

Post Office Ltd – Strictly Confidential**RISK AND COMPLIANCE COMMITTEE****29 September 2005 – Meeting Ref 05****Members:**

Sir Mike Hodgkinson (Chair)

Peter Corbett

In Attendance

Rod Ismay

Alwen Lyons

Secretary

Michael Dadra

Apologies

Ian Anderson

Alan Cook

Keith Woollard

SUMMARY ACTION POINTS

ITEM	ACTION	LEAD
Irrelevant		
0502	Submit the Terms of Reference and the note on "Audit Recommendations and Oversight" to the Post Office Ltd Board for approval	RI
0503	Branch segmentation to identify underlying high risk branches and a plan of how they could all be audited in a 3 year period	MD
0504	Update Compliance Matrix for Branch Audit compliance coverage	KW
0505	Update Compliance Matrix with lead owners for each row and column, aligned to the Post Office Ltd organisation chart	KW
0506	Update Compliance Matrix to make "Training" more explicit, and with core lead role through the Sales line in the Chief Operating Officer's Directorate	KW
0507	Update the Vital Few Controls matrix to ensure Sales have ultimate responsibility for product training, and to overlay ownership by Business Function	RI
0508	Perform product reviews in addition to key control reviews	RI

Irrelevant

Post Office Ltd – Strictly Confidential**1. MINUTES FROM LAST MEETING**

Meeting Ref 04 - minutes approved.

2. STATUS OF ACTIONS FROM THE PREVIOUS MEETING

ITEM	ACTION AND UPDATE	LEAD
0401	<p>Suspensions – what is the indicative cost of a suspension in terms of cover pay and overheads?</p> <p>The cost of maintaining a branch varies dependent on the type of branch, the number of staff employed, the 'rent' charged by the suspended Subpostmaster and how important it is that we maintain the service. The scenarios vary from:</p> <ul style="list-style-type: none"> Cost largely unchanged – new agent paid in same way or on past trends Agent paid at a premium to secure services, to Worst case of no long term solution, and POL underwriting the redundancy costs of the sub postmaster's staff <p>The economic cost is that all options may be cheaper than gaps in the network.</p> <p>The Service Team currently considers that there is a satisfactory response for suspensions, but is exploring opportunities with firms who may be able to provide pools of trained resource.</p>	<p>RI</p> <p>Closed to business as usual.</p>
0402	<p>Revisit Sevenoaks following new Branch Manager and Sales Account Manager.</p> <p>Audited in June. The new BM has implemented the supervisory controls required.</p>	<p>MD</p> <p>Closed</p>
0403	<p>Increase scope of Branch Control forum reports to top 20 instead of top 10.</p> <p>Done, and similar ranked approach being extended to other areas.</p>	<p>RI</p> <p>Closed</p>
0404	<p>Turners Hill – ensure property assets are investigated for recovery</p> <p>Subpostmaster lives in rented accommodation and appears to have little in assets. Property is investigated as a matter of course in all cases</p>	<p>RI</p> <p>Closed</p>

Irrelevant

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Irrelevant

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Irrelevant

0409	<p>Destructions and returns – could some DMBs be used to recycle stock from closed offices instead of returning for destruction centrally?</p> <p>Our past experience of inter-office transfers led to cessation of such practices. For cost/benefit reasons it is still not considered an option. More accounting irregularities arose on inter office transfers than on central returns.</p>	<p>RI</p> <p>Closed</p>
0410	<p>Corporate Risk Chart - How did we get some of the monetary value – revisit using inherent risk/residual risk?</p> <p>Values are best estimates from product and process owners. Inherent and residual risk is reported by the owner. For simplicity, the chart circulated at the last Committee reflected residual risk only. Values will be reviewed by the Head of Risk and the Finance Director, and submitted to EC colleagues for approval.</p>	<p>RI</p> <p>Closed to business as usual</p>

Irrelevant

0412	<p>Bank account "theft & flight" – what sort of accounts are involved and how is the money being stolen?</p> <p>This applies to accounts where we take on-line cash deposits. e.g. a fraudulent branch could make a fictitious deposit of £10k at 11.00am, initiate a CHAPS payment to another bank account at 11.01am and continue to divert the funds to their personal account. To put the risk in context,</p> <p>(a) We have had no such cases since on-line deposits started,</p> <p>(b) Partner banks have controls to question funds transfer, although there is no proof that they would spot these</p>	<p>RI</p> <p>Closed to business as usual</p>
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	incidents	
	(c) Maximum personal banking deposit is £20k and client agreement is being reached to revise the remaining areas of business deposit limits	
	(d) The Banking Fraud Team analyse large deposits at 0800hrs, 1200hrs and 1600hrs each working day and would instigate immediate enquiries if suspicious large deposits arise.	

3. MATTERS DISCUSSED AT THE MEETING AND NEW ACTIONS REQUESTED

The issues discussed included the following items (which are expanded on as shown):

- 3.1 Actions from previous meetings
- 3.2 Committee terms of reference and communication
- 3.3 Branch Audit 2005/2006 revised plan
- 3.4 Compliance functions
- 3.5 Banking and Financial Services compliance
- 3.6 Vital few controls – assurance plan
- 3.7 Update on major incidents
- 3.8 AOB

3.5.1 Actions from previous meetings

All actions brought forward were agreed as closed. Regarding action 0401 (agent suspensions) there are now higher rates of actual suspension following irregularities identified at audit and the Service Team considers that there are adequate contingency arrangements to provide branch continuity.

Action 0501

Further correspondence required with DWP regarding dis-satisfaction at product anti-fraud features and liability.

3.5.2 Committee terms of reference and communication

Proposed terms of reference were circulated and agreed.

Action 0502

Submit the Terms of Reference and the note on "Audit Recommendations and Oversight" to the Post Office Ltd Board for approval.

3.5.3 Branch Audit 2005/2006 revised plan

Revised audit plan was discussed. The reduction in the number of risk audits planned for 2005/06 compared to the paper reviewed in April is due to headcount reductions in the Branch Audit team. Revised plan endorsed by committee. But further information requested for consideration at future meetings – possibility of segmenting the network into low, medium and high risk was discussed and the scope to ensure all high-risk areas are covered within 3 years. It was noted that this may

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conflict with a pure risk based approach to auditing, but the committee agreed it would be helpful to review such an analysis

Action 0503

Branch segmentation to identify underlying high-risk branches and a plan of how they could all be audited in a 3 year period.

3.5.4 Compliance functions

A draft compliance matrix, part of a Banking & Financial Services paper, was presented to the committee.

Action 0504

Update Compliance Matrix for Branch Audit compliance coverage.

Action 0505

Update Compliance Matrix with lead owners for each row and column, aligned to the Post Office Ltd organisation chart.

Action 0506

Update Compliance Matrix to make "Training" more explicit, and with core lead role through the Sales line in the Chief Operating Officer's Directorate.

3.5.5 Banking and Financial Services compliance

Quarterly performance was discussed and the favourable trend in compliance noted, but also the worst performance being the lack of evidence of branch training records. It was noted that Sales are adopting a tactical approach to anyone visiting a branch to ensure all Sales Account Managers are aware of training records and ask to see evidence of them. The next lowest indicator relates to knowledge of complaint handling.

3.5.6 Vital few controls – assurance plan

The paper proposing key control areas for Post Office Ltd was noted. It was agreed that an alternative assurance approach may be based on end-to-end product review and this is to be considered in addition to VFCS.

Action 0507

Update the Vital Few Controls matrix to ensure Sales have ultimate responsibility for product training, and to overlay ownership by Business Function.

Action 0508

Perform product reviews in addition to key control reviews.

3.5.7 Update on major incidents

Post Office Ltd has a principle of undertaking criminal prosecutions for all cases where it is in the public interest, but noting that likelihood of recovery and circumstances of the defendants and the victims may be relevant to that decision.

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The historic inconsistency between Police support in providing Financial Investigators can be due to differences in approach between local Police forces. Post Office Ltd now has its own Financial Investigator.

4 ANY OTHER BUSINESS

The committee considered relevant topics for future meetings.

- 1 Internal Audit and Risk Management (IARM) reviews within POL
- 2 Examine level of losses and where they come from
- 3 Risk and control around Cash In Transit trunking routes
- 4 Major risks reported to IARM
- 5 Hostage risk

An update on the IMPACT program was given. IMPACT is moving ahead to timetable and targets are being met. As expected some issues have arisen, but remedial action is being taken. Branch Trading is being rolled out in 4 trenches. DMBs are in the first tranche. The 3 key issues to date were noted as:

- 1 Data migration – it was known that there were issues with the data in the old system and these are being cleaned up
- 2 There are issues in the detailed flow of management information including sales data. There are workarounds, which will give short interruptions to Service teams but not to customers. The main issues relate to the loading of sales targets and the definition of data in the warehouses
- 3 Increased calls are expected from agents to NBSC, but so far the calls have been more about why they have not received the system yet as opposed to technical issues.

Irrelevant

5. DATE OF NEXT MEETING

8th November 9:30-11:30 in 80 Old Street.

Future Agenda Items

CIT trunking routes and Audit coverage at Cash Centre/CIT audits

Attendees to include

Keith Rann