

POST OFFICE LTD EXECUTIVE COMMITTEE

Internal Audit – Future options

1. Purpose

The purpose of the paper which is attached is to:

- 1.1 Outline the auditing principles POL is adopting since its full transition from Royal Mail Internal Audit & Risk in the summer.
- 1.2 Outline the findings and issues arising from the detailed review of auditing work undertaken by the Field Support Advisors within Network Operations.
- 1.3 Propose options for the future shape of IA in POL based on the recent review of network auditing and current three lines of defence model.
- 1.4 The committee is requested to discuss and agree a position to recommend to the ARC which has requested the review.

2. Summary

- 2.1 To be effective, the Post Office Internal Audit capability needs to maintain independence, apply professional standards and ways of working, focus on assurance and the management of risk and control, and these attributes should be applied and operate across the organisation.
- 2.2 The business has determined it will apply the Three Lines of Defence model.
- 2.3 The Branch Auditing function in its current approach, capability, scope and reporting does not represent value for money for Post Office. There is significant opportunity to reshape to support the Post Office's future retail focused aspirations.
- 2.4 The review of the Branch Auditing function within the combined FSA audit and training role, highlighted a number of options in the original report, of these it is recommended that the Executive consider:
 - Split audit and training functionality. Enable the dedicated training capability to focus on improving support and day to day liaison with branches especially agents.
 - Move audit capability to third line, reduce size of branch team, but professionalise using higher grade staff. (Similar to levels in the supply chain compliance team) so that capability is strengthened to improve overall value for investment.
 - Broaden the branch audit and assurance scope, change the reporting to provide meaningful information to help the branch manage risk and control to build performance. Build ability to support central IA team if necessary.
 - The proposal estimates that a revised approach using 50-55 headcount Retail Audit team costing £2.6m could cover at least 4000 sites per annum. The current combined 220 FSA (including training) team covers 4500 sites a year at a combined £6m-£7m.

1. Purpose and principles of Internal Audit

The Principles of Internal Auditing within Post Office are embedded within the Internal Audit Charter that was approved by the ARC in November 2012 and discussed with the Executive Committee in July 2013 after the completion of the transition from the Royal Mail IA service.

In essence the principles are

1. Post Office Internal Audit (POL IA) will apply the Global Institute of Internal Auditor's definition of internal audit.
 - "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the POLIA will apply international professional reporting standards and techniques.
2. POLIA will therefore direct its activity towards three on-going overarching goals:-
 - To provide the Board with independent and objective assurance over Post Office organisation's controls.
 - Provide assurance that the Post Office processes for identifying, assessing and managing risks are effectively deployed.
 - To help management improve their decision making processes, controls and operations through risk and control advice and support.
3. POLIA will maintain a functional reporting line to the chair of the Audit Committee to maintain its independence.
4. POLIA will have operational scope across all business activities and functions and have unrestricted access to personnel, records, property including contractors and external audit insofar as it applies to authorised audit and review activity. It may attend business meetings and committees to build and maintain business knowledge and understanding.
5. POLIA will be sufficiently and appropriately staffed and skilled to carry out its duties in terms of
 - professional competency,
 - business knowledge and awareness,
 - technical proficiencyand will consider and seek specialised services from either within or outside the organisation where it does not have the capacity or level of knowledge to undertake audit or review work.
6. The business has determined that it will apply the **Three lines of Defence** model to risk management and auditing. The IA function will sit in the 3rd line.

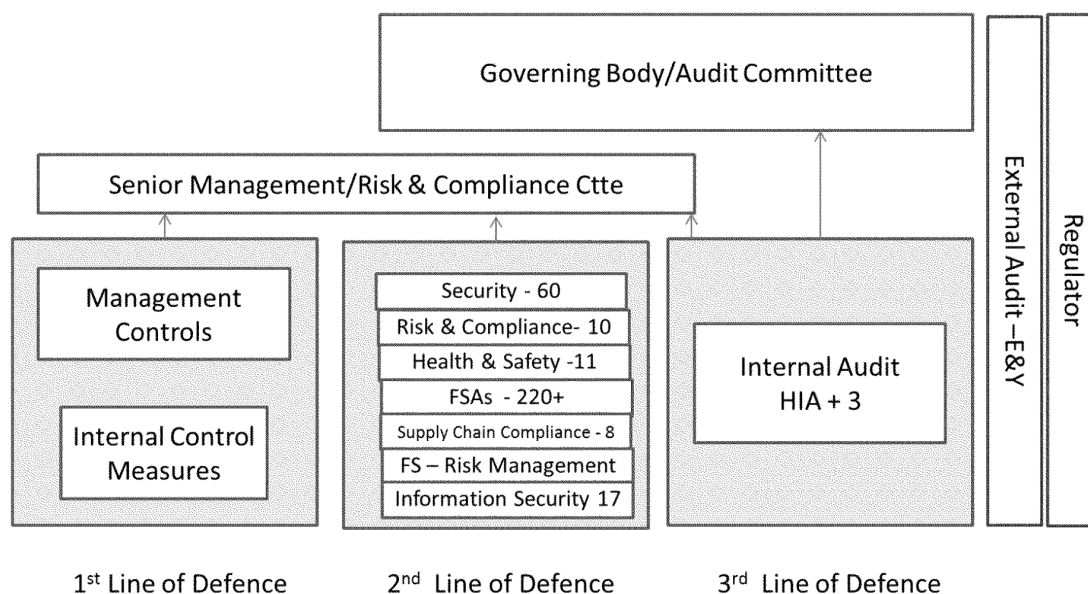
2. The Three lines of defence model.

2.1 The business has determined that it will apply the three lines of defence model. This is illustrated below. Management and staff are responsible for designing, implementing and improving controls and processes that manage risks in their respective areas. The second line focuses on key risks and compliance management and may including auditing type activity. However this activity is not independent of management and in some cases may be managed by the same senior management responsible for running the operations.

2.2 The third line provides independent assurance across 1st and 2nd lines but reports to and is ultimately managed by the organisation's audit committee.

The diagram also shows the approximate split of second and third line head count. (Includes some vacancies)

2.3 The 3 lines is a recommended model supported by the IIA and in the UK by the Institute of Directors. However it is not a mandatory, legally required model or structure. It is more prevalent in Financial Services organisations but it is quite common to find Audit and Risk combined into one function in other sectors such as retail. This may be for operational, cultural and financial reasons. Some compliance activities may be absorbed or remain separate. Such blurring of the three lines presents some independence issues and potential conflicts of interest so safeguards are usually implemented.



NB the Information security team is currently 12 with vacancies. Some of their activity can be considered 1st line. Some companies consider Financial control to be second line functions but clearly some of their activity would be considered 1st line.

3. Examination of Branch Auditing in Post Office.

3.1 A review of the approach to branch auditing was requested by the ARC and took place over the summer. Twenty seven branches were included in the review. The report was cleared within Network Services including discussions with Kevin Gilliland and also with Chris Day given some of the financial opportunities that may arise from potential changes.

3.2 The review considered the areas and key risks below.

Areas within scope	Risks
<ul style="list-style-type: none"> • Overall remit, content of audits • Audit programmes, tools and techniques • Outcomes of audits and levels of assurance obtained • Audit strategy, planning, costings and team structure. • Management Information use and relevance • Adequacy and balance of coverage • Use of resource, scheduling activity 	<ul style="list-style-type: none"> • <i>Branch audit activity may not be sufficiently focussed on all key branch risks</i> • <i>Coverage may not be sufficient or appropriately balanced.</i> • <i>Results and management information may not be sufficient to give senior management a view of control</i> • <i>Assurance levels may not be clear</i> • <i>Follow up mechanisms may not ensure the control environment is maintained / improved</i>

3.3 The current structure comprises 220 Field Support Advisors, (FSAs) including 18 team leaders grouped into teams around the country. In addition there is a management structure of 5 supported by 15 scheduling/administration staff. This costs approximately £7m in total although it is recognised that the team has been expanded to take account of the Network Transformation Programme. The structure reports to middle/senior management within Network Operations.

- The Field Support Advisors (auditors) also do training sessions as part of their workload, although this is separate from the branch audits. Our internal audit did not include an assessment of the training activity other than an understanding of the mix and training commitments undertaken.
- The branch audit capability was, until a few years ago part of Finance. It was moved to Network Operations and combined with the incumbent training team.

3.4 The one page executive summary from the audit report is in the appendix to this paper. The full report is available upon request. The findings and issues identified have been agreed with network management. The challenge to the Executive Committee and ultimately to the ARC is to determine the most appropriate way forward given:

- a) The results of the review
- b) The current cost challenges in the business
- c) The shape of auditing in POL.

3.5 Key Findings and Issues

The report concluded that in our opinion, the current remit does not meet the forward assurance and risk management needs of the business outlined in section 3.2

In summary:

Assurance over branch controls and management of risk	
<ul style="list-style-type: none"> No assurance is gained over anything other than cash and some stocks at considerable cost to the business. The rest of the branch operation is not covered. This is a missed opportunity. 	<ul style="list-style-type: none"> Compliance testing undertaken by the FSA's and observed was mainly question based by interview. This should be done instead by proper examination and testing of supporting evidence. There is probably an inaccurate level of assurance over regulatory compliance in branches.
Coverage and use of use of resources	
<ul style="list-style-type: none"> Staff hours are used inefficiently. Analysis indicates of the total man days available in a typical year that 25% to 30% is actually on audits. Up to 40% appears to be on non direct time (although this does include leave). 	<ul style="list-style-type: none"> Post Offices are closed during the first stage of the audit while the cash is counted which usually kicks off at opening time. This can cause inconvenience to customers. Counters may open up quickly within an hour but records show that longer periods of up to 2 hours or more can be required. Our review of this approach suggests that this can be altered to not require branch closure although this may mean counting at different times of the day.
Results of audits, helping management understand and improve levels of control	
<ul style="list-style-type: none"> There is little formal opportunity for discussion and feedback or the raising of issues and concerns whilst auditors are on premises. It may well occur given the large number of audits conducted, but not in a systematic and coordinated way that can provide a channel of information upwards into the centre. 	<ul style="list-style-type: none"> It should be noted that formal and informal feedback from branch management (through a branch survey during the audit) is that the current approach is sometimes seen as disruptive to opening hours, recognised as a necessity but one that does not help them improve control, process and manage their branches better. Given that most audits are completed before midday and comprise several staff in some cases, this would appear to be an opportunity missed to pick up issues on the ground.
Management information, trends, systemic issues, overall view of risk and control in network	
<ul style="list-style-type: none"> Management Information is limited in its application and really only details number of audits completed. Trends, systemic issues and levels of risk and control are not reported or assessed as a matter of course. 	<ul style="list-style-type: none"> Audit reporting process is inefficient, delayed and excludes key stakeholders. Reports can be sent to the Area Manager up to 5 weeks after the audit and follow up investigation/revisits needs improvement.

- In our opinion the resource is ineffectively used and better management of time could probably reduce the number of personnel needed. It is particularly hampered by the 35 hour week arrangements which start the moment an FSA leaves their home and travels to a site. Some FSA's owe hours to the business. Most audits appear to use 3-5 auditors working from 8:30 to around 11am and most then return home other than the lead auditor.
- Staff standards (quality of audit work / turn out) vary considerably across the country.

The key risks outlined in 3.2 are not well managed.

- 3.6 The teams do however focus on the remit they have been given: -i.e. to count cash and some high value stock and to ask some compliance based questions (albeit with little documentary or evidential activity). Or, to conduct more detailed tests if financial results are not satisfactory.

It is recognised that the branch audit team may be requested by security or the Finance Service Centre to conduct "special" audits in light of information that suggests losses, or irregularities. At times these may lead to justified agency suspensions although in other cases the amounts involved may be less than the costs of audit and investigation

If the business wishes to retain this as the primary remit within Network Operations, then our recommendations would be chiefly around re-designing the MI and report contents, and addressing the operational inefficiency of the personnel set up.

The team however could be significantly reduced in size to just cover requests from security and the Finance Service Centre. This is currently about 50 requests per month. Some capability would be needed for branch transfers, openings and closures. This would therefore be a more reactive team but would have to be willing to travel around the country because the security/FSC requests could arise anywhere.

3.7 Potential Choices

Whilst the business may chose to retain and modify this approach, in our opinion, this option misses an opportunity and provides low value for the business. In essence, whilst several options were suggested in our detailed report, the choice is between:

- Keeping a loss detection/stock counting based role with some improvement in reporting/visibility whilst also maintaining a training obligation, staffed by relatively junior personnel who are generally experienced ex counter staff but not professionally qualified internal auditors.
- Creating a modern, higher skilled, but smaller Retail Audit team capable of assessing a branch as a whole (Crown, Multiple and agency) providing local, area and senior management with on-going assessment and intelligence over the risks/controls in the branch

network. Enabling the remaining headcount to be channelled into a stronger dedicated branch and head office training function.

- 3.8 Given the position of the branch network as the largest retail network in the UK and the aspirations of the business, a strong, business risk oriented assessment and improvement capability reporting independently of management is considered important to the future governance of Post Office Limited.

It should also be able to work collaboratively in the longer term with other branch based audit bodies such as Bank of Ireland or even with the retail audit teams of multiples where these exist such as WHSmith, Coop, Tesco and Asda.

- If the business preferred an option along these lines it could choose to split the current FSA team into auditors and trainers, allowing the latter to be more dedicated in training and education needs for branch and agency staff. Then, either keep the separated audit team within Network Operations (as second line defence) or transfer the function to a 3rd line of defence under Internal Audit.
- Wherever the function is positioned, the business must recognise that such a change would be transformational and would require reassessment of the skills and capabilities required, redesign of the audit scope, methods and reporting and a structural change.
- The scale of this option is not to be underestimated. This may well mean that for some personnel such a move would be attractive and developmental, but for others not attractive or appropriate.

4. Options considered and risks

1. Keep FSA team together - no major change	
Benefits <ul style="list-style-type: none"> Current staff population remains in place Assurance maintained over cash Specialist knowledge pool maintained 	Risks/Issues <ul style="list-style-type: none"> Branch audit activity not be sufficiently focussed on all key branch risks Coverage not be sufficient or appropriately balanced. Results and management information not be sufficient to give senior management a view of control Assurance levels not clear Follow up mechanisms do not ensure the control environment is maintained / improved Cost opportunities not realised No efficiency achieved – low value for money invested and time employed
2. Continue as current but split Audit and Training into separate functions within Network	
Benefits <ul style="list-style-type: none"> Current staff have a choice of specialism subject to senior management requirements regarding split Specialist knowledge maintained Minimal disruption to process and personnel 	Risks and Issues Risks – as above <ul style="list-style-type: none"> Only have some assurance over cash/valued stock.
3. Continue as current but attempt to “professionalise” team – remain within Network Services	
Benefits <ul style="list-style-type: none"> Current staff population remains in place (if they can be professionally trained and skills upgraded/broadened) Limited assurance maintained over cash Greater flexibility if “management” hours are worked and travel time is rationalised Development of people Partially address risks in 3.2 	Risks and Issues <ul style="list-style-type: none"> No significant change – no meaningful assurance gained Additional training cost Low efficiency achieved Limited “audit coverage” maintained Disruption during HR processes Risk that it is unlikely to be achieved No cost saving opportunity
4. Split audit and training and move audit to POLIA and transform to Retail Audit Capability	
Benefits <ul style="list-style-type: none"> Transforms the function to professional Retail Audit Development stream for business. (Staff could transfer into other areas or into senior Central Audit roles) Assurance over all areas of branch operation Creates opportunity for remaining FSA staff to be regrouped into a dedicated training function not distracted by audit responsibilities – more direct support / focus for branches Managers and Management gain risk and control assessments of the network More effective testing of compliance (eg anti money laundering) Higher graded, experienced staff – lower 	Risks and Issues <ul style="list-style-type: none"> Initial cost in training Staff disruption Need to assess current staff capabilities Not a quick fix, will need careful planning and transition. Potential redundancy costs Disruption during transformation

numbers required • Address risks in section 3.2	
5. Outsource/Co Source the Network audit function – 5a) Outsource (with out sourcer running the activity) or 5b)Co-source (POLIA running the activity with a mix of in house and external resource)	
Benefits <ul style="list-style-type: none"> • Flexible resource • Reduction in POL headcount • No 35 hour week constraint • Opportunity to gain assurance over more of the operation • Professional exception reporting, timely provision of MI • Use of external expertise to help develop the function (especially if co-source approach taken) • Could cap costs • Address risks in section 3.2 	Risks and Issues. <ul style="list-style-type: none"> • Cost (usually charged at a day rate plus out of pocket) • Unqualified/inexperienced staff used • Less specialist knowledge – provider will need to build up POL knowledge (higher risk if complete outsource used – less if co-source used_ • POL still needs to define model and take responsibility • Costs may creep if provider needs more time to understand and develop. (less so if co-source used) • Provider may not be able to provide sufficient geographic coverage

5. Recommendations

- Split audit and training functionality. Enable the dedicated training capability to focus on improving support and day to day liaison with branches especially agents.
- Move audit capability to third line, reduce size of branch team, but professionalise using higher grade staff. (Similar to levels in the supply chain compliance team) so that capability is strengthened to improve overall value for investment.
- Broaden the branch audit and assurance scope, change the reporting to provide meaningful information to help the branch manage risk and control to build performance. Build ability to support central IA team if necessary.

Other areas of the three lines.

Some organisations (usually non financial services) have chosen to combine elements of 2/3 lines for either practical or cost reasons. E.g combination of Audit and Risk, or combining compliance and audit teams. These options have not been examined within this paper because the stated objective for auditing and governance in POL has been to apply the 3 lines and to review the current FSA capability.

6. What would a retail based approach consider?

- Appendix 1 details the potential coverage of a more retail based approach but this would be developed with the business stakeholders through a piloting process.
- Appendix 2 illustrates a potential top page audit report layout.
- Appendix 3 shows a current FSA audit top page layout.

5.1 In outline:

Take a risk based approach and cover the branch population as it currently sits as follows:

Proposed	pa	Current FSA approach	pa
All crowns visited at least once annually. (Follow ups for lower performing branches) with full programme. – 370.	370	Visit crowns once each over 2 years. (370)	185
All major multiples partner sites visited annually – WH Smith	83	Annually part of agreement with WH Smith (83)	83
Security /FSC requests (any type) – currently 50 per month	600		600
Multiples - Tesco	71	Non Crown/WHS (General allocation,gap filling)	3632
Multiples - ASDA	22		
Multiples - McColls	421		
Coop Group Ltd –	510		
Higher risk total	2077		
Smaller agency branches (balance-including smaller 463 regional Coop)	1913		
Total per year	4000		4500

- All large partner multiples visited at least once annually – with joint working with partner audit teams investigated once established.
- All requests from Security and FSC addressed (50 per month)
- Remaining agencies fill remainder on a risk basis based on turnover, breadth of services provided, branch profitability (when available).
 - Use a menu based approach to the small agencies as the risks will be lower. Audit visits may well require less than a day and some auditors should be able to visit more than one small branch in a day.
- Branch numbers assumed at 4000 if 35 hour week limitations are still applied. Number of audits may increase if the approach similar to that employed by Supply Chain Compliance team is used. Normal 5 day week, with flexibility for those who may have a high travel content for a particular week.
- Higher coverage could be obtained in the longer term through the following mix of alternatives

- Increase of staff towards 75 FTE model
- Modernisation of technology from laptop and print out/hardcopy approach to tablet based/realtime reporting
- Self Assessment by some branches. (It is recognised that some branches do this, but IA would review output and follow up where necessary)

7. What are the cost and structure opportunities?

7.1 Current – combined role.

- The current structure comprises 220 Field Support Advisors, (FSAs) including 18 team leaders grouped into teams around the country. The FSAs are PO graded staff and are generally ex-counter staff, not qualified internal auditors.
- Management structure of 5 supported by 15 scheduling/administration staff.
- This costs approximately £7m in total although it is recognised that the team has been expanded to take account of the Network Transformation Programme.

7.2 Possible – Retail Audit separated from training and support.

- Appendix 4 details the costing models based on a range of team numbers from 75 to 50 with grades similar to the levels used in the Supply Chain Compliance team but lower than in the head office risk and compliance team and Internal Audit team.
- What would be the minimum network audit team?

50 operational auditors, 3 operational audit managers, 1 - 2 admin staff.
Teams would be regionally based, North& Scotland, Midlands and South.

- The current FSA time records suggest the equivalent of about 110 FSAs are used so the retail audit team would be smaller but with higher capability to cover wider risks and audit programme and enable support to the Corporate Audit team which is the HIA and three band 4 managers.
- This is estimated to be the minimum needed to provide a base level of assurance to both the Board, the ARC and to management with the following assumptions.
- Audits would be typically one day by a single auditor rather than 3-5 for half a day.
- Auditors work for the 5 normal working days and are not counting hours from point of leaving home.
- Requests from Security and the FSC are maintained at current levels.

Based on information from Network Finance the above team would require an on going BAU cost of £2.6m at current rates.

This excludes:

- Costs of transformation and transition. There will be a need to reassess the skills needed, the capabilities available, training required and supporting technology.
- Once established there will be an ongoing CPD requirement and some professional training/qualifications for junior staff who may join Post Office in developmental roles. It is assumed these would be part of the annual Learning and Development bidding process.

The Corporate team is currently three audit managers at band 4 – all professionally qualified, experienced individuals. Budget (excluding Head of Internal Audit but including co-source arrangements capped at £100k per annum) - £360k for 2013/14. This is separate from the figures analysed for the branch auditing capability.

8. Overall Actions and Recommendations

The Executive Committee is requested to:

- 8.1 Reaffirm the internal auditing principles as consolidated with the Internal Audit Charter.
- 8.2 Note the three lines of defence model and confirm its application or debate otherwise.
- 8.3 Discuss the findings and recommendations arising from the branch audit review
- 8.4 Make recommendations or propose options to the Audit, Risk and Compliance committee for its October meeting.

Appendices

A1 – Potential areas of scope. (Would be developed with the business).

A2 - Potential Audit Results summary “Post Office Branch Health Check”

A3 – Example of current top page of FSA report

A4 – Cost proposals.

Appendix 1 –Proposed Proforma work programme. This is just a summary of potential areas for a review.

Preparation work before branch visit <ul style="list-style-type: none"> - Cash situation / history - Losses by cashier? - ONCH performance - Stock loss performance - P&L (Performance to budget) - Recent incidents - Grapevine 	Branch Operations Horizon System <ul style="list-style-type: none"> - User Log ons in the correct format - All staff have own log ons - All unused log ons explained / disabled / deleted as required - All necessary training completed / logged / in currency - If open counter – ensure cash limits are observed - If open counter – ensure roller safe operation is used correctly Forms <ul style="list-style-type: none"> - Ensure all forms in use are the current versions 	Security Operation of Safes <ul style="list-style-type: none"> - Ensure the operation of safes is in accordance with current procedures - Ensure time locks used - Review key controls – who holds and when / where are spare keys kept etc Security <ul style="list-style-type: none"> - Ensure key controls are observed correctly - Review entry and exit procedures - Review alarm controls - Review frequency of code changes for both alarms and internal security door access panels
On arrival <ul style="list-style-type: none"> - Sign in and review visitors book procedures - Condition of customer area - POS up to date / Use of space - Condition of back of house area - State of counter positions / relevance of notices - Ensure clocks are operational and correctly set - Availability of stationery 	<ul style="list-style-type: none"> - Ensure stock replenishment process in use at the branch is sensible / reasonable - Ensure all obsolete forms are removed and returned / destroyed Stocks <ul style="list-style-type: none"> - Review the allocation / use / reconciliation of stocks - Review cash loss / action situation with manager - Ensure security is maintained – keys available / secure – spares secured - Review the replenishment process for counter stocks 	Mails Segregation <ul style="list-style-type: none"> - Ensure segregation process is physically set up with appropriate signage (to encourage maximum compliance) - Ensure checks are carried out by management / supervisor to provide maximum compliance - Ensure end of day routine is correctly followed and bags are ready when RM operative arrives to collect

Cash/Value Stocks

- Obtain system balance and reconcile cash / value stocks as required
- Reconcile MVL's
- Reconcile Philatelic / Collectors Coins as required
- Review last 3 REM's in and out for completeness / accuracy
- Ensure all recalls / returns have been actioned
- Ensure Foreign Exchange "Bible" is available and is the most up to date version

Customer Services

Post and Go Machines

- Ensure Post and Go machines (where installed) are serviceable and presentable
- Ensure reconciliation is in place and that cash is added / removed as necessary
- Review procedure for emptying boxes during / at the end of the day.

Drop and Go

- Review drop and go procedures as operated on the counter
- Ensure counter staff are aware of offer and promote it as necessary

In addition – the review would conduct **regulatory compliance** tests including the following areas.

Regulatory Training, Anti Money Laundering, Financial Services , Information Security (Including Data Protection) Royal Mail Services (Mails Integrity) Royal Mail Services (PiP and Mails Segregation) Telephony Products Weights & Measures Act Procedural Security, Government Services Post Office Card Account NB – **These are all subject to a current review by Risk and Compliance**

Appendix 2 – Example top proposed page of audit for branch and area manager.

Post Office Health Check Audit		POST OFFICE									
<u>Branch</u> Ashford	<u>Manager</u> A. Man	<u>Area Mgr</u> B. Person	<u>Date</u> 05/05/2014								
			<u>Auditor</u> R. Isky								
<table border="1"> <thead> <tr> <th colspan="2">Key</th> </tr> </thead> <tbody> <tr> <td>GREEN</td> <td>100% - 80% = No major issues</td> </tr> <tr> <td>AMBER</td> <td>79% - 50% = Needs attention</td> </tr> <tr> <td>RED</td> <td>49% - 0% = Needs urgent attention</td> </tr> </tbody> </table>				Key		GREEN	100% - 80% = No major issues	AMBER	79% - 50% = Needs attention	RED	49% - 0% = Needs urgent attention
Key											
GREEN	100% - 80% = No major issues										
AMBER	79% - 50% = Needs attention										
RED	49% - 0% = Needs urgent attention										
Overall Control Grade	76%	78%									
Areas Audited	Area Grade	2014 main points	2013 Audit								
1 Cash/Value Stocks	83%	<p>Reconciliation controls need to be in place.</p> <p>Ticketing machine not operating. Two clocks show wrong time.</p> <p>Spare keys not secure, doors left open during audit visit</p> <p>Old obsolete forms still in use</p> <p>Missing documentation to support compliance</p>	90%								
2 Security	70%		60%								
3 Post & Go/Drop & Go	78%		65%								
4 Mails Segregation	85%		85%								
5 Front of Office/Customer Area	85%		85%								
6 Safe Management	57%		65%								
7 Branch Documentation/Forms	75%		83%								
8 Health and Safety	95%		100%								
9 Counter Operations	81%		81%								
10 Regulatory Compliance	55%		66%								
<p><u>Commentary</u></p> <p>The branch continues to perform at a reasonable standard of control but needs attention in a number of areas including more focus on basic security procedures. The main area of concern was the decline in regulatory knowledge and supporting documentation to ensure compliance. Further details can be found on page 3 of this report.</p>											

IN CONFIDENCE

To:	From:	cc:
Branch Manager West Wickham	Andy Kennard Field Advisor	Adam France CSCSM Colin Middleton Regional Support Advisor Frank Martin Field Team Leader

Date: 16 April 2013

Audit of Post Office Branch	West Wickham	009012
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Section 1 - Introduction

An audit of the above branch, led by myself, was undertaken on 16 April 2013. The purpose of this audit was to provide assurance that financial assets, due to the Post Office®, were to hand and confirm compliance with a range of business processes, procedures and regulatory requirements. On this occasion cash, cheques and currency were checked along with certain stock items for 5 out of 9 Stock Units. The Stock Units not checked were deemed to be Assured.

Section 2 provides a management summary which includes the result of the financial audit and the results of Compliance & Conformance audit.

Section 3 details a breakdown of the result of the financial audit.

Section 4. A compliance declaration, which should be completed, signed and returned (in the addressed

Section 2 - Management Summary

The net financial audit revealed a shortage of £4.42, subject to a reconciliation of some figures (undertaken after the audit). A breakdown of this figure can be found in section 3.

Compliance tests carried out during the audit did not identify any control gaps. I would therefore like to

Actions that were detailed in the previous audit still require attention. These are highlighted in bold text in the appendices.

Section 3 - Result of the Financial Audit

The results for all the Stock Units which were subject to checks of cash, cheques and foreign currency are detailed in Table 1 and the total value of any discrepancies for the range of stock items checked in these Stock Units are shown in Table 2.

Table 1

Stock Unit	Cash/cheques/foreign currency reported on Horizon	Cash/cheques/foreign currency found at audit	Shortage	Surplus
BM	£31493.00	£31493.00	£0.00	£0.00
BB	£25935.88	£25936.72	£0.00	£0.84
CC	£7274.46	£7278.34	£0.00	£3.88
EE	£3371.90	£3368.60	£3.30	£0.00
GG	£6058.99	£6060.35	£0.00	£1.36
Total	£74134.23	£74137.01	£3.30	£6.08

Table 2

Stock Unit	Stock reported on Horizon	Stock found at audit	Shortage	Surplus
BB	2nd x 100 s/a sheet	plus 1		
CC	MVLs	minus 1		
EE	MVLs	minus 3		
GG	MVLs	minus 1		
GG	2nd x 100 s/a sheet	plus 1		

Also during the audit the following discrepancies were noted:

MVL's were by 0. The correct reporting procedures must be followed. Lottery cheques were 0 compared to the Horizon expected figure. The correct reporting procedures must be followed.

POCA cards were 0 compared to the Horizon expected figure. Cards should be remmed in or stock adjusted to ensure the figure on hand and snapshot agree.

During the audit it was noted that you are holding more than four times your average weekly sales of POCA cards. You should therefore not order any more unless it is to bring you up to your maximum Executive Committee on October 2013 Internal Audit Options

Your current average monthly issue of POCA cards is 3. In addition to the above amounts the Nett discrepancy as per Office Snapshot also needs to be taken into consideration: 0 and the transaction corrections not processed of -7.2. I would like to thank the Branch Manager and staff for their assistance today.

APPENDIX 3 –**Example of current report by FSAs.**

Current report sent to branch and area managers – usually in a zip file with 5 – 6 other documents. This example summarises the financial results, highlighting a loss of £4.42 but completely omits the fact that £1000 of missing travellers cheques was noted in the audit. (Post Office IA observed this review)

The report is hence focused on financial results only and is not easy to read. No compliance work was undertaken.

APPENDIX 4

Costings Proposal - POL Network Audit															
Role	Job Grade	Base Cost	Incl On Cost	Bens Cost	Total	FTE	75	70	65	60	50				
							£(000)'s	£(000)'s	£(000)'s	£(000)'s	£(000)'s				
Regional Audit Manager	3A	45	57.15	6	63.15	3	189	189	189	189	189				
Regional Auditors	2B	30	38.1	4.2	42.3	75-50	3173	2961	2750	2538	2115				
Audit Administrator		23.5	29.8	N/A	29.8	1	30	30	30	30	30				
						Staff Cost	3392	3180	2969	2757	2334				
			Plus T&S to be added (£5K per head)				390	365	340	315	265				
						Total Cost	3782	3545	3309	3072	2599				
						£m	3.78	3.55	3.31	3.07	2.60				