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POLARC15 (2nd)
15/18 – 15/26

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 14:00 on 20 May 2015
at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

Present:

Alasdair Marnoch	Chairman of the Committee
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director

In attendance:

Alice Perkins	Chairman
Paula Vennells	Chief Executive Officer (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Jane MacLeod	General Counsel (GC)
Alwen Lyons	Company Secretary
Steve Miller	Risk Business Partner
Gary Hooton	Audit Manager, Finance
Sarah Hall	Financial Controller
Angus Grant	Ernst & Young
Steve Lyon	Ernst & Young

POLARC
15/18

INTRODUCTION

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed those present.

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15/19

MINUTES FROM 25 MARCH 2015 COMMITTEE MEETING

- (a) The minutes of the meeting held on 25 March 2015 were approved as presented and the Chairman of the Committee was authorised to sign them as a true record.

The Committee noted the action list dated 25 March 2015.

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15/20

MATTERS ARISING

- (a) Jane MacLeod updated the Committee on the appointment of the Head of Risk and Audit who would join the Business in July on a part time basis before taking up the role full time in September.

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15/21

PRESENTATION OF DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH MARCH 2014

- (a) Sarah Hall introduced the Post Office Limited Annual Report and Financial Statements for 2014-2015 financial year, and the supporting briefing book.

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Irrelevant

- (e) The main exceptional items and provisions were reported as Government Grants received of £170m (which had all been utilised in the year), Transformation restructuring costs (including Subpostmaster compensation) of £214m. The assets in the pension plan had performed well but the Committee were reminded that a pension revaluation was due for completion in 2015-2016.

Irrelevant

- (g) The Committee discussed the requirement in the Corporate Governance Code for the inclusion of a Fair Balanced and Understandable ("FBU") statement. Angus Grant (EY) advised the Committee that FBU was still evolving and that analysis of FBU had not been factored into the external audit. He explained the FBU requirement to provide more explanation/analysis of how the Business was progressing, and what it was doing to move forward. Providing information and trends over a three year period and positive evidence of how a business' strategy affects the financial performance. It was agreed that the Business should work towards adopting the FBU requirement in future years.

ACTION:
CFO/GC

- (h) The Committee discussed the UK Corporate Governance Code and the additional requirements necessary to comply or explain. The CEO suggested that the Executive consider the effect and costs of complying with FBU and the UK Corporate Governance Code and return to the Committee for a further debate in the autumn.

ACTION:
CFO

- (i) The Committee discussed the Crown Profit and Loss. The CFO explained that he had decided not to make the agreed adjustment to the Crown profitability for the costs of the financial services specialists. As a result, the loss for the year was £12m and the run-rate at year end £5m. The business expected to get to break-even by year-end. As the adjustment had already been communicated to our people and the unions, the internal run-rate breakeven would be about six months earlier. The Committee asked that this be clarified on the STIP paper and the CFO to

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provide a narrative to explain the reconciliation of the Crown P&L.

- (j) The Committee asked to see the year on year movement for sub-postmaster debt and the money received from sub-postmasters to understand if there had been any effect from Sparrow. The Committee discussed the reference to Sparrow in the front half of the report and asked the CEO to consider whether more detail was required to convey the time and effort the business has spent on Sparrow.
- (k) The Chairman asked if Royal Mail Group (RMG) Limited had been appraised of the information in the Report and Sarah Hall reported that the relevant parts of the report had been shared with RMG.
- (l) The Committee thanked Sarah Hall and the CFO for an excellent briefing book.

AUDIT RESULTS REPORT

- (m) Copies of the report produced by Ernst and Young, setting out the external auditor's preliminary conclusions on the financial position and results of operations for the Post Office for the financial year ended 29 March 2015 had been circulated to all those present at the meeting.
- (n) Angus Grant confirmed the independence of the external auditor and commented on the approach to the audit and its scope.
- (o) The significant audit and accounting issues set out in the report were discussed in detail, together with the key internal control findings. Steve Lyon advised that the approach by the Business was in line with the plan submitted to the Committee last year. It was noted that there were no unadjusted misstatements reported although a late error was identified and is explained in (i) below.
- (p) Steve Lyon explained that the Business had a significant number of revenue streams and reassured the Committee that more testing had been undertaken in areas where manual processes were prevalent and that he was satisfied that revenue was recorded correctly. However not all controls were clear and systematic and documentation to test that controls were in place would help improve the controls. The Chairman asked the CFO to consider how this could be implemented.

ACTION:
CFO

- (q) The classification of Exceptional items was discussed and nothing was identified which required adjustment. Angus Grant gave comfort that the restructuring costs had been correctly attributed but suggested that a paper setting out guidelines for exceptional items would help the Business with future classification. The CFO agreed to provide a policy setting out the approach to classification of exceptional items moving forward.

ACTION:
CFO

- (r) Steve Lyon acknowledged the improvement in the IT controls which were significantly better since the separation from RMG. The audit found no issues with data migration and control. User accesses for people leaving the business had shown that 15 people had retained log in capability and 1 person had logged back on to the system. The CEO suggested that she would pick this up at the next Risk & Compliance Committee. The Committee noted that leavers had been an action from the last audit

ACTION:
CEO / CFO

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report and asked the CFO to check the other actions to ensure they have been discharged.

- (s) The Committee asked EY if the Business was making progress with the controls it had in place and how it compared with other organisations. EY were asked to include a benchmark on controls in their management letter. Angus Grant recognised the work completed to implement the new finance system but stressed the need to review the controls which were now in place by mapping the processes, especially those with manual interventions.
- (t) Angus Grant reported that one audit adjustment had been found relating to exceptional items and capex where a goods received notes had not been processed. The consequence was that exceptional items and impairment were understated by £2.5m. The CFO explained that no adjustment was proposed as this does not materially affect the reader's understanding of the accounts and EY supported that decision.
- (u) Angus Grant supported the Executive decision not to include a provision for Sparrow in the Report as the probability of a contingent liability was remote.
- (v) The Committee discussed future audits and the effect of POMS. It was recognised that POMS would require a separate audit and the CFO was asked discuss with EY.

ACTION:
CFO

REPORT AND ACCOUNT FRONT HALF

- (w) The Committee discussed the front half of the report and were pleased with the progress to date. The Chairman asked that the report be reviewed alongside that for last year, to ensure consistency where appropriate. The Committee believed the tone of the report could be strengthened to highlight the challenging environment in which the Business was operating during the year.
- (x) Tim Franklin, Chairman of POAC, asked the Executive to ensure that members of POAC had been given sight of, and were happy with, their biography details.
- (y) Having taken all issues discussed into account, the Committee
 1. Agreed to review the Annual Report and Financial Statements and provide individual comments by email to Sarah Hall;
 2. Agreed to recommend to the Post Office Board
 - That the Annual Report and Financial Statements should be approved;
 - That they should not make the statement that the Annual Report and Financial Statements were 'fair, balanced and understandable'; and
 - That authority should be delegated for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which should be comprised of any three of Alice Perkins, Paula Vennells, Alisdair Cameron and Alasdair Marnoch.

ACTION:
Mark Davies

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3. Noted that the Chairman of the Audit Risk and Compliance Sub-Committee would be asked to provide a verbal update of this meeting to the Board.

(z) Alice Perkins left the meeting.

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15/25

EXTERNAL AUDITORS FEEDBACK

- (a) The Executive left the meeting and the members of the Committee received verbal feedback on the audit process and the Executive.

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15/26

CLOSE

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

Neil McCausland

22nd September 2015.