency network.

Network Change Audits

The Q4 audit, covering October to December 2008, has been completed and the report issued. Four quarterly reviews have now been completed, covering the calendar year January to December 2008, and overall the schemes have been found to be well operated with the bulk of compensation and grant payments made accurately. An IARM review is now awaited, prior to an assurance statement being issued to DBERR, and this review is planned for July 2008.

Assurance Activity in Progress

- Review of the Compliance Framework
- Confidential Waste Assurance Review – To ensure that actions, generated as a result of the Information Commissioner Inspections in 2008, have been implemented and review current levels of compliance in the Network.
- Network Change Audit Q1: 2009
- Review of recruitment processes – Covering vetting and induction training arrangements (aligned to an action arising from the NS&I audit)

B3. Information Security Risk



Risk	Due Date	Action Owner	BRAG Status
There will be a delay in completing the self assessment questionnaire (SAQ) for Payment Card industry (PCI) on the portal. This is because a Royal Mail Group (RMG) project - OLP2 - insist on a non compliant payment method, instead of using the standard Portal Payment Manager (PPM) which is under development for all transactions processed on the portal.. PCI compliance is across the organisation, so RMG will not be able to submit their SAQ until all business functions are compliant. If we have a delay in the portal the card schemes will not look favourably upon Post branch, especially should we also have any delay on Horizon Next Generation. RMG have a further risk that by preparing this application to go live without full PCI compliance, the merchant acquirer may prevent live operation. There will be a subsequent knock-on to POL. February 2009 All projects have Received Communication from Group Treasury that BT BuyNet has to be used. (Not in Post Office control) The Likelihood of risk is now reduced because there is a clearer understanding. Likelihood scoring now 3 and Impact 5 (out of 5). March 2009 The work to implement BT Buynet has been undertaken and implementation is now expected by the end of the month. April 2009 Some work still to do to retrofit BT Buynet solution to existing products. Full implementation is now expected by October 2009 June 2009 Travel Insurance have indicated a reluctance to move to BT Buynet at this point in time. This is being followed up, because it will cause problems on PCI certification and also maintenance contract for Retail Logic will have to be renewed for a further year for Travel Insurance only.	April 2009	Sue Lowther	Red

B3 continued. Information Security Risk



Risk	Due Date	Action Owner	BRAG Status
Post Office Ltd priorities for a number of group wide functions differ. Our clients are becoming more proactive in asking for assurances around data loss and data protection techniques (Department for Work and Pensions in particular) for which Post branch need an immediate solution. The risk is that RMG are working to a longer term strategy, which gives rise to a lengthy evaluation and large scale project approach. Whilst we endorse that strategic objective, we need our supplier to provide robust interim solutions now. Our requirements as a financial services organisation demand them. February 2009 Post Office working with CSC to commence the Data Loss Prevention programme, CSC now prepared to go ahead with Post Office at a commensurate price assuming that Group will follow. March 2009 Request for CSC to further develop and implement DLP (discovery) solution being progressed through the IT Roadmap and BCAP process. Working closely with CSC and RMG to ensure POL requirements are given appropriate priority. April 2009 RMG have expressed some architectural concerns but it is proposed to press-on with this as a POL only solution bought as a fully managed service and not technology. Proposal to be at next BCAP. June 2009 An RMG project to implement Data Leakage Prevention and Discovery has been initiated which cuts across the POL only proposal and infers different technology. The risk of incompatibility on shared infrastructure is too great so the POL only proposal has been withdrawn.	April 2009	Sue Lowther	Amber

B3 continued. Information Security Risk



Risk	Due Date	Action Owner	BRAG Status
Unlike many other Level One merchants in the UK, it appears that Post Office Ltd has escaped fines in 2009 however the delay in undertaking an audit beyond the agreed date of April 2009 could lead Visa to reconsider <u>February 2009</u> PCI project not formally advising Visa and MasterCard of the latest delay because the Pin Pad replacement programme is also considering delaying the replacement of the devices. We have started the Audit as of Mon 23rd and there is no doubt our progress will be fed back to the card schemes. <u>March 2009</u> PCI audit is underway as are activities to prepare for any potential Forensic Investigation. Agreement reached that there are controls in place for HNG-X which would negate the need to suspend the system whilst any investigation was underway in the event POL sustained a breach, or more likely, was identified as a potential common point of contact. <u>April 2009</u> Audit progressing well and feedback from the auditors has so far been positive. <u>June 2009</u> Delay in HNGX is causing a delay in completion of the Audit. The fact that we have track 2 data in the Audit Log and not yet removed means the likelihood of a fine from Visa has increased to near certainty, since we will have to admit the presence of Track 2 data in our return at the end of June.	April 2009	Sue Lowther	Green



Appendix C

C1. Risk Management Maturity Assessment



Most recently assessed: March 2009

DESIRED STATE	Status as at 2007/8 Half Year	Status as at 2007/8 Full Year	Status as at 2008/9 Half Year	Status as at 2008/9 Full Year
Active executive sponsorship.				
Risk champion / co-ordinator in place.				
Biannual Risk and Control Self-Assessment sign-off by MD.				
Executive level risk profiling.				
Business as usual executive level risk and control reporting.				
Risk register in place and operating effectively.				
Vital Few Controls (VFCs) / Critical Business Controls (CBCs) refreshed and agreed.				
Vital Few Controls / Critical Business Controls tested.				
Emerging risk process in place.				
Risk management training in place.				
% Fill	55%	80%	77.5%	85%

KEY	
No activity in place	
Awareness and action plan	
Work in progress / under development	
Mostly established / deployed in key areas	
Capability fully established / deployed	

C2. Assignments Planned and in Progress (IA&RM)



Since the report to the May meeting of the Risk & Compliance Committee , no Post Office-sponsored IA&RM assignments completed.

ASSIGNMENTS STARTING IN QUARTER 1 2009/10

Assignment	Objective	Status
POL leavers	Review of the efficiency and effectiveness of the Leavers process within POL	Fieldwork completed
Network Business Support Centre	Review of the processes employed by the NBSC to interface with the POL branch network	Fieldwork in progress
Complaints handling	Review of the efficiency and effectiveness of the Complaints Handling process within POL	Fieldwork in progress
Staff retention	Root cause analysis of high levels of turnover, with specific reference to FSSs	Fieldwork in progress
Business cases	Assessment of the quality of business cases as submitted and the effectiveness of the challenge / approval process	Fieldwork completed; report is in draft
HR performance management	Assessment of whether PALMS is being completed by managers in line with policy and IPP / MUP policies are being correctly deployed.	Fieldwork completed. Draft management letter awaiting final agreement.
Risk profile refresh	Directorate level risk workshops; consolidated results to provide input to POL ET risk profile refresh	In progress. All scheduled workshops completed.

C2 continued. Assignments Planned and in Progress (IA&RM)



ASSIGNMENTS PLANNED TO START IN QUARTER 2 2009/10

Assignment	Objective	Comments
Agents' remuneration	Assess the effectiveness and reliability of agents' remuneration for Third Party Products	
Direct Channels	Assurance of programme management and governance, and assessment of key programme risks	
Crown Office FSS training	Review of training provided to FSSs to confirm compliance with FSA requirements	
LINK Security Standard self-certification	Provide assurance that POL is compliant with the revised LINK Security Standard	Deferred from Qtr 1
FSA Framework	Review of the effectiveness of POL's response to the Deloitte FSA review completed in 2008/9	
Control accounts	Review of the accounting controls for key reconciliations	Addition to the plan

ASSIGNMENTS PLANNED TO START IN QUARTER 3 2009/10

Assignment	Objective	Comments
Outreach	PIR of the Outreach initiative to determine future viability against other delivery models	
Benefits realisation	Review effective deployment of benefits realisation policy across strategic programmes	
Network conformance	Root cause analysis of non-compliance with POL procedures in branches	Deferred from Qtr 2
Product Development Programme	Assurance of programme management and governance, and assessment of key programme risks	May be deferred
Crown Office Transformation	Review of the Crown Office Transformation Programme / creating an environment that improves the customer experience.	Deferred from Qtr 1

C4. POL IA&RM Open Actions Summary – June 2009



Key		Summary of open actions by month due															
	Not yet due but ability to deliver is in doubt <u>OR</u> Overdue and ability to deliver is in doubt	Overdue															
	Not yet due, but significant slippage expected <u>OR</u> Currently overdue	Due Jun 09															
		Due Sep 09															
	Not yet due, but some slippage expected	Due Sep 09															
		Due Oct 09															
	Not yet due, but on target	Due Dec 09															
		No. of actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
		Summary of open actions by review															
WH Smith		Due Mar 09															
Integrity of Agents remuneration		Due Oct 09															
Remuneration of Agents for the Sale of POs Products		Due Sep 09															
Retail Cash Inventory Management		Due Jun 09															
Management Information Programme Risk Assessment		Due Dec 09															
Benefits Management in Strategic Programmes		Due Sep 09															
Introduction of Reward & Recognition Broadbanding		Due Jun 09															
Programme Assurance & Financial Benefits Assurance		Due Sep 09															
		No. of Actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15