Post Office Limited
("the Company")
Terms of Reference of the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (the "Committee") is a Committee of the Post Office Limited Board ("the Board") from which it derives its authority and to which it reports after each meeting. Its authority is always subject to the powers and duties of the Board, as set out in the Articles of Association.

A. PURPOSE

1. The purpose of the Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities by:

   i. Contributing an independent view on the accounting, financial control and financial reporting practices of the Group[1];

   ii. Taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards; and

   iii. Providing oversight of the Group's risk management systems, operational controls and key systems, including monitoring exposures to the Group Risk Appetite.

B. DUTIES AND RESPONSIBILITIES

Financial Reporting

The Committee shall:

2. **Monitor** the integrity of the financial statements of the Company, including its annual report and half yearly reports and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

3. **Review** and **approve for recommendation to the Board** the Annual Report and Accounts, including but not limited to:

   i. Reports of the External Auditor;
   ii. any proposed changes in presentation of the financial statements or accompanying notes which the auditors may recommend; and
   iii. the Management letter.

4. **Review** and **approve for recommendation to the Board** the half year financial report or trading statement for publication[2].

[1] The Group is defined as Post Office Limited and its subsidiary undertakings: Post Office Management Services Limited (Post Office Insurance) and Payzone Bill Payments Limited.
[2] Where published.

5. **Review** and **report** to the Board on significant financial reporting issues, including, but not limited to:

   i. the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/Group;

   ii. the methods used to account for significant or unusual transactions where different approaches are possible;

   iii. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;

   iv. the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

   v. all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management; and

   vi. an overview of the extent to which the Annual Report and Accounts are fair balanced and provide the information necessary to the Shareholder[3] to assess the Company's performance, business model and strategy.

6. **Report** to the Board where the Committee is not satisfied with any aspects of the proposed financial reporting by the Company;

7. **Approve** the Group Treasury policy, including methods of mitigating against foreign currency exposure and any use of financial derivatives.

8. **Approve for recommendation to the Board** any changes to the accounting reference date, practice or policy by any Group Company, if different from those previously adopted by the Group, unless required by law or generally accepted accounting principles.

9. **Approve** any changes to accounting policies required by law or generally accepted accounting policies.

Internal Controls and Risk Management Systems

The Committee shall:

10. Along with the external and internal auditors, **monitor** the adequacy and effectiveness of the Company's internal financial controls and other internal control and risk management systems.

11. **Review** recommendations for the improvement of the Company's internal controls, processes and systems.

[3] The Department for Business and Trade

12. **Review** and **approve** the statements to be included in the Annual Report concerning internal controls and risk management.

13. **Review** the overall risk management framework and strategy in place for the Group including its risk appetites and tolerance and **approve** risk appetite statements for different risk groupings developed under the Risk Policy.

14. **Review** the Company's overall risk position and periodically invite management to outline risk management strategy and status within their specific business units.

15. **Review** management's assessment of the degree of risk the Company prudently incurs in achieving a reasonable balance between the cost of managing risk and control systems and the benefits derived.

16. **Review** areas of specific risk as highlighted by management, including enterprise and business risk.[4]

17. **Monitor** the Risk and Compliance Committee activities and receive summary reports as appropriate.

18. **Review** legal, regulatory and any other matters that may have a material impact on the financial statements, related Group compliance policies, and programmes and reports prepared to manage and monitor Group compliance policies and **approve** Group Key Policies as required under the Group Key Policy Framework as amended from time to time by the Committee, including the Tax Strategy.

19. **Review**, in conjunction with the Remuneration Committee, whether any remuneration policy adopted by either the Company or its subsidiaries, or the implementation of any such policy is consistent with the risk appetite particularly in relation to conduct risk.

20. **Monitor** the impact of any new legislative, regulatory, market or other developments which could materially or adversely affect the Group.

21. **Receive** reports on specific breaches and incidents and review management plans for resolution. The Committee will also **review** management plans for root cause analysis resulting from breaches and issues.

[4] This includes, but is not limited to: strategic risk, financial risk, operational risk, conduct risk (including those related to the financial services businesses operated by the Group and the Company's joint venture (First Rate Exchange Services Holdings Limited), technology and cyber security risk, risk related to the investment strategy and funding requirements of existing and new pension schemes established for the benefit of previous, current and future employees, reputational risk, regulatory risk, major change initiatives and people risk.

The Board shall provide oversight of (and direction on) the management on the key strategic business risks that could threaten the delivery of the Post Office's strategic objectives, with the Committee advising the Board of the key strategic risks it should have regard to.

22. **Approve** the overall levels of insurance for the Group, including directors' and officers' liability insurance and any arrangements for indemnity of directors.

Compliance, Whistleblowing and Fraud

The Committee shall:

23. **Review** with the internal auditors and the external auditors the results of any review of the compliance with the Company's codes of ethical conduct and similar policies including whistleblowing[5].

24. **Review** at least annually the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting, regulatory breaches or other matters. The Committee shall **determine** that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action

25. **Review** the Group's procedures for detecting fraud and the systems and controls for prevention of bribery and any non-compliance.

26. **Review** any summary of frauds, thefts and other irregularities of any size.

27. **Review** the regular reports from the Money Laundering Officer and monitor the adequacy and effectiveness of the Group's anti-money laundering systems and controls.

28. **Review** regular reports from the Director of Compliance and monitor adequacy and effectiveness of the Group's compliance function.

29. **Review** late statutory filings and the circumstances around such lateness.

Internal Audit

The Committee shall:

30. **Approve** the appointment or termination of appointment of the Head of Internal Audit.

31. **Approve** the Internal Audit Charter every two years[6].

[5] The review includes monitoring the company's supply chain and processes/procedures for compliance with the Modern Slavery Act 2015.

[6] The purpose of the charter will be to grant Internal Audit unfettered access to staff, data and systems required in the course of discharging its responsibilities to the Committee. It will also ensure it has sufficient resources to fulfil its mandate and will require audits to be completed to appropriate professional standards, aligning with the requirements of the Institute of Internal Auditors.

32. **Review** and **approve** the annual Internal Audit Plans, including any changes to these plans, to ensure they are aligned to the key risks of the business and review reports on work carried out. The review should include methods employed by the internal auditors to assess risk and to prioritise the various audit proposals identified in the annual plan.

33. **Ensure** internal audit has unrestricted scope, the necessary resources and access to information to fulfil its mandate.

34. **Ensure** the Internal Auditor[7] has direct access to the Board Chair and to the Committee Chair, and is accountable to the Committee.

35. **Monitor** and **review** the effectiveness of the internal audit function in the context of the Group's overall risk management system and the work of compliance, finance and the external auditor and as part of this assessment:[8]

    i. Meet with the Head of Internal Audit without the presence of management
    ii. Review the annual internal audit plan work and results
    iii. Determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business
    iv. Review actions taken by management to implement the recommendations of internal audit and to support the effective working of the function.

36. **Ensure** the independence of the internal auditor including an annual review of any non-audit services provided by internal audit.

37. **Determine** whether an independent, third party review of processes is appropriate.

External Audit

The Committee shall:

38. **Approve for recommendation to the Board** the appointment, reappointment or removal of the independent external auditors, the proposed fees (in consultation with management) and the acceptance of the scope and general extent of the engagement.

39. **Review** and **approve** the selection procedure for the appointment of the audit firm in accordance with applicable regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.

[7] References to the Internal Auditor include the Head of Internal Audit (or their representative) and the Internal Audit co-source provider.
[8] An external review of the Internal Audit function should be carried out at least once every five years.

40. If an Auditor resigns, **review** the issues leading to this and **determine** whether any action is required.

41. **Review** and **approve** the agreed annual external audit plans and approach to risk assessment and the scope and plan of their audits.

42. **Review** the findings of the audit with the external auditor. This shall include discussing any major issues which arose during the audit including (but not limited to) key accounting and audit judgement and the levels of error identified.

43. **Review** any representation letter(s) requested by the External Auditor before they are signed by management.

44. **Review** the management letter and management's response to the auditor's findings and recommendations.

45. **Monitor** and **review** annually the independence of the external auditors including level of fees paid, an annual review of any non-audit services provided by the external auditors and auditor's processes for maintaining independence.

46. **Approve** the Group's policy on non-audit services by the auditor.

47. **Meet** regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, **meet** the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit.

48. **Review** annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures, an assessment of the quality of the audit, handling of key judgement by the auditor and the auditor's response to questions from the Committee.

49. **Ensure** co-ordination of the external audit with the activities of the internal audit function.

C. REPORTING RESPONSIBILITIES

50. The Chair shall **report** formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

i. the significant issues that it considered in relation to the financial statements (required under paragraph 5) and how these were addressed;

ii. its assessment of the effectiveness of the external audit process (required under paragraph 48), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and

iii. any other issues on which the board has requested the Committee's opinion.

51. **Advise** the Board on any area it deems appropriate within its remit where action or improvement is needed.

52. **Report** on its activities in the Group's annual report. The report should describe the work of the Committee, including[9]:

i. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;

ii. an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and

iii. an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor.

53. The Company's Subsidiary Companies shall provide reports to the Committee on a regular basis and as requested by the Committee[10].

D. AUTHORITY

The Committee is authorised to:

54. Seek any information it requires from any employee of the Company in order to perform its duties.

[9] The Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the company is a going concern and the inputs to the board's viability statement. Guidance on disclosures recommended by external authorities will be considered in making these disclosures.
[10] For Post Office Insurance, the Chair of the Post Office Insurance Audit, Risk and Compliance Committee shall provide a report regularly to the Company's Audit, Risk and Compliance Committee. For Payzone Bill Payments Limited, matters relating to audit, risk and compliance shall be reported as part of the standing reports covering the Group's business lines.

55. Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.

56. Call any employee to be questioned at a meeting of the Committee as and when required.

57. Have the right to publish in the company's annual report, details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the External Auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the board has taken a different position.

58. Conduct or authorise investigations into any Group matters within the Committee's cope of responsibilities.

59. In the absence of express authority from the Board, the Committee will not, without the concurrence of both management or discharge of the independent auditors, have either the responsibility or authority for the altering of the financial statements or the accounting procedures of the Group.

E. COMPOSITION AND GOVERNANCE

Membership

60. The Chair and members of the Committee will be appointed by the Board, acting on the recommendation of the Nominations Committee.

61. The Committee shall consist of at least two independent non-executive directors. The Chair of the Board shall not be a member of the Committee.

62. The Committee Chair shall be appointed by the Board. In the absence of the Committee Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

63. The Chair of the Company and Executive Directors may be invited to attend any meeting, or any part of any meeting, by the Committee Chair.

64. The Group Chief Executive, Group Chief Financial Officer, the Group General Counsel, the Head of Risk, the Director of Compliance and the Head of Internal Audit (or those holding positions with responsibility for such roles, howsoever named) will be permanent invitees.

65. The External Auditors and any Internal Audit co-source partners may attend all or part of any Committee meeting at the invitation of the Chair.

As a minimum the External Auditors will attend to present their external audit plan for approval and to present their reports.

Quorum

66. Quorum shall be two members, of whom one will have recent and relevant financial experience.

Committee Secretary

67. The Company Secretary, or his or her nominee, shall act as Secretary to the Committee and shall attend all meetings to keep minutes and record actions.

Frequency

68. The Committee shall meet as often as required but at least three times per year.

Governance

69. Meetings may be held in person or by telephone or other electronic means, so long as all participants can contribute to the meeting simultaneously.

70. Notice of each meeting shall be given to all those entitled to participate at least three working days before the meeting. Meetings shall be planned in accordance with key reporting and financial planning dates.

71. Meetings for the Committee will be convened by the Secretary, at the request of Chair or any of the members and the External Auditor or Head of Internal Audit, if they consider it necessary. The Secretary will be responsible for setting the venue date and time of meetings in consultation with the Chair. All papers supporting the meeting will be issued in good time, one week in advance of the meeting date.

72. The Chair will report regularly to the Board. Minutes of each Committee meeting will be circulated to all members of the Committee and, once agreed, to all members of the Board.

73. The Company will provide current and new Committee members with any training, briefings or induction required. The Group Company Secretary (or his/her nominee), the Group Chief Financial Officer, the Group General Counsel, the Head of Risk, the Director of Compliance, the Head of Internal Audit (or those holding positions with responsibility for such roles, howsoever named) and the External Audit Partner will keep members informed of relevant published guidance as necessary.

F. ANNUAL REVIEW AND APPROVAL

74. The Committee will undertake an annual review of its performance and the Terms of Reference. The outcome of these review will be recommended to the Board for approval (notwithstanding amendments approved by the Committee whenever so required).

Approved by:	Date:	Version:	Effective from:
Post Office Limited Board	23/01/2013	1.1	23/01/2013
Post Office Limited Board	26/03/2014	1.2	26/03/2014
Post Office Limited Board	22/09/2015	1.3	22/09/2015
Post Office Limited Board	08/04/2020	2.0	09/04/2020
Post Office Limited Board	03/06/2021	2.1	04/06/2021
Post Office Limited Board	28/03/2023	2.2	29/03/2023