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RISK AND COMPLIANCE COMMITTEE

26th March 2008 - Meeting Ref 05

Chairman:

Peter Corbett

Attendees:

Paula Vennells

John Scott

Lynn Hobbs

Keith Woollard

Shaun Delaney

Luke March

David Pardoe (Secretariat)

Apologies

Alan Cook

Kevin Fairbotham

Martin Ferlinc

SCHEDULE A - SUMMARY OF ACTION POINTS - MEEETING 05 - 26th MARCH 2008

ITEM	ACTION	LEAD	STATUS
Irrelevant			

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0501	<h1>Irrelevant</h1>		
Action 0502			
Action 0503	Ensure that Lynn Hobbs is copied into future R&C arrangements and meeting papers.	D Pardoe	Done
Action 0504	Keith Woollard to ensure that future changes to impact / likelihood, are specifically highlighted on the "Top Risks" one shot slide.	K Woollard	Done. Reporting format changed
Action 0505	Keith Woollard to chase stakeholders for progression around partially deployed controls - cash supply (forecast & supply) and salary & agent (remuneration & payment).	K Woollard	Done. Next assessment to be undertaken in Q2
Action 0506	Future losses report to show cleaned data and factor the £23.8K WH Smith loss at Kings Lynn.	K Woollard	Done. Losses reporting data now aligned with Clarity P&L
Action 0507	Scope the possibility of splitting the types of former Subpostmaster losses to provide greater clarity between fraud losses and	K Woollard	Work in hand in Finance to create more

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	other.		detailed loss report to support Clarity P&L
Acti on 0508	Keith Woollard to prepare a major update for the next Committee meeting on activities deployed / planned to improve the compliance piece.	K Woollard	Done. Presentation to be provided to the Committee

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Agenda

1. MINUTES FROM LAST MEETING

Meeting Ref 04 - minutes approved.

MATTERS DISCUSSED AT THE MEETING AND NEW ACTIONS
REQUESTED

Irrelevant

Finally, Lynn Hobbs was introduced to the Committee as the GM Network Support and a future meeting attendee;

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as such a request was made to ensure that Lynn was copied into all future meeting arrangements and supporting papers.

Action 0503

Ensure that Lynn Hobbs is copied into future R&C arrangements and meeting papers.

2.2 Top Risks - General Indicators of The Control Environment

Keith Woollard presented the Post Office Limited risk profile report updated to reflect activities to date. Keith reiterated that this was a preview of "Top Risks" which were traditionally taken to the ET Monday morning meeting. In essence, slide 4 of the pack provided a one shot overview of the estimated impact / likelihood, whilst the supporting appendices supplied greater detail and mitigating actions.

Peter Corbett commented that the one shot slide should be improved by highlighting specifically where period to period had seen a shift in either impact / likelihood of any particular risk. This would then support ET discussions on the severity of changed assessments and any supporting activities required.

Action 0504

Keith Woollard to ensure that future changes to impact / likelihood are specifically highlighted on the "Top Risks" one shot slide.

Paula Vennells remarked that risk changes should, additionally, be stated within any summarised version of the pack intended to support ET discussions.

Turning to emerging risks, then discussions were held around PostComm recommendations around scoping works regarding the separation of Group; Peter Corbett supported the inclusion of this as an emerging risk (in

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respect of the distraction these scoping works are apt to bring) and the Committee consensus was that these matters were being adequately dealt with by Group Compliance.

Luke March prompted debate around the amount of denoted risks which appeared to lack true customer focus. Peter Corbett stated that in fact risks 9 and 10 (capability to deliver sales and direct channels effectiveness respectively) were in fact close to the customers' heart and that any seeming lack of focus was indicative of the manner in which risks had been articulated.

Discussions were then held around risk management maturity. Sean Delaney took the Committee through the "Desired State" slide 6 (2.2) and commented that it was to be expected that the upper quartile desired state should show greater shading than those lower in the chain. Sean went on to remark that in his opinion only Group Procurement were in better risk managed maturity state and that a series of activities were planned (executive coaching, risk awareness and risk coordinator training) which would strengthen the PO Ltd position even further. Peter Corbett commented that the increase in strength needed to come from our ability to manage risk and not necessarily its identification.

A brief overview of the deployment of critical business controls was then presented by Sean Delaney. Sean commented that since the pack production a number of controls had progressed. However, Peter Corbett asked that reminders be issued to stakeholders around the two partially deployed controls - cash supply (forecast & supply) and salary & agent (remuneration & payment).

Action 0505

Keith Woollard to chase stakeholders for progression around partially deployed controls - cash supply

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(forecast & supply) and salary & agent (remuneration & payment).

2.3 Losses Report

Keith Woollard outlined to the Committee work underway as regards losses reduction. Peter Corbett commented that that significant opportunities existed as regards former Subpostmaster losses. Turning to WH Smith losses, then Peter remarked that the Kings Lynn loss was distorting the overall figure and asked that due regard be taken of this in future Committee losses reports.

Action 0506

Future losses report to show cleaned data and factor the £23.8K WH Smith loss at Kings Lynn.

John Scott remarked that not all former Subpostmaster losses would be attributable to fraud (followed by contract termination) and that a percentage would actually be losses which came to light after resignation / closure. The Committee concurred and requested that some work be undertaken to provide greater clarity between former Subpostmaster losses by fraud and losses through other reasons/

Action 0507

Scope the possibility of splitting the types of former Subpostmaster losses to provide greater clarity between fraud losses and other.

2.4 Network Audit Activities

An overview of Network Audit activity was presented by Keith Woollard. Keith also outlined recent changes in Audit personnel reporting lines, which would see Lynn Hobbs take charge of this area of functionality.

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The 2008/09 Audit Plan was then detailed. In summary, three broad options were outlined for the 2726 discretionary days which existed once event driven activity was catered for; option one would see all Crown Offices audited across a two year period, option two saw activity driven by existing risk model parameters and option three activity by level of losses within the appropriate segments.

Both Keith Woollard and Sean Delaney explained that opportunities were being examined to further improve our existing risk models and that this was very much work in progress.

Peter Corbett made a number of points over the need to focus on the Crown Office piece and commented that our past assumption that we could somehow leave the Crown estate out of the audit equation had appeared flawed. Additionally, Peter reiterated the need to carefully monitor assets (including cash holdings obviously) across the Network and that this activity alone could be a major contributor to ensuring loss minimisation.

John Scott briefly outlined that he planned to see his team lead an initiative on further reducing Crown losses (2008/09 by at least 25%) and that he was pleased to see that consideration was being given to renewed focus in this area. Keith Woollard concurred and expanded on option one by saying that this could well see a first quarter "blitz" on the Crown estate.

Keith Woollard and Lynn Hobbs remarked that the option one model appeared, at this stage, to be the firm favourite, albeit with discussion to be held around account and centrally supported type branches.

Turning to Network Audit activities around compliance, then the main areas of non compliance with Network were detailed. Keith Woollard pointed out to the Committee that the basket of measures across each of the segments

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continued to reveal standards as low as 80%, with ongoing issues around Mystery Shopper reported findings and particularly in respect of identification requirements for >£5K bureau transactions.

Peter Corbett stated that the results across the board concerned him and that those within the commercial segments caused him some real consternation. Peter asked if it was possible to prepare a major update piece on activities planned to drive forward 2008/2009 activities aimed at improving the current situation.

Action 0508

Keith Woollard to prepare a major update for the next Committee meeting on activities deployed / planned to improve the compliance piece.

2.5 Crime Risk

John Scott presented the Crime Risk elements of the revised pack. An overview of Supply Chain and Network burglary & robbery incidences were presented and John explained that Supply Chain losses were just in excess of 2006/07 performance. This was indicative of losing more money per attack and work was ongoing to establish if this "spike" was indicative of pre-funding over the IA period or whether ATM location was a factor. Turning to Network, then year on year performance continued to improve with 2007/08 figures some 22.7% below the same time the previous year.

John went on to comment over investment programmes introduced by competitors (i.e. Smartwater introduced by G4S) and their apparent successes in reducing attacks. However, as PO Ltd continued to invest in a

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variety of initiatives, then it was unlikely that we would be unduly hit by way of displacement.

A fraud update was detailed which showed YTD fraud figures of £4.6M captured within 292 raised cases. John advised the Committee that a Fraud Strand restructure had seen greater focus placed on the identification and drive of proactive fraud initiatives, as opposed to simply delivering traditional investigative casework. Peter Corbett commented that he fully supported the approach, but that a number of cases of late had reiterated that basic control mechanisms appeared missing. The consensus of the Committee was that there was a need for a strong and targeted communication message to be aimed at those branches where concerns existed. Luke March asked if there was an agreed tenet and tone for such messages and David Pardoe explained that the communication issues were work in progress.

Some discussion was held over utilising surplus BDM resource in the activities to reduce fraud; Lynn Hobbs explained that this was firmly in scope and that the surplus BDMs were already being utilised in some of the surplus ONCH issues.

John Scott then outlined the asset recovery position YTD; in summary, £1.6M had been recovered against closed cases and the two trainee Financial Investigators were performing solidly. Accordingly, once fully trained the two were expected to increase recoveries to support 40% 2008/09 recovery targetary.

The 2008/09 Crown loss initiative would see Security Team personnel target Crown estate losses with a view to reducing by at least 25%. John Scott explained that the plan to achieve this relied on better use of WTL sessions, synergies with the losses & gains policy and far firmer focus on poorer performing branches.

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Discussions were held around the open item position of cheques. John Scott advised the Committee that whilst no open items over 4 months were present at the time of reporting, concerns still existed over potential fraud hidden within delayed / not despatched cheques. John, outlined a series of activities aimed at reducing this threat and these ranged from better MI usage, through to targeted communications to offending branches. It was reiterated that 1.2M of fraud had been uncovered in eight cases of fraud alone.

Travel Money Card chargebacks continued to be an issue and whilst the viability of this product (certainly within the call centre environment) had been questioned between Alan Cook and Gary Hockey - Morley, efforts continued to cap fraud accordingly. In this respect then it was anticipated that recent changes to debit card acceptance parameters would have a timely (and positive) impact on the fraud risk.

Rejected postage labels continued to be an annoyance rather than a major crime risk. Figures of unexpected rejections had risen in period 11 and again it was expected that targeted communications would be the adopted approach in dealing with a number of branches.

Finally, John presented to the Committee the outline of a recent HLBP that had been prepared in relation to Saving Stamp. In summary, this supported efforts to improve the efficacy of the existing reconciliation issues and proposed a number of measures from transaction correction issue through to the withdrawal of the product and replacement with a closed looped saving's card.

For reference, sample checks on 1400 branches continued to reveal (within the 1400) suspected fraud of around £80K per month.

2.6 Internal Audit & Risk Management

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It was agreed that due to meeting room issues (apparent double booking) this item would be taken off-line.

2.7 Business Environment Scanning

As above.

3.0 AOB

Next meeting is scheduled for 25th June 2008 1400 to 1600 -The Conservatory, 5th Floor, 80 Old Street.