



POST OFFICE LIMITED

MINUTES OF A MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE OF POST OFFICE LIMITED HELD ON TUESDAY 24TH NOVEMBER 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 08.50AM (VIA CONFERENCE CALL)¹

Present:	Invited Attendees:
Carla Stent (Chair)	Tom Lee (Head of Finance Financial Accounting and Controls) (TL)
Ken McCall (SID) (KM)	Meredith Sharples (Director of Telecoms): Item 3.2 (MS)
Tom Cooper (NED, UKGI) (TC)	Mark Underwood (LCG Operations Director): Item 4 (MU)
Zarin Patel (NED) (ZP)	Christine Kirby (Financial Controls Manager): Item 6 (CK)
Regular Attendees:	Amanda Bowe (Post Office Insurance ARC Chair): Item 7 (AB)
Tim Parker (Chairman, POL) (TP)	Ed Dutton (Product Portfolio Director – FS, ID & Insurance & Managing Director – Post Office Insurance): Item 8 (ED)
Nick Read (Group Chief Executive Officer) (NR)	Declan Salter (GLO Director): Item 9 (DS)
Alisdair Cameron (Group CFO) (AC)	Graham Hemingway (Historical Matters Portfolio Lead): Item 9 (GH)
Ben Foat (Group General Counsel) (BF)	Andrew Goddard (Managing Director - Payzone): Item 10 (AG)
Andrew Paynter (Audit Partner, PwC) (AP)	Amanda Jones (Retail & Franchise Network Director): Item 11 (AJ)
Sarah Allen (Senior Manager, PwC) (SA)	Katie Secretan (Strategic Partnerships Director): Item 11 (KS)
Rachel Owens (Senior Manager – Digital Audit, PwC) (RO)	Dan Zinner (Group Chief Operating Officer): Items 11 & 12 (DZ)
Johann Appel (Head of Internal Audit) (JA)	Saira Burwood (Head of SPO): Item 12 (SB)
Mark Baldock (Head of Risk) (MB)	
Jonathan Hill (Compliance Director) (JH)	
Rebecca Whibley (Senior Assistant Company Secretary) (RW)	
Apologies:	
N/A	

		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 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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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 requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.	
2.	Previous Meetings	
2.1	The minutes of the meeting of the Audit and Risk Committee held on 22 September 2020 were APPROVED and AUTHORISED for electronic signature by the Chair.	
2.2	<p>Progress against the completion of actions as shown on the action log was NOTED, namely:</p> <p><u>Action 1 from 22 September 2020 (para 4.1) Risk Appetite Statements:</u> Mark Baldock advised that Legal & Compliance, Technology & Operations will be brought in January 2021, with further specific appetites thereafter. <u>The action remained open.</u></p> <p><u>Actions 2 & 3 from 22/09/2020 (para 4.8) GLO/Freedom of Information Requests/GDPR and data protection:</u> Ben Foat updated the GE on the matter in early October 2020 and a paper was included for noting ahead of the November Committee meeting (see para 14 below). <u>The actions were closed.</u></p> <p>Irrelevant</p> <p><u>Action 7 from 22 September 2020 (para 7.1) Suspense Accounts:</u> A paper was provided to the Committee (see para 4 below). <u>The action was therefore closed.</u></p> <p><u>Action 8 from 22 September 2020 (para 7.3) Suspense Accounts:</u> This action was to be addressed at the January Committee meeting and therefore <u>the action remained open.</u></p> <p><u>Action 9 from 22 September 2020 (para 7.4) Suspense Accounts:</u> The Chair, Nick Read and Declan Salter met on 5 October 2020 and discussed the governance issue. <u>The action was therefore closed.</u></p> <p>Irrelevant</p>	



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Irrelevant

Action 12 from 27 July 2020 (para 5) Suspense Accounts: A paper was provided to the Committee (see para 4 below). The action was therefore closed.

Irrelevant

2.3	The draft minutes of the Risk and Compliance Committee held on 12 November 2020 were NOTED .	
3.	Risk, Compliance and Internal Audit Updates	
3.1	Risk Update	



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Mark Baldock introduced the paper which had been circulated previously and was taken as read. The key points were summarised as:

Irrelevant

The Committee questioned what the risk trends were, the direction of travel and whether Post Office was actually moving forwards with its risk management. Al Cameron noted that the current risk profile was the highest he had seen in his time at Post Office. The business was making progress on funding, but the Group Litigation Order (GLO) was raising uncertainty. There were extensive commercial uncertainties and 3rd parties were also under economic pressure. Whilst there was a great deal of movement, ultimately, the risk profile was rising.

Mark Baldock was asked to review the dashboard and make key (bigger picture) risks and trends clearer, pulling this out from the detail already in the dashboard and including the "so what" factors. The revised dashboard approach should be presented to the January 2021 Committee meeting.

The Committee **NOTED** the Risk Dashboard.

Action:
MB

Irrelevant



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Irrelevant

3.3	Compliance Update <p>Jonathan Hill introduced the paper, which was taken as read and had been circulated previously. The key points were summarised as follows:</p> <p><u>Telecoms:</u> <i>Meredith Sharples joined the meeting.</i> There was an incident between February and September 2020 whereby, because of an issue with the Fujitsu system, inbound (7,000) and outbound (over 100,000) customer communications were not seen/sent. Some outbound communications were regulatory but were otherwise largely bill reminders or welcome letters. The team has worked hard to identify the issues and make sure the customer harm was mitigated via customer credits. All outbound communications have been reviewed and around 100 inbound communications were still being reviewed. The issue had resulted in 51 customer complaints. As soon as the issue was discovered the Regulatory Breach Protocol was instigated and the team was now working with Fujitsu</p>	
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to ensure that this did not happen again. Ofcom have been informed and the team would provide them with a further update later this week. There has been no response yet from Ofcom as to any action to be taken against Post Office.

The Committee raised concerns about why the business did not find out about this issue quicker and whether work could be done to close down weaknesses in other areas of Fujitsu. In response, it was explained that the issue was a sporadic one, not a complete failure, so this was why it was not picked up sooner. It had demonstrated that Fujitsu did not have adequate controls in place for logging inbound communications. This control has now been implemented. Meredith Sharples explained that he could not comment on the broader Fujitsu relationship but that he was confident that, for the telecoms contract, the same weaknesses did not exist elsewhere.

The consequences for Fujitsu were also questioned and whether there could be some liability for them. Meredith Sharples explained that he was expecting a compensation offer from Fujitsu covering all customer credits and Post Office resource costs. It was noted that the contract was not strong on commercial consequences. Ken McCall particularly highlighted that it was incredulous that the fault had occurred due to a file size issue and better performance must be demanded from Fujitsu. Meredith Sharples confirmed he already made this point very clearly to Fujitsu.

The Committee also questioned what the regulator thought of Fujitsu given this and previous issues. It was explained that ultimately, Post Office was the regulated party and was accountable for its outsourced providers it was dependent upon (like most others in the telecoms market).



Tom Cooper also questioned the speed of Post Office's response to the issue and it was explained the team began working on the missed communications as soon as the issue came to light. There was then dedicated resource placed on the inbound and outbound communications backlog. 100 pieces of inbound communications were still to work through.

Meredith Sharples left the meeting.

Irrelevant



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Irrelevant



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4.	Suspense Accounts	
4.1	<p>Mark Underwood introduced the paper, which had been circulated previously and was taken as read. The paper was summarised as follows:</p> <ul style="list-style-type: none"> i. KPMG have completed their review of the historical operation of suspense accounts and their conclusions were: <ul style="list-style-type: none"> a. The Agent Creditor Suspense Account: From their review, they have found There was no evidence to suggest that amounts posted to this account relate to discrepancies which should have been repaid to Postmasters. b. The Customer Creditor Suspense Account: A robust resolution process appeared to have been in place for each product type that was posted into this account, which was a holding account for customer's money. KPMG did however identify the following two issues which had the potential to impact Postmasters relating to the incorrect recording of payment (cash vs cheque), and the then two part cancellation process for MoneyGram transactions. ii. No further work in relation to suspense accounts was recommended, as KPMG have advised that further investigation into the two potential issues is unlikely to add any further information to that already included in their report. iii. and It was noted that the Historical Shortfalls Scheme provided the natural mechanism for any potentially affected Postmasters. iv. The Committee were asked to consider whether or not to disclose the full findings of the KPMG reports to the Government Inquiry. Suspense Accounts was not within the Inquiry's terms of reference, but some questions on their operation had been included in the latest batch of questions received from the Inquiry. Further, the issue has also been raised in the House of Lords. 	
4.2	<p>Tom Cooper questioned the conclusions of the report. The Committee concurred that Post Office should not assume that this review meant that there were no discrepancies in the suspense accounts, but no evidence of harm to Postmasters had been evidenced in the review.</p> <p>The Committee also felt that the disclosure of the report to the Inquiry should be a Board decision given the potential broader implications of the decision to disclose the report.</p>	
4.3	<p>Accordingly, the Committee:</p> <ul style="list-style-type: none"> i. NOTED the findings from KPMG's review of Post Office's historical operation of suspense accounts; and ii. AGREED to <u>recommend</u> the full disclosure of the KPMG Suspense Accounts reports to the Inquiry and the [REDACTED] to the Board for approval, [REDACTED], but that prior to disclosure: 	Action: Chair



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	<ul style="list-style-type: none">a. KPMG should review the wording in their report and the conclusions;b. KPMG should ensure any conclusions made were caveated appropriately by reference to the review they have undertaken; andc. it be made clear that the conclusions outlined in the report were that of KMPG and not Post Office.	Action: MU
<div>Irrelevant</div>		



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Irrelevant



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Irrelevant



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Irrelevant

9.	Historical Matters Unit (HMU) Governance Review	
9.1	<p>Graham Hemmingway and Declan Salter introduced the paper, which had been circulated previously and was taken as read. The key points were outlined as:</p> <ul style="list-style-type: none"> - The HMU governance structure has been based on the core elements of the existing Strategic Portfolio Office (SPO) framework with changes to the approval processes. - Procurement have provided training to the team. - Risk was being managed from a portfolio perspective through SNOW, but formal links (both ways) with the Risk and Compliance Committee and the ARC were still being developed. - Further work would be undertaken to respond to the actions outlined in the upcoming Internal Audit Report. - Responsibilities, accountabilities and decision-making authorities were still being clarified with RACI matrixes. The Chair noted that the delegation of authority to the HMU needed to be clearer. It was agreed that this would be presented to the January 2021 ARC meeting. 	Action: GH
9.2	<p>Zarin Patel highlighted discussions that have been had at the Criminal Cases Review Commission (CCRC) Board meetings relating to fraudulent claims and eligibility criteria controls, and it was agreed that Graham Hemmingway would bring a further noting paper on this issue to the Committee in January 2021. Following discussion, it was also agreed that live fraudulent claims and eligibility data would be appended to the CCRC Board pack on a weekly basis. Declan Salter explained that he believed that currently reasonable controls were in place, but these would be tested by Internal Audit and, subsequently, PwC.</p> <p>With respect to the Internal Audit review of the HMU, Johann Appel noted that it had been recognised that this was an entirely new business unit and that thus far, it had not operated without governance and controls. However, Internal Audit was now working with the team to ensure that the governance in place was appropriate and the team has been very responsive to the initial audit recommendations. The key recommendations from the interim report related to formalising the new relationships i.e. responsibilities, delegated authorities, which policies were being adopted and which policies were being revised for HMU. The</p>	Action: GH Action: GH



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final report was in progress and would be presented to the Committee in due course.

Mark Baldock also confirmed that the Risk team had discussed the second line support and the need to overlay the business risks to the programme risks. This work was on-going. Declan Salter explained that the new Operations Director was due to start on 2 January and this would allow work to be done more constructively and methodically. Declan further confirmed that he was seeking to ensure that the unit was adhering to policies and procedures whilst still allowing it to challenge the historic Post Office processes.

The Committee otherwise **NOTED** the approach to HMU governance.

Irrelevant



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Irrelevant



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Irrelevant

12.	Deep dive: Transformation Office Change Update 2020	
12.1	<p>Dan Zinner and Saira Burwood introduced the paper, which had been circulated previously and was taken as read. It was explained that the last update had been presented to the Committee in September last year and since then much had improved and support for further improvements was requested from the Committee.</p> <p>Saira Burwood highlighted the key points from the paper:</p> <ul style="list-style-type: none"> - A lot of work has been done with a focus on people, process and perception. This has been largely directed at the change community. - With support from Internal Audit, a new Change Control Framework has been developed with 53 controls including the checks, challenges and reports to enable projects to deliver on time, on budget and to quality, enabling benefits to be realised. To date, 27 controls were effective, 14 were partially effective and the rest have remediation plans in place. - The Framework has been used to decide the team's focus for the coming months: <ul style="list-style-type: none"> i. <u>Wider business education</u>: spreading the message of processes and controls to the wider business to ensure responsibilities are understood. ii. <u>Benefits</u>: looking at how benefits were forecast, how they were tracked and whether assumptions that underline them were valid. iii. <u>Supply capability and IT interlock</u>: addressing the issue of when suppliers were not able to provide the service required and ensuring the Change team links in with the IT team (initial discussions have been had and the plan was to ensure there was IT representation on the Project Review Board (PRB)). iv. <u>Control framework</u>: continuing to embed the Framework and support the business to do inflight assurance as well as post implementation reviews. 	
12.2	<p>Zarin Patel noted that the controls and strategies implemented were comprehensive but questioned whether it was really a question of internal and supplier capability. Particular mention was given to what was required for the SPM. Dan Zinner acknowledged that controls could only go so far, and it was important to take the time up front to align across the entire organisation as to what needed to be achieved. The SPM programme has taken a different approach to most projects as it is cross functional. There are external resources leading the project to ensure it is separate from</p>	



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	<p>BAU. This could not be done for all projects but was key for SPM. Time had been taken to check what the goal of the SPM programme should be, ensuring alignment across the Group Executive and all business units. The Chair highlighted that it was key that the business was engaged, understood the goal and what good looked like.</p> <p>Tom Cooper noted that huge progress had been made and questioned how improvements would be measured or tracked. Saira Burwood explained that the number of projects was down by 25% but that the amount of control and governance had increased significantly. However, much of the measurement was subjective and as such the metrics needed more thought. There are controls that can be measured such as overspend but it was more difficult to measure quality. It was agreed that Dan Zinner, Saira Burwood and Tom Cooper would have an offline conversation on the metrics that could be used to measure/track improvements in this area. A update on this action would be provided at the January 2021 Committee meeting, noting that having the correct mix of business and technical resources was critical.</p> <p>The Committee NOTED the update on improvements implemented to better manage Change and ensure its effective delivery, and supported the further work on the continuous improvement programme.</p>	Action: DZ & SB
13.	AOB	
13.1	<p>It was noted that due to agenda pressures, it was likely that the Committee would need additional meetings next year, although this linked into the on-going, wider conversation between the Chair and the Executive around what matters should be directed to the Committee. Discussions would continue and members would be updated on any requirements for additional meetings.</p> <p>There being no further business, the meeting was closed at 11:31.</p>	
14.	Items for Noting	
	<p>The following papers were circulated to the Committee prior to the meeting, but were not discussed at its meeting and NOTED by the Committee:</p> <ul style="list-style-type: none"> - PCI-DSS - Cyber Security - Joiners, Movers, Leavers (JML) - Belfast Datacentre (Horizon) DR Post Test Briefing - Data Retention Policy & Digital Data Governance - Law & Trends - Agreed Upon Procedures - Procurement Governance & Compliance Report 	



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Chair

Date

Meeting Actions:

Para No.	Action Detail	Action
Irrelevant		



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4.3	<p>Suspense Accounts: Accordingly, the Committee:</p> <ul style="list-style-type: none"> i. NOTED the findings from KPMG's review of Post Office's historical operation of suspense accounts; and ii. AGREED to <u>recommend</u> the full disclosure of the KPMG Suspense Accounts report to the Inquiry and the [REDACTED] to the Board for approval, [REDACTED] but that prior to disclosure: <ul style="list-style-type: none"> a. KPMG should review the wording in their report and the conclusions; b. KPMG should ensure any conclusions made were caveated appropriately by reference to the review they have undertaken; and c. it be made clear that the conclusions outlined in the report were that of KPMG and not Post Office. 	<p>Chair</p> <p>MU</p>
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Irrelevant

9.1	<p>Historical Matters Unit: Responsibilities, accountabilities and decision-making authorities were still being clarified with RACI matrixes. The Chair noted that the delegation of authority to the HMU needed to be clearer. It was agreed that this would be presented to the January 2021 ARC meeting.</p>	GH
9.2	<p>Historical Matters Unit: Zarin Patel highlighted discussions that have been had at the Criminal Cases Review Commission (CCRC) Board meetings relating to fraudulent claims and eligibility criteria controls, and it was agreed that Graham Hemmingway would bring a further noting paper on this issue to the Committee in January 2021.</p>	GH
9.2	<p>Historical Matters Unit: Following discussion, it was also agreed that live fraudulent claims and eligibility data would be appended to the CCRC Board pack on a weekly basis. Declan Salter explained that he believed that currently reasonable controls were in place, but these would be tested by Internal Audit and, subsequently, PwC.</p>	GH

Irrelevant



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12.2	Deep dive: Transformation Office Change Update 2020: Tom Cooper noted that huge progress had been made and questioned how improvements would be measured or tracked. Saira Burwood explained that the number of projects was down by 25% but that the amount of control and governance had increased significantly. However, much of the measurement was subjective and as such the metrics needed more thought. There are controls that can be measured such as overspend but it was more difficult to measure quality. It was agreed that Dan Zinner, Saira Burwood and Tom Cooper would have an offline conversation on the metrics that could be used to measure/track improvements in this area. A update on this action would be provided at the January 2021 Committee meeting, noting that having the correct mix of business and technical resources was critical.	DZ & SB
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