REPORT 1

FOR THE POST OFFICE HORIZON IT INQUIRY

EXPECTED AND BEST PRACTICE IN RESPECT OF THE STANDARDS OF GOVERNANCE, MANAGEMENT AND LEADERSHIP IN COMPANIES SUCH AS THE POST OFFICE COMPANIES

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CONTENTS

Introduction

i. We are instructed to provide a report which sets out what might typically be expected/best practice in respect of the standards of governance, management and leadership in companies such as the Post Office Companies. Annex F provides a summary of our expertise and qualifications relevant to undertaking this work.

ii. This report makes few observations on the specifics of the issues under investigation by the POHI. It deals with generally expected standards. In concluding each section, we have posed a serious of questions which might assist the Chair, Counsel and Core Participants as they consider the evidence they will be seeing in the coming phases of the Inquiry.

iii. Annex A provides a chronology of the laws and guidance on governance of companies which applied during the relevant period 1999-2019. The material is presented chronologically, split into columns. On the left-hand side are the requirements and guidance which apply to companies, with special attention to publicly listed companies. On the right-hand side are the requirements which apply to companies and other entities which are wholly owned or controlled by the government.

iv. Whilst there are differences between publicly listed and publicly owned companies, it is notable that in matters of governance during the relevant period, one finds the requirements and expectations for all organisations in the UK have tended, and tended to be encouraged by governments and regulators, to follow the approach adopted in law and guidance for publicly listed companies. It is these laws and guidance which have set generally accepted standards, which are then adapted in detail, but not in principle, for the situation of companies wholly owned by the government. There are additional, and occasionally alternative, laws and regulations which apply to government ownership and oversight (right hand columns of Annex A). These add complexity and layers to governance, but do not undermine the principles set out in the left-hand columns.

v. Furthermore, there are considerable interlocking directorships within and between publicly owned and publicly listed companies in this period. This reflects a trend to introduce senior people with experience of governing and running businesses in publicly listed companies into the governance and management of publicly owned companies. For example, some of the Executives and Board members in the Post Office Organisations during the relevant period, either had held or were currently holding, positions in listed companies.

vi. Beyond identifying specific requirements and guidance for governance as summarised in Annex A, we have commented on what might be normally regarded as known reasonable practice in governance, management, and leadership. Our commentary on ‘known reasonable practice’ is based on our expertise and experience, and on widespread discussion and some consensus in the public domain on what constitutes good management and leadership. Such commentary is found in popular business literature, media commentary, and discussion documents issued to their mailing lists of senior executives and directors by professional service companies, e.g. search consultants, strategy and management consultants, lawyers, and accounting firms. Except on the occasions where we have cited research or reports listed in Annex E, we have not provided specific references to support our expert view.

vii. Our observations on what might be expected in respect of the standards of governance, management, and leadership in companies such as the Post Office Companies are set out in general terms under the following sections.

1. Corporate Governance, Principles and Codes
2. Accountability
3. Monitoring and Audit
4. Risk
5. Governance and Management of Technically Complex Projects
6. Governance and Management of Whistleblowing
7. Stakeholder Management
8. Experiencing Governance and Management

1 Governance Principles and Codes

1.1 Historical Context: Corporate Governance Foundations in Rights of Owners

1.1.1 UK corporate governance regulations, standards and codes have developed over time. Originally constructed for commercial companies, they have formed the foundations for codes and accepted practice in other forms of organisation, including those of the Post Offices businesses, which are wholly owned by the government. We start therefore with a summary of developments for commercial companies.

1.1.2 Historically roots of contemporary governance lie in the development of 'limited liability' companies, and the creation of equity to increase investment through selling ownership shares of a company to investors not directly involved in its running. With owners now no longer 'sitting on the premises', concerns were raised that executive management might pursue their own interests, rather than those of the company. This separation of 'ownership and control' prompted governments and owners to find ways to retain some owner oversight of current operations and future strategic direction, in order to safeguard investments.

1.1.3 The underlying question guiding corporate governance developments is: who is most likely to hold Executives to account and, if necessary, replace them, if they are found to be ineffective, incompetent, negligent, or single mindedly self-interested, and thereby, jeopardising the company's assets and the owners' investment.

1.1.4 The response in the UK to this underlying question has predominantly been to focus on the owners (in practice, the holders of relatively large numbers of shares), to require (or enable) them to appoint, reappoint, or retire their representative directors as Chairs and Non-Executive Directors to the Company Boards.

1.2 Corporate Governance in the UK: the Development of Codes of Practice

1.2.1 UK practice is to have a unitary Board of Executive and Non-Executive Directors, in which at least the CEO and often one or two other Executives sit as full members of the Board, alongside a majority of Non-Executive Directors.

1.2.2 The rights, duties and responsibilities of the Board and its members, as Chair, NEDs and Executives, of companies, have an outline foundation in statute[1], supplemented by codes and guidance.[2] This provides a framework of company 'self-regulation' within constraints set by statute, principles and guidance developed within a market environment.

1.2.3 Contemporary modes of corporate governance are founded in the recommendations of the Cadbury Committee (1992)[3], which together with the Greenbury (1995) and Hampel (1998) Committees, became enshrined in the Combined Code (FRC 1998, 2003, 2008)[4].

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[1] See Annex A, Section 1.1 (Companies' Act, 2006)
[2] See Annex A, Sections 1.2 – 1.20.
[3] See Annex A, Section 1.2.
[4] See Annex A, Section 1.4b, 1.7a, 1.10, 1.12, 1.13, 1.14.

1.2.4 The Combined Code (FRC 2003, 2008), through its principles and provisions, gives a well-established base set of regulations and guidance on[5]

a) The structure and operation of Boards of Directors, including roles and responsibilities of Chairs and Chief Executives; and

b) Roles and responsibilities of Shareholders (particularly institutional shareholders with relatively large shareholdings).

1.2.5 Boards in their public annual reports have to either 'comply or explain' why, in their 'special/individual circumstances', the Code's requirements and recommendations are not in their view appropriate or advisable in their circumstances.[6]

1.2.6 Important underlying assumptions of the Combined Code:

a) Good governance at Board level is the foundation of good executive management which in turn is the foundation of strong corporate performance;

b) Those who 'own' the capital of the company are the natural guardians of good governance and thereby good management;

c) The owners will elect NEDs to safeguard the owners' (financial) interests;

d) If the financial assets are secure then, other things on which the business depends (eg strategy, talent, technology, skills and workforce, operations, supply chain), will also receive strong oversight because financial success depends on management paying due regard to these things.

e) The shareholders and their elected NEDs will have sufficient access to relevant information to enable them to discharge their duties;

f) Transparency in public reporting of key aspects of the business will ensure full disclosure and scrutiny of relevant specified information which will reveal if there is 'good governance' and if this 'good governance' has delivered 'good management' and met expectations of performance; and

g) If there is a failure of performance, shareholders will use market mechanisms and sell stock and/or change Board membership.[7]

1.2.7 None of these assumptions necessarily always hold. For example, they may not hold if:

a) Shareholders (and their elected NEDs) are not assiduous or diligent in discharging their responsibilities;

[5] See Annex A, Sections 1.7a and 1.10.
[6] See Annex A, Section 1.2.
[7] See Annex A, Sections 1.2, 1.4a, 1.4b, 1.6, 1.7a, 1.9a and 1.18.

b) Short term financial gain, or the outcome of present operational decisions, may be at the expense of longer-term sustainable performance; and

c) Emphasis on financial targets may encourage poor management of other assets (people, subcontractors, investments in technology, safeguarding the planet).

1.2.8 As imperfections and misalignments became clear (often through corporate failures), additional regulations and codes were introduced. In the last 25 years for example, there has been greater emphasis on reporting on Executive remuneration and the evaluation of Board and Board member performance (Greenbury, R 1995), disclosure on progress in policies in diversity (FRC, 2012) and whistleblowing (Financial Conduct Authority, 2016) reporting and risk oversight (Walker, D, 2009; FRC 2009, FRC 2014a, FRC 2016b).[8]

1.3 The Applicability of Corporate Governance Codes Developed for Listed Companies to other Forms of Ownership and Organisation

1.3.1 It has become increasingly accepted that Corporate Governance codes for commercial companies offer guidance to other forms of ownership, notably:

a) Privately and family-owned companies, where shares are not listed or offered on an open market. In this context the owners decide the extent to which they wish to follow the codes. *The governance of these type of organisations are not relevant to our instructions.*

b) Charities, where the Board are 'trustees' of the charity's assets and the charity commissioners, as regulators, have a key role (acting in a sense for 'the public' owners/donors) in setting out corporate governance requirements. *These are not relevant to our instructions.*

c) Publicly owned assets, where the owner is the national government (or local authority) and a major element of funding comes from the taxpayer, sometimes in combination with additional revenue from commercial activity. *The governance of such publicly owned companies is central to our instructions.*[9]

1.4 The Governance of Businesses which are Largely or Wholly Owned by Government

1.4.1 The government has drawn on corporate governance for publicly listed companies to provide a framework for how the governance of an array of public bodies should be governed. To quote, 'good corporate governance is fundamental to any effective and well-managed organisation and is the hallmark of an entity that is run accountably and with the long-term interest clearly in mind' (HM Treasury, 2005).[10]

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[8] See Annex A, Sections 1.3, 1.12, 1.13, 1.16 and 1.18.
[9] See Annex A, Sections 2.3, 2.4, 2.5, 2.10a and 2.13.
[10] See Annex A, Section 2.3.

1.4.2 Although there are a variety of accountability relationships (and an **NAO (2015)** report hinted at the array and inconsistency in structures), the government may offer specific guidance on their governance to companies in government. In doing this it borrows from corporate governance:

a) HM Treasury (2016) guidance on Audit and Risk Assurance in Central Governance, 2016 has this opening sentence: '*Under the Corporate Governance Code in Central Government'.*

b) Guidance from 2020 between **BEIS**, **POL** and **UKGI** (Department for Business, Energy and Industrial Strategy, March 2020), specifically provides for Board Composition governed by the Corporate Code for Government: '*In line with the Government Code of Good Practice for Corporate Governance, it is agreed between the Shareholder and POL that the Board will include a Non-Executive Chair, a Group Chief Executive, a Chief Finance Officer and a number of Non-Executive Directors ("NED"), one of whom should be a Senior Independent Director ("SID")* .[11]

1.4.3 Where the government is the majority or sole shareholder in a company, the government should establish some way of providing shareholder oversight. This might involve direct control through appointment of Directors and/or indirectly through a specialist entity. This was the rationale for the formation of the Shareholder Executive in 2003.

The Shareholder Executive 2003-2016

1.4.4 The Shareholder Executive was created as part of the Civil Service. Originally located in the Cabinet Office, it subsequently moved into the former Department for Business, Innovation and Skills. It was given responsibility for managing the government's financial interest in a range of state-owned businesses, including Post Office businesses.

1.4.5 It had a combined turnover of £25M in 2007 (National Audit Office, 2007).

1.4.6 Its aim was to improve government's ability to act as an effective shareholder. An NAO Report '*The Shareholder Executive and Public Sector Business'* 2007, noted it was doing well but could expand to cover all public sector businesses and be given greater independence from political influence.

1.4.7 The Shareholder Executive 'Annual Review 2014/15' described its activities: '*We manage the Government's shareholder relationships with businesses owned or part-owned by the Government. We offer corporate finance expertise and advice to Government departments to ensure the taxpayer gets best value from the assets it owns. We deliver growth and boost the economy in new and innovative ways – via entities like the Green Investment Bank, investing in green projects, or the British Business Bank, helping finance markets to work better for smaller businesses'.* The corporate finance aspect of its role appears to be given greater prominence than its corporate governance role.

UKGI (UK Government Investments) 2016 to Date

1.4.8 In 2016 **UKGI** was formed from the merger of the Shareholder Executive with UK Financial Investments (**UKFI**), under a single holding stand-alone company. UKGI was placed within the HM Treasury group to offer *'our unique and invaluable blend of civil*

[11] See Annex A, Sections 2.3 and 2.10a, Department for Business, Energy and Industrial Strategy, March 2020 in Annex E

service and corporate finance experience'. It was to be the *'government centre of excellence in corporate governance and corporate finance'*. (UKGI 2017)

1.4.9 The corporate finance function was prominent; it was to have a '*central part of the government's plan to deliver the biggest ever sale of publicly-owned corporate and financial assets'*. It was also ambitiously assertive about its governance role, identifying a purpose as '*delivering a shareholder function that seeks to drive continuously improving and sustainable asset performance*'. (UKGI Annual Report 2017).

1.4.10 The UKGI website on 11 Jan 2023, reiterates that the UKGI '*act(s) as shareholder for, and lead establishment of, UK government arm's length bodies'*. It identifies that it will be in the lead of governance by paying attention to the following, which mirror the codes and practices which are current in commercial companies.

a) **Governance structure and documentation**: Driving accountability and effective shareholder relationships by working with assets and departments to put in place best practice and fit for purpose corporate and government governance frameworks;

b) **Objectives, business planning and performance:** Supporting and challenging assets to produce fit for purpose business plans, performance metrics and reporting, and so drive increased accountability and improved planning between assets and HMG;

c) **Corporate capability**: Challenging and monitoring our assets' internal systems and processes to help identify and mitigate risk and promote best practice internal governance, culture and organisational health;

d) **Effective leadership**: Applying senior corporate expertise to influence ALB recruitment and remuneration processes, Board reviews and succession planning to help shape strong and fit for purpose capability in our assets' Boards and Senior Executive;

e) **Effective relationships**: Facilitating effective, pragmatic, and transparent relationships between our assets and government, through formal and informal, senior-led, regular interactions; and

f) **Experienced Shareholder Non-Executive Director**: Acting as Shareholder NED, contributing deep governance and government expertise to our assets' Boards, and facilitating the relationship and understanding between asset Boards and their departments.

Accounting Officers in Government

1.4.11 In parallel with corporate governance requirements, there is the government structure of Accounting Officers. The Accounting Officer is the person whom Parliament holds to account for the public spend. It is an individual to whom HM Treasury formally delegates responsibility for the stewardship of resources used by a government body, including a specific duty to account to Parliament for how public money has been spent. AOs personally sign the published financial accounts of their department or organisation and in doing so, acknowledge that they have a personal responsibility to ensure their departments and any Arm's Length Bodies they sponsor, operate effectively and to a high degree of probity.

1.4.12 The Accounting Officer is likely to be the Permanent Secretary in a central government department. The AO oversees a system of accountability which might include the Chief Executive of a company wholly owned by the government, whom the AO can designate to be an Accountable Officer.[12]

Government Companies

1.4.13 Accountability arrangements for government companies is complex.

1.4.14 A government company may be led by an AO and also a Chairman and/or Chief Executive, who may be one and the same (and may also be a company director). The AO has personal accountability for the use of public money, but legally, company directors have a collective responsibility to the company's owners to manage it on their behalf.

1.4.15 HMTreasury guidance (2012) *Managing Public Money* recognises the potential conflicts of interest and provides guidance on managing the 'sensitivities' about the role of an AO in a company.[13]

Values in Public Life

1.4.16 The standards expected of all those who hold public appointments and are employed by the state are subsumed under the general category of expected 'standards in public life'. These 'Nolan' principles and standards in public life (Nolan, 1995) form part of the Terms of Appointment for Senior Executives, Chairs and NEDs of public bodies.[14]

1.4.17 On the basis of the sections above, we assume that from 2016 those companies who were overseen by UKGI were expected to follow the codes as stated. Prior to 2016, less codified expectations were that wholly owned government companies with independent governance would, where possible, follow the corporate code.

1.5 Role of NEDs and Boards in Government Departments

1.5.1 Where the government is the sole or majority shareholder in a company, in addition to participation at arm's length, there are also links into the sponsoring government department. This was arguably more important and direct before the formation of the Shareholder Executive in 2003; it is however still relevant after 2003 as there were still formal lines of communication between Arm's Length Bodies and government owned companies and their sponsoring department.[15]

1.5.2 The governance of sponsoring government departments appears to be influenced by the corporate governance framework, with the introduction of NEDs and Boards.[16]

a) NEDs were introduced to government departments in the 1990s.

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[12] See Annex A, Sections 2.5 and 2.9.
[13] See Annex A, Sections 2.5, 2.9 and 2.11 (NAO 2016).
[14] See Annex A, Sections 2.2, 2.11 and 2.12.
[15] See Annex A, Sections 2.3, 2.4, 2.5 and 2.13.
[16] See Annex A, Sections 2.3, 2.4, 2.11 and 2.13 and HM Government, June 2012 in Annex E

b) Roles were broadly defined in the corporate governance code for central government departments (and accompanying guidance note).

c) In 2005, the first corporate governance code for government departments recommended (but did not require) each department to have at least 2 NEDs to sit on department Boards, which were then chaired by the Permanent Secretary. In 2005 there were 37 NEDs in 14 departments.

d) The 2011 Code significantly revised and relaunched the framework, following a review of operation of civil service.[17]

e) In 2011, the Department Boards were now to be chaired by the Secretary of State, not the permanent secretary. There was to be increasing emphasis on recruiting NEDs with private sector commercial experience.

f) There was to be an overarching lead NED to convene all NEDs across the departments.

g) All government department NEDs were to meet from time to time, and ensure learnings about policy making, governance and management from one department could be shared with others.

h) NED roles were described in terms of: advice on performance delivery and strategic leadership and participating in a network to be a conduit for sharing best practice and innovation.

1.5.3 In 2023, *Public Administration and Constitutional Affairs Committee of the House of Commons (2023)* produced a report on the role of NEDs in government. This is beyond 'the relevant period' however it comments that current trends had their origins in an earlier time. The report noted the role of NEDs to:

a) 'Provide advice and challenge to Secretary of State chaired departmental boards on issues such as strategy, performance and the delivery of policies;

b) 'Bring commercial experience into running complex organisations and projects'; and

c) Recommend ways of 'improving consistency, accountability and effectiveness'.

1.5.4 The report noted that there was little transparency in what the NEDs actually do and recommended increasing transparency in appointment and operation of NEDs. It expressed concerns that NEDs were becoming overly politicised, and of questionable independence, and that there was some function creep to unaccountable areas. The increasing numbers of NEDs who had been former special advisers to ministers was noted.

[17] See Annex A, Section 2.4.

1.6 Governance and Management Arrangements in, and of, the Post Office Business 1999-2019

1.6.1 This section provides a textual commentary on Annex B which gives a summary of governance and management arrangements in the Post Office Business as the authors currently understand them. It indicates accountability relationships in successive stages of ownership at a high level. It does not cover specific details eg in various company Articles. It is written on the basis of information currently known to the authors and indicates the authors' current understanding of accountability relationships in successive stages of ownership.

Four Levels of Accountability

1.6.2 We are concerned to understand accountabilities at four levels as shown in Annex B.

1.6.3 **LEVEL 1: POB (Post Office Business): The Executives and, when present, the Board, Chair and NEDs who were running POC/ L**

a) POC/L Executives were directly responsible for running the PO business including the sub postmasters' network and the commissioning and roll out of HORIZON.

b) POC/L governance evolved from being an executive team, to having an independent non-executive chair, to the development of a full board with NEDs.

c) POC/L's place within oversight and ownership structures and thus the structures for accountability, reporting and communication upwards, significantly changed during the relevant period.

d) POC/L had accountabilities 'upwards' to Level 2 (until 2013), to Level 3 (from 2003) and to Level 4 (the Government) for all the relevant period.

1.6.4 **LEVEL 2: OPOD (Intermediate Ownership of POB): The Executives and, when present, the Boards, Chairs, NEDs of various intermediate oversight (eg POA) and ownership (eg RMH) entities**

OPOB had responsibilities 'downwards' to Level 1 (their 'subsidiary': POC/L) and 'upwards' to Level 3 acting for government shareholder, to whom they were accountable for corporate performance and for corporate governance for some of the relevant period and to Level 4 (the Government) for the whole of the relevant period.

1.6.5 **LEVEL 3: AGS (Active Government Shareholder): The Executives and, when present, the Boards, Chairs, NEDs of investor organisations (ShEx, UKGI) acting for the government as shareholder**

AGS had responsibilities 'upwards' to Level 4, their sponsoring government departments, 'downwards' to fulfil the role of shareholders to their investments in Level 1 and/or in Level 2.

1.6.6 **LEVEL 4: Government: The ministers and senior civil servants in the relevant sponsoring government departments on whose behalf investors were providing oversight**

Government had responsibilities downwards to their statutory authorities (POA until 2001) and their wholly and directly owned companies (variously Consignia, RMH 2001-12, POL 2012-2020), and within Government, upwards to Parliament.

Three Phases in Accountabilities Between the Four Levels

1.6.7 Simplifying one can identify 3 phases during the relevant period. This high-level summary does not detail specific variations in the transition years between Phases. The transitions often did not occur at exactly the end of calendar years. We have taken the dates to 'the nearest calendar year' to describe the phases.

1.6.8 **PHASE 1: 1999-2001**

a) **Level 1 and its relationship to Level 2:** POC and POL were each a 'subsidiary' of The Post Office Authority, a Statutory Authority, or Consignia plc, a company wholly owned by the government. POC and then POL was one of three principal businesses within the Post Office Authority and Consignia. POCLs Articles of Association provided the POA with powers over POCL, including:

   i. Director appointments;

   ii. Providing information to the POA;

   iii. To do, or refrain from doing, any specific things asked for by the POA Board.

   In the absence of any other information to the contrary, one would expect the Executives of POC to:

   i. Agree strategy and goals with POA;

   ii. 'Run their business' within the strategic and financial parameters agreed with POA;

   iii. Establish the structures, internal controls and culture which will enable POC operations;

   iv. Seek approval from POA for any matters beyond the levels and scope of its delegated authority; and

   v. Report on business performance, key risks and any other matters it considered the POA should know.

   One would expect POC Executive to meet all the formal reporting and consultation requirements specified in any agreement with the POA, and to maintain sufficient informal communication, so that POA was alerted to any major concerns which could jeopardise achievement of goals, predicted financial performance or reputation. One would not expect POC to have an independent Board.

b) **Level 2 and its relationship with Level 4:** The Post Office Authority was a statutory organisation with powers limited to those conferred by statute and overseen by the Post Office Minister on behalf of the Government. There was no level 3.

1.6.9 **PHASE 2: 2001 – 2012**

a) **Level 1 and its relationship to Level 2:** POL Executive was directly accountable to the Royal Mail Group and during the period, oversight and key decision-making responsibility sat variously with Consignia Holdings, The Royal Mail Holdings plc (the Holdings) and RMG Board, (which only met for statutory purposes). Group level governance is modelled on the corporate governance of commercial companies, including

i. A fully functioning Board, a Chair and NEDs;

ii. Group Board committees: including Audit and Risk, Remuneration, Nomination and Pensions;

iii. Group Executive, headed by the Group CEO with MDs/CEOs of subsidiaries including POL, and various Group Directors eg Finance, IT, and Strategy;

iv. POL adopted new Articles of Association in 2001 which gave Level 2 Consignia (Parent) and Level 3 (the Special Shareholder, the Government) powers over POL:

- POL upon request to meet the Parent or the Special Shareholder

- POL was precluded from creating a charge or securing government securities held by it without written consent of the Parent.

b) **Levels 1& 2 and their relationship to Level 4**: Appointments to positions of CEOs, Chairs, NEDs and other Directors would normally be appointed with the express approval of the SoS, or delegated minister. The PAO of the sponsoring government department could choose if they wished to appoint AOs in government owned companies within the purview of their department. There would be such other means of reporting 'up' and 'down' as were specified from time to time, eg an annual letter, an annual meeting. The dominant mode of governance was according to the Corporate Code (LHS of Annex A), whilst acknowledging aspects of the Code for Government departments and entities (RHS of Annex A).

c) **Levels 1&2 and their relationships to Level 3**: Various Holding Companies at Level 2 stood between POC/L (Level 1) and the Government (Level 4). In 2003 the government created the Shareholding Executive (SHEx) as an AGS at Level 3 to discharge the government's shareholder duties. Routes for SHEx to exercise formal and informal oversight of RMG group, including POL included:

i. Regular meetings;

ii. Regular reports from the Executive on policy matters as well as financial matters;

iii. Signing off on strategy;

iv. Recruiting Chair, CEO and NEDs; and

v. New articles of Association created in 2000 and in 2002.

The dominant mode of governance was according to the corporate code (LHS of Annex A), whilst acknowledging aspects of the Code for Government departments and entities (RHS of Annex A).

d) **Level 3 and its relationship to Level 4:** ShEx was constituted as a part of government; its officers were **Senior** Civil Servants, and the departmental Permanent Secretary was the PAO who could choose if they wished to appoint AOs in government owned companies within the purview of their department.

1.6.10 PHASE 3: 2013 – 2019

a) **Level 1 and its relationship to Level 2:** It was only in the final phase of the relevant period (2013-onwards) that POL had its own holding company and thus in a sense Levels 1 and 2 became solely concerned with the POB. Through a change in corporate structure, POL became a Public Corporation with its own Articles and own Board of Directors, with an independent Chair, Independent Non-Executives, including a Senior Independent Director and 2 Executives (CEO and CFO). The POL Board provided first line of accountability and oversight via:

i. Board committees, including Nominations Committee, Pensions and Senior Remuneration Committee; Audit, Risk and Compliance Committee;

ii. The CEO established their own 'Executive or Management committee', comprised of CEO and their direct reports, supported by three specific 'Executive Committees' as follows:

iii. Risk and Compliance Committee, Transformation and Cost Reduction Committee, and Pay and Reward Committee.

b) **Levels1/ 2 and their relationship to Level 3:** Relations with Level 3 (AGS) over 2013 – 2019 are divided into two periods. The POL Board had a shareholder relationship first with ShEx (until 2016) which had a shareholder NED on the Board of POL and was located in the government department. In 2016 the government shareholding responsibilities were transferred to UKGI, itself a government company wholly owned by HM Treasury and no longer part of the Civil Service. ShEx continues as in Phase 2 (until 2016) to maintain a relationship with POL including oversight of, and through:

i. Risk;

ii. Remuneration of senior roles;

iii. Quarterly reviews with CEO and CFO to assess performance against government objectives, especially around network sustainability;

iv. Shareholder NED on the Board; and

v. POL Articles give Government consent rights over appointment and removal of Directors, borrowing, approval and implementation of the strategic plan, disposals and winding up.

In 2016 oversight passes to UKGI which also had a shareholder NED on Board of POL. For 2016-2018, UKGI seems to act as the sole shareholder relationship. In 2018, an MOU, between BEIS and UKGI makes clear that responsibility for Policy oversight sits with BEIS and Corporate Governance oversight with UKGI. In 2020 (outside the relevant period) it is encapsulated in a formal framework agreement between UKGI and POL (BEIS,2020). This is the first time we have seen a formal framework agreement, however we have found confirmation that as the Principal Accounting Officer, the Permanent Under-Secretary of the Department of Business Energy and Industrial Strategy, in 2019 designated POL Chief Executive as the Accountable Person for the Post office Limited'.[18] The First Witness Statement of Rachel Scarrabelotti, Company Secretary at POL shows POL board Terms of Reference (POL00362127) for January 2013, as stating 'the Board remains accountable for performance to the [ShEx]' (WITN11120100, paragraph 61). This suggests that between 2016 – 2019 POL CEO was entrusted with the running of the network. Accountability is also identified in terms of: :

i. Shareholder meetings two times a year, to be attended by CEO and CFO of POL;

ii. POL Board has operational control accountable to the shareholder for the performance of POL, and is responsible for ensuring public access to 11500 branches;

iii. The Special Share owned by the SoS gives SoS special rights in relation to meetings, Chair or CEO appointments and removals, the strategic plan, changes in remuneration, strategies, plan, cashflow;

iv. Group plan to be mutually agreed;

v. Articles; and

vi. Governance guidance (both for Corporate and Accountable Officer).

c) **Level 3 and its relationship to Level 4** Whilst ShEx maintains shareholder relations the PAO is DTI Permanent Secretary. From 2016 when UKGI assumes shareholder relations, UKGI has its own Accountable Officer. In 2019 the BEIS Permanent Under-Secretary as the Principal Accounting Officer designates the POL CEO as Accountable Person suggesting POL AO accountability is to the Department. .

Conclusion

[18] Appointment letter, 6 September 2019 to Nick Read from Alex Chisholm, title: 'Accountable Person: Instruction from BEIS Permanent Secretary to the CEO of Post Office Ltd on Accountabilities and Responsibilities' (POL00288398).

1.6.11 In conclusion, based on the guidance (Annex A), and the information available to the authors as summarised in Annex B and in the text above. From 2001, one would expect governance structures in Levels 1 (POB) and Level 2 (OPOD) to be modelled on the corporate governance of commercial companies with fully functioning Executive and (where applicable) Board Structures including NEDs, Board committees etc, whilst also paying regard to aspects derived from their public ownership by the government.

1.7 Questions Arising from Section 1 Relevant to POHI

1.7.11 What codes and principles of governance and management did the principal players consider they were bound by?

1.7.12 What variation did the principal players see in the governance of a publicly listed company and governance of a publicly owned company? What impact did this have on the way they discharged their responsibilities?

1.7.13 How did the principal players perceive the dual accountability of Accounting or Accountable Officers and membership of Corporate Boards? Were there times and issues where Conflicts of Interest were manifest and how were they resolved?

And more particularly,

1.7.14 How did the various Holding Company boards in Level 2 and the POL Board navigate, deal with, and develop the knowledge and understanding to handle the sorts of Conflicts of Interest which are inherent in the ownership of public bodies by government?

2 Accountability

2.1 Principles of Accountability

2.1.1 Accountability refers to a formal obligation, informal expectation, or voluntary choice to accept responsibility and to account for one's actions to a third party. The key governance question to be asked of any organisation is: who is accountable for what, to whom?

2.1.2 Directors of all companies have a wide range of statutory responsibilities under the *Companies' Act, 2006*. Director duties exist in law and are irrespective of the ownership of the company. Directors are individually accountable, for exercising judgement and bringing their experience and skills to bear, and collectively accountable for the performance of their organisation.

2.2 Board Accountabilities Arising from the Corporate Code

The following summarises the key accountabilities in the Combined Code and identifies any deviations for the post office businesses.

Board as a Whole

2.2.1 UK custom is to have a unitary Board, in which NEDs are in the majority, and the CEO, and possibly other Executive Directors, sit as full voting members of the Board.

2.2.2 Where the company is a subsidiary of a company with a unitary Board, for example, as was the case of POL when it was a subsidiary of RMH, the parent company may choose to establish a subsidiary Board and may choose to appoint NINEDs and /or NEDs of that board, but is not normally obliged to do so. Should a subsidiary Board be established, the Parent will determine its composition, powers and relationship with the parent board.

2.2.3 The Board is typically accountable to shareholders through annual reports presented at AGMs and relevant votes thereon and any nonroutine reports or proposals on which a shareholder vote, or approval, is required through a shareholder general meeting or vote.[19]

2.2.4 The Board, as a whole, is accountable *interalia* for:

a) Providing oversight and overarching Governance, Risk and Compliance (GRC) frameworks;

b) Nominating the Chair, who will subsequently be elected by a shareholder vote in commercial companies and whose appointment would be approved prior to appointment by ministers in government companies;

c) Hiring and firing the CEO (Chair and NEDs only);

d) Approving the strategy;

e) Approving the corporate risk register;

[19] See Annex A, Sections 1.1, 1.2, 1.6, 1.7a and 1.11 for a selection of guidance on shareholder communication

f) Announcements and proposals for shareholders;

g) Annual report and annual financial statements;

h) Executive remuneration policy, schemes, awards and clawback;

i) Oversight of operational performance, including through reports of 'necessary items' (e.g. financial and risk reports), and suggested or requested reports which the Board chooses to review (e.g. staff or customer satisfaction surveys, or reports on major projects);

j) Review, approve and scrutinise certain policies which must be held at Board level, e.g. whistleblowing, health and safety, modern slavery; and others which the Board choses to hold at Board level;

k) Approval of 'matters reserved to the Board';

l) Note (and enactment) of requirement of any matters which require a shareholder vote, or in the case of public bodies, approval from relevant government minister or Accounting Officer;

m) Approval of schemes of delegation for decision making: identifying people or positions and scale of items, usually in financial terms;

n) Approval of Board Committee structures: number, remit, membership, and terms of reference;

o) Ensuring that Board members have appropriate knowledge, skills and expertise to fully participate in Board and Board Committee work, including arranging for induction of new members and ongoing training of all members;

p) Approval of nominations for Board Committee membership;

q) Receipt, discussion and approval of Board Committee reports;

r) Review and evaluation of the effectiveness of the Board and its members; and

s) Establishing working groups and other ad hoc arrangements for specific purposes and projects, where the Board considers their oversight responsibilities need special focus.[20]

Board Committees

2.2.5 Boards will establish several committees, to which it will delegate certain responsibilities. The following Board Committees are normally constituted:

a) **Audit committee** (**BAC**) (a requirement of the Corporate Code);

[20] See Annex A, Sections 1.1-1.19 and 2.3, 2.4, and 2.13.

b) **Remuneration committee (BRemC)** to determine remuneration of Senior Executives (a requirement of the code);

c) **Nominations committee** to nominate people to be Board members and Board Committee members; and

d) **Risk committee (BRC)** required by regulation in financial institutions, voluntary for non-financial institutions. Where there is no BRC, Board risk responsibilities are usually handled through a combined Audit and Risk Committee.

2.2.6 Other Board Committees may be approved from time to time for example, Environmental and Social Responsibility, Ethics, Compliance committees.

2.2.7 Whatever the board committee structure, the Board should pay attention to ensure coverage of key areas for the business and to avoid confusing 'duplication' or 'gaps' between committees.

2.2.8 The terms of reference (including powers and delegated authority) and membership for each Board Committee should be published on the company website.

2.2.9 The Chair with support of Company Secretary is responsible for ensuring all committees have sufficient support to conduct their business effectively, e.g. with timely and appropriate papers and minutes.

2.2.10 Each committee should, *inter alia:*

a) Report to the Board on the nature and content of discussion, on recommendations, and on actions to be taken;

b) Oversee any investigation of activities which are within its terms of reference;

c) Work and liaise as necessary with other Board Committees to maintain links and manage overlaps between Board Committee responsibilities;

d) Ensure that each committee should have full knowledge of work of other committees through reports to the Board and, if possible, by appointing at least one member of a committee to each of the other committees;

e) Committee Chairs should seek engagement with shareholders on significant matters related to the committee's areas of responsibility at AGMs and other times;

f) Ensure a periodic evaluation of the committee's performance is carried out;

g) At least annually, review its constitution and terms of reference to ensure it is operating effectively, and recommend any changes it considers necessary to the Board for approval; and

h) Ensure minutes of all Board Committees, once approved by the committee, are made available to all members of the Board.

2.2.11 Committees may:

a) Request the attendance of any employee at a meeting of the committee and/or seek any information it requires from any employee of the company to perform its duties; and

b) Obtain, at the company's expense, independent legal or other professional advice on any matter within its terms of reference if it believes it necessary to do so.

2.2.12 The effectiveness of the Board Committee structure depends *inter alia* on:

a) **Clarity of specific terms of reference** and how to handle inter-committee interests; and

b) **Relationships and communications**: ensuring open two-way communications and good relationships between the Board Chair, Board Committee Chairs, NEDs and the CEO.[21]

2.2.13 Specific responsibilities of the Board Audit Committee are discussed in Section 3, Board Risk Committee in Section 4 and Remuneration Committee briefly in Section 8.4: Culture.

Chair of the Board

2.2.14 Chairs are accountable to those who appoint them (shareholders in listed companies or ministers in government owned organisations).

2.2.15 On appointment Chairs will be declared either: **Independent** (i.e., having played no executive part in the company or its owner prior to appointment) or **Non-Independent** (i.e., having played an executive part in the company or its owner prior to appointment).

2.2.16 Once the Chair has taken up office their independent status may change. As reflected in their letter of appointment, they may become:

a) Non-Executive and still Independent, as they have no part in the operations of the company;

b) Non-Executive (but not Independent); and

c) Executive, where they take explicit Executive responsibility, and the named Senior Executive (normally CEO or MD) has a subordinate executive accountability to the Chair).

2.2.17 Chairs are accountable for running of the Board, i.e. for ensuring that the Board:

a) Through its conduct of business, fulfils its accountabilities in a timely and effective way;

[21] See Annex A, Sections 1.7a, 1.13, 1.18, 1.9a, 2.3 and 2.4 for a guidance on roles

b) Maintains a balance between its strategic responsibilities and oversight of operational matters, for which the Executive is responsible;

c) Maintains a balance between oversight and scrutiny, on the one side and support of the Executive team on the other. This is especially important in determining how the Board handles 'bad news' or crises (see Sections: 6 Whistle Blowing, 8.4 Culture and 8.5 Communications);

d) Reviews its effectiveness, including the effectiveness of individual directors and takes account of such reviews in proposing changes to the conduct and culture of Board meetings;

e) Ensures there is active succession planning for CEO, and with the CEO, their Executive Board colleagues, all other Board members i.e. SID, INEDs, and where applicable NINEDs. However in cases like the Post Office Businesses, NINEDs will be appointed by the owner/oversight body or sponsoring government department and the Chair may have little say in their appointment); and

f) With the Company Secretary, ensuring that movement on and off the Board is accompanied by appropriate induction (training and familiarisation with duties of Board membership and company strategy, operations and risks) and exit (confidentiality, equipment, access controls) procedures.

2.2.18 The Chair plays a vital part in building trusting, productive relationships within the Board and particularly with the CEO, the CEO's Executive team and the NEDs.

2.2.19 The Chair/CEO relationship is especially important. It includes formal aspects, e.g:

a) Leading on the hiring and, if so determined by the Board, firing of the CEO;

b) Conducting CEO annual appraisals; and

c) Making recommendations, or providing comment, on CEO remuneration and reward.

2.2.20 And informal aspects, e.g:

a) Being a 'sounding board' for ideas;

b) Responding to requests for advice;

c) Offering advice; and

d) Giving and receiving feedback on any aspect of individual and corporate performance.

2.2.21 Being supportive, does not mean condoning bad behaviour or major errors. It does mean listening, not jumping to blame, whilst fully scrutinising reports and events, and ensuring clear 'follow up' reporting and scrutiny.

2.2.22 Similar relationships may characterise the Chair's relationship with members of the CEO's Senior Executive team. If Executives are members of a unitary Board, they have individual responsibilities as Board members and (technically) an independent relationship with the Chair and other members. They also have Executive responsibilities for which they are accountable to the CEO as their operational 'boss'. If Senior Executives are not members of the Board, their accountability is singly to the CEO. Nonetheless the Chair, with the support of the CEO, will probably seek to establish good informal relationships with other senior executives.

2.2.23 The Chair's relationship with NEDs as individuals, and as an informal collective, should be open and productive. Some groups of NEDs like to meet with the Chair without the Executive Directors present as a matter of course, so that when crises or matters of great confidentiality arise, and the Chair or a NED decides they cannot or should not be shared with the whole Board, 'NED-only' slots are already a normal part of Board life.

2.2.24 'NED-only' sessions, whether routine or by exception, can be sources of tension and suspicion between the Executive and the NEDs; the Chair's role in mediating this relationship and aiming to keep it open and productive is important.

2.2.25 Depending on remuneration and evaluation policies and procedures and the remit of the remuneration committee, the Chair and NEDs may meet at least annually to consider and decide:

a) The evaluation of CEO performance;

b) The setting of CEO objectives for the next year; and

c) Approval of the CEO remuneration proposals from the Remuneration Committee.

2.2.26 At times of CEO succession, the Chair and NEDs are likely to meet to consider the essential and desirable specifications for the next incumbent, and to be involved as agreed in the search, selection and appointment process.

2.2.27 The Chair will also

a) Consult with NEDs on committee membership, ensuring they have the skills, induction and training which will enable committee members to be effective;

b) Conduct reviews of individual NED performance and provide feedback on areas for development;

c) Ensure relationships are sustained with representatives of any 'intermediate' ownership or oversight entity (e.g. RMH, UKGI, Government department) including discussing appointments and expectations of NINEDS to serve on the Board; and

d) Cooperate with the SID in an annual evaluation of the Chair's performance and, expect and participate in feedback from that evaluation.

2.2.28 The debate about how much time Chairs should give to the Board and whether they can Chair more than one Board has swung around over the relevant period. Between 2003 –

2008 the guidance restricted Chairs of FTSE100 companies to chairing no more than one FTSE100 Board. The Chair, like all Board members must assure the Board that they have sufficient time to be actively engaged in their Board roles.[22]

Non-Executive Director

2.2.29 NEDs do not have any responsibility in day-to-day operations of the company. They receive remuneration at agreed levels for their Board membership, but not as employees of the entity. They fall into 2 groups:

a) **INEDs** are Independent of any part of the operations including being independent of any Executive or Board responsibility in any oversight or ownership entity. They are accountable to the Board and the owners for:

   i. Bringing an independent perspective to the Board; and

   ii. Bringing specialist relevant experience/expertise to the Board.

b) **NINEDs:** May be EITHER:

   i. Nominated by shareholders, with whom they have some special relationship, e.g. through employment or as special representatives. The nominating shareholder expects they will:

      - Keep the shareholder regularly informed about matters of concern;

      - Keep the shareholder in touch with what is going on in the business;

      - Consult with the shareholder prior to major decisions;

      - Create and sustain 2-way communication channels between the Board (especially Chair and CEO) and the shareholder; and

      - Like their INED colleagues, bring their own specialist relevant experience/expertise to the Board.

   OR

   ii. Have previously held executive positions in the entity or its owner in the recent past. Nonetheless, the Board judges that their special expertise, experience or networks are of such value that they should be retained in a Non-Executive capacity. Their appointment would require 'explanation' to shareholders as it would not comply with the code, which indicates that their very involvement in the operations of the company may cloud their views on what is in the best future interest of the company. For example, in the recent past, they are likely to have been in part architects of the strategy and responsible executives in operational matters which will come under board scrutiny.

[22] See Annex A, Sections 1.10.

Senior Independent Director

2.2.30 Since Hampel (1998), it has been normal for the Chair to consult with NEDs about selecting a NED to serve as SID, to be accountable to shareholders and the Board, for:

a) Stepping into Chair role in the Chair's absence;

b) Convening the nominating process for the 'next' Chair;

c) Convening the process for evaluating the Chair's performance;

d) Ensuring an avenue 'independent' of the Chair, for representatives of shareholders/owner/oversight entities to raise concerns about the Chair or the company;

e) Working with the Chair to develop/oversee the process of Board evaluation;

f) Acting informally as a 'convenor' of the NEDs if they wish to raise issues with the Chair; and

g) Acting informally for any Board member to raise concerns about the conduct of business of the Board.[23]

Chief Executive Officer

2.2.31 The CEO is accountable to the Board for:

a) Bringing forward strategic proposals;

b) Running the Company and it's business, providing operational leadership, management and oversight of all functions, departments and delegations;

c) Creating an organisation structure, and as appropriate restructure, which is fit for purpose for the business, reflecting strategy, priorities and risks, so that appropriate operational oversight and direct management is secured and maintained;

d) Ensuring an organisation structure in which all employees know to whom they are accountable, with ultimate Executive accountability resting with the CEO;

e) Sharing plans for Senior Executive succession planning;

f) Consulting or informing the Board on Senior Executive appointments at one level down from the Board;

g) Ensuring the financial viability of the business and reporting deviations from plan;

[23] See Annex A, Sections 1.4a.

h) Active management and reporting of the corporate risk register, in light of changing circumstances;

i) Ensuring crisis and risk mitigation and contingency plans are up to date and can be realistically deployed;

j) Ensuring good communications with the Board about operational matters, through regular and exceptional reporting and follow up;

k) Meeting expectations about the communication (receipt and supply) of real, or potential, bad news;

l) Setting and living the culture and values which guide behaviour in the organisation. In this matter, the CEO's role is crucial but not solo, it is much influenced by their experience of relations with the Chair and their observations of behaviour within the Board (see Section 8.3 Culture);

m) Playing their part in building open trusting relationships within the Board; and

n) Paying close attention to communications within the organisation (see Section 8.5) and with stakeholders(see Section 7).[24]

Other Executive Board Members (e.g. CFO, COO, CRO)

2.2.32 The CEO is accountable to the Board for: The number and remit of additional Executive Directors on the Board is a matter for the CEO to agree with the Chair and Board. If appointed, they share in generic Board membership duties and powers and (technically) have an independent relationship with the Chair and other members. They also have Executive accountabilities directly to the CEO as their operational 'boss'. If Senior Executives are not members of the Board, their accountability is singly to the CEO.

Company Secretary

2.2.33. A Company Secretary is an officer who is appointed by the company's directors to advise the board on all governance matters and codes[25]. They will normally seek to ensure compliance with the company's legal obligations. Their accountability is to the Board and the Chair to ensure that all appropriate governance measures are brought to the Board's attention. As regards the functioning of the Board, they are technically independent of the CEO, and accountable to the Chair. However, as an Executive colleague (and in a sense subordinate to the CEO) they need a very good working relationship with the CEO, who is likely to be very influential in their relationship.

2.2.34 A Company Secretary's accountabilities normally include:

a) Maintaining the company's statutory books, including registers of directors and shareholders;

[24] See Annex A, Sections 1.2, 1.4b, 1.7a and 1.11, 1.12 for role of the CEO in the board
[25] See Annex A, Institute of Directors, 2018 (Annex E)

b) Working with Chair to ensure that all Board members are aware of their duties and powers;
c) Providing secretarial services to the Board and all its committees, including arranging meetings, minuting meetings,
d) Working with the Chair on the Board agenda; and
e) Arranging participation of non-Board members for specific items in Board discussions (including handling sight of relevant minutes, timing of Board appearances, follow up).

2.3 The Role of the Shareholder

2.3.1 Shareholders should be the quiet drivers of governance. Technically they are all powerful in that it is they who elect (or appoint, in government owned companies) the Board who will approve the strategy and oversee operations to a plan which will have been approved by the shareholders at the AGM, or by some other means in Government owned companies e.g. via an Annual Letter or Review.

2.3.2 In publicly listed companies, the shareholder who is dissatisfied with the company's performance, or has no faith in the strategy, or considers the risks to the business are outside their own risk appetite, can consider four options.

2.3.3 The first is to have informal discussions with the Chair or SID, to express their disquiet and seek to influence the Board in its proposals about Board membership, strategy, operational oversight and financial plan. This is available to the government as shareholder, although there is always sensitivity about undue political influence and is one reason why the 'intermediate' role of an oversight/ownership body is attractive to governments. Nonetheless where the government is the shareholder, it should understand and enact such means as it can, in order to ensure its views are known.

2.3.4 The second is to cast their votes against the recommendations of the Board for the appointment of the Chair or other Board members, thus voting to change the Chair, Non-Executive or Executive members of the Board.

2.3.5 The third is casting their votes against other recommendations of the Board, e.g. voting against the annual report, voting against accepting the accounts, voting against the remuneration report or voting against any other motions put before the AGM, or EGM.

2.3.6 The Fourth, one might say, ultimate, option is to sell the shares. This is not one which is likely to be undertaken lightly, as it may impact the company's share price and business viability. But it is always an option. This option is not readily available to the government as the sole shareholder. There are of course instances where a publicly owned company is sold through a public listing or private sale. This requires the business to be able to demonstrate it could survive, or even thrive in the commercial space. Furthermore, where the company is considered to provide a public service, a possible sale becomes a major political matter with arguments arising , for example, over the safeguarding of citizens' access to public services. For these reasons, one could argue that the shares the government holds are much more 'sticky' than those held by shareholders of publicly listed companies, and that this should incline the government, as shareholder, to be even stronger in its shareholder role in holding the Board of government companies to account for their current performance and future strategy.[26]

2.4 The Role of the Executive (CEO and Senior Leadership Team)

2.4.1 In listed companies, where corporate governance codes unequivocally apply, the CEO will (and possibly other Executives may) be part of the Unitary Board. In addition to their Board responsibilities, they crucially have individual Executive responsibilities and accountabilities to run the business of the company.

2.4.2 These executive responsibilities include proposing strategy to the Board, establishing structures, internal controls, communication networks and culture within the company to enable it to meet its strategic goals, including maintaining oversight of all its business lines and holding all management lines to account for their performance, including their risk management.

2.4.3 Executives typically make choices about the type of structure they adopt on the basis that they believe some forms are more appropriate (a better fit) for some types of work, bearing in mind the history, culture and performance of their business.

2.4.4 By way of illustration, one can identify some basic choices about distinct and yet interactive organising principles. For example, placing the organisation on a scale of centralisation to decentralisation for executive action and decision making, that is, the extent to which the organisation is hierarchical/pyramidal or 'flatter'.

2.4.5 The flatter the organisation, the more there is dependence on the knowledgeability and capability of people in the organisation to act relatively autonomously, in situations for example where there is a need for timely, innovative solutions to problems.

2.4.6 Another choice would be the relative dominance in executive reporting lines and decision-making structures given to product lines, functions, or major projects.

2.4.7 There is no one universal right way to organise; restructures occur over time, fashions change and there is often a blend of different principles. It is the Executive's job to determine at any time, the structure, systems and processes which they consider best enables them to achieve the organisation's goals and strategy, given history, culture, performance and stakeholder pressures.

2.4.8 CEOs often establish their own 'Executive Committee' (or similarly named grouping) which constitutes their Senior Executive Leadership team of first line reports. The Executive Committee would normally sit at the apex of lines of management accountability throughout the business. Its membership and terms of reference are normally listed on a company's website.

2.4.9 Where the company is a subsidiary of a company with an independent Board, as in the case of POC and POL when it was a subsidiary of RMH, the Executive of the subsidiary is still expected to 'run' the subsidiary company in ways, and within limits, given by the Board of the parent company and, if it exists, the board of the subsidiary company.

[26] See Annex A, Sections 1.2, 1.6, 1.7a and 1.11.

2.4.10 Where there is no Board with NEDs, in situations where there are no external shareholders, or the shareholders that own unlisted stock in the company do not wish to have independent representation on a Board, the appointed or self-appointed Executives are still required to run the company in accordance with relevant laws and regulations.

2.4.11 In summary one may say that Executives have responsibilities and accountabilities to 'run their businesses' whatever the ownership. Variation in ownership impacts reporting and oversight, but not the basic requirement to 'run the company'.[27]

2.5 Strategy: The Heart of Board and Executive Accountability

2.5.1 Strategy provides the framework for determining future direction, evaluating past performance, and determining the scale and nature of business operations.

2.5.2 The Board's role is to discuss, approve, review and evaluate the company strategy and the underlying business model.

2.5.3 The Executive's role is the operational management of company resources to deliver the business plan and corporate strategy. It is also accountable for providing data which will enable the Board to oversee the Executive's operational management of the business.

2.5.4 The Shareholder's role is to approve (or not) the Board recommended strategy, as it is put as part of the narrative reporting in the Annual Report, and as it is reflected in the financial and risk statements and any other recommendations from the Board.

Approval by the Board

2.5.5 The Board's process for approving strategy is normally undertaken in the context of sets of papers provided by the Executive, which will include commentary on past and present business context and performance, and proposals looking out 3-5 years.

2.5.6 A short-term business plan and annual budget for the next financial year is normally the most granular part of future plans. It is the delivery of this 1-year business plan and budget to which the Executive will be specifically held to account within any one year.

2.5.7 The 3–5-year outlook provides a view on the direction of travel and an early look at operational demands. Within the forward plan, the Executive would normally provide an account of present and past performance, including:

a) Review of business performance (financial and non-financial), having regard to agreed strategic plans and goals;

b) Review of business landscape (including competitors, stakeholders, customers, regulators), to provide foundations of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, which leads *inter alia* to a

[27] See Annex A, Sections 1.1.

c) Review of Risks (in terms of probability and degree and direction of impact) and Mitigants; and

d) Review of internal capabilities (workforce skills, organisation structure, current technology).

2.5.8 And a summary of future plans, including:

a) Plans for the business (areas for growth, innovation, retrenchment, exit, entrance) and associated risks;

b) Resourcing plans (for workforce, skills, technology, business as usual structure, major project management structure) to deliver the plans for the business, within the parameters of:

c) Financial plans (income and expenditure); and

d) Capital plans for major investment, including any major projects which are materially significant for the business.

2.5.9 The Executive also need to assure the Board that:

a) They can provide sound progress data, giving line of sight to key risks and operational performance;

b) The company has the financial resources and operational capabilities (e.g. structures, skills, contracts) required to realise the strategy, including sourcing any significant technical or other specialist knowledge, systems and equipment from third party contractors; and

c) Where third party contractors are key to the strategy, the contract is fit for business purpose, and they have a management approach to contract delivery which is aligned with the delivery of strategic plans: on time, within budget and to the required costs.

Reporting and Review

2.5.10 The Board will agree the frequency and nature of reports, through which the Executive will keep the Board informed of progress with realising the strategy.

2.5.11 This is normally done annually, often facilitated by a 'Board away day', in which there will be free wide-ranging discussion without any of the 'normal' operational agenda items. Should the company hit serious unanticipated problems or opportunities which require a mid-year reappraisal of the strategy, or a revision of the current plan, additional sessions for strategy review and business re-planning should be incorporated into the Board's meeting schedule.

Reporting Performance

2.5.12 Reporting progress against strategic targets and plan objectives is the Board's consistent source of knowledge about in-year business operations, performance, and risks. Where unexpected /unplanned serious operational matters arise which threaten the delivery of strategic and operational plans (*interalia* because of crystallisation of financial or reputational risk), key questions are:

a) When and how did the CEO and Senior Executive team become aware of the issue, how did they handle the emerging problems and crucially when and if the CEO informed the Chair, and when and if the Chair (or CEO) informed the Board; and

b) What are the reasons and detail of any required replan, and in particular, does the Board consider the Executive should have foreseen the obstacles which are now appearing, and are they capable of rectifying them?

Judgement, Culture and Communication

2.5.13 Statements of Board accountability for the development, approval and oversight of strategy and Executive accountability for the operational management of the company to realise that strategy, are clear in governance codes and in many companies' annual reports. However, what actually happens in any organisation is that the statements will be understood and enacted by the players in various ways, which will be much influenced by the culture and communication landscape which is both a legacy of the past and the ongoing creation of current players, (see Sections 8.4 Culture and 8.5 Communications).

2.6 Questions Arising from Section 2 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

2.6.1 On matters of Strategy, what were the mechanisms for reporting and feedback in the chain of oversight and ownership described in Annex B, e.g., the use of Annual Reports, AGMs, Regular and ad hoc meetings, Regular reports, Annual appraisals? With what consequences and follow up?

2.6.2 On matters of Operations, what were the mechanisms for reporting and feedback in the chain of oversight and ownership described in Annex B, e.g., the use of Annual Reports, AGMs, Regular and ad hoc meetings, Regular reports, Annual appraisals? With what consequences and follow up?

Particular Aspects of POC/L Structure

2.6.3 Where did oversight of, and accountability for, the investigations and prosecution functions lie? How was this accountability demonstrated?

2.6.4 Where did oversight of, and accountability for, the contractual and personnel management of SPMs lie? How was this accountability demonstrated?

2.6.5 Where did oversight of, and accountability for, the response to the growing body of evidence that there were faults in Horizon system which made its records unreliable, lie?

3 Monitoring and Audit

3.1 Introduction

3.1.1 Requirements for monitoring and audit are embedded in company law and regulation and custom and practice. Executives are required and expected to monitor and report on the financial flows in and out of the company, including verifiable data to show such things as their tax liabilities and payments, their turnover, allowable expenses and profit - in simple terms how they have acquired and spent money.

3.1.2 As the complexity of a business grows and ownership structures provide for the separation of ownership and control. The way Executives need to account for their finances becomes more complex, and subject to more regulation, which becomes both more specific and extensive. Additional requirements for reporting non-financial aspects of the company's operation also develop over time, for example with regard to money laundering, equality, and modern slavery.

3.1.3 Monitoring and audit have become part of the normal functions expected in all companies. The perspective is predominantly one of looking back, accounting, with clear data, for what has happened in the last financial year and detailing compliance with legal requirements. An underlying assumption is that by requiring accounting for past performance, one inculcates behaviours which ensure compliance in the present.

3.1.4 As requirements for Boards and Executives to assess risks to the company, and internal operational, as well as strategic, imperatives to look forward, became evident, the work of audit expands to include requirements to assess risk, for example, confirming the 'going concern' requirement, solvency and liquidity risk and non-financial risk (Financial Reporting Council, 2009, Financial Reporting Council, 2016a, 2016b) and recommendations to increase transparency with stakeholders.[28]

3.1.5 This section concentrates on monitoring and audit. It deals with risk in so far as Audit has responsibilities for reporting and assurance of risk. Risk management saw significant developments during the relevant period, and these are the subject of section 4.

3.2 Guidance on Monitoring and Audit in Public and Private Bodies

Guidance on Corporate Monitoring and Audit

3.2.1 Guidance on corporate monitoring and audit has developed over time

3.2.2 Early codes focused on audit and in 2002, the FRC established a committee headed by Sir Robert Smith (Smith, R, 2003) which developed the existing guidance for audit committees. The purpose of the audit committee was to:

a) Monitor the integrity of the accounts.

[28] See Annex A, Section 1.4b, 1.5, 1.7a, 1.7b, 1.11a, and 1.17

b) Review internal financial control and risk management systems.

c) Monitor and review effectiveness of internal audit; where there is no such function there should be an annual review of the need for this.

d) Recommend to the board the appointment of the external auditor; approve auditors' remuneration and terms of engagement.

e) Monitor external auditors' independence, objectivity and effectiveness.

f) Develop and implement policy regarding use of external auditor to supply non-audit services.

g) Ensure that appropriate plans are in place for the audit.

h) Review the external auditors' findings.

i) Review significant financial reporting issues and judgements involved in the preparation of:
   - Annual accounts;
   - Interim accounts;
   - Preliminary announcements;
   - Other formal statements.

j) Review clarity and completeness of disclosures in the annual accounts.

k) Where the audit committee has concerns about any issues within its remit it should refer these to the board.

3.2.3 The Combined Codes (1998, 2003) noted that the Board is entrusted to uphold 3 core principles. Boards should:

a) Present a balanced and understandable assessment of the company's position and prospects;

b) Maintain a sound system of internal control to safeguard shareholders' investment and the company's assets; and

c) Establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

3.2.4 The Turnbull (1999) Guidance provided the original framework for overseeing internal control and risk management systems.

3.2.5 In 2005 the Turnbull Guidance was updated as 'Internal Control: Guidance for Directors on the Combined Code' (FRC 2005).

3.2.6 In 2014, the FRC's Risk Guidance[29] combined Turnbull[30] and Going Concern; Liquidity Risk: Guidance for Directors of UK Companies (FRC 2014a).[31] It superseded the Guidance for Directors of Listed Companies that was issued in 1994. The 2014 guidance reflects a stronger role for the Board on internal controls, driven by its strategic responsibility for risk.

3.2.7 The Board must ask itself: what risks face the organisation? And then two further questions follow: which controls are significant? How do we assure ourselves on these controls? The Board should now provide absolute clarity on where responsibility for providing and assuring internal controls sit (i.e. with risk or audit committee).

3.2.8 In some companies, assurance on internal controls will be provided by internal audit.

3.2.9 Some companies develop assurance maps to identify the different sources of information around the key risks and controls.

3.2.10 In 2016 FRC[32] gives specific guidance in relation to Group Audit (i.e. where there is a group parent and subsidiary companies), indicating it will usually be necessary for the audit committee of the parent company to review issues that relate to particular subsidiaries or activities within the group (FRC 2016a).

3.2.11 The 2019 Brydon review[33] into the quality and effectiveness of audit contributed to the Government's commission on restoring trust in governance (Restoring Trust in Audit and Corporate Governance, Department of Business, Energy and Industrial Strategy, 2022). They highlight that a stronger controls framework was required to help directors take control of their own internal controls, especially key elements of assurance, risk and fraud.

Government Guidance on Auditing Public Money

3.2.12 The chronology on the right-hand side of Annex A deals with accountability for public money. However, in 2001 POL became a subsidiary company within Consignia, which subsequently became RMH, as shown in the more detailed chronology in Annex B. Since 2001 Corporate Governance guidelines have been dominant, and guidance on auditing Public Money has been secondary.

3.2.13 The auditing of public money and efficient use of 'taxpayer' resources is an important part of the accountable relations in public bodies. Accountability for public money is maintained at every level all the way up to Parliament thus:

a) All public bodies have a board which is usually chaired by a Non-Executive director with significant board experience (Accountability to Parliament for taxpayers' money, NAO, 2016);

[29] See Annex A, Section 1.14.
[30] See Annex A, Section 1.5.
[31] See Annex A, Section 1.15.
[32] See Annex A, Section 1.17.
[33] See Annex A, Section 1.19.

b) A public body's audit and risk assurance committee (ARAC) is responsible for assuring the Board as to the standard of governance and risk management;

c) Some Executives agencies, that are more closely aligned with their sponsor department, may have a purely Executives Board, without NEDs, and without their own ARAC, in which case the ARAC of the sponsor department will provide the agency with assurance on standard of governance and risk management;

d) While ministers must account to parliament for the performance and "overall effectiveness and efficiency" of the public body, the Principal Accounting Officer (normally the departmental permanent secretary) is accountable for the management of public money delegated to the department, including spending by its public bodies;

e) The Accounting Officer (AO) in the Central Department (usually the Permanent Secretary) will be held to account by Parliament sometimes directly, or alternatively through an intermediary like the Public Accounts Office;

f) HM Treasury (2012, 2018) outlines the expectations and duties of AOs in its guidance on Managing Public Money, including the principles underpinning the role;

g) In Arm Length Bodies and other Executing Agencies, it is traditionally the Chief Executives who is the Accountable Officer; and https://www.instituteforgovernment.org.uk/article/explainer/public-bodies-scrutiny-accountability

h) While the ultimate responsibility lies with those in the sponsor department, public body leaders can be called to account to parliament, usually through the relevant select committee, for their decisions and are "personally responsible and accountable to Parliament for the use of public money" (Institute for Government, 2022).

3.2.14 In this way, a virtual chain of accountability for public money ideally runs all the way up to Parliament from executing agencies.

3.2.15 The Permanent Secretary for DTI was the Accountable Officer whilst ShareEx was performing shareholder functions within DTI.

3.2.16 The ARAC in central government departments supports the Accountable Officer in audit, risk and internal controls. The scope of the ARAC committee and their relation to audit is closely modelled on the corporate requirements on companies for their Annual Report.

3.2.17 The ARAC Chair has a pivotal role in keeping a close eye on how well the system of internal control, governance and audit is working. Because not all work happens in committees, the ARAC Chair should meet regularly, bilaterally, with the Accounting Officer, Director of Finance, the head of Internal Audit and the External Auditor.[34]

[34] See Annex A, Sections 2.2a, 2.3, 2.4, 2.10a and 2.13 for guidance on audit in public bodies

3.3 Board Audit Committee (BAC)

Functions and Duties of BAC

3.3.1 **Establishment**: The Code states that Boards should appoint an audit committee with clear Terms of Reference.

3.3.2 **BAC Membership**: Members are appointed by the Board to be a minimum of three independent Non-Executives Directors (two for smaller companies). Since 2018, there should be at least one member with recent and relevant financial experience. The audit committee as a whole should have competence, relevant to the sector in which the company operates.

3.3.3 With the emergence of risk as a major governance consideration in 2010 (FRC 2010),[35] BACs often specifically included risk in their title and Terms of Reference, unless and until, a separate BRC is established. (Risk management is the subject of section 4, although there is inevitably some overlap in this section).

3.3.4 Boards should determine and publish the BAC Terms of Reference on its website. Many BAC duties are prescribed, others may be added by the Board. Some duties required of the Board, which interact with monitoring and audit, may be carried out by another Board committee. BAC Duties normally include:

a) **Financial Reporting**: Monitor and approve all financial statements, review and report to the Board on significant financial reporting issues and judgements contained in those statements, having regard to matters communicated to it by the external or internal auditor, paying attention to:

   i. The clarity and completeness of disclosures and the context in which statements are made;

   ii. All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

b) **Narrative Reporting:** Where requested by the Board, the committee should review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy and, whether it informs the Board's statement in the annual report on these matters.

c) **Internal controls and risk management systems** (unless these are specifically the remit of a BRC or are matters reserved for the Board).

[35] See Annex A, Section 1.12.

i. Review the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;

ii. Review and approve the statements to be included in the Annual Report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

d) **Compliance**: Make arrangements to ensure compliance with regulations, including speaking-up (whistle blowing), fraud, and the Modern Slavery Act, where these are not the responsibility of the BRC.

With regard to whistleblowing, new rules were issued by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in 2016. These require affected firms to assign responsibilities to a Non-Executive Director to be its whistleblowers' champion (part of Non-Executives' supervising role and the Board's collective responsibilities). That champion needs to be in good communications with Chair of the BAC or BRC, whichever already has a responsibility on this matter (see section 6).

e) **Internal Audit**:

i. Monitor and review the internal audit function, and assure itself of the competence and independence of IA;

ii. Agree an annual work plan for IA;

iii. Receive interim and final reports on IA investigations and monitor required management actions for remediation/ improvement against their due dates; and

iv. Annually to consider, where there is no internal audit function, whether there is a need for one.

f) **External Audit:**

i. Recommend the appointment or replacement of external auditors and review the effectiveness of their work;

ii. Develop and implement policy on the use of the auditors for non-audit services; and

iii. Report in the annual report how the BAC has assessed the effectiveness of the external audit process; the approach taken to the appointment and reappointment of the external auditor; and the information on the length of tenure of the current audit firm and when a tender was last conducted.

3.3.5 In performing their duties in respect of EA, BAC should:

a) Set clear expectations with external auditors about the annual scope of work and the fee;

b) Meet regularly with the auditor, without the management present, ensuring ongoing dialogue between BAC Chair and auditors to deal with on-going issues, ask candid questions, inquire about sensitive topics and have confidential conversations;

c) Receive the EA's annual management letter which communicates matters arising from the audit. Management letters are less formulaic than audit opinions, more tailored to individual company circumstances and provide insights on, and recommendations to improve, the companies' governance, accountability, risk management and control arrangements;

d) Receive the auditor's report on the annual accounts which will include a statement as to whether the accounts give a true and fair view of the company's financial affairs (unqualified) or is qualified because of issues concerning the accounting policies or the financial position; and

e) Show clearly how relations with the external auditors are managed and what is done to ensure their independence. As the volume of audit and risk work grew, the practice of using external auditors to perform non-audit services also grew, and with it, concerns about conflicts of interest. Boards (through BAC) must now scrutinise the volume and type of non-audit work an EA may undertake and explain how shareholders' interests for independent verification have been achieved, the special circumstances which justify their appointment for non-audit services and the arrangements in place to monitor their effectiveness, independence and objectivity.

BAC role in Communications

3.3.6 **Communications with shareholders:** the BAC Chair should engage with shareholders at the AGM, and at other times they consider it advisable.

3.3.7 **Communications with External Auditors:** the independence of external auditors is fundamental to corporate governance. Nonetheless the BAC Chair will maintain open lines of communication with the External auditor normally through the external audit lead partner.

3.3.8 **Private Sessions:** As part of custom and practice, BAC meetings will normally conclude with a 'private' session (all the Executives having left, except for the head of Internal Audit) with IA and EA. The BAC may also choose to have separate private sessions just with either Internal Audit or External Audit present. Discussion in these private sessions normally revolves around 'is there anything you are worried about to which you wish to alert us, and which has not come up in the meeting?' This is an informal way of ensuring that both IA and EA may comment in confidence on any concerns about individual or corporate performance, and any looming risks which are not yet on the audit and risk agenda.

3.3.9 **BAC communications within the Board and the Executive:** the BAC Chair should aim to establish strong and open communications with the Chief Executive, the Finance

Director and other Executives, the Board Chair and Non-Executives, and the head of internal audit. This is in addition to the regular reports of BAC activities and business which the BAC makes to the Board, and the minutes of BAC which, once approved, are circulated to the whole Board. Executives should not wait for BAC to ask for information. The Executives should ensure that the BAC is kept informed of relevant matters and take the initiative in supplying information to it.[36]

3.4 Internal Audit

3.4.1 The function of IA has emerged as a specialism in the broad field of accounting, designed to offer separate, independent assurance. The head of IA is appointed as part of the Executive team (i.e. they are directly employed by the organisation) and in employment matters is accountable to the CEO. However, the head of IA should also maintain an independence from the CEO, CFO and all other Senior Executives, and have a direct line of accountability and communication to the Board Chair and to the Chair of BAC.

3.4.2 The BAC (if no BAC, the Board, and if no Board, the CEO) should agree an annual work plan for Internal audit. This plan will be informed by data on past performance and considerations on future risks. It drives the work of internal audit and should highlight areas of concern for Board/BAC and Executives. The BAC, or if none, the Board, or if none, the CEO, will receive interim and final reports on IA investigations and be able to monitor required management actions for remediation/improvement.

3.4.3 The scope of IA work will depend on perceived priority given to IA (reflecting Board and Executives understandings of risks in present and future) and the resources (human and financial) made available to IA. The extent to which IA's scope will be extended, for example into technical and IT matters will be an important decision which would normally be discussed with a recommendation by both the CEO and their team and the BAC/Board.

3.4.4 One customary item for those commissioning IA reports will be *'to review progress of completion of remediation/improvement items against their due dates'.* In practice a record of the volume and nature of 'overdue, incomplete management actions', arising from IA reports, may be taken as rough measure of management effectiveness. This record can provide great insight into both the strength of the Executives and the culture of the company.

3.4.5 Providing the plan of work reflects major areas of concern, providing the investigations have been adequate and proportionate, and the recommendations are clear and relevant, the management response in terms of timely, full remediation is instructive. These provisions are often the subject of robust contention between IA and the area of Executive responsibility under investigation. Any Board or alert Senior Executives will want to know of any major areas of contention and if there are systems for really rectifying identified problems with controls and risks.

3.4.6 Internal audit activities should enable:

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[36] See Annex A, Sections 1.7a, 1.7b, 1.14, 1.17, 2.3, 2.4.

a) Shareholders and directors to have some means of independently verifying that financial and nonfinancial statements are accurate and are not subject to fraud or misappropriation.

b) Provide Executives with the capacity to undertake internal investigations which help management keep track of transactions, tax compliance, reporting to regulators, audit, reviewing processes and compliance in third party suppliers (e.g. with respect to child labour) or in legislation including those relating to counter-fraud, such as the *Fraud Act 2006*, *Theft Act 1968* and *Bribery Act 2010.*

3.4.7 How will Boards and Executives know their Internal Audit function is effective? The guidance given in the Combined Code 2003 still stands:

In publicly listed companies the BAC should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the BAC should consider annually whether there is a need for an internal audit function and make a recommendation to the Board. The reasons for the absence of such a function should be explained in the relevant section of the annual report.[37]

3.5 External Audit

3.5.1 EA is provided at the company's expense to provide the shareholders, through the Board, with independent objective analysis and conclusions. In lay summary, EA has the duty to report on the integrity of financial statements; whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance and prospects; and whether the company's systems and controls are adequate.

3.5.2 BAC duties in respect of EA are summarise above.

3.5.3 An issue of current concern is that as interest in companies grows, and a wider pool of stakeholders across society (activists, investors, staff groups) shows an interest in annual reports and governance, there is a widening expectation gap, as audits may fail to reflect the societal and environmental interest of stakeholders in the sector in which the company operates.[38]

3.6 Questions arising from Section 3 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

Boards in the Organisations which Ran and Oversaw POC/L

[37] Annex A, Section 1.7a.
[38] See Annex A, Section 1.19.

3.6.1 How did the Boards discharge their auditing and monitoring responsibilities, particularly when audit identified problems with internal controls?

BACs in the Organisations which Ran and Oversaw POC/L

3.6.2 Did BACs evaluate BAC effectiveness? And consider and implement any recommendations to increase effectiveness?

3.6.3 Did BACs show knowledge of whistleblowing arrangements, and how whistle blowing was perceived in the organisation? What whistleblowing records were shared with BAC?

Internal Audit in the Organisations which Ran and Oversaw POC/L

3.6.4 When and how (including resources) was an internal audit function established?

3.6.5 Was there an annual IA plan? With follow up on items?

3.6.6 Did IA annual plans of work ever reference HORIZON or SPMs?

Horizon and SPMs Issues in the Organisations which Ran and Oversaw POC/L

3.6.7 Did BACs or Boards commission/receive reports about any matters concerning Horizon and SPMs issues, including compensation claims (and when?), and did they respond to, or act on, the findings?

3.6.8 Did BACs or Boards receive unsolicited information about any matters concerning Horizon and SPMs issues, including compensation claims (and when?)

3.6.9 What, if any, and when, were provisions or notes made in the financial statements in annual reports or AGMs in respect of any financial aspects of Horizon and SPMs issues?

3.6.10 What, if anything, and when, did the organisations which ran and oversaw POC/L, say in the narrative reporting in their annual report, or at their AGM, about the SPMs set of issues?

3.6.11 Did IA annual plans of work, or reports, ever reference HORIZON or SPMs? When? With what results?

3.6.12 Was whistle blowing ever referenced by or with IA?

Investigations and Prosecutions in POL

3.6.13 Did Boards or BACs commission/receive reports about any matters concerning Investigations or Prosecutions of SPMs? If so, what outcomes followed the reports?

External Auditor in the Organisations which Ran and Oversaw POC/L

3.6.14 Did EA annual programmes of work ever reference HORIZON or SPMs? If so, who reviewed resulting work and with what results?

3.6.15 Were any matters relating to HORIZON or SPMs ever mentioned in annual management letters from EA? If so, when? And with what results?

3.6.16 Was whistleblowing ever discussed with External Audit?

4 Risk

4.1 Introduction

4.1.1 Risk is an executive function, a vital area of Board oversight, and of fundamental importance to shareholders. Whoever is making strategy, whoever is responsible for the operational realisation of that strategy and, whoever is investing in the delivery of that strategy, should understand and make judgements about their appetite and tolerance of risks, which may derail strategic achievement and operational performance.

4.2 Executive Role in Risk

4.2.1 Risk is a fundamental and necessary part of Executive responsibilities. The identification, analysis and management of risk lies at the very heart of running a company, contributing directly to effective management and corporate performance. Historically, risk was rarely designated as something specifically identifiable in Executive responsibilities; it was simply a key part of running any business. In the last 50 or so years, risk has become an important named area of management at all levels, as well as a specialist function to support Executives in identifying, assessing, and managing risk. It is an Executive responsibility to build an integrated and dynamic understanding of the company's risk profile which is effectively communicated to the Board and to shareholders.

4.2.2 Corporate risk management is rooted in the fact that companies will take financial risk so they can grow. Although most risks, if crystallised, will have a financial impact, their origins may be outside the corporate financial system and their impact felt in many areas of corporate life. Risks may originate anywhere in the company e.g. in technology, markets, employment or sales practices, the handling of third-party suppliers, or in the wider environment, e.g. war and conflict, pandemics, or climate change. Risks may crystalise into financial or reputational damage, with impacts *interalia* on business performance, capacity to recruit and retain staff, customer loyalty, and company survival.[39]

4.2.3 As no one can know or predict everything which may happen, those running the company need to make judgements on the likelihood and impact of risks, on risk mitigation and risk ownership and come to a view on risk appetite. These executive judgements and supporting data need to be clearly and fully shared between the Executive and the Board, and between the Board and the shareholders.

4.2.4 The tools most commonly used in the executive management of risk are those associated with the creation of risk registers which identify and rank risks to the organisation (or part thereof) in terms of a multiple of judgements about the 'likely' magnitude and nature of impact on the company (or part thereof), and the likelihood of the risk actually occurring (crystallising in the lexicon of risk management). Registers also note mitigations to reduce magnitude or impact and who 'owns' the management of the risk.

4.2.5 Depending on the structure of the company, 'subsidiary' risk registers may be compiled and owned in different functions or business lines, and at different tiers in the hierarchy. Each register will relate to the risks of that part of the company and be owned by those

[39] See Annex A, Sections 1.2, 1.4b, 1.5, 1.7a, 1.7b, 1.8, 1.11, 1.11a, 1.12, 1.14, 1.15, 1.17, 1.18 and 1.19.

responsible. A crucial question then becomes how subsidiary risk registers are scrutinised and adjudicated by higher levels in the hierarchy, to build a comprehensive risk picture for the company, which is then owned and managed by the CEO and their senior leadership team.

4.2.6 At any one time, risk registers are a 'snapshot 'of judgements made at a particular time about the future. The register becomes dynamic over time, as Executives track the way their judgements change about the rank and criticality of items on the register. Paying attention to the direction of travel for any identified risk is a vital Executive function. This can be facilitated by identifying entrances, movements, and exits of risk items, and plotting trajectories of change on a two-dimensional map of impact on one axis, and probability of occurrence on the other.

4.2.7 With the help of hindsight, Executives can get an indication of the accuracies of their predictions of the trajectories of identified risks, and a view on the comprehensiveness of their horizon scanning capacity to place, or move risks on and off, their register. Such hindsight can be employed to improve Executive capacity for foresight, which is a central art of risk management.

4.2.8 The effectiveness of risk identification and analysis in hindsight or foresight is not simply a matter of technical excellence in the construction and use of risk registers. It depends to a large part on the Executives' curiosity, openness to learn from signals inside and outside the company, and to challenge assumptions. Without this openness, looming problems may not make the register until 'unexpectedly' they hit the organisation; or they may stay down in the 'low impact' and/or 'low probability of crystallisation', when they are becoming increasingly likely to occur and /or have major impact. Executives' approach to risk is in part, both the creature, and the creator, of the company's culture (see Section 8.4, and Power et al 2013).

The Organisation of Risk in Companies

4.2.9 Following an FSA statement in 2003, the organisation of risk is often described in terms of three lines of defence, to stop risks crystallising and obstructing the achievement of company strategic objectives. The first line of defence is the line managers who own and manage the risk in their (part of the) business. The second line of defence is the risk specialists who remain part of 'management' and provide advice, analysis and control, including securing compliance with internal controls designed to manage risk. The third line of defence is Internal Audit, which is not part of 'management' *per se* and provides internal independent assurance, monitoring, and challenge, including specifying and monitoring management actions to improve risk management processes and internal controls (see section 3.4). This section focusses on the position and place of the second line of defence (risk specialists), and their relationship to the first line.

4.2.10 Section 2.4 described how the CEO makes decisions about the organising principles underlying the operational structure of their company between, for example, business lines, specialist functions and major projects. Implications of such choices impact the company's approach to risk management, since they indicate the primary lens (for example, business lines, functions, or major projects) through which risk is first viewed. Whatever that perspective, however, effective CEOs normally want to check on other perspectives and ensure that there are integrating mechanisms to build an overall company perspective on risk.

4.2.11 Company-wide integration of risk management is a development from a traditional approach of more piecemeal assessment of risk in particular areas, (e.g. health and safety on the production line, or software bugs in technology failures), which were seen as the responsibility of specific divisions supported by specialist risk personnel from other functions, (e.g. compliance, internal audit, finance, corporate services).

4.2.12 The development of the corporate executive risk function arises in part, from experience of corporate failure and crises, which led professional services consultants and regulators (e.g. Financial Conduct Authority 2003) to draw attention to the need to see risk as embedded in core Executive responsibilities and to require an integrated approach across the company. The study of disasters (e.g. Turner 1978, Dawson 1991), illustrates the consequences which could arise if there was a failure to connect different sources of information, and in particular the importance of viewing data about technologies in interaction with considerations of culture and behaviour.

4.2.13 As the perceived need for corporate risk management grew, two trends emerged. The first was that the risk responsibilities for all Executives become centrally placed in their job specifications. The second was an enhanced profile for those with specialist risk responsibilities, including perhaps, the decision to appoint a CRO as part of the senior leadership team. Risk specialists began to be seen variously as 'partners' in any business unit or major project, independent advisers to line management, and even change facilitators, rather than simply skilled technicians in a specialist function.

4.2.14 Whatever the structure, tensions are commonplace between ensuring a technically excellent risk function, and risk as a core Executive responsibility. For example, there is a danger that core business Executives may feel they can 'in-source' their risk responsibilities, handing them over to specialists, relinquishing accountability for their own risks, and at the same time complaining that the risk specialists are 'too cautious' and inhibiting corporate growth. It is the CEO's job constructively to manage these tensions to secure a system of risk management, where the risks are owned by those who are making business decisions and are doing so with access to the best, trusted specialist analysis.

4.2.15 Essentially there is no one right answer for the place or remit of risk. Big questions to be answered in any company are:

Does the structure and culture around risk enable it to be identified and managed effectively?
Are people in the business 'educated' in how to identify and handle risk?
How do risk specialists manage their 'independence' and autonomy, and yet work in partnership with the business and support business decisions?
Do Executives understand that the management of risk involves behaviour and culture, as well as ever more sophisticated data acquisition and analysis?

4.3 The Board Role in Risk

4.3.1 Where the company is publicly listed, the Board has specific duties and responsibilities for Risk.

4.3.2 The Board's role in Risk derives from its core duty to approve strategy, in which risks are embedded, and oversee operations wherein risks will be manifest, and should be controlled through internal controls. The Board is responsible for determining the company's risk appetite, that is, the nature and extent of significant risks which it is willing to take in achieving its strategic objectives. The Board should seek to anticipate, and guard against, major losses by risk reduction and mitigation.[40]

4.3.3 The system of risk management outlined in the corporate codes is fundamentally aimed at ensuring transparency to shareholders, so that they will be in an informed position to decide whether (to continue) to invest.[41]

4.3.4 The Board should present a balanced and understandable assessment of the company's position and prospects (for 'prospects' one can read 'risk'). This principle was supported in 2010 by a new provision requiring Directors to state in annual and half-yearly statements, whether they considered it appropriate to adopt the 'going concern' basis of accounting and, to identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months, from the date of approval of the financial statements (FRC2010).[42]

4.3.5 In the wake of failures in banks in the period from 2007, The Walker Review (2009) of 'Corporate Governance in UK Banks and other Financial Institutions', had ramifications beyond financial services.[43] Greater emphasis was placed on the need for Boards to engage in realistic discussions about what will happen to the firm in the future, to get assurance that risk is being managed and to make clear to shareholders how the Boards' judgements on risk were being made. Ensuring the quality of the data was central to these developments with their increasing emphasis on the Executive responsibility to provide a true and fair picture of the risks (Walker 2009).

4.3.6 Expectations of all parties rose. Executives expected the Board to provide a clear strategic direction on risk, to be supported in tackling problems, and to appreciate that the Board must be fully part of building a consensus on what constitutes risk and how it will be mitigated. Executives were expected to ensure NEDs had access to information which communicated risk in ways that were understandable, insightful and timely and to ensure the effectiveness of underlying controls and processes.

4.3.7 The Walker (2009) review also shone a spotlight on the importance of 'risk culture' and the ways in which risk is 'embedded and socialised' throughout the company. This generated a proliferation of new tools to assess and manage risk culture, to be added to the armoury of risk management expertise. It also widened the Board's potential scope of interest in risk and suggested that the Chair and the Board had a key role in setting the context for open and honest conversations about risk culture between Executives, their

[40] See Annex A, Sections 1.2, 1.4a, 1.7a, 1.8, 1.10, 1.12, 1.14, 1.17 and 1.18.
[41] See Annex A, Sections 1.4a, 1.7a, 1.8, 1.10, 1.12, 1.14, 1.17 and 1.18.
[42] See Annex A, Section 1.12.
[43] See Annex A, Section 1.11, 1.11a and 1.12.

risk specialists, and NEDs. There is much debate on whether risk management 'leads' business decisions or 'follows', but the essence is that it doesn't really matter, so long as it is jointly debated, and risk is integrated into the Board's decision making.

4.3.8 These developments are reflected in the 2014 Combined Code (FRC2014b)[44]. Principle C2: 'Risk Management and Internal Control', has two new provisions to drive a stronger narrative about the principal risks facing the company and how they have been assessed. The language on 'going concern' is strengthened. Directors must sign off on the 'going concern' statement and report in the Annual report on any material uncertainties that they might have on the companies' ability to be a 'going concern' over the next months.

4.3.9 The FRC 2018 Code (re) states that: 'the Board should [...] establish a framework of prudent and effective controls, which enable risk to be assessed and managed [and] the Board should carry out a robust assessment of the company's emerging and principal risks'.[45]

4.4 Board Risk Committee (BRC)

4.4.1 The codes do not prescribe how the Board is to discharge its duties to provide effective controls to *'enable risks to be assessed and managed'*. Regulations required Banks and financial institutions to establish a BRC, but companies in other sectors were at liberty to determine how they would meet their risk duties. Increasingly nowadays, organisations tend to have Board Risk Committees (BRC), whereas in the late 90s and early 2000s, this was much less common. Faced with explicit duties for the assessment and management of risk, many Boards initially relied on their BACs to undertake relevant oversight. At that time, there was also considerable uncertainty in Board rooms about what exactly a risk committee, if constituted, would do, and how it would not duplicate, or add unnecessary complexity to, the work of the BAC.

4.4.2 As Risk management became more clearly defined through practice, some companies chose to amend the BAC terms of reference to make explicit reference to risk and some chose to do that and to rename their BAC, 'Board Audit and Risk Committee'. Yet others, and over time, a larger group, chose to establish a Board Risk Committee (BRC). Board decisions to separate audit and risk committees reflected *inter alia,* the size of the company, the levels of risks, stakeholder expectations, regulations, and resources.

4.4.3 In time a distinction between BACs and BRCs became clearer. Audit committees typically look back ensuring compliance, whilst Risk committees typically look forward, with a view on risk appetite, where risk will arise, and how best to mitigate it. In the absence of a BRC, Boards must assess the effectiveness of the BAC to undertake the Board's risk duties, taking account of the workload of combined Audit and Risk.

4.4.4 Even where a BRC is established, Audit committees are still required to review the company's internal financial controls and other material controls, including risk management controls as part of their audit role, independent of management.

[44] See Annex A, Sections 1.14 and 1.15.
[45] See Annex A, Section 1.18.

4.4.5 If Boards decide to have a separate BRC, they must determine its responsibilities and delegated powers in the committee's terms of reference which must be publicly available (normally now through the website). Boards should also determine BRC membership, which would normally have at least three members, who are all independent NEDs, including at least one member of the audit committee and/or remuneration committee.[46]

Duties of Board Risk Committee

4.4.6 In summary, BRCs are normally established to:

a) Advise the Board on the company's overall risk appetite, tolerance and strategy, the principal and emerging risks the company is willing to take to achieve its strategic objectives, and any changes to risk profile and appetite which are consequent upon proposed changes to strategy. Risks will be specific to the company's circumstances but are likely to include: Threats to the business model or future performance; Operational risk; Capital risk; Insolvency risk; Market risk; Conduct risk; Reputational risk; Risks from ethical, environmental, social and governance (ESG) issues; IT operations, including cyber risk; Health and safety and pandemic risk; Business continuity risks; Regulatory, litigation and legal risks; and Terrorism or major accident.

b) Advise the Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;

c) Advise the Board on the accuracy of narrative reporting on risk and internal controls in the annual report and other public statements.

d) Monitor and review the effectiveness and value of the company's risk management and internal control systems, including seeking assurance that corrective action is taken when necessary;

e) Monitor and review the appropriateness of the company's values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the company; and

f) Work and liaise as necessary with other Board committees, ensuring interaction between committees, and with the Board, is reviewed regularly, taking account of the impact of risk management and internal controls on the work of other committees.[47]

4.5 The Role of the Shareholder

4.5.1 The shareholder(s) have a right to expect to receive timely accurate information on risks which impact the company's ability to achieve its strategic aims.

4.5.2 The government as shareholder should be active in seeking and receiving relevant information on risk, and where it was not satisfied that either the information was not

[46] See Annex A, Sections 1.11, 1.15 and 1.18.
[47] See Annex A, Sections 1.14 and 1.15.

forthcoming or it was inadequate, then to engage with the Board Chair (and with their appointed NEDs), or in the absence of a Board, the CEO, to seek out the information.[48]

4.5.3 Central Government Departments[49] manage risk through the AO who is expected to oversee internal controls and audit. Risk management features in the Code for Central Government Departments from 2011 (HM Treasury and the Cabinet Office, 2011) which indicates that AOs in Public Bodies should be supported by an Audit and Risk Assurance Committee (ARAC) (HM Treasury, 2012).

4.6 Questions Arising from Section 4 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/POL. The questions below are taken to apply to all relevant organisations in the chronology.

Executive Arrangements for Risk Management

4.6.1 What arrangements for risk identification, management and assessment were practiced at Executive level?

a) Where did risk become integrated into lines of accountability in the business?

b) Where, if at all, were risk specialists located in the organisation? When?

c) Were risk registers created and reviewed? When?

d) How did Executives construct an integrated view of company-wide risks?

e) How did Executives 'report up' to relevant Executives and Boards on risk?

Board Arrangements for Risk Management

4.6.2 What arrangements for risk identification, management and assessment were practiced at Board level?

4.6.3 Were risk registers used as a means of reporting to BAC and/or BRC? If so, when did this start?

4.6.4 How did Boards develop an integrated view of their Risk Profiles and Risk Appetites? How frequently were they reviewed and amended, and 'reported' to the next level of oversight? If reported 'up', did feedback and discussion follow?

4.6.5 Did Boards consider the risk culture in their risk assessments?

4.6.6 What internal controls were in place to mitigate the risk of fraud, were these internal controls effective?

[48] See Annex A, Sections 2.4, 2.5 and 2.10a.
[49] See Annex A, Sections 2.2a, 2.3, 2.4, 2.7 and 2.10a.

Horizon

4.6.7 Did (when?) Boards, BRCs, BACs introduce any special arrangements for risk oversight of the Horizon project? (with what data and scope?)

4.6.8 When and how did the Horizon project feature on risk registers? What were the identified risks and mitigations? How did this change over time?

SPMs

4.6.9 Did Boards, BRCs, BACs introduce special arrangement for risk oversight of the SPM issues? (When? With what data and scope?)

4.6.10 How (it at all) did SPM issues feature on risk registers? What were the identified risks and mitigations? How did this change over time?

5 Governance and Management of Technically Complex Major Projects

5.1 Introduction

5.1.1 From time-to-time Boards initiate, approve, and oversee major projects as part of their strategy. Executive management and control of major projects requires special structures, systems, and capabilities. It is for the Executive, in consultation with the Board, and/or in the case of government owned companies, the government entity to whom they are accountable, to decide how best to achieve project delivery, so that they maintain effective management and control of both 'business-as-usual' and the major project.

5.1.2 Such projects will be time limited between origination and completion and may relate, for example, to major infrastructural technology driven change, re-branding, or corporate activity (e.g. M&A). The introduction and roll-out of the Horizon computer system by the Post Office was a technically complex major project, originally designed and operated by ICL Pathway Ltd, which was subsequently integrated into Fujitsu, a third-party supplier.

5.2 Characteristics of Major Projects

5.2.1 Three characteristics of major project management present particular challenges.

Uncertainty, Complexity, and Scale

5.2.2 Complex projects are never straightforward; there is always a degree of uncertainty about delivery to plan. This partly reflects the optimism of those who propose the project, who are often inclined to emphasise the imperatives to do the project, the advantages which will flow from it, and that the risks of not doing it outweigh the risks of doing it. Such optimism is often sustained by considerable uncertainty about exactly what the project will involve, in terms of resources, innovation, problem solving capacity and accessible knowledge.

5.2.3 Uncertainty may increase for internal reasons (e.g. unexpected shortage of skills or unexpected/apparently intractable technical problems) or externally (e.g. political upheaval, economic shocks, or changes of government). Things which may derail a project may be unknown or unknowable at the time of project approval; they may not be represented in risk registers.

5.2.4 There will also be unanticipated consequences of the very actions that have been taken for good management practice, e.g. unexpected incentives and disincentives which arise from contract clauses, or remuneration structures; or regular reporting structures which can lead to information being 'siloed' and not shared between reporting lines.

5.2.5 Complexity and uncertainty are exacerbated by scale. The magnitude of the challenge posed for the Executive who are also 'running' their regular business means they are, as it were, running two very different organisations which can incur 'indirect costs' on routine business. This is often not fully appreciated, especially as these 'indirect costs' are not always visible, or the subject of curiosity, by those who are proposing the project.

5.2.6 The Board and the Executive, in their different roles, should each be assuring themselves they have the right level of oversight in place, including their readiness' to spot and reveal unexpected or unplanned problems as they are emerging, their readiness to take remedial action, and their readiness to secure their own specialist advice where they consider they are dealing with matters outside their own expertise and experience.[50]

Inherent Tensions and Trade-Offs

5.2.7 Inherent in most major projects are tensions between (putting it very simply) cost, quality, and time. At various times in the project life cycle, the Executive, the Board, Government sponsor and the contractor, each in their different roles, will need to consider such trade-offs. Major projects may overrun on their original timetable, overrun on their original budgets, and not deliver the specified scope, or specified quality in the specified, or revised, time.

5.2.8 For example, delivery to the announced timetable may result in an interruption to other critical paths in business-as-usual plans; delivery to the announced quality standards may require delays to allow for problem solving; delays may increase costs and so on. These trade-offs will be viewed differently at different stages in the project life cycle, depending on one's role and position in the organisation and the complex stakeholder landscape.

5.2.9 The degree to which the Executive can determine an optimum approach to trade-offs will depend *inter alia* on:

a) The interests of stakeholders and their capacity and inclination to work together to find common solutions;

b) The openness of discussions about the trade-offs;

c) The nature of contracts;

d) The availability of additional resources;

e) Stakeholder judgements on the balance of risks posed in different trade-off scenarios; and

f) The relative power, legitimacy and authority of external stakeholders and internal players.

The characteristics of key stakeholders are discussed further in Section 7.

Contracting with Third Party Specialist Suppliers

5.2.10 The scoping and delivery of major projects normally depend on third-party contractors, with all the requirements for their management and control. A further consideration will be how much of the organisation's own project management and control will be undertaken 'in house' and how much will be contracted to specialists, independent of the

[50] See Annex A, Sections 1.1, 1.2, 1.4a, 1.4b, 1.6, 1.7, 1.12, 1.14, 1.15, 1.19, 2.1, 2.2a, 2.3, 2.4, 2.5, 2.7 and 2.9.

contractor. The higher degree of specialist knowledge and capability, and the greater the quantum of additional resource required, the more likely it is that significant elements of 'internal' project management, will be outsourced.

5.2.11 For every major piece of outsourcing, the Executive must decide, and may agree in contract:

a) **Specified deliverables** (inter alia cost, quality, time);

b) **Risk**: which parties bear and share the recognised risks in the project;

c) **Reporting**: matters and schedule;

d) **Evaluation**: data and criteria; and

e) **Escalation**: when and how problems are regarded as sufficiently serious to 'go up a level'.

5.3 The Role of the Executive in Major Projects

5.3.1 The Executive who are responsible for a project's delivery may not necessarily have been centrally involved in the decision to proceed. It is an additional complexity if the organisation which is proposing the project (e.g. government) is different to the organisation which will be building and using the project (e.g. a government company)

5.3.2 The proposing Executive will be responsible for producing a full project appraisal, including the following as a basis for Board (or other governance) approval:

a) **Business Case**: the contribution of the project to delivering the company's strategy, including problems it will solve, opportunities it will open and why alternative options are inferior;

b) **Risks to the business** of a) proceeding and b) not proceeding with the project;

c) **Resourcing plan** (skills, knowledge, specialist technical capacity, finance, space); and

d) **Opportunity costs** (impact on other priorities).

5.3.3 Once approved the delivery Executive needs to produce, *inter alia,:*

a) A sufficiently granular project plan, detailing milestones and stages and a matrix of progress chasing, reporting, monitoring, logging and follow up of problems and plan deviations, to enable the Executive to keep track of progress and risks, and to be prepared to explain the imperative for reappraisal of risks or replan of project;

b) Statements and enactments of the systems, controls and structures of roles, relationships, and communications to enable effective project management, including attestations that 'stages' have been completed and gateways to the next stage may be 'opened';

c) Risk register system, to identify, track, and evaluate project risks in a dynamic and integrated way;

d) Risk register system, which will integrate the project risks with the risk profile of the company, and, if part of a group, the Group as a whole;

e) Contracts with third party suppliers, which are aligned with the business case and risk analysis for the project, and which provide sufficient powers for managing the contractors for effective delivery;

f) Escalation: clarity on when and how problems are regarded as sufficiently serious to 'go up a level'; and

g) Authority to approve and expectation to be informed: clarity on matters within Executive delegated authority levels, matters which require Board/higher approval, matters on which the Board expects to be informed.

Culture, Leadership and the Reality of Project Management

5.3.4 The items above outline the characteristics of an effective project management organisation which one would expect to see documented. If they are absent, there is no basis for believing the project will be well managed.

5.3.5 Their presence as documents, however, does not necessarily mean one has effective project management. The documentation may not result in their enactment because, for example

a) Although there are reports, problems are not followed up;

b) Communication of progress and problems 'upwards', including to the Board, is patchy and superficial;

c) There is little effective internal scrutiny through e.g. internal audit;

d) The culture does not encourage people to speak up if they foresee, or see, problems or issues arising;

e) There is little transparency of required reporting and communications with stakeholders; and

f) Bad news (e.g. failures on time, quality, cost expectations, or any unanticipated problems which may be outside a narrow project remit) is downplayed or hidden and this becomes a habit.

5.3.6 These considerations bring us to the subjects of culture, leadership, and the experience of those working on project delivery and oversight. A culture which is very quick to blame, in which people do not have courage to be accountable, or covers up 'bad news', becomes pervasive and will undermine any formal structures which proclaim they are securing transparency and accountability.

5.3.7 The Executive role is fundamentally important in building and sustaining a culture which will support effective project management in conditions of high complexity and uncertainty. This often means managing tensions between two opposing forces. On the one hand the need to encourage innovation and problem solving and on the other to keep a careful eye on progress with the project plan. Matters of leadership and culture are discussed further in Section 8.

5.4 The Role of the Board, or other Governing Body, in Major Projects

5.4.1 Whereas it is for the Executive to determine how it will manage, organise, and control the delivery of major projects. It is for Boards or other governing bodies, to decide whether a major project will be approved (assuming it is requires Board approval, being above the limit for Executive decision making), how the Board will maintain effective oversight of project process and delivery, support the Executive in its work, and intervene if the project gets into difficulty.[51]

5.4.2 In discharging its oversight responsibilities in relation to major projects, the Board would normally be involved as follows:

Pre 'go-ahead approval': Board discussion and decision about:

a) Overview on the project's place and importance to the strategy (what it promises to deliver; why this is important, what it will deliver, at what direct, indirect and opportunity cost, and in what time frame);

b) Evaluation of risks and scrutiny of risk profile and anticipated impact in an open way, unconstrained by current forecasts. A phrase sometimes used at an early stage of project risk analysis is to construct a 'pre-mortem', (the opposite of a 'post-mortem') i.e. looking behind the project plan to ask what might result in, and result from, project failure;

c) Consideration of whether the Board encourages curiosity which might spot the emergence of unanticipated consequences;

d) Sufficiency and sources of information provided to the Board about the project preapproval; consideration of any additional work, analysis, or specialist advice required?

e) The capability of the Executive to deliver the project, including project management structure and capabilities, technical competence in-house, and access, choice, and management of outsourced technical capabilities; and

f) How the Board will maintain oversight and support of the Executive.

[51] See Annex A, Sections 1.7a, 1.12, 2.3 and 2.5.

As part of 'go-ahead approval' (or about the time of that approval): Board discussion and decision about

a) The level and type of involvement the Board and its committees will institute to oversee the Executive's planning and management of the project, including the Executive degree of 'reach' into contractors. Essentially how the Board will ensure that it has sufficient line of sight into what is going on (especially what may be going wrong, as they will certainly hear about what is going right); how progress in relation to plan is being evaluated and reported, without unduly interfering in project operations and without skewing the 'normal business' of the Board?

b) How the Board will use its existing committee structure and its existing independent advice and monitoring (from Internal audit, External audit, and other independent advisers and consultants already retained), to maintain oversight of project progress to delivery (is responsibility clear and how will it be reported?);

c) Whether, and how, the Board will seek its own specialist advice[52], which is independent of the Executive and the contractors. This will depend on such things as the degree of specialist knowledge already available to the Board, complexity, materiality and risks inherent in the project, and the internal capabilities of the organisation;

d) The nature and timing of reports on fulfilment of project plans, according to agreed major project milestones for the Board (involving evaluation against plans and risk register);

e) Any specific review points, or deep dives into project progress, where Board reaffirmation of the decision to undertake the project will be formally considered;

f) Understanding how crises and serious concerns about deviation from project plans will be escalated. Will there be candid and timely assessments of what's gone wrong? And what are we going to do about it? Will we also request 'post hoc' reports at different stages, e.g. to examine: How did we do? And what lessons can we learn?

g) How will the Board informally keep in touch, and be available for support, and as a sounding Board, to the Executive?

Once the project is underway

The outcome of the Board discussions and decisions above should mean that over the project life cycle, the Board should have a clear understanding of, and pay attention to:

a) Roles and responsibilities for the Chair, CEO, Board and its committees, as well as independent specialist advice in maintaining oversight of the project;

b) Project Reporting: schedule and subjects of reports from Executive;

[52] See Annex A, Section 1.11.

c) Board Committee reporting, and including follow through of issues;

d) Milestone approval: schedule and subjects of any milestone approvals, including:

i. Attestations of phased completion or delays

ii. Risk revisits: opportunities for intelligent interrogation of the risks posed by and in the project.

iii. Supporting the Executive in balance with oversight

Culture, Leadership, and experience of The Board[53]

5.4.3 Just as at Executive level, the existence of a formal structure of systems and controls for project oversight at Board level is a necessary part of an effective Board, but it is not a sufficient condition.

5.4.4 Does the culture and leadership at Board level encourage effective enactment of these systems and controls, and especially, does it encourage the Board to look with curiosity beyond them?

5.4.5 How and who is maintaining a curiosity driven enquiry into the unexpected?

5.4.6 Are members encouraged to take an enquiring look into the unanticipated consequences of the good faith decisions taken by the Board and the Executive?

5.4.7 How is the hint or the reality of 'bad news' greeted between the CEO and the Chair and within the Board more generally? These considerations bring us once more to the subjects of culture, leadership, and the experience of those working on project delivery and oversight which are discussed further in Section 8.

5.5 Questions arising from Section 5 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/POL. The questions below are taken to apply to all relevant organisations in the chronology.

5.5.1 What did each organisation consider to be the risks of Horizon? Was there an integrated view of the risks between each of the four organisational and governance levels described in Annex B?

5.5.2 How did each of the four organisational and governance levels described in Annex B, maintain oversight of Horizon?

5.5.3 What, if any, conflicts of interest arose between the 4 organisational and governance levels in Annex B in association with Horizon? And how were they raised and managed?

[53] See Annex A, Sections 1.11 and 1.18.

5.5.4 At what point did SPM issues become 'part' of the risk reports on Horizon project?

6 Governance and Management of Whistleblowing

6.1 Introduction

6.1.1 A Whistle blower is a person (usually in their capacity as an employee at work) who discloses (passes on information) what they perceive as wrongdoing in the workplace. Their disclosure should be in the public interest, that is, it must affect others, for example the general public, stakeholders in the company or other employees, and not be a matter of individual grievance.

6.1.2 Whistleblowing is the term used when the whistle blower passes on information to a third party, with allegations of matters of public interest caused by misconduct, wrongdoing, criminal activity or mismanagement in the organisation, and which the whistleblower believes has caused, or is likely to cause, harm to others, e.g. the health and safety of workers, miscarriages of justice, damage to the environment, employee rights, covering up information or failure by Executives or managers at any level of the organisation to comply with legal obligations.[54]

6.1.3 Whistleblowing can relate to damage to reputation, financial performance, intellectual property, operational failures and business resilience, e.g. because of loss of engagement with a staff group, or incompetence or lack of capacity amongst employees or contractors. Examples of conduct with direct implications for the business, on which the whistle may be blown, are falsifying information, denying errors in systems and accounting, and inflating sales.

6.2 The Role of the Executive: The Management of Whistleblowing

6.2.1 The role of the Executive is to run the company, so that it achieves its strategic goals and to keep the Board (or other governing body) informed of all major risks to the organisation achieving its business goals, including those which come to light through whistleblowing claims. Whistle blowing is a source of knowledge which the Executive must ensure is made easily available to them.[55]

Systems and Environment

6.2.2 An executive responsibility is to create the environment where people can 'blow the whistle', without fear of reprisal, and in a way which allows the company to learn and take timely remedial action, and which encourages others to speak up in the future. Enabling whistleblowing has been a requirement on organisations since the 1990s, when the 1996 *Employment Rights Act* and 1998 *Public Disclosure Act* provided statutory protection to workers speaking up or whistleblowing in the public interest.[56]

6.2.3 Managing whistleblowing involves a proactive approach, which the FSA captured in their 2005 guidance (see FCA Handbook 2024) and Department for Business, Innovation and

[54] See Annex A, Sections 1.0 and 2.0
[55] See Annex A, Sections 1.0, 1.7a, 1.9, 2.0, 2.2, 2.4 and 2.10.
[56] See Annex A, Sections 1.0, and 2.0.

Skills captured in their 2015 guidance (Dept for Business, Innovation and Skills, 2015).[57] It involves:

a) Providing rights to protection for certain categories of workers but not all. For example, workers who have a contract with an employer are covered, but the self-employed are not. Self-employed members of the workforce are more likely to be contracted to provide services over a certain period of time for a fee and be in a business in their own right. Managing whistleblowing involves considering which other categories might be covered and where there are employee groups where whistleblowing protection might also be extended (FCA Handbook 2024 suggests key contractors).

b) Distinguishing the difference between whistleblowing and reporting a grievance. Whistleblowing involves allegations about matters of public interest, caused by wrongdoing or incompetence, and which the whistleblower believes has, or is likely to, cause harm to others. A grievance is a complaint or allegation by an individual (or group believing they share the same grievance) about unfair treatment or other causes of distress, which employees raise with their managers or higher levels in the company, and which stakeholders (e.g. customers) may raise with a company.

c) Setting up systems and processes so whistleblowing is managed effectively, i.e. having written policies, codes of conduct, including:

    i. Naming a choice of individuals to whom disclosures may be made;

    ii. Making and interrogating reports of investigations, including ensuring they are conducted;

        - Proportionately;

        - Independently of the people and matters identified by the whistle blower; and

        - Are fully followed up.

    iii. Ensuring employees are clear about their rights and processes; and

    iv. Dealing with concerns strictly confidentially and ensuring anonymity in any reports

d) Collecting, analysing, evaluating, and reporting data. The processes of collating, recording, evaluating and regularly and openly reporting anonymised data to the Executive and to the Board is essential if there is to be learning, change and justice from whistle blowing. Data should show, *inter alia:*

    i. The number of disclosures;

    ii. Their reasons;

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[57] See Annex A, Sections 1.9 and 2.10.

iii. The outcomes;

iv. Adherence to the process;

v. Justifications for any disciplinary actions / suspensions / exclusions; and

vi. Lessons learnt.

As understanding of human factors and diversity and inclusion evolves, an appreciation of the importance of assured fair and transparent processes for monitoring becomes even more important.

Culture and Behaviour

6.2.4 There are additional important behavioural and cultural requirements for effective whistle blowing, which extend beyond formal systems and controls. They include:

a) **Communicating with employees and others who may wish to blow the whistle**. Executives should use multiple channels to convey to workers their protection from victimisation for speaking-up. A written policy was recommended by FSA in 2005 (FCA Handbook, 2024a); this can be supplemented by training and induction and informal means.[58]

Those responsible may identify specific channels, emphasising freedom to speak up or blow the whistle. It is important that organisations train line managers as well as central functions, e.g. HR on whistleblowing rights, duties, and processes. If the size of the organisation warrants it, the role of a central whistle blowing team also needs to be explained, so it becomes widely understood as being part of the process but not absolving any others of their responsibilities.

b) **Learning about the lived experience of whistleblowers.** To increase the likelihood that others will speak out, the organisation must understand how it is handling whistleblowing and the lived experience of whistleblowers, after they have blown the whistle. This requires that feedback is sought from the whistle blower by someone independent of the matter concerned and support offered to them, regardless of whether their allegations are found to be proven. Cases where the allegations are not proven and are said to be mischievous or malicious or inconsequential need careful review by a third party after the initial consideration. Nothing in the way any cases are handled should discourage others from coming forward with their concerns.

c) **Challenging the assumptions** that may be being made at any stage in the process and which can introduce bias and influence outcomes. For example, assumptions about:

i. The nature of the concern/ complaint;

ii. The status and veracity of the people against whom the allegations are made;

[58] See Annex A, Section 1.9.

iii. The status and veracity of the whistle blower;

iv. Complexity of the complaint and the assumed benefit to investigating it;

v. The need to limit the scope of the complaint;

vi. The time required and evidence available for investigation;

vii. Competence and experience in handling whistleblowing.

d) **Keeping the Board up to date.** Traditionally this has taken place through the Board Audit Committee for listed companies, in compliance with the Combined Code (2003). The BAC and Internal Audit may take a closer look at the effectiveness of the whistleblowing function. The Chair of BAC should also be told of any whistleblowing disclosures and depending on the risk to the organisation, these should make their way onto a risk register for monitoring. Such monitoring is usually done by BAC for the Board, although the Chair of the Board would usually also be told of Whistleblowing incidents in an anonymised way.[59]

6.2.5 This section has covered the Executive role in creating the environment, systems, and culture for enabling and sustaining whistle blowing and must be kept completely distinct from any Executive role in any specific whistle blowing case. Any actions, or direct involvement, or conflicts of interest arising from specific cases of investigated or discovered wrongdoing, including taking disciplinary action, dismissal and the involvement of law enforcement agencies should always be handled in accordance with the overall remit of Executive responsibilities, systems and procedures.

6.3 Guidance and Regulations

6.3.1 This short section on the key guidance and legal requirements for organisations on whistleblowing sets the context for the Board's role in governance of whistleblowing that follows.[60]

6.3.2 The *Public Interest Disclosure Act* (PIDA) 1998, which applies to public, private and voluntary sectors, states that if a worker who discloses their concerns in the public interest has any form of reprisal or mistreatment from their employer, after raising a concern, they have the right to compensation in an employment tribunal. PIDA covers the rights of workers to disclose, through regulatory and wider channels, including disclosures to MPs and public disclosure through the media. It signalled a change in culture towards promoting and protecting public interest whistleblowing. This was part of a cultural shift towards transparency in public life, which the Committee on Standards in Public Life (Nolan, 1995) also addressed through the Nolan Principles.

6.3.3 The UK Corporate Governance Code 2003 and all subsequent versions, recommends that listed companies have whistleblowing policies in place i.e. they must comply, or explain

[59] See Annex A, Section 1.7a.
[60] See Annex A, Sections 1.0, 2.0, 2.2, 1.7a, 1.9 and 2.10.

why not. Although there is no legal requirement for all organisations to have whistleblowing written policies, guidance is clear that a written policy is good practice, particularly in larger organisations.

6.3.4 Guidance by the Department for Business Innovation and Skills (2015) for public entities, places a premium on having the right culture and especially communication at all levels. Through communication, people will be encouraged to speak up: written policies, training and support, effective processes and above all quick responses to issues raised are all parts of the culture of good practice.

6.3.5 In addition, since 2016 there has been guidance about the appointment of a NED as a whistle blowing Champion. Rules for affected firms and guidance (2016) by the FCA for all organisations it serves, required a company to appoint a Non-Executive Director as their 'whistleblowers' champion'.[61] The role is designed to be supportive of NED's supervisory oversight role, and the Board's collective responsibilities, and not to mean that a NED will take on operational responsibilities or be expected to be the only person on the Board who is really concerned with whistle blowing.

6.3.6 Looking forward, it seems that the direction of travel is for more protection of employee rights and a greater role for NEDs in overseeing whistle blowing.

6.4 The Role of the Board: Governance of Whistleblowing

6.4.1 The Board as a whole has major responsibilities for whistleblowing, with relevant duties also following for BAC and BRC (see Sections 2,3,4).[62]

6.4.2 To illustrate the individual and collective roles:

a) Executives and managers prepare reports on the effectiveness of whistleblowing systems and controls for the Board;

b) The NED Whistle blowing Champion (if it exists), is responsible for ensuring that a report is made to the Board at least annually, and may comment on its adequacy and quality in preparation;

c) If no NED Whistle blowing Champion exists, the Board must still ensure a report is made to the Board at least annually; and

d) The whole Board will consider the report and decide as a Board what action, if any, to take in light of the report.

Collective Board Responsibility

6.4.3 The Board has three overall tasks to perform in enabling it to do its job of holding those in the company to account for enabling, responding to, and learning from, whistleblowing. All of these tasks involve the basic Board skill of knowing how their

[61] See Annex A, Section 1.16.
[62] See Annex A, Sections 1.7a, 1.9 and 2.0.

Executives are likely to think and act, and to be ready supportively to oversee, and rigorously to challenge, their decisions and actions:

i. Maintaining focus on whistleblowing and being alert to any issues which are serious enough to be shared with the Board, which do harm to people, finance, operations and reputation, and have not surfaced through whistleblowing even though they could have done so. The role of the Board (and BAC) is to provide excellent challenge and interrogation to whistleblowing data, the quality of investigations and effectiveness of whistleblowing processes, in ways which encourage people to speak up.

ii. Ensuring the Board is not complacent, is open to new perspectives, will carefully consider criticism of current practices and is curious to learn. If the Board can develop these attributes, then it will be more likely to engender a similar outlook in the Executive, encouraging them to be more inclined to be open with their NED colleagues. Whistle blowing by its nature is likely to disclose allegations or evidence of wrongdoing, which are unpalatable or threatening to some people. A natural defensiveness from those who feel threatened is to be expected. It is very important the Board is not pulled into a defensive stance, and keeps an open mind on the matters raised, whilst still being both supportive and interrogative with the Executive.

iii. Appreciating how whistleblowers are treated, their lived experience and how whistleblowing is handled. How people see whistleblowing being handled, effects whether others will speak up. When managers are asked about the experience of whistleblowing they may answer along the lines of 'we're one big team here, everyone can speak freely'. Whereas closer investigation may show bias in the whistleblowing process, with not all voices treated equally and some staff groups 'counting' more than others. Understanding the reality means being curious about a wider range of information than the summary of cases brought to the Board. This will be helped if NEDs make occasional visits to meet people outside the Board room, dropping into various company activities or asking to see evidence of anonymised responses to whistleblowers. This will give different perspectives on what is going on, whilst demonstrating they understand their governance role in overseeing, but not encroaching on the Executive's role.

Culture and Behaviour

6.4.4 All the ways in which the Board, its members and its committees, approach and govern whistle blowing will have a profound effect on how the culture of the company is experienced and the inclination of everyone to relate and report wrongdoing, as well as real and potentially bad news, which may not be the result of whistle blowing.

6.4.5 It is an ill-defined responsibility, implicit in their governance function, for Boards to be alert to cues which indicate how the Executive is likely to approach whistle-blowing incidents as reported to them, and how they are likely to report to the Board. This is further discussed in Section 8.4 Culture.[63]

[63] See Annex A, Section 1.16.

6.5 Questions Arising from Section 6 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

The Role of the Executive

6.5.1 What Policies and arrangements for whistle blowing existed? How, if at all, did they change over the relevant period?

6.5.2 Did the Executive seek to understand the perception of whistle blowing in their organisation?

The Role of the Board

6.5.3 Did the Board /BAC ask for, and receive, information on whistleblowing?

6.5.4 Who led for whistleblowing on the Board?

Whistleblowing, with Specific Regard to Horizon and / or SPM Issues

6.5.5 How could SPMs raise any concerns about wrongdoing in POC/L?

6.5.6 Is there a record of whistle blowing cases which referenced Horizon?

a) Who reviewed such reports/record and with what consequences?

6.5.7 Is there a record of whistle blowing cases which referenced SPM issues?

a) Who reviewed such reports/record and with what consequences?

7 Stakeholder Management

7.1 Introduction

7.1.1 All organisations exist in a landscape in which there are external stakeholders who are not directly employed by the organisation, and internal stakeholders who, although employed by the organisation, are not directly part of its governance. 'Stakeholders' are defined by their belief, and /or the fact, that they have a stake or an interest in what the organisation does, i.e. its business, how it does it in the present, and what it may or will do in the future.

7.1.2 **Internal stakeholders** typically include:

a) Employees who may see themselves, or be seen as, a single group with common interests or as members of several groups (e.g. general workforce, specialists, middle management);

b) The elected or designated internal representatives of employees in trade unions or other associations.

7.1.3 **External stakeholders** typically include:

a) Customers/ clients who 'buy' goods and services through sales from the organisation;

b) Suppliers of goods, equipment, and services (including professional services of audit, legal, management and technical consultancies) to the organisation;

c) Distributors of goods and services provided by the organisation;

d) Funders through grants/ subsidies (e.g. government, charities and other bodies);

e) Funders through equity (stock investors, owners);

f) Funders through debt (banks and other creditors);

g) Trade unions or other associations who represent employees;

h) Regulators and law officers; and

i) Representatives of 'public opinion', citizen 'watchdogs' and media commentators.

7.1.4 Stakeholder management, as an identified activity for Boards and Executives, has grown as a subject for attention in the last 30 years, even though it has always been implicit in governing and running companies. This trend has come with increasing sophistication in risk management, and more recently, increasing emphasis on the importance of Boards taking account of non-financial, workforce related and wider considerations like sustainability, human rights and equality. For organisations which are wholly owned by the government, the emphasis on wider public interests is more likely to have an impact.[64]

7.1.5 For example, in POL, securing a universal network of post offices is a public good and a policy goal of great interest to the government, whereas it may not sit easily with the corporate strategic objective to run an efficient network.

7.2 Identifying Important Stakeholders

7.2.1 The list of stakeholders to which a Board or Executive are required to consult, or report is usually short, and limited by specific laws and regulations. For example, reporting to shareholders, consulting with recognised trade unions, or negotiating on the terms of specific contracts with suppliers, customers or employees.[65]

7.2.2 Nonetheless it is considered good practice for Boards and Executives to pay attention to key stakeholder relationships, beyond specific requirements, for the simple reason that their capacity to deliver their company's strategic goals and to run the company depends in part on building good stakeholder relationships.

7.2.3 A Board's or Executive's attention will focus on stakeholders who:

a) Have rights in law to be consulted and to receive reports;

b) Are powerful, with strength which can significantly impact the organisation's financial performance, growth, or reputation. The power of any stakeholder rests in part in law and contract, and often reflects the ease with which they can be replaced, and the strength of their voice in the Board room, in media, and in other contexts, where their views can positively or negatively impact the organisation.

7.3 Considerations in Stakeholder Relations

7.3.1 Once a stakeholder is identified as one who must, or should, not be ignored, the following considerations come into play, although not usually in a formal explicit way:

a) Strength and Base of Relationship:

i. Power: source and strength (e.g. market scarcity, the law);
ii. Influence: source and strength (e.g. history, connections); and
iii. Legitimacy: the basis of their 'right' to be involved.

b) Interests: Aligned, Conflicting, Unrelated:

i. Areas of conflict/ compatibility/ complementarity/ synergy of interests, goals and priorities;
ii. Inclination to support, delay, obstruct each other's goals;
iii. Compatibility of perceived risks, and their mitigation;

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[64] See Annex A, Sections 1.1
[65] See Annex A, Sections 1.1, 1.2, 1.6, 1.7a, 1.18 and 1.19 illustrative guidance stakeholder engagement

iv. Sources of tension in the relationship on either side; and
v. On balance, are they allies, enemies or bystanders?

c) Impact: Positive, Negative, Neutral:

i. Contribution of technical, human, financial, reputational resources/ networks?
ii. How scarce is their resource, are there multiple alternative suppliers?
iii. Relevant knowledge: What? How much? How crucial?
iv. Relationships, networks and coalitions: how do they fit within the wider network of stakeholder relationships of allies, enemies and bystanders?

d) Mechanisms for Management:

i. Communications: formal and informal means of maintaining two-way communications? Are the topics constrained by law or regulation?
ii. Raising concerns: opportunities, encouragement, discouragement for either party to raise concerns, highlight tensions or report major problems?
iii. Planning: mechanisms for sharing plans and seeking views?
iv. Conflict: mechanisms for identifying and resolving conflict?

e) Culture and History:

i. What assumptions have grown and prevail about each party's integrity and honesty, competence, skills, sense of common purpose?
ii. Is the relationship governed by contract? And if so, where does it stand on a scale from exclusively transactional (governed solely by contract, with each party believing they should maximise their separate benefit), to being part of a wider relationship in which specific contractual obligations are a part?
iii. Whether governed by contract or not, is the relationship seen as one in which there is scope/ expectation for the parties to work to a common purpose?
iv. Trust: is either or both parties trusted by the other?

7.3.2 The list above illustrates the complexities and choices involved in stakeholder management. It is not prescribed in any code, and it is not exhaustive in practice. It indicates the sorts of considerations which are made, often in piecemeal ways by Executives and Boards. These considerations over time become part of the culture. (See section 8.4).

7.4 Managing Stakeholders: The Role of the Executive

7.4.1 Stakeholder management is a key part of the Executive's responsibility to run the business to achieve the company's goals. The Executive makes implicit or explicit choices about with whom, and how, to build relationships, and who internally will be in the 'front' line of relationship management and maintenance. This is rarely formalised. Some relationships will fit into functional responsibilities (e.g. HR leading on relationships with trade unions, PR with media, operations specialists with IT suppliers, investor relations with shareholders), others will be led by line management (e.g. for workforce and suppliers), and others will go with specific accountabilities (e.g. Accounting Officer for Government, contract management for contractors).

7.4.2 It is generally considered good practice that specific functional relationships will not absolve 'line' management from creating and maintaining relationships in the normal course of their business.

7.4.3 The higher up the organisation one goes, the wider and more diverse the stakeholder landscape and the greater the inclination to delegate and to make choices about 'relative importance'.

7.4.4 When there are multiple points of contact with any one stakeholder, the Executive should pay attention to the extent to which information is shared and synthesised within the company and should maintain an eye to omissions in communication to avoid an assumption that 'someone' else is dealing with, or knows, something, which ends up being ignored by all.[66]

7.5 Stakeholder Relationships: The Role of the Board

7.5.1 As with all areas of Executive responsibility, the Board has a responsibility to oversee how the Executive is managing key stakeholders and to call the Executive to account for any problems. For example, if, through BAC or BRC, The Board was to find that internal controls governing reporting and control of third-party suppliers are not working as they should, it would expect the Executive to put in place remedial action and to report back on the matter. Given the organisation's stakeholder landscape is wide, the Board needs to maintain a wide interest in the Executive's performance in stakeholder management and keep an eye out for unexpected developments.

7.5.2 At the same time, the Board itself will hold some key relationships and there should be clarity and good communications between those involved. For example, the Group Chair of a listed company would be expected to have relationships with large shareholders and with the Chairs of wholly owned subsidiaries. If there is a major supplier contract, the Chair would probably want to open up direct communications with the Chair of the supplier. If there is a wholly owned subsidiary company, with a Board, it would be reasonable to expect the Chairs of parent and subsidiary Boards to have open communications. Other relationships will be led by other Board members, e.g. the Chair of BAC with the lead partner of the External Auditor; or the Chair of Remuneration committee in direct contact with large shareholders or their representatives, in order to explain remuneration policy and its application in remuneration decisions.

7.5.3 These Board level relationships are often informal and not part of any formal governance arrangements. Their existence means there are already open channels of communication if tensions and problems arise. They do not always exist, and they are not always successful in alleviating tensions and solving problems.[67]

[66] See Annex A, Sections 1.1, 1.2, 1.4a, 1.4b, 1.6, 1.7a, 2.1, 2.2 and 2.3.
[67] See Annex A, Sections 1.4b, 1.6, 1.7a and 1.11.

7.6 Key Stakeholders in the POC/L

7.6.1 As there is no guide/ code for identifying and managing stakeholders, those involved in any context make their own decisions about how best to navigate the stakeholder landscape.

7.6.2 Taking the relevant period 1999-2019, and the matters before the POHI, three external stakeholders stand out for attention:

a) The government, and its representatives, as owner;

b) Fujitsu as key supplier contractor; and

c) SPMs.

7.6.3 Building on the list of considerations in stakeholder relations (7.3 above), questions which are relevant to POHI are identified for each of these three stakeholders.

7.7 Questions Arising from Section 7 relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

The Government

7.7.1 The government, albeit at arm's length, was the only shareholder in POC/L.

7.7.2 The government dealt with POC/L though intermediary oversight and ownership entities, as shown in Annex B and Section 1.6. At any one time there were relationships with up to four levels.

7.7.3 The questions below relate to characteristics of the relationships within this quartet of levels.

a) Strategic Interest and Goals

i. Were the interests and goals of the POC/L and the Government aligned? If there was divergence, was this discussed? And were suggestions made for resolution?

ii. Even if they went unvoiced, were tensions between strategies and goals, and conflicts of interest, identified?

b) Power and Authority

i. Once the strategy and goals were known, did the POC/L at Level 1 feel and act as if it were relatively independent, or were its operations subject to detailed scrutiny and instruction from the government or its representatives?

c) Maintaining Relationships

i. Which roles in the Executives and Boards at each of the 4 levels were expected to maintain an appropriate relationship with the others?

ii. Was the nature of any of these relationships ever discussed in Boards?

Fujitsu

7.7.4 Fujitsu was a key major contractor.

7.7.5 The Horizon IT system contract was highly material to delivering the strategy and operations of the PO, and, we assume, highly material to Fujitsu's financial performance and reputation. Each had a great deal invested in the relationship. Relative power depended on the nature of the contract, and symmetry (or not) of knowledge of the progress and problems.

7.7.6 The questions below relate to characteristics of the relationships between POB organisations identified in Annex B and Fujitsu:

a) Contract

i. What was the nature of the contract and the legitimacy, rights, and duties of each side?

ii. To what extent did the contract enable the interests and goals of PO and Fujitsu to be aligned?

b) Authority and Accountability

i. What were the rights of each party to knowledge of progress and problems, and to meet the financial and operational consequences of problems?

ii. What were the sources of power and authority in the relationships with Fujitsu?

iii. When inevitable tensions arose between the parties, how were they resolved/ mitigated?

c) Board Oversight

i. How was Board oversight maintained, relations built and any identified problems interrogated?

Sub Post Masters

7.7.7 POC/l was highly dependent on the network of SPMs for delivery of its operations. The SPMs were dependent on the POC/L for their capacity to run a PO.

7.7.8 The questions below relate to characteristics of the relationships between POC/L and SPMs, and in so far as they were involved, the other 3 levels identified in Annex B:

a) Goals and Interests

   i. In what ways were the goals and strategies of SPMs aligned with the goals and strategies of the POC/L?

   ii. Was any attention given to addressing tensions in the relationship

b) Power

   i. Was there a scarcity of people who wanted to be SPMs?

   ii. Could SPMs speak with an independent collective voice in negotiations or raising concerns?

c) Contract Conditions

   i. How was risk in the contract divided between SPMs and PO?

   ii. Arrangements for Training and Induction of SPMs.

d) Communication

   i. POC/L communications: normally ‘two-way’, ‘down’, ‘across’ or ‘up’ to SPMs?

   ii. Reporting about relations with SPMs from POC/L to other levels of accountability in AnnexB? To whom? About what?

   iii. Opportunities, encouragement, discouragement for SPMs and any other party to raise concerns, highlight tensions, report major problems?

   iv. Position within the wider POC/L organisation: which levels and functions typically interacted with SPMs or their representatives?

e) Place in POC/L Culture

   i. What attitudes and beliefs prevailed about SPM’s skills, integrity, motivation, honesty, competence, and replaceability?

   ii. Degree of trust assumed in the SPM /POC/L relationship?

8 Experiencing Governance and Management

8.1 Introduction

8.1.1 Sections 1-7 have been constructed around the scaffolding provided by the laws and codes which deal with the governance and management of companies in private and public hands (Annex A), paying particular attention to the accountability relationships current in POB during the relevant period (Annex B).

8.1.2 Section 8 takes a different perspective. It addresses governance and management from an experiential perspective. It discusses concepts to highlight the actual experience of working, managing and governing in POC/L and associated organisations as outlined in Annex B.

8.1.3 It has 4 sub-sections:

a) Authority Power, Interest, Influence and Conflict;

b) Leadership;

c) Culture; and

d) Communication.

8.1.4 Each of these concepts is important in illuminating how the accountabilities and expected practices which are at the heart of governance and management and described in Sections 1-7, become part of the lived reality of companies.

8.2 Authority, Power, Interest, Influence and Conflict

Authority

8.2.1 Authority derives directly from formal structures of roles and relationships, controls, and systems. It has face value validity in formal titles and positions. For example, Chair, CEO, NED, or Head of specialist IT function has authority to act and to take decisions as specified in various documents for someone in their position. Authority bestows a legitimacy to act within codes of governance and management. It provides the basis of accountability (Section 2).

Power

8.2.2 Power is related to authority, but it is not an exact replication, as there are sources of power which are beyond formal authority and their relationship to authority may be consistent, opposite, or independent. Sources of power, beside or beyond authority, may be considered in three categories:

a) The first is the provision, control and access to scarce and valued human, social, financial, and material resources.

b) The second is force, punishment, and negative sanctions. There is some linkage between these two: withholding the first, e.g. by denying promotion or restricting access to essential technical problem-solving skills, may provide the base for the second.

c) The third source of power is in the characteristics of individuals: their personality, powers of persuasion, reputation and what may be called 'charisma' or personal capacities (irrespective of resources or force) to get others to follow.

8.2.3 These 3 generic sources of power are not necessarily related to legitimate authority structures, although there are often links, particularly when it comes to the first, namely the provision, control, and access to scarce and valued resources, which is often aligned to authority structures.

Power and Authority

8.2.4 Power and authority can be viewed together as providing the capacity in a company to secure decisions, to take actions and to get others to play a part in enabling these decisions or actions. Whereas authority is vested in formal structures of legitimacy, power strays beyond the confines of legitimate authority, and may extend to the capacity to create situations in which formal accountability may be obscured.

8.2.5 Legitimate authority is predicated on a view that the structures in which it is embedded are designed to create conditions in which the organisation will be effective, and in which conflicts of personal interest will be transparently managed.

8.2.6 Power has no such foundation and indeed may create conditions which are aligned with interests which are not those of the company. Company interests are based in approved corporate strategies and operational plans. Power can be used to pursue other interests (including self-interests) which may negate, frustrate or impede the interests of the company.

Power and Conflict

8.2.7 Power and conflict interact in a fundamental way. Power is a property of social relationships, in situations where there is some divergence of, and conflict between, those involved. Conflict in companies may arise over who is going to make a decision or take an action; and over who is able to forward options to be considered or to set the agenda. If there is complete unanimity (no conflict) on both points, power is redundant, because there is agreement on who legitimately has the authority in that given situation to take the decision or action, and agreement on who legitimately has the authority in that given situation to put forward options for consideration and set the agenda. This emphasises the importance of having clear lines of authority and accountability as setting the context in which decisions and actions are taken.

Interests

8.2.8 Power relationships may be exposed, or hidden when the voices, desires, or interests of one party are frustrated by the decisions, actions, interests of another party. Power play may be particularly evident in organisations where there is a lack of clear lines of authority and an opaqueness or major disagreement about the company's strategies and operational plans.

8.2.9 In such situations it is unclear what is really in, and not in, the company's interests, as well as being unclear about how such conflicts will be resolved. Advancing 'other interests' may also be thought to relate to individual or group 'self-interest', as well as advancing alternative views of what is in the company's best interests. Without a clear strategy, which is well communicated throughout the organisation, and without clear lines of accountability, there is plenty of scope for power play and conflict to become embedded and inhibit effective decision making and operational performance.

8.2.10 Codes of governance and conduct stress the vital importance of having clear policies on declaring and handling conflicts of interest, which are implemented and regularly reviewed.

Influence

8.2.11 Influence can be viewed as the process by which the views and preferences of dissenting voices become aligned with those of another party or parties and thus agreement is reached without any exercise of authority or overt power.

Overt and Covert Power and Influence

8.2.12 The words 'overt power' is a reminder that conflicts of interest are not always manifest in open disagreement or contradictory actions.

8.2.13 Dawson describes five scenarios created by different conditions of overt or covert expressions of conflict, the exercise of power and the extent to which there is shared and symmetrical knowledge about the issue.[68] In the first scenario, there are overt expressions of conflict, shared and symmetrical knowledge about the issue on which there are conflicting views, and each interested party will/can press its own interest. This, together with a clear strategy and plan, lays the foundations for an effective process of decision making and operations.

8.2.14 There are 4 more scenarios (2 to 5) of increasing degrees of covertness of conflict and power which interact with access to relevant information. In Scenarios 2 and 3, there is full symmetrical knowledge of the issue, but some parties choose not to speak their views or press their interests. Two reasons normally prevail here. The second scenario returns to the concept of legitimate authority in that although parties disagree with the position taken by others, and may suffer some damage from it, they consider that the other parties are legitimately in 'authority' over them and therefore they have no legitimacy to challenge and so they keep quiet. In the third scenario the decision is taken not to press an alternative view because of fear of consequences, for example, they will lose the argument anyway, they won't be given a fair hearing, they will jeopardise some other, more important, aspect of their personal position, or they will suffer reputational damage, and so they keep quiet.

8.2.15 A greater degree of covertness is found in the fourth scenario where the issue is not known or fully understood by at least one of the parties. This may reflect the intentions of

[68] Figure 7.1 Dawson, Analysing organisations 1986.

others to keep information from them, or it may be that they have simply not been in the communication flows where the issue is known. Whatever the cause of knowledge asymmetry, some parties are excluded (sometimes deliberately, sometimes not) from pressing their interest and raising their voice, because they do not have any or much knowledge about what is going on and miss the opportunity to press their interests.

8.2.16 The most obscure forms of power and conflict (the fifth scenario) are found embedded within the prevailing culture. In this scenario, the 'issue' which would be contested if it were seen and understood, is simply not raised or discussed; it is part of the taken for granted assumptions of how an organisation operates. Information is 'institutionally' obscured and in so doing, excluded parties are disadvantaged in ways of which they are ignorant. Following Bachrach and Baratz,[69] whose studies of political institutions can be directly read into work organisations, this is sometimes known as 'non decision making' which is '*the practice of limiting the scope of actual decision making to safe issues by manipulating the dominant community values, myths and political institutions and procedures'*.[70]

8.2.17 There is no reason why academic analyses of power and conflict should be known by Boards and Senior Executives in companies. However, the underlying principles of coherence of strategy, clarity of accountability, articulation of the company's purpose, a culture of openness, transparency, challenging assumptions, curiosity and listening which we have discussed in the preceding sections draw attention to the role of Boards and Senior Executives in living these principles. People at all levels in the company know through their experience whether authority is respected as legitimate, whether people are held to account for their actions, whether there is much political intrigue and power play, whether assumptions are challenged, whether contrary voices are heard and even sought, and whether there is open discussion of major issues including considerations of anticipated and unanticipated consequences which may seriously damage the company, its workforce or external stakeholders. Paradoxically against a background of clear coherent strategies and structures, an open debate in which many voices may be heard, can lead to everyone coming together and supporting the decisions which are made.

8.2.18 Similarly, it is reasonable to expect the Board and Senior Executives to be alert to patterns of power and influence within their organisations, which are outside the legitimate authority structures and lead to the unusual dominance, isolation, or subjugation of any part, or parts, of the organisation.

Questions arising from Section 8.2 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

8.2.19 Where do we find knowledge, interest or curiosity in understanding the situation of SPMs who were contesting their convictions or civil claims?

8.2.20 What were the authority and power relations between SPMs (either individually or collectively) and those in POC/L to whom they were accountable?

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[69] 1963, p632.
[70] Quoted in Dawson 1986, p 152.

8.2.21 What were the authority and power relations between SPMs (either individually or collectively) and those in POC/L with whom they routinely dealt?

8.2.22 Where and over what was there conflict between the 4 levels of accountability summarised in Annex B?

8.2.23 In what ways were the strategic interests of each of the organisations identified in Annex B aligned or misaligned?

8.3 Leadership

Introduction

8.3.1 Leadership is a word found in almost every discussion about management and governance. It is the subject of many definitions, thousands of books, articles and papers, hundreds of testing tools, and features as a set of skills in nearly all job specifications for middle and senior level appointments in most organisations.

8.3.2 As a topic in personal training and development, it is often said that leadership is not necessarily synonymous with formal position; that leadership can be embodied by anyone who is practicing the art of getting others to come with them (the leader) to achieve something or make changes they (the 'others') may not otherwise choose to do.

8.3.3 For this report however, we are dealing with a much more restricted focus on the behaviours and attitudes of those who were 'in charge', because they held formal 'leadership' positions as Board members, Executives, and managers in the relevant organisations. In Section 2 on accountability, we dealt with the formal expectations associated with these leadership roles. In this section we deal with how the behaviours and attitudes of people in formal leadership roles are experienced by those who are junior to them.

The Leadership Impact of those in Senior Leadership Positions

8.3.4 We are interested in the set of behaviours, attitudes, and beliefs which the senior leaders in the organisations described in Annex B displayed (whether intentionally or not), and the impact of their behaviours, attitudes and beliefs on others. For example, Leadership may be experienced:

a) As dictatorial (being told the task, what to do and feeling no opportunity to question or alter the commands, or broaden or redefine the nature of the task);

b) As consultative (being asked for views on the task in hand and having suggestions being considered before being told what to do); or

c) As empowering (being given a task, and support and autonomy in deciding how to undertake it or redefine it).

8.3.5 Leadership may also be seen as 'effective', 'good', 'strong', or 'ineffective', 'poor', 'weak'. The prevailing subjective view of what is 'effective', 'good', and 'strong' changes over time and space; it is context specific and is much influenced by prevailing beliefs in wider society, experience of leadership in organisations which have delivered and sustained strong performance, external commentary, and the results of research on the leadership behaviours, attitudes and beliefs which will deliver better performance.

8.3.6 What can be said for all times is that the impact of leadership (in whatever guise) is always present. People will always be looking at what those 'above them' are doing, how they are doing it and draw their own conclusions about what this means for how they should and will behave and act. In most organisations there are documents and procedures which describe what and why the organisation has done, is doing and will do in the future. People's experience of leadership reveals to them what they come to believe the organisation is really doing and seeking to do.

8.3.7 Here are 5 illustrative examples of the real impact of leaders in formal positions of authority:

a) Whilst there will be statements about an organisation's purpose, vision, priorities and direction, people's experience of their leaders will show them what is really important;

b) Whilst there will be statements of values and principles, the leader's behaviour and attitudes will show which values and principles are really rewarded, encouraged, discouraged, or sanctioned;

c) Whilst there will be procedures for handling failures and problems, the leaders' actual response when problems arise, or there are identified failures, or there are implicit hints of problems/failures, will show if there is likely to be a quick jump to blame, or to learn lessons, or to close down discussion, or to open up a broad investigation;

d) Whilst there will be many procedures and policies governing employment, and there may be a 'people strategy', members of the workforce will experience the reality of these procedures through their interactions with their leaders; and

e) Whilst there will be clear procedures for the identification, reporting, management and mitigation of risk, people's experience of their leaders' engagement with risk, will show them if these risk processes are mainly tick box exercises, or living management tools which may lead to reassessment of risks.

8.3.8 It is for the CEO and their senior team to decide the leadership style they believe best serves the organisation in any given time. Their decisions may be explicit or may simply emerge from the way they behave. In making their choice they should be mindful of their judgements about many things, including their employee expectations, experience and skills profiles, the amount of discretion and autonomy people need to do their jobs effectively, and the risk profile of the company.

Questions arising from Section 8.3 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

8.3.9 What behaviours, attitudes and beliefs were believed to characterise those in leadership positions in each of the organisations which ran and oversaw POC/L?

8.3.10 What was the impact on the POC/L of the behaviours, attitudes, and beliefs of those in leadership positions in any of the other organisations in Annex B?

8.3.11 What was the impact of those in leadership positions in organisations which ran and oversaw POC/L on:

a) The management of HORIZON;

b) The handling of investigations and prosecutions of SPMs; and

c) The SPM's claims of miscarriages of justice?

8.4 Culture

Introduction

8.4.1 Culture in an organisation refers to the collection of attitudes, values, behaviour, and beliefs which characterise the everyday experience of employees and those who regularly interact with companies as customers and suppliers. There is a strong overlap with the experience people have of their senior leaders (section 8.3), but culture is broader than that and embraces the whole organisation, as is illustrated by two examples.

8.4.2 Culture is experienced by employees when they feel encouraged to speak up on matters of concern about someone's conduct, knowing their bosses and colleagues will listen and consider their views or, in a different culture, where they feel inhibited from speaking up about their concerns, fearing that they themselves may be ignored, humiliated, or even victimised.

8.4.3 In a second example culture is experienced by contractors when they feel welcomed into a social environment which encourages collaborative joint problem solving with respect for everyone's views or, where they feel barely noticed and discouraged from making suggestions.

8.4.4 These experiences are not constrained by formal statements or contractual terms. Indeed, where experience and formal statements or contracts are contradictory, the experience always triumphs in influencing what people think about the culture of their organisation. Thus, in the first example (8.4.2), the experience of discouragement in the context of a statement that the organisation is committed to 'listening and learning' contributes to an experience of cynical alienation.

The Role of the Executive in Culture

8.4.5 The Executive's role is to run the company in ways which will achieve the company's strategic goals. Culture, being the attitudes, values, behaviour and beliefs, which are experienced in the company, is likely to have an impact on corporate performance. The Executive has a responsibility to attempt to ensure that the company has a culture which will support its strategy. However, whilst the Executive role in creating culture is crucial, its very nature means that culture cannot be created or managed by the Executive alone. This makes it especially important that the Executive seek ways to establish for itself, the real nature of the culture. This can be challenging as enquiries instigated voluntarily may reveal evidence which is unpalatable.

Statements, Experience, and Enquiry

8.4.6 Culture reflects what is said by Executives e.g. in publicised statements about the company's values, written codes of workplace conduct, formally reported structures and control systems or contractual terms, but it is neither limited by these statements, nor necessarily aligned with them. A statement that *'we are a learning organisation always eager to improve'*, may actually be experienced as *'they say they want our ideas, but no-one ever listens to us'*.

8.4.7 Where the experience does not reinforce the statement, especially if the experience is on the negative side of the statement, the experienced culture may lead to cynical disengagement from what is seen as hypocritical or disinterested leadership. In cases where there is no misalignment and the experience matches or even exceeds the rhetoric, the culture is an asset creating a shared commitment to promulgated values and codes of conduct.

8.4.8 Executives who want to look beyond their rhetoric to find ways to check the experience of the people in their company may do this by inviting candid feedback from their subordinates in situations where there is no indication that negative feedback will elicit a 'punishing' response; or by seeking the results of independently conducted anonymised staff or customer or contractor feedback and satisfaction surveys; or by independently conducted 360 degree feedback, or simply having their 'eyes and ears' open to what is going on.

8.4.9 Even if there are no statements about values (as was normally the case 40 or so years ago) culture still exists, but without the added dimension of comparison with what is said or written.

Status and Stories

8.4.10 A good indicator of culture is the stories of those who are congratulated or ignored when there are corporate gatherings or other opportunities for collective social activity. These will reveal what, or who, is highly valued and may influence many people's future behaviour.

8.4.11 It is not unusual for stories and stereotypes about particular groups in a company to become part of the culture, even though there is no basis in anything written or planned. Examples of shared beliefs include: 'W group is very aloof' or 'X group is very clever but they are really helpful if you ask them' or 'no one ever stays long in Y group' or 'be careful you can't really trust Z group'. Such beliefs are built over time and reflect, *inter alia,* the nature of people's work and careers as well as reflecting some of the issues of power and interest discussed in section 8.2. They do not necessarily reflect the reality, but they are real in their consequences. It is for the Executive to look beyond these stereotypes, to establish the reality in any area of the company and then, if they can, to address their root foundations and ensure standards of conduct and openness are upheld.

8.4.12 If left unchallenged, inaccurate and unhelpful stereotypes continue; some groups are unfairly ignored, others are unfairly championed.

8.4.13 A set of such assumptions may incline authority (at any level) to privilege the views and positions of certain groups who may be the subject of complaint because they are seen as more important to the business than others, more trustworthy than others, more invested in the core business or some other reason. Similarly, a set of assumptions may incline authority (at any level) to disregard the views, raised concerns and positions of certain groups who are deemed to be easily replaceable or untrustworthy or more attached to their own interests which diverge from the interests of the company.

8.4.14 Not all Executives want to open themselves and their cultures to challenge, or to spend the time and resources on understanding more about culture. They may feel the culture is fine, or even if there are problems, they are relatively inconsequential or best left undiscussed.

8.4.15 Good practice is that culture does matter and that Executives should seek ways to investigate its impact and attempt, through their own example, to align it to support corporate performance.

The Role of the Board in Culture

Board Oversight

8.4.16 As with all aspects of the operations of the company, the Board has a responsibility to oversee, challenge and support the Executive's role in securing whatever will achieve the company's strategic goals. Formal guidance relating to the Board's specific role in overseeing culture in an organisation is limited and generic. The Board has responsibility for safeguarding the financial success of the company and other decisions are expected to flow from this.

8.4.17 Many Executive teams will report on the cultural aspects of strategy, only when they are specifically asked about matters which can indicate culture, for example: workforce perceptions of leadership in key areas, issues of talent acquisition and retention, staff feedback and more generically whether aspects of culture pose any risk to the prospects of the organisation.

8.4.18 The Board however, may choose to require the Executive to undertake particular surveys or use focus groups or other means to access culture. The fact it is not a required reporting matter means that a NED scrutinising role may be critical. The Board may decide it wants to ensure some direct NED oversight involvement in these activities.

8.4.19 The separation of roles of operations and oversight in respect of culture can be illustrated in the context of Whistleblowing (see Section 6). NEDs should ask about the perception of the whistleblowing processes and challenge whether the organisation is doing enough to safeguard an open culture. The Executive are responsible for reporting whether and how the whistleblowing processes are used, and for creating an open culture.

8.4.20 Discussions of other company's scandals and crises create an opportunity for Boards collectively to consider whether they have sufficient oversight of the culture and in particular, to assure themselves that the organisation has suitable processes for listening and detecting problems. The guidance produced by the BEIS in 2015 (BEIS, 2015) emphasises the need for these processes.[71]

Statements of Ethics and Conduct

8.4.21 Modern governance codes dating back to the Cadbury (1992) reference the requirement for Boards and management teams to have a shared expectation of the standards of conduct expected of them and the Executive. The idea is that the Board should be able to trust that the Executive have principles or ethical standards which may be written down, so that a company Executive and its Board can recognise when such principles are being followed on not.

8.4.22 Ethics statements provide a framework for behaviour within and by the organisation. The practice of involving staff in developing such statements has grown over time so that mutual expectations are set and understood, technically thereby making it easier for anyone to call out behaviour which is misaligned with the company's values and purpose. Whether this happens or not, and whether the rhetoric of the statement is matched by experience, are matters for the Board to consider.

The Culture of the Board Room

8.4.23 The Combined Codes (1998, 2003) guide the Chair to ensure the Board functions effectively. The Board and particularly its Chair, has an implied responsibility for ensuring that the culture of the Board is fit for its purpose of fulfilling its role in oversight, challenge, and support of the Executive.

8.4.24 This responsibility means enquiring into members experiences of the Board itself. For example, do NEDs feel that the Chair allows sufficient time for discussion and challenge? Are questions which challenge accepted ways of doing things, encouraged? Are there questions which probe people's experience of behaviour and values in the company and including the extent to which they are aligned to formal statements and the pursuit of the company's objectives?

8.4.25 The Board's responsibilities for evaluating its own performance (see section 2) are relevant at two levels. The effectiveness of the Board will depend to some extent on its own culture, and its effectiveness as a Board, impacts its effectiveness in enquiring into the nature of the culture of the company.

8.4.26 There are dangers that the culture of the Boardroom may discourage exactly the behaviours which are identified as important in effective boards. For example: are conformity, obedience to hierarchy or the peer process of group-think encouraged? This can lead to the disregard of available evidence, a failure to look beyond accepted

[71] See Annex A, Section 1.16.

available evidence, poor quality decision making and a very limited view of the Board's agenda. In contrast, if there is open debate, open horizon scanning, interrogation of reports and challenge to accepted assumptions, within well managed meetings which give time for discussion and yet ensure clear decisions are made, the quality of decision making is likely to be enhanced.

8.4.27 A particular aspect of Board culture will be experiences of sharing bad news. It is always in the company's interests for the Board to be appraised of real, or potentially, bad news. However if the Executive is fearful the Board will, as the Executive see it, over-react, and the Executives will get disproportionately 'sucked' into the blame, they may be less inclined to full disclosure.

8.4.28 Fear of consequences increases when the Executive(s) are actually aware they are 'culpable,' so there may be an inclination to 'cover up'. Even Executive teams in genuine 'learning organisations' with risk and learning at their core, often find reporting bad news to the Board difficult. The Chair and NEDs have a responsibility to establish they will be thoughtful and measured in their response to bad news. Neither quick to blame, not to condone, but to investigate and support and come to the right decisions for the company.

Remuneration and Culture

8.4.29 The Board's role, normally delegated to the Board Remuneration Committee (BRemC), is to develop and implement the remuneration policy, as it applies to Senior Executives. This becomes directly relevant to culture in so far as incentives and disincentives are built into every remuneration policy and are likely to result in Executives giving priority to some aspects of performance and behaviour, and less attention to others. The FRC guidance (2016c) offers as 'helpful advice' that BRemC and the Board should regularly assess culture and ensure alignment of Executive rewards with corporate culture. Such advice should be heeded if the Board wishes to ensure that the incentives and disincentives in remuneration reflect those which will serve the company's interests. It must think carefully if there are any unanticipated consequences which could skew behaviour and culture.

8.4.30 The BRemC may also have a watching brief on the overall approach to remuneration for the whole company, although this is not a requirement. In any case, the Board's operational oversight responsibilities should encompass knowledge of any particular remuneration practices which are likely to impact the culture of the organisation. For example, if there are bonus or commission arrangements, what sorts of behaviour do they encourage?

Questions arising from Section 8.4 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

On the Culture of their Organisations

8.4.31 When if at all, did the Executives or Boards:

a) Have written statements on values, codes of conduct, and behaviours, which were available to all employees?

b) Seek to gauge the culture of their organisation?

c) Review & report on policies & procedures for employee consultation or 'speaking up'?

d) Review the impact of remuneration arrangements on the culture of the company?

8.4.32 What evidence is there of Executives or Boards:

a) Listening to views of those employed in their organisations?

b) Displaying curiosity to learn in ways which might challenge taken for granted assumptions about the nature of problems?

c) Being open to consider the identification of problems and possible solutions in non-hierarchical ways?

d) If faced with a problem or crisis, seeking to learn from other organisations or from those with direct knowledge of the issues?

On the Culture Surrounding the Management of SPMs

8.4.33 What data about SPMs was regularly collected and what of that was regularly reported to the Board? For example, did reports include:

a) SPM experiences of working with POL?

8.4.34 What evidence is there of institutional assumptions about SPMs:

a) Why (for what?) were SPMs valued?

b) SPM's presumed motivations? E.g. direct financial benefits, collateral benefits from sales of other products (e.g. groceries), services (e.g. dry cleaning), and service to the community?

c) Was anything done to check assumed motivations?

8.4.35 How were SPMs managed and controlled?

a) Were there tight rules or some discretion?

b) What was their experience of management and oversight?

c) In what ways did their remuneration arrangements impact their behaviour?

On the Culture of the Boards

8.4.36 To what extent and how did they evaluate their own Board culture and address any issues?

8.4.37 To what extent did they consider the impact of the remuneration policy for the culture of their organisation?

8.4.38 Was there a culture of 'attention to governance', including paying attention to quality of reporting, monitoring, scrutiny and problem solving.

8.5 Communications

Introduction

8.5.1 Communication is at minimum 2 way. It requires a sender, or senders, of a message or messages, and a recipient, or recipients, of a message or messages. Sending and receiving what is apparently objectively the same message does not mean it will be heard or understood in the same way by sender(s) and recipient(s). There are many filters which impact sender or recipient understanding, for example, intentions, interests, assumptions, anxieties, power differentials, authority differentials, level and nature of education, linguistic capabilities. Strong communications are where the recipient hears and understands the message as intended by the sender. Strong communications in this sense imply nothing about whether the recipient likes and supports the message, simply that there has been no misunderstanding of what the message means.

8.5.2 Communications in companies can be formal or informal. Formal communications are normally those which exist, or have existed, beyond the spoken word, in some form of print media, and form part of the intentional systems and processes in any company. A minority of formal communications may exist as recordings of the spoken word, for example in a recorded announcement by the CEO or Chair, but such spoken forms would normally be followed up with print versions. Formal communications may be required by law or code, e.g. the Annual Report and Board minutes for listed companies; or voluntary (e.g. staff newsletters and notices). There is less room for misunderstanding within formal communications if they are received, but there are limited ways in which the sender can give assurance that the communications have actually been received by all for whom they were intended.

8.5.3 Informal communications are often spoken in direct or electronic conversations or statements, as well as being written in print or social media. They may refer to formal communications, whilst also including rumour about what will or has happened; unsubstantiated and substantiated beliefs about what will or has happened; well-intentioned, mischievous or malicious observations on matters and people in, and associated with, the company, and a catch-all of what might be called 'gossip'. The evolving world of social media blurs the division of formal and informal communications. It enables rumour, myth and legend to be more easily shared between some groups but does not necessarily enable sharing between groups. It also carries with it limited means of checking the veracity of the sender or the message. Nonetheless informal communications can be very powerful in their impact. If they are believed, whether objectively true or not, they are likely to be real in their consequences.

8.5.4 Whilst the Executive and middle management have limited capacity to control informal communications, they need to 'keep their eyes and ears open' to hear it, by listening to various informal conduits, e.g. that flow through social circles and social media. They need to be alert to prevailing attitudes and beliefs which are embedded in the culture of the company and will act as a filter or magnifier for messages and set patterns for communications flowing in the company. For example, it quickly becomes known whether one is in, or dealing with, a company in which alternative views, or bad news are likely to be voiced and disclosed before there is no escape from them.

The Role of the Executive

8.5.5 Key parts of the Executive Role in communications are to:

a) Develop and maintain formal and informal communications internally within the company, and externally with stakeholders, in ways which will support the implementation of the strategy and effective operations;

b) Give assurance that internal systems and controls which require or promote good communications are developed and maintained;

c) Pay particular regard to ensuring appropriate communications are established with key stakeholders (see Section 7);

d) Attempt to ensure that the messages as sent in formal communications are understood in the same way by recipients as by the senders;

e) Keep in touch with informal communications, so they may understand various prevailing concerns, fears and hopes for the company, however ill-founded or misguided they may regard such concerns, fears and hopes;

f) Realise that the culture of the company, (which they have a key but not the controlling part in creating, see section 8.4) will encourage particular patterns of communications, including whether curiosity or challenge to taken for granted assumptions is encouraged or discouraged; and

g) Whether early and accurate disclosure of bad news is expected/encouraged.

8.5.6 Within the Executive, the CEO has particular responsibility to ensure they:

a) Establish strong, open communications within their Executive team;

b) Play their part in establishing strong, open communications with the Chair;

c) Play their part in establishing strong, open communications with the NEDs;

d) Set expectations through their own example and through normal processes of management that all managers will seek to ensure that:

i. The company's mission, purpose and priorities are widely communicated and understood;

ii. The structure of roles and responsibilities is widely communicated and understood; and

iii. The company's operational plans and priorities are widely communicated and understood.

The Role of the Board

8.5.7 As with all areas of running the company, the Board has a role in overseeing whether communications are effective and support the achievement of the organisation's objectives. They should be interested to understand the prevailing culture and how this will act as a filter, distorter or magnifier of messages.

8.5.8 Communication between the Chair and the CEO is an important key to a well-functioning Board. The CEO is the Chair's main gateway to understanding what is going on in the organisation. The Chair is the lead evaluator of the CEO's performance. How this dynamic develops over time will incline the CEO to patterns of response. It becomes especially important when the CEO is in possession of what may be bad news for the company, but there is imperfect knowledge about the matter, which is still unfolding, and the potential crisis can only be glimpsed through a degree of 'fog' about the real situation.

8.5.9 Various responses are typical:

'Let's keep the bad news to ourselves and hope we can resolve it'.

'We are in this together and we will share the bad news before it is too late or leaks by other means'.

'As we have this under control, there is no reason to alert the Chair outside our normal interactions'.

'There is no need to alert the Chair until we know more'.

8.5.10 The tenor of the response will reflect CEO judgements about the issue itself and the likelihood of later and fuller discovery. But it will also be influenced by the culture of the company, the personalities of the Chair and CEO, their past experience, the level of trust established in their relationship, and the approach adopted by the NEDs.

8.5.11 Chairs and NEDs can also be important in picking up informal communications and divergent views if they make visits 'out and about' the organisation, if they make and take opportunities for informal discussions with other Executives and members of the workforce and, if they have open informal and free flowing conversations with their board colleagues.

8.5.12 As discussed in Section 7, the Chair and CEO are also important in establishing lines of communication with external stakeholders.

Questions arising from Section 8.5 Relevant to POHI

NB Annex B provides the chronology of governance and management for the organisations which ran and oversaw POC/L. The questions below are taken to apply to all relevant organisations in the chronology.

Communications between Executives and their Boards

8.5.13 How did the Executive assure the Board that internal communications were fit for purpose?

8.5.14 What was the experience of sharing 'bad news' with the Board?

8.5.15 What was the pattern and tenor of communications between the Board and the Executive team?

8.5.16 What was the pattern and tenor of communications between the Chair and the CEO?

Communications within Boards

8.5.17 What was done to encourage NEDs to request, challenge and scrutinise data?

Communications concerning SPMs Activities

8.5.18 How would the Boards expect to have known if there were serious problems with, or in, the SPM network?

ANNEX A

LAWS, GOVERNANCE CODES & GUIDANCE

This Annex summarises governance advice for Boards in private and public regimes from legal requirements, published codes and guidance. We identify the most important messages in relation to the actions we believe Boards in all organisations are advised to take to ensure good governance is achieved.

It provides a chronology of the laws and guidance on governance of companies which applied during the relevant period 1999-2019. The material is presented chronologically, split into columns. On the left-hand side are the requirements and guidance which apply to companies, with special attention to publicly listed companies. On the right-hand side are the requirements which apply to Central Government (Departments, ALBs, other agencies) and companies which are wholly owned or controlled by Government. The summary is further divided into the opening section which deals with legal requirements, and the following section which deals with codes and guidance.

	Formal Legal Requirements for Corporate Governance		**Formal Legal Requirements that would apply to Public Corporations / Companies in Government**
	1998		**1998**
1.0	**Public Interest and Disclosure Act** – the law that protects whistle blowers from negative treatment or unfair dismissal. PIDA is part of the Employment Rights Act (1996)	2.0	**Public Interest and Disclosure Act** – the law that protects whistle blowers from negative treatment or unfair dismissal. PIDA is part of the Employment Rights Act (1996)
	2006		**2006**
1.1	**Companies' Act 1985, 2006 -** Legislation that has over 1300 sections and governs companies in the UK in most aspects of how the company is run, covering public and private companies. The expected duties of company directors' is laid out in a statutory statement as part of the Act, detailing seven general aspects. They are: a) To act within their powers as a company director b) To promote the success of the company for the benefit of its members as a whole c) To exercise independent judgement d) To exercise reasonable care, skill and diligence e) To avoid conflicts of interest	2.1	**Companies' Act 1985, 2006** Covers companies in Government, i.e. incorporated companies in which government is large or sole shareholder. 2006:Section 172, it is the Directors' responsibility to act in good faith to promote the success of the company for the benefit of its shareholder as a whole, including interests of employees and how the company effects customers, suppliers, community and the environment.

	f) To not accept benefits from third parties g) To declare interest in proposed arrangements or transactions with the company For public companies, there are additional requirements in respect of annual accounts and reports, such as environmental matters, social issues and any future development if the company is listed on the London Stock Exchange (LSE) and specific requirements to produce financial reports which are transparent, including disclosing any major acquisition. One of the most important sections of the 2006 Act is Section 172, which covers how a company acts when promoting its success. It is the Directors' responsibility to act in good faith to promote the success of the company for the benefit of its shareholder as a whole, including interests of employees and how the company effects customers, suppliers, community and the environment.		
	<u>Corporate Codes and Guidance for Corporations</u>		**<u>Codes and Guidance that might apply to Public Corporations and Companies in Government based on guidance to ALBs</u>**
	1992		**1992**
1.2	**Cadbury Code: based on Report of the Committee on The Financial Aspects of Corporate Governance, (Cadbury, 1992)** Set up in response to investors' concerns at a string of scandals in listed companies. The resultant Cadbury Code, the first Corporate Governance code in the world, set out the basic principles of good corporate governance. Although the code wasn't mandatory the 'comply or explain' principle, (the recommendation that companies state in their Annual Report and Accounts whether they have complied with the Code or explain why not) has proved enduring.		

	It focused on the control and reporting functions of Boards, and the role of auditors. It set out good practice for the functioning of audit committees and the strengthening of internal controls. It included three recommendations which strengthen independent oversight of firm performance on behalf of the shareholder: a) The positions of CEO and Chair should be separated. b) Boards should have at least three Non-Executive Directors (NEDs), who of whom should have no financial personal ties to the Executives. c) Each Board should have an audit committee, and this should be composed of NEDs. The Cadbury Report was first to recognise the importance and role of the institutional shareholders. It was noted that there is a need for greater director dialogue and engagement with this group. From this dialogue would emerge a greater understanding of the need to appreciate and respond to the needs of other stakeholders.		
	1993		**1993**
	1994		**1994**
	1995		**1995**
1.3	**Greenbury Code, derived from Report of the Study Group on Director's Remuneration (Greenbury, 1995)** Amended Cadbury to include a requirement for a Board to establish a Remuneration Committee for Executive pay.	2.2	**Nolan Principles, derived from Report of Committee on Standards in Public Life (Nolan, 1995)** 1 Selflessness 2 Integrity 3 Objectivity 4 Accountability 5 Openness 6 Honesty 7 Leadership
	1996		**1996**
	1997		**1997**

	1998		**1998**
1.4a	**The Hampel Report (Hampel, 1998)** Reviewed Cadbury (111992) and Greenbury(1995) and evaluated their implementation. It advised against prescriptive 'box ticking' and recommended a single code incorporating much of Cadbury and Greenbury. Recommended the appointment of a Senior Independent Non-Executive Director (a SID).		
1.4b	**Combined Code of Corporate Governance (FRC, 1998)** Derived from the Hampel(1998), Cadbury(1992), and Greenbury(1995) Reports. The Combined Code is appended to the listing rules of the London Stock Exchange. As such, compliance with the code is mandatory for all listed companies in the UK As with previous codes it recognises the separation of management from shareholders and recommends a unitary Board comprised of independent NEDs and Executives. The principles support strong financial controls. Specific stipulations require the Board to maintain a sound system of internal control to safeguard shareholders' investments and the company's assets. The directors should at least annually, conduct a review of the effectiveness of the group's system of internal control. Specifically, the main principles cover: **Section 1: The Board** **A.1: The Board:** Every listed company should be headed by an effective Board which should lead and control the company **A2: Chairman and CEO:** There are two key tasks at the top of every public company – the running of the Board and the Executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one		

	individual has unfettered powers of decision making. **A3: Board balance:** The Board should include a balance of Executive and Non-Executive Directors, such that no individual or small group of individuals can dominate the Board's decision making. **A4: Supply of information:** The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. **A5: Appointments to the Board:** There should be a formal and transparent procedure for the appointment of new directors to the Board. **A6: Re-election:** All directors should be required to submit themselves for re-election at regular intervals and at least every three years. **<u>B: Directors' Remuneration</u>** **B1: Level and make up of Remuneration:** Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. A proportion should be structured so as to link rewards to corporate and individual performance. **B2: Procedure:**Companies should establish a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual directors. **B3: Disclosure:** The Company's Annual Report should contain a statement of remuneration policy and details of the remuneration of each directors. **<u>C: Relations with Shareholders</u>** **C1: Dialogue with shareholders:** Companies should be ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives. **C2: Constructive use of AGM:** Boards should use the AGM to communicate		

	with private investors and encourage their participation. **<u>D: Accountability and Audit</u>** **D1: Financial reporting:** The Board should present a balanced and understandable assessment of the company's position and prospects. **D2: Internal Control:** The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets. **D3: Audit Committee and Auditors:** The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. **<u>Section 2 – Institutional Shareholders</u>** **E1: Shareholder voting:** Institutional shareholders have a responsibility to make considered use of their votes. **E2: Dialogue with companies:** Institutional shareholders should be ready, where practicable, to enter into a dialogue with companies based on the mutual understanding of objectives. **E3: Evaluation of governance disclosures:** When evaluating companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should give due weight to all relevant factors drawn to their attention		
	1999		**1999**
1.5	**Turnbull Guidance** Set out best practice on internal controls and risk management and provided guidelines for directors on how to meet their obligations in the Combined Code (1998). It was updated in 2005 and superseded by the FRCs risk guidance in 2014.		
	2000		**2000**

	2001		**2001**
1.6	**Myners Code** Institutional investment and the importance of good shareholder relations and dialogue Principle 6 deals with transparency and reporting and outlines specific practical guidelines for stakeholder, particularly shareholder communication: a) Maintain a communication policy and strategy; b) Ensure all required strategies and policies are published in a clear transparent manner; and c) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.	2.2a	**Management of Risk – A Strategic Overview, rapidly became known as The Orange Book (HM Treasury 2001)** The Orange Book, which is regularly updated, outlines how risks should be managed in the public sector, it deals with the assessment of the risks to projects and programmes, and considerations in securing the effectiveness of the actions taken to manage these risks. It frames risk and risk management for Accountable Officers in government as a requirement for the delivery of government objectives and sets risk within established frameworks and guidance for risk management and mitigation. The Orange Book introduction states the need for greater risk management in central government because: '*In successful organisations risk management enhances strategic planning and prioritisation'*. It encourages more managed risk taking and guidance on risk control in government.
	2002		**2002**
	2003		**2003**
1.7a	**Combined Code on Corporate Governance, FRC 2003** updating first Combined Code (1998), following and Review of audit committees by Sir Robert Smith, see 1.7b and Review of the role of NEDs by Higgs, see 1.7c Includes main and supporting principles and provisions: **A. Companies:** The Board Chairman and Chief Executive Board balance and independence Appointment to the Board Information and Professional Development Performance Evaluation Re-election **B. Remuneration** The level and make-up of remuneration Procedure **C. Accountability and Audit** Financial Reporting Internal Control Audit Committee and Auditors		

	D. Relations with shareholders Dialogue with Institutional Shareholders Constructive use of the AGM **E. Institutional shareholders** Dialogue with Companies Evaluations of Governance Disclosures Shareholder voting The 2003 code introduces a new provision that audit committees should keep under review the whistleblowing procedures in the organisation.		
1.7b	**Smith Guidance (Smith FRC 2003)** Addressed auditor independence and clarified the role and responsibilities of audit committees. The committee developed guidance for directors on audit committees, updated in 2016.		
1.7c	**The Independent Review of Non Executive Directors by Derek Higgs** Reviewed the role and effectiveness of NEDs, highlighting the importance of NED independence. The report influenced the Combined Code (2003) including the provision that at least half of the Board excluding the Chair should comprise independent NEDs. The FRC(2006) published good practice suggestions from the report since adapted into the Guidance on Board Effectiveness(FRC 2018)		
	2004		**2004**
	2005		**2005**
1.8	**Internal Control: Revised Guidance for Directors on the Combined Code (FRC 2005)** Updated the Turnbull Guidance (1999); Emphasised a) the importance of regular and systematic assessment of the risks facing the business; b) The value of embedding risk management and internal control systems within business processes; and c) The Board's responsibility to make sure this happens.	2.3	**Corporate Governance Code in Central Government departments – Code of Good practice (HM Treasury and Cabinet Office, 2005)** The government 'borrows' the principles of the corporate code, adapting them for the first time in order to codify good practice for Central Government Departments in relation to Governance, Board leadership, Board effectiveness and oversight of ALMs Main principles: 1. **Parliamentary Accountability** – the minister and the head of the department, its Accounting Officer

			(AO) are both responsible to Parliament. 2. **Supporting Provisions**: roles and responsibilities including confirmation of AO role. The AO should establish a clear allocation of responsibilities. He or she retains personal responsibility and accountability to Parliament for: a) Propriety and regularity; b) Prudent and economical administration; c) Avoidance of waste and extravagance; d) Efficient and effective use of resources; e) The organisation, staffing and management of the department; and f) The deployment of Public Money and consideration of value for money 3. **The Board** – Chaired by or under the direction of the Minister. Reminder of the need to act in keeping with Nolan principles. 4. **Skills** – a balance of skills and experience relevant to directing the business of the department. 5. **Independent Non-Executives –** should be appointed by the head of department to whom they are accountable for their performance, following ratification of the selection by the Board as whole. d) **On appointment an INED** should be provided with written terms of reference including the specification of his or her role, line of accountability and terms of appointment, informed of how his or her performance will be appraised and given an induction program. 6. **Internal Controls** e) **An audit committee** Chaired by an INED. f) **An internal audit service**. g) **ALBs** – there should be robust governance arrangements in place with each ALB Board.

			Working relationships with ALBs should be based on good transparent relationships, good governance and shared interests in respect of value for money obligations. This reflects the spirit of transparency with shareholder communication in the combined code (2003).
1.9a	**Guidance on Whistleblowing (FCA latest version a)** Sets out the requirements on UK firms in relation to the adoption, and communication to UK based employees of appropriate internal procedures for handling reportable concerns made by whistleblowers as part of an effective risk management systems. It sets out the role of whistleblowers' champions.		
	2006		**2006**
1.9b	**Suggestions for good practice from the Higgs Report (FRC 2006)** Included greater independence of the Board, and that at least half of the Board, excluding the Chair, should comprise independent NEDs.		
	2007		**2007**
	2008		**2008**
1.10	**Combined Code on Corporate Governance (FRC 2008)** Changes to the 2003 Combined Code included: removal of restrictions on Chairs Chairing more than 1 FTSE100; and for smaller companies, Chairman can be a member of the Audit Committee so long as s/he was considered independent on appointment.		
	2009		**2009**
1.11a	**Walker Review (2009)** of the banking crisis proposed changes to the Combined Code to strengthen the principles of stewardship and greater challenge in financial services, which were taken on by other sectors. Proposals for all large listed companies included: **Embedding 'a culture of challenge' into Boardroom behaviour**		

	a) Paying attention to Boardroom composition to gain industry expertise and independence; b) Providing adequate support for NEDs typically from the CoSec; c) Highlighting the key role of the Chairman and the time commitment and leadership required; and d) Professional training of Directors and evaluation of the Board effectiveness **The risk oversight role of the Board** through the establishment of a Board Risk Committee **Shareholders' engagement with Boards** should be strengthened, particularly in Remuneration processes and outcomes		
1.11b	**Going Concern and Liquidity Risk: Guidance for Directors of UK Companies** (FRC 2009) One of the most important issues in companies is the concept of 'going concern'. This guidance brings together the requirements of the Companies Act 2006, accounting standards and the Listing Rules on going concerns and guidance for their application.		
	2010		**2010**
1.12	**Revised UK Corporate Governance Code (FRC 2010)** The code was strengthened in two areas: a) Board diversity to encourage Boards to be well balanced and avoid 'group think'. New principles on Board composition and selection were added, including the need to appoint directors on merit, against objective criteria and with due regard to the benefits of diversity, including gender. b) Risk recommendations were made against the backdrop of Walker Review (2009) and Banking Crisis, financial/ economic crisis, including that the Board should be responsible for determining the nature and extent of the significant risks it is willing to take and a requirement to present thinking on going concern.		

	2011		**2011**
		2.4	**Corporate Governance Code Central Govt Departments – Code of Good Practice (HM Treasury and Cabinet Office, 2011)** The 2005 version of the Code was revised by Francis Maude, then Minister for the Cabinet Office, with the aim to *'make the government operate in a more business-like manner'* by bringing in senior and experienced leaders from across the private, public and not-for-profit sectors. It focuses on the role of Boards for Central Government Departments which should be Chaired by the Secretary of State (no longer the permanent secretary) and be balanced, with equal numbers of Ministers, civil servants and Non-Executives from outside government. Main principles: Parliamentary Accountability; The role of the Board; Board Composition; Board Effectiveness; Risk Management.
	2012		**2012**
1.13	**Update to the Corporate Governance Code (FRC 2012)** Expects Companies to explain and report on progress with their policies on Boardroom diversity. Genuine diversity in the boardroom is considered important for Board effectiveness, reducing 'group think'. Other changes include: - Audit Committees are to provide to shareholders information on how they have has carried out their responsibilities, including how they have assessed the effectiveness of the external audit process; - Boards are to confirm that the annual report and accounts taken as a whole are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the company's performance;	2.5	**Managing Public Money (HM Treasury 2012)** Describes the Essential Duties of the Accounting Officer. Guidance on the proper handling of all public funds. Public servants have a demanding fiduciary duty to use public money responsibly. Accounting Officer functions (Chapter 3 of the publication) sets out the role of the Accounting Officer (AO) (3.1 below), the appointment of accounting officers (3.2 below) and special responsibilities of accounting officers (3.3 below) **3.1** – Each organisation in central government (department, agency, trading fund, NHS body, NDPB or ALB) must have an AO. This person is usually its senior official. The accounting officer in an organisation should be supported by a Board structure in line with the Corporate Governance Code. Formally the AO can be called by Parliament to account for the stewardship of the resources. The AO is expected to assure

	- Companies are to explain, and report on progress with, their policies on boardroom diversity. This change was first announced in October 2011, but its implementation was deferred to avoid piecemeal changes to the Code - Companies are to provide fuller explanations to shareholders as to why they choose not to follow a provision of the Code.		Parliament and the public of high standards of probity. **3.2 –** The Treasury appoints the permanent head of each Central Government department to be AO, or PAO if that AO appoints the permanent heads of its executive agencies or ALBs to be AOs for their particular bodies for which the PAO has responsibility **3.3** – Each AO takes personal responsibility for ensuring that the organisation he or she manages delivers the standards of probity, in particular they must personally sign a) The accounts; b) The annual report; and c) The governance statement. They must approve: a) Voted budget limits; and b) The associated Estimates Memorandum Section 4 Governance and Management, identifies best practice for Boards as deciding risk appetite, monitoring emerging threats and opportunities, and maintaining the risk register.
	2013		**2013**
		2.6	**Orange Book Management of Risk Principles and Concepts (HM Treasury 2013)** Updated earlier guidance on the **main and supporting principles for risk management in government**. The main principles are mandatory requirements. They provide the "what" and the "why", not the "how", for the design, operation, and maintenance of an effective risk management framework.
	2014		**2014**
1.14	**Revised UK Corporate Governance Code (FRC 2014b)** Code is amended and incorporates revised guidance on risk management, internal control and financial and business risk reporting described in 1.15 (FRC 2014a)		

1.15	**Guidance on risk management, internal control and financial and business reporting: The Risk Guidance (FRC2014a)** Brings together elements of best practice for risk management; prompts Boards to consider how to discharge their responsibilities in relation to the existing and emerging principal risks faced by the company; reflects sound business practice, whereby risk management and internal control are embedded in the business process by which a company pursues its objectives; and highlights related reporting responsibilities. It is primarily directed at companies subject to the UK Corporate Governance Code		
	2015		**2015**
		2.7	**Accounting Officer Survival Guide, (HM Treasury December 2015)** Based on 2012 guidance for AOs in 2.5 above **Managing Public Money** (HM Treasury 2012) the guide restates essential duties for AOs covering: a) Governance; b) Decision making; and c) Financial management Specifically, it draws attention to inherent tensions in the role of AOs especially in Companies in Government, offers guidance around conflicts of interest in balancing fiduciary duties and government objectives with strategic goals of government owned companies or ALBs. Specific guidance includes: a) When parliament calls a public sector organisation to account, it is the accounting officer who gives evidence, others in the organisation account for their own performance to the accounting officer in line with delegated powers. b) The accounting officer of a public sector organisation is usually its permanent secretary or Chief Executive Officer, who manages the business day to day. The post carries personal responsibilities to manage the organisation efficiently

			and effectively and to report to parliament accurately, meaningfully and without misleading. c) The accounting officer's touchstone in assessing any course of action should simply be: whether the activity can be justified adequately if parliament calls it to account i.e. it meets parliament's expectations of handling public funds. d) The accounting officer should assess each initiative through the accounting officer lens to see whether it meets the four essential accounting officer standards set out in 2.5 Managing Public Money (HM Treasury 2012): regularity, propriety, value for money and feasibility expected by parliament and the public for use of public resources. e) Each public sector organisation is led by a Board … normally the accounting officer's duties, priorities and objectives align with the Boards. On the rare occasions where they do not, the AO should take the distinct and separate view in line with the AO standards. They should never act in a way which is incompatible with legal obligations.
		2.8a	**Whistleblowing Guidance and Code of Practice**, from Department for Business and Skills (DBIS 2015) Recommends good practice for employers including having the right culture, written policies, training and support, quick responses, and effective processes. Reminds that Whistleblowing law is governed by the 1996 Employment Rights Act (amended by the 1998 Public Interest Disclosure Act). To be covered by whistleblowing law, employees must believe they are acting in the public interest in disclosing past, current or likely future: Criminal offences (this may include, for example, types of financial impropriety such as fraud); Failure to comply with an obligation set out in law; Miscarriages of justice;

			Endangering of someone's health and safety; Damage to the environment; and Covering up wrongdoing in the above categories.
	2016		**2016**
1.16	**Corporate Culture and the Role of the Board (FRC July 2016c)** Provides guidance on the Board's role in corporate culture; states that a Culture of integrity and diversity are central to the Corporate Governance Code. Principle B requires Boards to establish a corporate purpose, values and business strategy and ensure they are aligned with culture. Boards are also urged to regularly assess and monitor culture and ensure greater alignment of executive incentives and rewards with corporate culture. New rules on whistleblowing require affected firms to have assigned responsibilities to a NED to be a whistle-blower and offers guidance to non-affected firms FCA regulates (FCA, 2016).	2.8b	**The HM Treasury Audit and Risk Assurance Committee Handbook 2016** It reflects developing best practice in governance and to support the provisions of the Corporate Governance in Central Government Departments and associated assurance needs in the governance of government organisations.
1.17	**Revised Code on Corporate Governance (FRC April 2016a)** **It includes amendments** on the functioning of Audit Committees: The head of internal audit should be (expected to be) invited regularly to attend meetings of the audit committee (joining the finance director and the external audit partner as expected invitees). a) If risk management and internal control responsibilities are delegated to different committees the Board should consider the impact of splitting those responsibilities. b) A responsibility to consider the clarity of audit committee reporting and to be prepared to meet investors, as a basis for ensuring that shareholder interests are properly protected in relation to financial reporting and internal control.	2.9	**Ministerial Code (Cabinet Office 2016a)** The Ministerial code was first published in 2010 and is updated from time to time. It sits against the background of the over-arching duties of Ministers to comply with the law and protect the integrity of public life. They are expected to observe the 7 Nolan (1995) Principles of Public Life. It sets out the relationship Ministers are expected to have with civil servants and the collective responsibility they have for being as helpful as possible in providing accurate, truthful and full information to Parliament. Guidance to the effect that Central Government Departments should have Boards, chaired by Secretaries of State. Policy should be decided by Ministers. Boards bring strategic clarity, commercial sense, talented people, results focus, and management information.

	c) There are additional reporting requirements for the audit committee to explain in its report how the audit committee composition requirements have been addressed and also how the audit committee has assessed the effectiveness of internal audit. Revised ethical standards on auditing.		
		2.10	**Governance Code for Public Appointments (Cabinet Office 2016b)** This was published following a review of public appointments and sets out the process and principles that should underpin all public appointments. The principles that should underpin all appointments are: a) **Ministerial responsibility** – the ultimate responsibility for appointments rests with Ministers; b) **Selflessness** – Ministers when making appointments should act solely in terms of the public interest; c) **Integrity** – Ministers when making appointments must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work; d) **Merit** – All public appointments should be governed by the principle of appointment on merit; e) **Openness** – processes for making public appointments should be open and transparent; f) **Diversity** – public appointments should reflect the diversity of the society in which we live; g) **Assurance** – There should be established assurance processes with appropriate checks and balances; and h) **Fairness** – selection processes should be fair and impartial
	2017		**2017**
		2.11	**Corporate Governance in Central Government Departments Code of Good Practice (HM Treasury and Cabinet Office, 2017)** This updated code of good practice builds on the 2011 code. *'Since 2011, there has been a step change in the governance of central government departments. Secretaries of*

			state now Chair departmental Boards, bringing a high level of focus on issues such as performance, risk management, talent and the challenge and scrutiny of major projects. This departmental Board model is now embedded as a key element of the fabric of corporate governance across central government departments'. The Board may choose to delegate to its committees. As a minimum, there should be committees responsible for audit and risk assurance (the responsibilities of which will include reviewing the comprehensiveness of assurances and integrity of financial statements), and nominations.
	2018		**2018**
1.18	**Revised Code and Guidance on Board effectiveness (FRC 2018)** This was to stimulate Boards' thinking on how they can carry out their role and encourage them to focus on continually improving their effectiveness with a particular focus on: a) Board leadership and company purpose; b) Division of Responsibilities; c) Composition, Succession and Evaluation; d) Audit, Risk and Internal Control; e) Remuneration	2.12	**Managing Public Money (HM Treasury 2018)** Updated 2012 version and aims to provide a comprehensive overview of the key requirements of HM Treasury in the stewardship of public funds.
	2019		**2019**
1.19	**The Brydon Review** by Sir Donald Brydon Reviews the quality and effectiveness of audit makes 65 recommendations, many relating to the part played by others in relation to the audit. Some are applicable only to the FTSE 350 including: a) The extension of the concept of auditing to areas beyond financial statements; b) Mechanisms to encourage greater engagement of shareholders with audit and auditors; c) Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance; d) A package of measures around fraud detection and prevention;	2.13	**Code of Conduct for Board Members of Public Bodies (Cabinet Office 2019)** Replaces the 2011code of conduct. Forms part of the Terms of Appointment for NEDs of public bodies. Includes new provisions including that bullying, harassment, or other discriminatory behaviour will not be tolerated, that conflicts of interest must be declared and managed, that boards have responsibilities towards employees; on the use of social media; and responsibilities for raising concerns.

	e) Improved auditor communication and transparency; f) Obligations to acknowledge external signals of concern;		
1.20	**<u>The FRC's Ethical Standard (2019)</u>** UK governance relies on the maintenance of high ethical standards in audit firms which are necessary to support trust and confidence in UK corporate reporting and audit. This FRC standard applies in the audit of financial statements and other public interest assurance engagements in both the private and public sectors.	2.14	**Orange Book – from Government Finance Function and HM Treasury (updated) 2019** Updates 2013 guidance

ANNEX B

CHRONOLOGY OF OWNERSHIP AND GOVERNANCE OF THE POST OFFICE BUSINESS (POB) 1999-2020.

This Annex has been produced according to our current understanding on the basis of information currently known to the experts or which has been made available to them. It is not an authoritative or complete schedule.

	Level 1			Level 2			Level 3			Level 4	
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department**[72]	**SoS and if shown (POB Minister)**
Phase1: 1999-2000											
1999	**Post Office Counters Ltd** [73] (Co. No. 02154540) Incorporated as **POC Ltd**, a subsidiary of the **Post Office Authority**	Stuart Sweetman (in post since 1996)	None	**The Post Office Authority** Statutory corporation 'with powers to issue directions to POCL'			None			**DTI**	The Right Honourable Stephen Byers MP
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department**[74]	**SoS and if shown (POB Minister)**

[72] Provisions in POLs Articles conferring rights and powers on Government.
[73] POCL and POL is classified as a Public Non-Financial Corporation ('Public Corporation') by the Office for National Statistics. Designed to operate at arm's length from Ministers and government with accountability placed with their own board and executive team, accountable to the SoS as sole shareholder. POLs Chief Executive is designated as Accountable Officer [WITN11020100].
[74] Provisions in POLs Articles conferring rights and powers on Government.

2000	**Post Office Counters Ltd** (Co. No. 02154540) Wholly owned by **POA** then **RMG plc**	Stuart Sweetman	None	**The Post Office Authority** Became **Expand Reserve Public Limited Company** Became **Post Office Group plc.** became **Consignia plc**		Dr Neville Bain	None			**DTI**	The Right Honourable Stephen Byers MP (The Right Honourable Alan Johnson MP PO Minister)

Phase 2 :2001-2012											
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department**[75]	**SoS and if shown (POB Minister)**
2001	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	Stuart Sweetman	None	**Consignia plc** Became **Consignia Holdings plc.** Known as **The Holding Company (Co. No. 04074919)** Wholly owned **Royal Mail Group plc**	John Roberts	Dr Neville Bain	None			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury [76]	The Right Honourable Patricia Hewitt MP (The Right Honourable Alan Johnson MP PO Minister)

[75] Provisions in POLs Articles conferring rights and powers on Government.
[76] Indirect powers over POL (with direct powers over Holdings Company). Indirect powers were in relation to POLs Board, to amend POLs Articles of Association (the Articles) and policy oversight. In 2017 government gained direct powers over POL [WITN11020100].

Date	POB	POB Senior Executive	POB Chair	OPOB Ownership of POB	OPOB Senior Executive	OPOB Chair	AGS Active Govt Shareholder	AGS Senior Executive	AGS Chair	Sponsoring Government Department[77]	SoS and if shown (POB Minister)
2002	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	David Mills	Allan Leighton	**The Holding Company** (Now Royal Mail Holdings plc) Owned **Royal Mail Group plc**	John Roberts Adam Crozier	Allan Leighton	None			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Patricia Hewitt MP
2003	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	David Mills	Sir Mike Hodgkinson Non-Executive Chair	**The Royal Mail Holdings plc** [78] Owned **Royal Mail Group Ltd plc**	Adam Crozier	Allan Leighton	ShEx			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Patricia Hewitt MP
2004	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	David Mills	Sir Mike Hodgkinson Joined by first NED	**The Royal Mail Holdings plc** Owned	Adam Crozier	Allan Leighton	ShEx			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary	The Right Honourable Patricia Hewitt MP

[77] Provisions in POLs Articles conferring rights and powers on Government.
[78] From February 2003 until March 2012 the board of the Holding Company had oversight and key decision-making responsibility for RMG (The Holding Company was described as the main plc board for RMG), with the RMG board only meeting for statutory purposes during that period [WITN11030100].

Date	POB	POB Senior Executive	POB Chair	OPOB Ownership of POB	OPOB Senior Executive	OPOB Chair	AGS Active Govt Shareholder	AGS Senior Executive	AGS Chair	Sponsoring Government Department[79]	SoS and if shown (POB Minister)
				Royal Mail Group plc						share) held by Treasury	
2005	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	David Mills (from March) Alan Cook	Sir Mike Hodgkinson	**The Royal Mail Holdings plc** Owned **Royal Mail Group plc**	Adam Crozier	Allan Leighton	ShEx			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Alan Johnson MP
2006	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG plc**	David Mills / Alan Cook	Sir Mike Hodgkinson	**The Royal Mail Holdings plc** Owned **Royal Mail Group plc**	Adam Crozier	Allan Leighton	ShEx			**DTI** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Alistair Darling MP
2007	**Post Office Ltd** (Co. No. 02154540)	Alan Cook	Sir Mike Hodgkinson	**The Royal Mail Holdings plc** Owned	Adam Crozier	Allan Leighton	ShEx			**DTI / BERR** owned majority shares in The Holding Co.	The Right Honourable John Hutton MP

[79] Provisions in POLs Articles conferring rights and powers on Government.

Date	POB	POB Senior Executive	POB Chair	OPOB Ownership of POB	OPOB Senior Executive	OPOB Chair	AGS Active Govt Shareholder	AGS Senior Executive	AGS Chair	Sponsoring Government Department[80]	SoS and if shown (POB Minister)
	Wholly owned by **RMG Ltd**			**Royal Mail Group Ltd**						with a small shareholding (1 ordinary share) held by Treasury	
2008	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG Ltd**	Alan Cook		**The Royal Mail Holdings plc** Owned **Royal Mail Group Ltd**	Adam Crozier	Allan Leighton	ShEx			**DTI / BERR** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Peter Mandelson MP
2009	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG Ltd**	Alan Cook	Donald Brydon	**The Royal Mail Holdings plc** Owned **Royal Mail Group Ltd**	Adam Crozier	Allan Leighton Donald Brydon	ShEx			**BIS** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Peter Mandelson MP

[80] Provisions in POLs Articles conferring rights and powers on Government.

Date	POB	POB Senior Executive	POB Chair	OPOB Ownership of POB	OPOB Senior Executive	OPOB Chair	AGS Active Govt Shareholder	AGS Senior Executive	AGS Chair	Sponsoring Government Department[81]	SoS and if shown (POB Minister)
2010	**Post Office Ltd** (Co. No. 02154540) Wholly owned by **RMG Ltd**	David Smith Paula Vennells	Donald Brydon	**The Royal Mail Holdings plc** Owned **Royal Mail Group Ltd**	Adam Crozier Moya Green	Donald Brydon	ShEx			**BIS** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Vince Cable MP
2011	**Post Office Ltd (POL)** (Co. No. 02154540) Wholly owned by **RMG Ltd**	Paula Vennells	Donald Brydon Alice Perkins	**The Royal Mail Holdings plc** Owned **Royal Mail Group Ltd**	Moya Greene	Donald Brydon	ShEx			**BIS** owned majority shares in The Holding Co. with a small shareholding (1 ordinary share) held by Treasury	The Right Honourable Vince Cable MP
2012	**Post Office Ltd POL** (co. no. 02154540) A Public Corporation with own BOD and Articles of Association	Paula Vennells	Alice Perkins	**The Royal Mail Holdings plc (co.no. 04074919)**	Moya Greene	Donald Brydon	ShEx [82]			**BIS** owned majority shares in The Holding Co. with a small shareholding (1 ordinary	The Right Honourable Vince Cable MP

[81] Provisions in POLs Articles conferring rights and powers on Government.
[82] Shareholder NED appointed to POL Board, continues to the end of the relevant period

	Change in corporate structure, POL now same level as RMG, reporting to **The Royal Mail Holdings plc**									share) held by Treasury	
Phase 3: 2013-2019											
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department[83]**	**SoS and if shown (POB Minister)**
2013	**Post Office Ltd POL** A Public Corporation with own board and Articles	Paula Vennells	Alice Perkins	**The Royal Mail Holdings plc** Became **Postal Services Holding Company ltd (PSHCL)**			ShEx			**BIS** sole shareholder on behalf of Government, Sept 2013	The Right Honourable Vince Cable MP
2014	**Post Office Ltd. POL**	Paula Vennells	Alice Perkins	**Postal Services Holding**			ShEx			**BIS** Sole Shareholder on behalf of Government	The Right Honourable Vince Cable MP

[83] Provisions in POLs Articles conferring rights and powers on Government.

	A Public Corporation with own board and Articles			**Company Ltd (PSHCL)**							
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department[84]**	**SoS and if shown (POB Minister)**
2015	**Post Office Ltd POL** A Public Corporation with own board and Articles	Paula Vennells	Alice Perkins / Tim Parker	**Postal Services Holding Company Ltd (PSHCL)**			ShEx			**BIS** Sole shareholder on behalf of Government	The Right Honourable Sajid Javid MP
2016	**Post Office Ltd POL** A Public Corporation with own board and Articles	Paula Vennells	Tim Parker	**Postal Services Holding Company Ltd (PSHCL)**			UKGI (ALB)		Robert Swannell	**BIS** Sole shareholder on behalf of Govt	The Right Honourable Sajid Javid MP / The Right Honourable Gregg Clark MP
2017	**Post Office Ltd POL**	Paula Vennells	Tim Parker	**Postal Services**			UKGI (ALB)	Mark Russell	Robert Swannell	**BEIS** Sole shareholder	The Right Honourable

[84] Provisions in POLs Articles conferring rights and powers on Government.

	A Public Corporation with own board and Articles			**Holding Company Ltd (PSHC)** Shares transferred to **SoS**						on behalf of Govt with direct powers over POL	Gregg Clark MP
Date	**POB**	**POB Senior Executive**	**POB Chair**	**OPOB Ownership of POB**	**OPOB Senior Executive**	**OPOB Chair**	**AGS Active Govt Shareholder**	**AGS Senior Executive**	**AGS Chair**	**Sponsoring Government Department[85]**	**SoS and if shown (POB Minister)**
2018	**Post Office Ltd POL** A Public Corporation with own board and Articles	Paula Vennells	Tim Parker				UKGI (ALB)[86]	Mark Russell	Robert Swannell	**BEIS** Sole shareholder on behalf of Govt	The Right Honourable Greg Clark MP (Andrew Griffith PO Minister)
2019	**Post Office Ltd POL** A Public Corporation with own	Nick Read	Tim Parker				UKGI (ALB)	Mark Russell	Robert Swannell	**BEIS** Sole shareholder on behalf of Govt	The Right Honourable Greg Clark MP / The Right Honourable

[85] Provisions in POLs Articles conferring rights and powers on Government.
[86] BEIS acts as POLs policy sponsor, UKGI corporate governance / shareholder sponsor, with its own Board of Directors

	board and Articles										Andrea Leadsom MP
2020	**Post Office Ltd POL** A Public Corporation with own board and Articles	Nick Read	Tim Parker				UKGI (ALB)	Charles Donald	Robert Swannell	**BEIS**	The Right Honourable Alok Sharma MP

ANNEX C

GLOSSARY

Board

The highest level of governance of a company.

A Unitary Board of a listed company would normally include a Chair (independent on appointment), Non-Executive Independent Directors, possible Non-Executive Non-Independent directors, and at least one Executive director (normally the CEO).

An Executive Board of a non-listed company may have a Chair (Executive from within the company or independent on appointment) and Executive Directors. They may choose to have Non-Executive Directors

A board of a subsidiary (wholly owned) company will have the structure determined by the parent and by regulation (as in UK banks). It may, or may not, include a Chair (independent on appointment), Non-Executive Independent Directors, Non-Executive & Non-Independent directors appointed by the parent and at least one Executive director (normally the CEO)

A Board of a government owned company may have an Accounting Officer, if the PAO in the sponsoring department chooses to appoint an AO in the government owned business. In such cases the AO would normally be the Chief Executive or the person responsible for the day-to-day running of the company. They may also have independent governance arrangements for example, a Board made up of a majority of independent Non-Executive Directors from outside government.

Culture

The prevailing attitudes, values and beliefs as experienced by people within the company and stakeholders who interact with the company.

Executive

The senior people, often called Directors or Chief Officers or Senior Executives in any company, usually referring to the CEO and their most senior leadership team, usually their direct reports, often including CFO, CRO, COO, HRD. Together the CEO may constitute them as an Executive Committee

Governance

Structures and systems by which the company is governed and the mechanisms by which it and its Executive is held to account by the owners of the company.

Internal Controls

Systems designed to ensure that information, concerning compliance with applicable laws, regulations, contracts, policies and procedures, is reliable, accurate and timely.

Leadership

Two meanings, both used in this report:

a) Used in this report to describe the people who are in Senior Positions in a company, also referred to as the Executive;

b) Used to describe the practices of those who lead others, not directly related to senior position. Occasionally it is used in this meaning in this report.

Management

Two meanings, both used in this report:

a) The processes and structures through which the company is run;

b) The people in the organisation who have 'positions as 'managers' but are not the most senior who are referenced as 'Executives'.

Structure

The roles and reporting relationships which are specified within the company.

ANNEX D

ACRONYMS & ABBREVIATIONS

AGM Annual General Meeting

ALB Arm's Length Body

AGS Active Government Shareholder

AO Accounting Officer or Accountable Officer

ARA Annual Report and Accounts

ARAC Audit Risk and Assurance Committee

BAC Board Audit Committee

CoSec Company Secretary

BERR Department of Business, Enterprise, and Regulatory Reform

BEIS Department of Business, Energy, and Industrial Strategy

BIS Department of Business and Industrial Strategy

BRC Board Risk Committee

BRemC Board Remuneration Committee

CEO Chief Executive Officer

CFO Chief Finance Officer

COO Chief Operating Officer

CTO Chief Technology Officer

DTI Department of Trade and Industry

EGM Extraordinary General Meeting

ESG Environmental, Social and Governance

EA External Audit

FCA Financial Conduct Authority

FRC Financial Reporting Council

FSA Financial Conduct Authority

GRC Governance Risk and Compliance

HRD Human Resources Director

IA Internal Audit

INED Independent Non-Executive Director

MD Managing Director

NAO	National Audit Office
NED	Non-Executive Director
NINED	Non-Independent Non-Executive Director
OPOB	Ownership/Oversight of Post Office Business
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
POB	Post Office Business
POC	Post Office Counters ltd
POC/L	Post office Counters ltd and Post Office Ltd
POL	Post Office ltd
POHI	Post Office Horizon IT Inquiry
PIDA	Public Interest and Disclosure Act
RMG	Royal Mail Group
RMH	Royal Mail Holdings
ShEx	Shareholder Executive
SoS	Secretary of State
UKGI	UK Government Investments

ANNEX E

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ANNEX F

QUALIFICATIONS AND EXPERTISE OF DAME SANDRA DAWSON AND DR KATY STEWARD

Professor Sandra Dawson *BA (Keele Univ.), MA (Univ. of Cambridge), Hon DSc (Keele Univ.), DBE*

Dame Sandra is Professor Emerita at the University of Cambridge. She was formerly Director of Cambridge Judge Business School (1995-2006), Master of Sidney Sussex College (1999-2009) and one of the Deputy Vice Chancellors of the University (2008-2012). Prior to moving to Cambridge, she held academic positions in Imperial College, University of London.

She teaches, writes and consults on organizational behaviour, leadership and governance.

She was invested as a Dame Commander of the British Empire in recognition of her contribution to higher education and management research.

She has wide practical experience as a Board member in the commercial, public and charitable sectors. Former Board positions include: Chair, Riverside Mental Health NHS Trust (1992-1995); Chair, Executive Committee, Social Science Research Council, USA (2009-2019);Trustee and sometime Vice-Chair, Oxfam GB (2006-2012); Senior Independent Director and Chair of the Remuneration Committee, TSB Bank (2014-2020); Non-Executive Director and sometime Senior Independent Director and Chair of Remuneration Committee, Financial Services Authority(2010-2013); Non-Executive Director and member of the Audit committee, Barclays plc(2003-2009), Non-Executive Director and member of the Audit Committee, JPMorgan Claverhouse Investment Trust (1996-2003); Chair, Remuneration Committee and member of the Audit and Ethics Committees, DRS plc (2012-2016) ; Chair, ESRC Advanced Institute of Management Executive Steering Committee, 2007-12; Member, Prime Minister's Council on Science and Technology (2011-2014); Member, Windrush Lessons Learned Review Advisory Group (2017-2020); Member, Senior Salaries Review Body (1996-2003), Trustee and sometime Chair of the Academic Affairs and Research Committee, American University of Sharjah (2014-2023). She currently Chairs the Advisory Board of the Cambridge Museum of Zoology and sits on the Advisory Board of Cambridge Judge Business School.

Dr Katy Steward *MA (Univ of Cambridge), MBA (Imperial College, Univ of London), PhD (Imperial College, Univ of London)*

Dr Steward is currently a Visiting Scholar at Sidney Sussex College, Cambridge. In 2022-23 she was a Visiting Fellow at Cambridge Judge Business School, University of Cambridge.

She has taught, advised, coached and consulted on leadership, organisation culture and governance for the past 30 years. Her experience includes:

Head of National Culture and Leadership Program, NHS England, (2021-2022), including advising on governance, leadership, culture change and whistle blowing.

The Kings Fund, Independent Health Think Tank, (2004-13), including advising and coaching various CEOs of health and other organisations, Professions' regulators, an independent care provider and a large international development organisation, on leadership, governance, culture change and organisation structure.

Monitor (Regulator of all NHS Foundation Trust Hospitals) (2003-04), including developing frameworks for the evaluation of governance and culture.

Membership of Boards in the charity and public sectors, including Non-Executive Director and member Audit Committee and Nominations Committee UK UNHCR, (2021-date); Non- Executive Director and Chair, Quality Committee & Board Culture Change Committee, Norfolk and Suffolk NHS Mental Health Trust (2020-23); Trustee and sometime member of Safeguarding Committee, Oxfam GB (2013-2020); Trustee, Amref,UK (2011-2014); Trustee, The Kaloko Trust (2006-2011).

Membership of various groups, including Member, National Guardians Office Roundtable on Whistleblowing (2022); Member, NHS England Culture and Leadership Advisory Group (2019-21); Member, Lord Carter Productivity Review of Ambulance Services and Mental Health (2016-17); Director, National Foundation Trust Governors' Association, Advisory Group, Kings Fund (2005); Chair, NHS Board Chairs Leadership Program Advisory Committee, Kings Fund (2005-13).

ANNEX G

Report to the Post Office Horizon IT Inquiry by Dame Sandra Dawson and Dr Katy Steward.

<u>Declaration</u>

We, Dame Sandra Dawson and Dr Katy Steward, declare that:

1) We have been appointed jointly by the Post Office Horizon IT Inquiry to act as expert witnesses on matters of governance, management, and leadership.

2) We understand that our duty is to give an objective, unbiased opinion on matters within our expertise in order to help the Inquiry achieve its terms of reference. We have complied, and will continue to, comply with that duty.

3) We know of no conflict of interest in undertaking this work.

4) Annex F sets out our expertise and qualifications.

5) We have endeavoured in our Report to be accurate. Any matters on which we have expressed an opinion lie within our field of expertise, and represent our true professional opinions on the matters to which they refer.

6) This report is provided to those instructing us with the sole purpose of assisting the Inquiry. It may not be used for any other purpose without our express written permission.

Statement of Truth

The contents of this report are true to the best of our knowledge and belief.

Signed:	GRO	Signed:	GRO
Date:	11 November 2024	Date:	11th November 2024
Dame Sandra Dawson		Dr Katy Steward	